**FEBRUARY 1, 2014**

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

| | Class A | Class C | Class R | Class R6 | Advisor Class |
|---|---|---|---|---|---|
| **Franklin DynaTech Fund** | FKDNX | FDYNX | FDNRX | FDTRX | FDYZX |
| **Franklin Growth Fund** | FKGRX | FRGSX | FGSRX | FIFRX | FCGAX |
| **Franklin Income Fund** | FKINX | FCISX | FISRX | FNCFX | FRIAX |
| **Franklin U.S. Government Securities Fund** | FKUSX | FRUGX | FUSRX | FGORX | FUSAX |
| **Franklin Utilities Fund** | FKUTX | FRUSX | FRURX | FUFRX | FRUAX |

**PROSPECTUS**

# Franklin Custodian Funds

FRANKLIN TEMPLETON INVESTMENTS

**Franklin** • Templeton • Mutual Series

# SUPPLEMENT DATED FEBRUARY 20, 2014 TO THE PROSPECTUS DATED FEBRUARY 1, 2014 OF FRANKLIN CUSTODIAN FUNDS

(Franklin DynaTech Fund, Franklin Growth Fund, Franklin Income Fund, Franklin U.S. Government Securities Fund, Franklin Utilities Fund)

The Prospectus is amended as follows:

I. For the Franklin DynaTech Fund, the "Fund Summary – Average Annual Total Returns" table beginning on page 6 is replaced with the following:

**AVERAGE ANNUAL TOTAL RETURNS**
**(figures reflect sales charges)** *For the periods ended December 31, 2013*

| | 1 Year | 5 Years | 10 Years |
|---|---|---|---|
| **Franklin DynaTech Fund–Class A** | | | |
| Return Before Taxes | 31.63% | 20.90% | 8.31% |
| Return After Taxes on Distributions | 30.37% | 20.59% | 7.99% |
| Return After Taxes on Distributions and Sale of Fund Shares | 18.88% | 17.14% | 6.75% |
| **Franklin DynaTech Fund–Class C** | 37.64% | 21.43% | 8.14% |
| **Franklin DynaTech Fund–Class R** | 39.33% | 22.04% | 8.65% |
| **Franklin DynaTech Fund–Advisor Class** | 40.01% | 22.65% | 9.11% |
| Russell 1000® Growth Index (index reflects no deduction for fees, expenses or taxes) | 33.48% | 20.39% | 7.82% |
| NASDAQ Composite Index (index reflects no deduction for fees, expenses or taxes) | 40.12% | 24.96% | 9.51% |
| S&P 500® Index (index reflects no deduction for fees, expenses or taxes) | 32.39% | 17.94% | 7.40% |

II. For the Franklin Growth Fund, the "Fund Summary – Average Annual Total Returns" table beginning on page 14 is replaced with the following:

**AVERAGE ANNUAL TOTAL RETURNS**
**(figures reflect sales charges)** *For the periods ended December 31, 2013*

| | 1 Year | 5 Years | 10 Years |
|---|---|---|---|
| **Franklin Growth Fund–Class A** | | | |
| Return Before Taxes | 21.94% | 16.56% | 7.77% |
| Return After Taxes on Distributions | 21.81% | 16.46% | 7.69% |
| Return After Taxes on Distributions and Sale of Fund Shares | 12.53% | 13.43% | 6.34% |
| **Franklin Growth Fund–Class C** | 27.43% | 17.07% | 7.60% |
| **Franklin Growth Fund–Class R** | 29.08% | 17.65% | 8.14% |
| **Franklin Growth Fund–Advisor Class** | 29.73% | 18.25% | 8.68% |
| S&P 500® Index (index reflects no deduction for fees, expenses or taxes) | 32.39% | 17.94% | 7.40% |

III. For the Franklin Income Fund, the "Fund Summary – Principal Investment Strategies" the second and third paragraphs beginning on page 18 are revised with the following:

The Fund may invest up to 15% of its net assets in equity-linked notes, which are hybrid derivative-type instruments that are specially designed to combine the characteristics of one or more reference securities (usually a single stock, a stock index or a basket of stocks (underlying securities)) and a related equity derivative, such as a put or call option, in a single note form.

The Fund's investment manager searches for undervalued or out-of-favor securities it believes offer opportunities for income today and significant growth tomorrow. It generally performs independent analysis of the debt securities being considered for the Fund's portfolio, rather than relying principally on the ratings assigned by rating organizations. In analyzing both debt and equity securities, the investment manager considers a variety of factors, including:

• a security's relative value based on such factors as anticipated cash flow, interest or dividend coverage, asset coverage, and earnings prospects;
• the experience and strength of the company's management;
• the company's changing financial condition and market recognition of the change;
• the company's sensitivity to changes in interest rates and business conditions; and
• the company's debt maturity schedules and borrowing requirements.

IV. For the Franklin Income Fund, the "Fund Summary – Average Annual Total Returns" table beginning on page 22 is replaced with the following:

**AVERAGE ANNUAL TOTAL RETURNS**
**(figures reflect sales charges)** *For the periods ended December 31, 2013*

| | 1 Year | 5 Years | 10 Years |
|---|---|---|---|
| **Franklin Income Fund–Class A** | | | |
| Return Before Taxes | 9.35% | 14.33% | 6.84% |
| Return After Taxes on Distributions | 7.13% | 11.91% | 4.62% |
| Return After Taxes on Distributions and Sale of Fund Shares | 5.58% | 10.52% | 4.61% |
| **Franklin Income Fund–Class C** | 13.00% | 14.78% | 6.82% |
| **Franklin Income Fund–Class R** | 14.05% | 14.96% | 6.99% |
| **Franklin Income Fund–Advisor Class** | 14.50% | 15.54% | 7.52% |
| S&P 500® Index (index reflects no deduction for fees, expenses or taxes) | 32.39% | 17.94% | 7.40% |
| Barclays U.S. Aggregate Index (index reflects no deduction for fees, expenses or taxes) | -2.02% | 4.44% | 4.55% |
| Lipper Mixed-Asset Target Allocation Moderate Funds Classification Average (index reflects no deduction for fees, expenses or taxes) | 14.26% | 11.91% | 5.82% |

V. For the Franklin U.S. Government Securities Fund, the "Fund Summary – Average Annual Total Returns" table beginning on page 29 is replaced with the following:

**AVERAGE ANNUAL TOTAL RETURNS**
**(figures reflect sales charges)** *For the periods ended December 31, 2013*

| | 1 Year | 5 Years | 10 Years |
|---|---|---|---|
| **Franklin U.S. Government Securities Fund–Class A** | | | |
| Return Before Taxes | -5.83% | 2.57% | 3.62% |
| Return After Taxes on Distributions | -7.29% | 1.11% | 1.99% |
| Return After Taxes on Distributions and Sale of Fund Shares | -3.30% | 1.44% | 2.17% |
| **Franklin U.S. Government Securities Fund–Class C** | -3.15% | 2.95% | 3.54% |
| **Franklin U.S. Government Securities Fund–Class R** | -2.03% | 3.11% | 3.69% |
| **Franklin U.S. Government Securities Fund–Advisor Class** | -1.52% | 3.63% | 4.21% |
| Barclays U.S. Government Index: Intermediate Component (index reflects no deduction for fees, expenses or taxes) | -1.25% | 2.20% | 3.74% |
| Lipper GNMA Funds Classification Average (index reflects no deduction for fees, expenses or taxes) | -2.80% | 4.07% | 4.11% |

VI. For the Franklin Utilities Fund, the "Fund Summary – Average Annual Total Returns" table beginning on page 36 is replaced with the following:

**AVERAGE ANNUAL TOTAL RETURNS**
**(figures reflect sales charges)** *For the periods ended December 31, 2013*

| | 1 Year | 5 Years | 10 Years |
|---|---|---|---|
| **Franklin Utilities Fund–Class A** | | | |
| Return Before Taxes | 8.91% | 10.81% | 9.35% |
| Return After Taxes on Distributions | 7.98% | 10.06% | 8.52% |
| Return After Taxes on Distributions and Sale of Fund Shares | 5.75% | 8.70% | 7.76% |
| **Franklin Utilities Fund–Class C** | 12.19% | 11.23% | 9.29% |
| **Franklin Utilities Fund–Class R** | 13.35% | 11.39% | 9.44% |
| **Franklin Utilities Fund–Advisor Class** | 13.96% | 11.95% | 10.00% |
| S&P 500® Index (index reflects no deduction for fees, expenses or taxes) | 32.39% | 17.94% | 7.40% |
| S&P 500® Utilities Index (index reflects no deduction for fees, expenses or taxes) | 13.21% | 10.17% | 9.23% |

*Please retain this supplement with your prospectus for reference.*

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# FRANKLIN DYNATECH FUND

## Investment Goal

Capital appreciation.

## Fees and Expenses of the Fund

These tables describe the fees and expenses that you may pay if you buy and hold shares of the Fund. You may qualify for sales charge discounts in Class A if you and your family invest, or agree to invest in the future, at least $50,000 in Franklin Templeton funds. More information about these and other discounts is available from your financial professional and under "Your Account" on page 108 in the Fund's Prospectus and under "Buying and Selling Shares" on page 71 of the Fund's Statement of Additional Information.

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

| | Class A | Class C | Class R | Class R6[1] | Advisor Class |
|---|---|---|---|---|---|
| Maximum Sales Charge (Load) Imposed on Purchases (as percentage of offering price) | 5.75% | None | None | None | None |
| Maximum Deferred Sales Charge (Load) (as percentage of the lower of original purchase price or sale proceeds)[2] | None | 1.00% | None | None | None |

1. The Fund began offering Class R6 shares on May 1, 2013.
2. There is a 1% contingent deferred sales charge that applies to investments of $1 million or more (see "Sales Charges-Class A" under "Choosing a Share Class") and purchases by certain retirement plans without an initial sales charge.

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

| | Class A | Class C | Class R | Class R6 | Advisor Class |
|---|---|---|---|---|---|
| Management fees | 0.47% | 0.47% | 0.47% | 0.47% | 0.47% |
| Distribution and service (12b-1) fees | 0.25% | 1.00% | 0.50% | None | None |
| Other expenses[1] | 0.22% | 0.22% | 0.22% | 0.05% | 0.22% |
| **Total annual Fund operating expenses** | **0.94%** | **1.69%** | **1.19%** | **0.52%** | **0.69%** |

1. Other expenses for Class R6 represent an estimate of expenses, including the effect of this Class's lower shareholder servicing fees.





### Example

This Example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds. The Example assumes that you invest $10,000 in the Fund for the time periods indicated and then redeem all of your shares at the end of the period. The Example also assumes that your investment has a 5% return each year and that the Fund's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

| | 1 Year | 3 Years | 5 Years | 10 Years |
|---|---|---|---|---|
| **Class A** | $665 | $857 | $1,065 | $1,663 |
| **Class C** | $272 | $533 | $918 | $1,998 |
| **Class R** | $121 | $378 | $654 | $1,443 |
| **Class R6** | $53 | $167 | $291 | $653 |
| **Advisor Class** | $70 | $221 | $384 | $859 |
| If you do not sell your shares: | | | | |
| **Class C** | $172 | $533 | $918 | $1,998 |

## Portfolio Turnover

The Fund pays transaction costs, such as commissions, when it buys and sells securities (or "turns over" its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in higher taxes when Fund shares are held in a taxable account. These costs, which are not reflected in annual Fund operating expenses or in the example, affect the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was 35.40% of the average value of its portfolio.

## Principal Investment Strategies

Under normal market conditions, the Fund seeks investments primarily in equity securities of companies that the investment manager believes are leaders in innovation, take advantage of new technologies, have superior management, and benefit from new industry conditions in the dynamically changing global economy. The Fund invests predominantly in common stock.

In pursuing these objectives, the investment manager may invest in companies in any economic sector or of any market capitalization and may invest in companies both inside and outside of the United States. Although the investment manager will search for investments across a large number

of sectors, it expects to have significant positions in particular sectors including, for example, technology and health care.

The investment manager uses fundamental, "bottom-up" research to seek companies meeting its criteria of growth potential, quality and valuation. In seeking sustainable growth characteristics, the investment manager looks for companies it believes can produce sustainable earnings and cash flow growth, evaluating the long-term market opportunity and competitive structure of an industry to target leaders and emerging leaders.

## Principal Risks

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

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

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

**Focus** The technology sector has historically been volatile due to the rapid pace of product change and development within the sector. Companies in the technology sector may be affected by worldwide technological developments, the success of their products and services (which may be outdated quickly), anticipated products or services that are delayed or cancelled, and investor perception of the company and/or its products or services. The activities of health care companies may be funded or subsidized by federal and state governments and changes in funding may adversely affect the profitability of these companies. Technology and health care companies may also be affected by legislation or changes in government regulation and policies.

**Midsize Companies** Securities issued by midsize companies may be more volatile in price than those of larger companies, involve substantial risks and should be considered speculative. Such risks may include greater





sensitivity to economic conditions, less certain growth prospects, lack of depth of management and funds for growth and development and limited or less developed product lines and markets.

**Foreign Securities** Investing in foreign securities typically involves more risks than investing in U.S. securities, including risks related to currency exchange rates and policies, country or government specific issues, less favorable trading practices or regulation and greater price volatility. Certain of these risks also may apply to securities of U.S. companies with significant foreign operations.

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

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

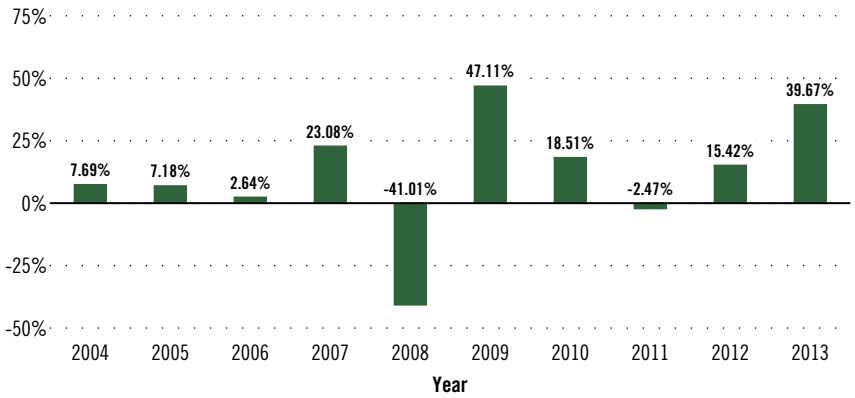
## Performance

The following bar chart and table provide some indication of the risks of investing in the Fund. The bar chart shows changes in the Fund's performance from year to year for Class A shares. The table shows how the Fund's average annual returns for 1 year, 5 years, 10 years or since inception, as applicable, compared with those of a broad measure of market performance. The Fund's past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future. You can obtain updated performance information at franklintempleton.com or by calling (800) DIAL BEN/342-5236.

The secondary indices in the table below show how the Fund's performance compares to other groups of securities that align more closely with the Fund's investment strategies.

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

CLASS A ANNUAL TOTAL RETURNS




| | | |
|---|---|---|
| Best Quarter: | Q1'12 | 18.69% |
| Worst Quarter: | Q4'08 | -23.41% |

AVERAGE ANNUAL TOTAL RETURNS
(figures reflect sales charges) *For the periods ended December 31, 2013*

| | 1 Year | 5 Years | 10 Years |
|---|---|---|---|
| **Franklin DynaTech Fund - Class A** | | | |
| Return Before Taxes | 31.63% | 20.90% | 8.31% |
| Return After Taxes on Distributions | 30.37% | 20.59% | 7.99% |
| Return After Taxes on Distributions and Sale of Fund Shares | 18.88% | 17.14% | 6.75% |
| **Franklin DynaTech Fund - Class C** | 37.64% | 21.43% | 8.14% |
| **Franklin DynaTech Fund - Class R** | 39.33% | 22.04% | 8.65% |
| **Franklin DynaTech Fund - Class R6** | 40.27% | 22.92% | 9.34% |
| **Franklin DynaTech Fund - Advisor Class** | 40.01% | 22.65% | 9.11% |
| Russell 1000® Growth Index (index reflects no deduction for fees, expenses or taxes) | 33.48% | 20.39% | 7.82% |
| NASDAQ Composite Index (index reflects no deduction for fees, expenses or taxes) | 40.12% | 24.96% | 9.51% |
| S&P 500® Index (index reflects no deduction for fees, expenses or taxes) | 32.39% | 17.94% | 7.40% |

Performance information for Class R6 shares is not shown because this class did not have a full calendar year of operations as of the date of this prospectus.

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





Historical performance for Class R and Advisor Class shares prior to their inception is based on the performance of Class A shares. Class R and Advisor Class performance has been adjusted to reflect differences in sales charges and 12b-1 expenses (with respect to Class R only) between classes.

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

## Investment Manager

Franklin Advisers, Inc. (Advisers)

## Portfolio Managers

**MATTHEW J. MOBERG, CPA**

*Vice President of Advisers and portfolio manager of the Fund since 2004.*

**RUPERT H. JOHNSON, JR.**

*Director of Advisers and portfolio manager of the Fund since its inception (1968).*

## Purchase and Sale of Fund Shares

You may purchase or redeem shares of the Fund on any business day online through our website at franklintempleton.com, by mail (Franklin Templeton Investor Services, P.O. Box 997151, Sacramento, CA 95899-7151), or by telephone at (800) 632-2301. For Class A, C and R, the minimum initial purchase for most accounts is $1,000 (or $50 under an automatic investment plan). Class R6 and Advisor Class are only available to certain qualified investors and the minimum initial investment will vary depending on the type of qualified investor, as described under "Your Account — Choosing a Share Class — Qualified Investors — Class R6" and "— Advisor Class" in the Fund's prospectus.

## Taxes

The Fund's distributions are generally taxable to you as capital gains, unless you are investing through a tax-deferred arrangement, such as a 401(k) plan or an individual retirement account, in which case your

distributions would generally be taxed when withdrawn from the tax-deferred account.

## Payments to Broker-Dealers and Other Financial Intermediaries

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





# FRANKLIN GROWTH FUND

## Investment Goal

Capital appreciation.

## Fees and Expenses of the Fund

These tables describe the fees and expenses that you may pay if you buy and hold shares of the Fund. You may qualify for sales charge discounts in Class A if you and your family invest, or agree to invest in the future, at least $50,000 in Franklin Templeton funds. More information about these and other discounts is available from your financial professional and under "Your Account" on page 108 in the Fund's Prospectus and under "Buying and Selling Shares" on page 71 of the Fund's Statement of Additional Information.

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

| | Class A | Class C | Class R | Class R6[1] | Advisor Class |
|---|---|---|---|---|---|
| Maximum Sales Charge (Load) Imposed on Purchases (as percentage of offering price) | 5.75% | None | None | None | None |
| Maximum Deferred Sales Charge (Load) (as percentage of the lower of original purchase price or sale proceeds)[2] | None | 1.00% | None | None | None |

1. The Fund began offering Class R6 shares on May 1, 2013.
2. There is a 1% contingent deferred sales charge that applies to investments of $1 million or more (see "Sales Charges-Class A" under "Choosing a Share Class") and purchases by certain retirement plans without an initial sales charge.

**ANNUAL FUND OPERATING EXPENSES**

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

| | Class A | Class C | Class R | Class R6 | Advisor Class |
|---|---|---|---|---|---|
| Management fees | 0.46% | 0.46% | 0.46% | 0.46% | 0.46% |
| Distribution and service (12b-1) fees | 0.25% | 1.00% | 0.50% | None | None |
| Other expenses[1] | 0.21% | 0.21% | 0.21% | 0.03% | 0.21% |
| Acquired fund fees and expenses[2] | 0.01% | 0.01% | 0.01% | 0.01% | 0.01% |
| Total annual Fund operating expenses | 0.93% | 1.68% | 1.18% | 0.50% | 0.68% |
| Fee waiver and/or expense reimbursement[3] | -0.01% | -0.01% | -0.01% | -0.01% | -0.01% |
| **Total annual Fund operating expenses after fee waiver and/or expense reimbursement[2]** | **0.92%** | **1.67%** | **1.17%** | **0.49%** | **0.67%** |

1. Other expenses for Class R6 represent an estimate of expenses, including the effect of this Class's lower shareholder servicing fees.
2. Total annual Fund operating expenses differ from the ratio of expenses to average net assets shown in the Financial Highlights, which reflect the operating expenses of the Fund and do not include acquired fund fees and expenses.
3. Management has contractually agreed in advance to reduce its fee as a result of the Fund's investment in a Franklin Templeton money fund (acquired fund) for at least the next 12-month period. Contractual fee waiver and/or expense reimbursement agreements may not be terminated during the term set forth above.

### Example

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

| | 1 Year | 3 Years | 5 Years | 10 Years |
|---|---|---|---|---|
| **Class A** | $663 | $853 | $1,059 | $1,652 |
| **Class C** | $270 | $529 | $912 | $1,987 |
| **Class R** | $119 | $374 | $648 | $1,432 |
| **Class R6** | $50 | $159 | $279 | $628 |
| **Advisor Class** | $68 | $217 | $378 | $846 |





| | 1 Year | 3 Years | 5 Years | 10 Years |
|---|---|---|---|---|
| If you do not sell your shares: | | | | |
| **Class C** | $170 | $529 | $912 | $1,987 |

## Portfolio Turnover

The Fund pays transaction costs, such as commissions, when it buys and sells securities (or "turns over" its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in higher taxes when Fund shares are held in a taxable account. These costs, which are not reflected in annual Fund operating expenses or in the example, affect the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was 0.83% of the average value of its portfolio.

## Principal Investment Strategies

Under normal market conditions, the Fund invests substantially in the equity securities of companies that are leaders in their industries. In selecting securities, the investment manager considers many factors, including historical and potential growth in revenues and earnings, assessment of strength and quality of management, and determination of a company's strategic positioning in its industry.

Although the Fund normally invests substantially in the equity securities (principally common stocks) of U.S.-based large and medium market capitalization companies, it may invest in companies in new and emerging industries where growth is expected to be above average and may invest up to 40% of its assets in smaller companies.

The Fund's investment manager is a research driven, fundamental investor, generally pursuing a "buy-and-hold" growth strategy. As a "bottom-up" investor focusing primarily on individual securities, the investment manager chooses companies that it believes are positioned for growth in revenues, earnings or assets. Such advantages as a particular marketing niche, proven technology, sound financial records, strong management, and industry leadership are all factors the investment manager believes point to strong growth potential. Although the investment manager will search for investments across a large number of sectors, from time to time, based on economic conditions, the Fund may have significant positions in particular sectors.

## Principal Risks

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

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

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

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

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

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

**Management** The Fund is subject to management risk because it is an actively managed investment portfolio. The Fund's investment manager applies investment techniques and risk analyses in making investment





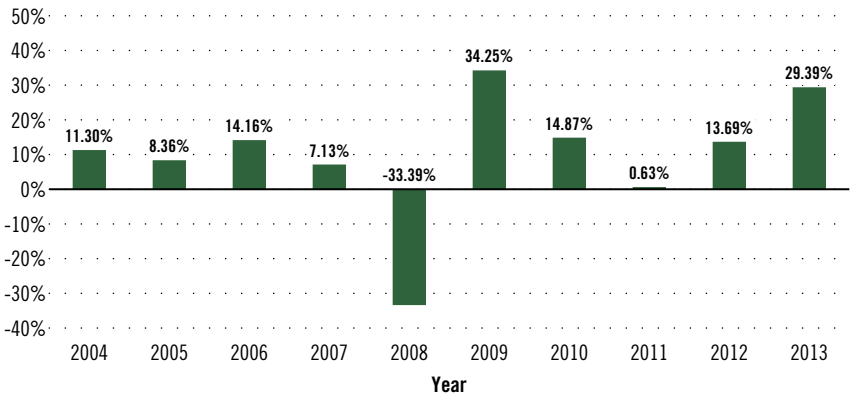
decisions for the Fund, but there can be no guarantee that these decisions will produce the desired results.

## Performance

The following bar chart and table provide some indication of the risks of investing in the Fund. The bar chart shows changes in the Fund's performance from year to year for Class A shares. The table shows how the Fund's average annual returns for 1 year, 5 years, 10 years or since inception, as applicable, compared with those of a broad measure of market performance. The Fund's past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future. You can obtain updated performance information at franklintempleton.com or by calling (800) DIAL BEN/342-5236.

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

CLASS A ANNUAL TOTAL RETURNS




| | | |
|---|---|---|
| Best Quarter: | Q3'09 | 17.60% |
| Worst Quarter: | Q4'08 | -20.30% |

**AVERAGE ANNUAL TOTAL RETURNS**
(figures reflect sales charges) *For the periods ended December 31, 2013*

| | 1 Year | 5 Years | 10 Years |
|---|---|---|---|
| **Franklin Growth Fund - Class A** | | | |
| Return Before Taxes | 21.94% | 16.56% | 7.77% |
| Return After Taxes on Distributions | 21.81% | 16.46% | 7.69% |
| Return After Taxes on Distributions and Sale of Fund Shares | 12.53% | 13.43% | 6.34% |
| **Franklin Growth Fund - Class C** | 27.43% | 17.07% | 7.60% |
| **Franklin Growth Fund - Class R** | 29.08% | 17.65% | 8.14% |
| **Franklin Growth Fund - Class R6** | 29.97% | 18.44% | 8.87% |
| **Franklin Growth Fund - Advisor Class** | 29.73% | 18.25% | 8.68% |
| S&P 500® Index (index reflects no deduction for fees, expenses or taxes) | 32.39% | 17.94% | 7.40% |

Performance information for Class R6 shares is not shown because this class did not have a full calendar year of operations as of the date of this prospectus.

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

## Investment Manager

Franklin Advisers, Inc. (Advisers)

## Sub-Advisor

Franklin Investment Advisory Services, LLC (Investment Advisory)

## Portfolio Managers

**VIVIAN J. PALMIERI**

*Vice President of Investment Advisory and portfolio manager of the Fund since 1965.*

**SERENA PERIN VINTON, CFA**

*Senior Vice President of Advisers and portfolio manager of the Fund since 2008.*





**CONRAD B. HERRMANN, CFA**

*Senior Vice President of Advisers and portfolio manager of the Fund since 1991.*

## Purchase and Sale of Fund Shares

You may purchase or redeem shares of the Fund on any business day online through our website at franklintempleton.com, by mail (Franklin Templeton Investor Services, P.O. Box 997151, Sacramento, CA 95899-7151), or by telephone at (800) 632-2301. For Class A, C and R, the minimum initial purchase for most accounts is $1,000 (or $50 under an automatic investment plan). Class R6 and Advisor Class are only available to certain qualified investors and the minimum initial investment will vary depending on the type of qualified investor, as described under "Your Account — Choosing a Share Class — Qualified Investors — Class R6" and "— Advisor Class" in the Fund's prospectus.

## Taxes

The Fund's distributions are generally taxable to you as ordinary income, capital gains, or some combination of both, unless you are investing through a tax-deferred arrangement, such as a 401(k) plan or an individual retirement account, in which case your distributions would generally be taxed when withdrawn from the tax-deferred account.

## Payments to Broker-Dealers and Other Financial Intermediaries

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

## FRANKLIN INCOME FUND

### Investment Goal

To maximize income while maintaining prospects for capital appreciation.

### Fees and Expenses of the Fund

These tables describe the fees and expenses that you may pay if you buy and hold shares of the Fund. You may qualify for sales charge discounts in Class A if you and your family invest, or agree to invest in the future, at least $100,000 in Franklin Templeton funds. More information about these and other discounts is available from your financial professional and under "Your Account" on page 108 in the Fund's Prospectus and under "Buying and Selling Shares" on page 71 of the Fund's Statement of Additional Information.

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

| | Class A | Class C | Class R | Class R6[1] | Advisor Class |
|---|---|---|---|---|---|
| Maximum Sales Charge (Load) Imposed on Purchases (as percentage of offering price) | 4.25% | None | None | None | None |
| Maximum Deferred Sales Charge (Load) (as percentage of the lower of original purchase price or sale proceeds)[2] | None | 1.00% | None | None | None |

1. The Fund began offering Class R6 shares on May 1, 2013.
2. There is a 0.75% contingent deferred sales charge that applies to investments of $1 million or more (see "Sales Charges - Class A" under "Choosing a Share Class") and purchases by certain retirement plans without an initial sales charge.

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

| | Class A | Class C | Class R | Class R6 | Advisor Class |
|---|---|---|---|---|---|
| Management fees | 0.37% | 0.37% | 0.37% | 0.37% | 0.37% |
| Distribution and service (12b-1) fees | 0.15% | 0.65% | 0.50% | None | None |
| Other expenses[1] | 0.10% | 0.10% | 0.10% | 0.02% | 0.10% |
| **Total annual Fund operating expenses** | **0.62%** | **1.12%** | **0.97%** | **0.39%** | **0.47%** |

1. Other expenses for Class R6 represent an estimate of expenses, including the effect of this Class's lower shareholder servicing fees.





#### Example

This Example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds. The Example assumes that you invest $10,000 in the Fund for the time periods indicated and then redeem all of your shares at the end of the period. The Example also assumes that your investment has a 5% return each year and that the Fund's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

| | 1 Year | 3 Years | 5 Years | 10 Years |
|---|---|---|---|---|
| **Class A** | $486 | $615 | $756 | $1,166 |
| **Class C** | $214 | $356 | $617 | $1,363 |
| **Class R** | $99 | $309 | $536 | $1,190 |
| **Class R6** | $40 | $125 | $219 | $493 |
| **Advisor Class** | $48 | $151 | $263 | $591 |
| If you do not sell your shares: | | | | |
| **Class C** | $114 | $356 | $617 | $1,363 |

### Portfolio Turnover

The Fund pays transaction costs, such as commissions, when it buys and sells securities (or "turns over" its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in higher taxes when Fund shares are held in a taxable account. These costs, which are not reflected in annual Fund operating expenses or in the example, affect the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was 37.60% of the average value of its portfolio.

### Principal Investment Strategies

Under normal market conditions, the Fund invests in a diversified portfolio of debt and equity securities. The Fund may shift its investments from one asset class to another based on the investment manager's analysis of the best opportunities for the Fund's portfolio in a given market. The equity securities in which the Fund invests consist primarily of common stocks. Debt securities include all varieties of fixed, floating and variable rate instruments, including secured and unsecured bonds, bonds convertible into common stock, senior floating rate and term loans, mortgage-backed securities and other asset-backed securities, debentures, and shorter term instruments. The Fund seeks income by selecting investments such

as corporate, foreign and U.S. Treasury bonds, as well as stocks with dividend yields the investment manager believes are attractive. The Fund may invest up to 100% of its total assets in debt securities that are rated below investment grade (also known as "junk bonds"), including a portion in defaulted securities. The Fund maintains the flexibility to invest in securities of companies from a variety of sectors, but from time to time, based on economic conditions, the Fund may have significant investments in particular sectors. The Fund may also invest up to 25% of its assets in foreign securities, either directly or through depositary receipts.

The Fund's investment manager searches for undervalued or out-of-favor securities it believes offer opportunities for income today and significant growth tomorrow. It generally performs independent analysis of the debt securities being considered for the Fund's portfolio, rather than relying principally on the ratings assigned by rating organizations. In analyzing both debt and equity securities, the investment manager considers a variety of factors, including:

The Fund may invest up to 15% of its net assets in equity-linked notes, which are hybrid derivative-type instruments that are specially designed to combine the characteristics of one or more reference securities (usually a single stock, a stock index or a basket of stocks (underlying securities)) and a related equity derivative, such as a put or call option, in a single note form.

- a security's relative value based on such factors as anticipated cash flow, interest or dividend coverage, asset coverage, and earnings prospects;
- the experience and strength of the company's management;
- the company's changing financial condition and market recognition of the change;
- the company's sensitivity to changes in interest rates and business conditions; and
- the company's debt maturity schedules and borrowing requirements.

When choosing equity investments for the Fund, the investment manager applies a "bottom-up," value oriented, long-term approach, focusing on the market price of a company's securities relative to the investment manager's evaluation of the company's long-term earnings, asset value and cash flow potential. The investment manager also considers a company's price/earnings ratio, profit margins and liquidation value.





## Principal Risks

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

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

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

**High-Yield Debt Securities** Issuers of lower-rated or "high-yield" debt securities (also called "junk bonds") are not as strong financially as those issuing higher credit quality debt securities. These issuers are generally considered predominantly speculative by the applicable rating agencies as these issuers are more likely to encounter financial difficulties and are more vulnerable to changes in the relevant economy, such as a recession or a sustained period of rising interest rates, that could affect their ability to make interest and principal payments when due. The prices of high-yield debt securities generally fluctuate more than those of higher credit quality. High-yield debt securities are generally more illiquid (harder to sell) and harder to value.

**Interest Rate** When interest rates rise, debt security prices generally fall. The opposite is also generally true: debt security prices rise when interest rates fall. In general, securities with longer maturities are more sensitive to these interest rate changes.

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

**Prepayment** Prepayment risk occurs when a debt security can be repaid in whole or in part prior to the security's maturity and the Fund must reinvest the proceeds it receives, during periods of declining interest rates, in securities that pay a lower rate of interest.

**Income** Because the Fund can only distribute what it earns, the Fund's distributions to shareholders may decline when prevailing interest rates fall or when the Fund experiences defaults on debt securities it holds.

**Foreign Securities** Investing in foreign securities typically involves more risks than investing in U.S. securities, including risks related to currency exchange rates and policies, country or government specific issues, less favorable trading practices or regulation and greater price volatility. Certain of these risks also may apply to securities of U.S. companies with significant foreign operations.

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

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

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

**Equity-Linked Notes (ELNs)** Investing in investment funds may be more costly to the Fund than if the Fund had invested in the underlying securities directly. Shareholders of the Fund will indirectly bear the fees and expenses (including management and advisory fees and other expenses) of the underlying investment funds. ELNs may not perform as expected and could cause the Fund to realize significant losses including its entire principal investment. Other risks include counterparty risk, liquidity risk and imperfect correlation between ELNs and the underlying securities.

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

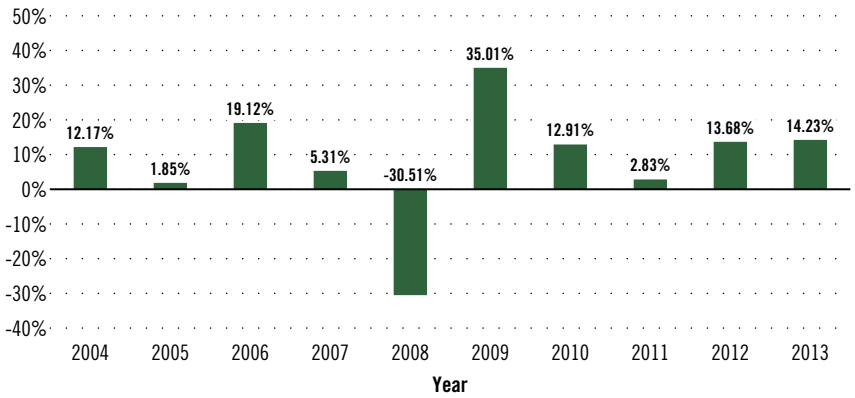
## Performance

The following bar chart and table provide some indication of the risks of investing in the Fund. The bar chart shows changes in the Fund's performance from year to year for Class A shares. The table shows how the Fund's average annual returns for 1 year, 5 years, 10 years or since inception, as applicable, compared with those of a broad measure of market performance. The Fund's past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future. You can obtain updated performance information at franklintempleton.com or by calling (800) DIAL BEN/342-5236.

The secondary indices in the table below show how the Fund's performance compares to a group of securities that align with a portion of the Fund's portfolio and to the returns of an index of funds with similar investment objectives as the Fund, respectively.

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

CLASS A ANNUAL TOTAL RETURNS




| | | |
|---|---|---|
| Best Quarter: | Q2'09 | 18.79% |
| Worst Quarter: | Q3'08 | -15.45% |

AVERAGE ANNUAL TOTAL RETURNS

(figures reflect sales charges) *For the periods ended December 31, 2013*

| | 1 Year | 5 Years | 10 Years |
|---|---|---|---|
| **Franklin Income Fund - Class A** | | | |
| Return Before Taxes | 9.35% | 14.33% | 6.84% |
| Return After Taxes on Distributions | 7.13% | 11.91% | 4.62% |
| Return After Taxes on Distributions and Sale of Fund Shares | 5.58% | 10.52% | 4.61% |
| **Franklin Income Fund - Class C** | 13.00% | 14.78% | 6.82% |
| **Franklin Income Fund - Class R** | 14.05% | 14.96% | 6.99% |
| **Franklin Income Fund - Class R6** | 13.98% | 15.59% | 7.60% |
| **Franklin Income Fund - Advisor Class** | 14.50% | 15.54% | 7.52% |
| S&P 500® Index (index reflects no deduction for fees, expenses or taxes) | 32.39% | 17.94% | 7.40% |
| Barclays U.S. Aggregate Index (index reflects no deduction for fees, expenses or taxes) | -2.02% | 4.44% | 4.55% |
| Lipper Mixed-Asset Target Allocation Moderate Funds Classification Average (index reflects no deduction for fees, expenses or taxes) | 14.26% | 11.91% | 5.82% |

Performance information for Class R6 shares is not shown because this class did not have a full calendar year of operations as of the date of this prospectus.

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





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

## Investment Manager

Franklin Advisers, Inc. (Advisers)

## Portfolio Managers

**EDWARD D. PERKS, CFA**

*Executive Vice President, Director of Portfolio Management of Advisers and portfolio manager of the Fund since 2002.*

**MATTHEW QUINLAN**

*Portfolio Manager of Advisers and portfolio manager of the Fund since 2012.*

**ALEX W. PETERS, CFA**

*Vice President of Advisers and portfolio manager of the Fund since 2012.*

## Purchase and Sale of Fund Shares

You may purchase or redeem shares of the Fund on any business day online through our website at franklintempleton.com, by mail (Franklin Templeton Investor Services, P.O. Box 997151, Sacramento, CA 95899-7151), or by telephone at (800) 632-2301. For Class A, C and R, the minimum initial purchase for most accounts is $1,000 (or $50 under an automatic investment plan). Class R6 and Advisor Class are only available to certain qualified investors and the minimum initial investment will vary depending on the type of qualified investor, as described under "Your Account — Choosing a Share Class — Qualified Investors — Class R6" and "— Advisor Class" in the Fund's prospectus.

## Taxes

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

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

## Payments to Broker-Dealers and Other Financial Intermediaries

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





# FRANKLIN U.S. GOVERNMENT SECURITIES FUND

## Investment Goal

Income.

## Fees and Expenses of the Fund

These tables describe the fees and expenses that you may pay if you buy and hold shares of the Fund. You may qualify for sales charge discounts in Class A if you and your family invest, or agree to invest in the future, at least $100,000 in Franklin Templeton funds. More information about these and other discounts is available from your financial professional and under "Your Account" on page 108 in the Fund's Prospectus and under "Buying and Selling Shares" on page 71 of the Fund's Statement of Additional Information.

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

| | Class A | Class C | Class R | Class R6[1] | Advisor Class |
|---|---|---|---|---|---|
| Maximum Sales Charge (Load) Imposed on Purchases (as percentage of offering price) | 4.25% | None | None | None | None |
| Maximum Deferred Sales Charge (Load) (as percentage of the lower of original purchase price or sale proceeds)[2] | None | 1.00% | None | None | None |

1. The Fund began offering Class R6 shares on May 1, 2013.
2. There is a 0.75% contingent deferred sales charge that applies to investments of $1 million or more (see "Sales Charges - Class A" under "Choosing a Share Class") and purchases by certain retirement plans without an initial sales charge.

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

| | Class A | Class C | Class R | Class R6 | Advisor Class |
|---|---|---|---|---|---|
| Management fees | 0.44% | 0.44% | 0.44% | 0.44% | 0.44% |
| Distribution and service (12b-1) fees | 0.15% | 0.65% | 0.50% | None | None |
| Other expenses[1] | 0.14% | 0.14% | 0.14% | 0.02% | 0.14% |
| **Total annual Fund operating expenses** | **0.73%** | **1.23%** | **1.08%** | **0.46%** | **0.58%** |

1. Other expenses for Class R6 represent an estimate of expenses, including the effect of this Class's lower shareholder servicing fees.

### Example

This Example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds. The Example assumes that you invest $10,000 in the Fund for the time periods indicated and then redeem all of your shares at the end of the period. The Example also assumes that your investment has a 5% return each year and that the Fund's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

| | 1 Year | 3 Years | 5 Years | 10 Years |
|---|---|---|---|---|
| **Class A** | $496 | $647 | $812 | $1,288 |
| **Class C** | $225 | $389 | $673 | $1,484 |
| **Class R** | $110 | $342 | $593 | $1,312 |
| **Class R6** | $47 | $148 | $258 | $579 |
| **Advisor Class** | $59 | $185 | $322 | $721 |
| If you do not sell your shares: | | | | |
| **Class C** | $125 | $389 | $673 | $1,484 |

## Portfolio Turnover

The Fund pays transaction costs, such as commissions, when it buys and sells securities (or "turns over" its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in higher taxes when Fund shares are held in a taxable account. These costs, which are not reflected in annual Fund operating expenses or in the example, affect the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was 46.16% of the average value of its portfolio.

## Principal Investment Strategies

Under normal market conditions, the Fund invests at least 80% of its net assets in U.S. government securities. The Fund presently invests substantially all of its assets in Government National Mortgage Association obligations (Ginnie Maes). Ginnie Maes represent an ownership interest in mortgage loans pooled together for sale to investors to finance purchases of homes. The mortgage loans may have either fixed or adjustable interest rates. As the underlying mortgage loans are paid off, Ginnie Maes provide investors with monthly payments of interest and principal as well as any unscheduled prepayments on the underlying mortgage loans.





Ginnie Maes carry a guarantee as to the timely repayment of principal and interest that is backed by the full faith and credit of the U.S. government. The full faith and credit guarantee does not apply to the market prices and yields of the Ginnie Maes or to the net asset value or performance of the Fund, which will vary with changes in interest rates and other market conditions.

## Principal Risks

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

**Interest Rate** When interest rates rise, debt security prices generally fall. The opposite is also generally true: debt security prices rise when interest rates fall. In general, securities with longer maturities are more sensitive to these interest rate changes.

**Prepayment** The Fund may receive unscheduled payments of principal due to voluntary prepayments, refinancing or foreclosure on the underlying mortgage loans. To the Fund this means a loss of anticipated interest. Also, if a security has been purchased at a premium, the value of the premium would be lost in the event of prepayment. Prepayments generally increase when interest rates fall.

**Ginnie Maes** Ginnie Maes differ from conventional corporate debt securities because principal is paid back monthly over the life of the security rather than at maturity. The Fund may receive unscheduled payments of principal due to voluntary prepayments, refinancing or foreclosure on the underlying mortgage loans. Because of repayments, Ginnie Maes may be less effective than some other types of securities as a means of "locking in" long-term interest rates and may have less potential for capital appreciation during periods of falling interest rates. A reduction in the anticipated rate of principal prepayments, especially during periods of rising interest rates, may increase the effective maturity of Ginnie Maes, making them more susceptible than some other debt securities to a decline in market value when interest rates rise.

**Income** Because the Fund can only distribute what it earns, the Fund's distributions to shareholders may decline when prevailing interest rates fall or when the Fund experiences defaults on debt securities it holds.

**Credit** U.S. government investments generally have the least credit risk but are not completely free of credit risk. Any downgrade of securities issued by the U.S. government may result in a downgrade of securities issued by its agencies or instrumentalities, including securities issued by Ginnie Mae. While securities issued by Ginnie Mae are backed by the full faith and credit of the U.S. government, guarantees of principal and interest do not apply to market prices, yields or the Fund's share price.

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

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

## Performance

The following bar chart and table provide some indication of the risks of investing in the Fund. The bar chart shows changes in the Fund's performance from year to year for Class A shares. The table shows how the Fund's average annual returns for 1 year, 5 years, 10 years or since inception, as applicable, compared with those of a broad measure of market performance. The Fund's past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future. You can obtain updated performance information at franklintempleton.com or by calling (800) DIAL BEN/342-5236.

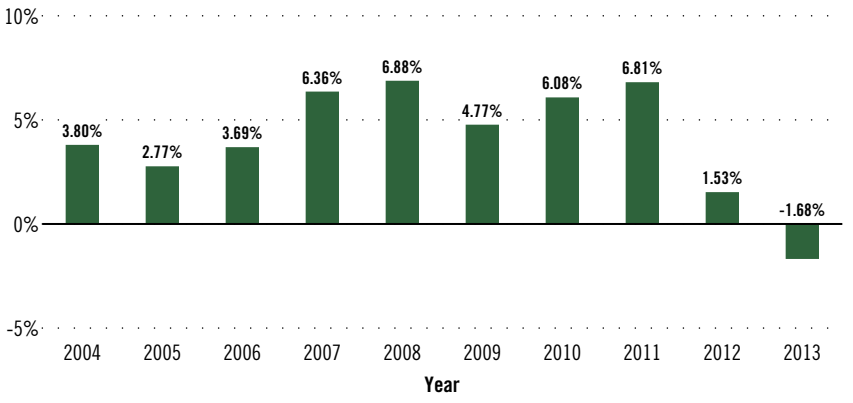
The secondary index in the table below shows how the Fund's performance compares with the returns of an index of funds with similar investment objectives as the Fund.

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





CLASS A ANNUAL TOTAL RETURNS




| | | |
|---|---|---|
| Best Quarter: | Q4'08 | 3.86% |
| Worst Quarter: | Q2'13 | -2.09% |

AVERAGE ANNUAL TOTAL RETURNS

(figures reflect sales charges) *For the periods ended December 31, 2013*

| | 1 Year | 5 Years | 10 Years |
|---|---|---|---|
| **Franklin U.S. Government Securities Fund - Class A** | | | |
| Return Before Taxes | -5.83% | 2.57% | 3.62% |
| Return After Taxes on Distributions | -7.29% | 1.11% | 1.99% |
| Return After Taxes on Distributions and Sale of Fund Shares | -3.30% | 1.44% | 2.17% |
| **Franklin U.S. Government Securities Fund - Class C** | -3.15% | 2.95% | 3.54% |
| **Franklin U.S. Government Securities Fund - Class R** | -2.03% | 3.11% | 3.69% |
| **Franklin U.S. Government Securities Fund - Class R6** | -1.44% | 3.75% | 4.36% |
| **Franklin U.S. Government Securities Fund - Advisor Class** | -1.52% | 3.63% | 4.21% |
| Barclays U.S. Government Index: Intermediate Component (index reflects no deduction for fees, expenses or taxes) | -1.25% | 2.20% | 3.74% |
| Lipper GNMA Funds Classification Average (index reflects no deduction for fees, expenses or taxes) | -2.80% | 4.07% | 4.11% |

Performance information for Class R6 shares is not shown because this class did not have a full calendar year of operations as of the date of this prospectus.

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

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

## Investment Manager

Franklin Advisers, Inc. (Advisers)

## Portfolio Managers

**ROGER BAYSTON, CFA**

*Senior Vice President of Advisers and portfolio manager of the Fund since 1993.*

**PAUL VARUNOK**

*Portfolio Manager of Advisers and portfolio manager of the Fund since 2003.*

## Purchase and Sale of Fund Shares

You may purchase or redeem shares of the Fund on any business day online through our website at franklintempleton.com, by mail (Franklin Templeton Investor Services, P.O. Box 997151, Sacramento, CA 95899-7151), or by telephone at (800) 632-2301. For Class A, C and R, the minimum initial purchase for most accounts is $1,000 (or $50 under an automatic investment plan). Class R6 and Advisor Class are only available to certain qualified investors and the minimum initial investment will vary depending on the type of qualified investor, as described under "Your Account — Choosing a Share Class — Qualified Investors — Class R6" and "— Advisor Class" in the Fund's prospectus.

## Taxes

The Fund's distributions are generally taxable to you as ordinary income, unless you are investing through a tax-deferred arrangement, such as a 401(k) plan or an individual retirement account, in which case your distributions would generally be taxed when withdrawn from the tax-deferred account.





## Payments to Broker-Dealers and Other Financial Intermediaries

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

# FRANKLIN UTILITIES FUND

## Investment Goal

Capital appreciation and current income.

## Fees and Expenses of the Fund

These tables describe the fees and expenses that you may pay if you buy and hold shares of the Fund. You may qualify for sales charge discounts in Class A if you and your family invest, or agree to invest in the future, at least $100,000 in Franklin Templeton funds. More information about these and other discounts is available from your financial professional and under "Your Account" on page 108 in the Fund's Prospectus and under "Buying and Selling Shares" on page 71 of the Fund's Statement of Additional Information.

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

| | Class A | Class C | Class R | Class R6[1] | Advisor Class |
|---|---|---|---|---|---|
| Maximum Sales Charge (Load) Imposed on Purchases (as percentage of offering price) | 4.25% | None | None | None | None |
| Maximum Deferred Sales Charge (Load) (as percentage of the lower of original purchase price or sale proceeds)[2] | None | 1.00% | None | None | None |

1. The Fund began offering Class R6 shares on May 1, 2013.
2. There is a 0.75% contingent deferred sales charge that applies to investments of $1 million or more (see "Sales Charges - Class A" under "Choosing a Share Class") and purchases by certain retirement plans without an initial sales charge.

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

| | Class A | Class C | Class R | Class R6 | Advisor Class |
|---|---|---|---|---|---|
| Management fees | 0.46% | 0.46% | 0.46% | 0.46% | 0.46% |
| Distribution and service (12b-1) fees | 0.15% | 0.65% | 0.50% | None | None |
| Other expenses[1] | 0.14% | 0.14% | 0.14% | 0.02% | 0.14% |
| **Total annual Fund operating expenses** | **0.75%** | **1.25%** | **1.10%** | **0.48%** | **0.60%** |

1. Other expenses for Class R6 represent an estimate of expenses, including the effect of this Class's lower shareholder servicing fees.





### Example

This Example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds. The Example assumes that you invest $10,000 in the Fund for the time periods indicated and then redeem all of your shares at the end of the period. The Example also assumes that your investment has a 5% return each year and that the Fund's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

| | 1 Year | 3 Years | 5 Years | 10 Years |
|---|---|---|---|---|
| **Class A** | $498 | $654 | $824 | $1,316 |
| **Class C** | $227 | $397 | $686 | $1,511 |
| **Class R** | $112 | $350 | $606 | $1,340 |
| **Class R6** | $49 | $154 | $269 | $604 |
| **Advisor Class** | $61 | $192 | $335 | $750 |
| If you do not sell your shares: | | | | |
| **Class C** | $127 | $397 | $686 | $1,511 |

## Portfolio Turnover

The Fund pays transaction costs, such as commissions, when it buys and sells securities (or "turns over" its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in higher taxes when Fund shares are held in a taxable account. These costs, which are not reflected in annual Fund operating expenses or in the example, affect the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was 4.57% of the average value of its portfolio.

## Principal Investment Strategies

Under normal market conditions, the Fund invests at least 80% of its net assets in the securities of public utilities companies. These are companies that provide electricity, natural gas, water, and communications services to the public and companies that provide services to public utilities companies. The Fund concentrates (invests more than 25% of its total assets) in companies operating in the utilities industry. The Fund invests primarily in equity securities, which consist mainly of common stocks.

The Fund searches for the best return opportunities available in the global utilities arena with a specific focus on the U.S. electricity and gas

sector. Generally, the Fund seeks to invest in companies producing a high percentage of earnings from regulated power plant operations.

## Principal Risks

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

**Utilities Industry** Utility company equity securities, to the extent they are purchased for their dividend yield, historically have been sensitive to interest rate movements: when interest rates have risen, the stock prices of these companies have tended to fall. In some states, utility companies and their rates are regulated; other states have moved to deregulate such companies thereby causing non-regulated companies' returns to generally be more volatile and more sensitive to changes in revenue and earnings. Certain utilities companies face risks associated with the operation of nuclear facilities for electric generation, including, among other considerations, litigation, the problems associated with the use of radioactive materials and the effects of natural or man-made disasters. In general, all utility companies may face additional regulation and litigation regarding their power plant operations; increased costs from new or greater regulation of these operations; the need to purchase expensive emissions control equipment or new operations due to regulations; and the availability and cost of fuel, all of which may lower their earnings.

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

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

**Concentration** By focusing on an industry or a group of industries, the Fund carries much greater risks of adverse developments and price movements in such industries than a fund that invests in a wider variety of industries. Because the Fund concentrates in a specific industry or group of





industries, there is also the risk that the Fund will perform poorly during a slump in demand for securities of companies in such industries.

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

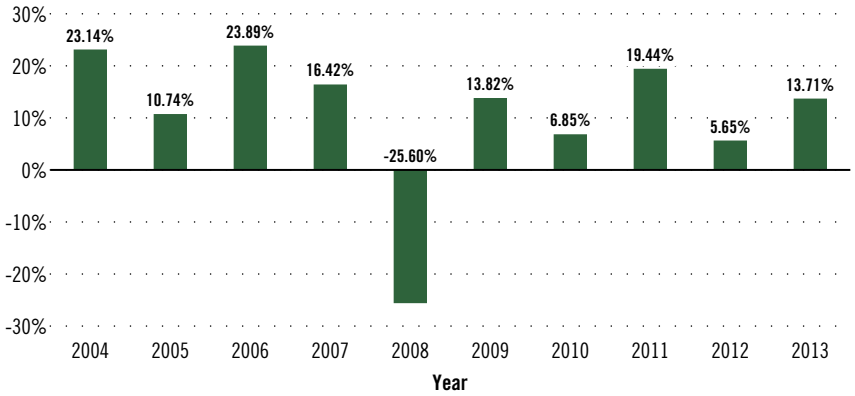
## Performance

The following bar chart and table provide some indication of the risks of investing in the Fund. The bar chart shows changes in the Fund's performance from year to year for Class A shares. The table shows how the Fund's average annual returns for 1 year, 5 years, 10 years or since inception, as applicable, compared with those of a broad measure of market performance. The Fund's past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future. You can obtain updated performance information at franklintempleton.com or by calling (800) DIAL BEN/342-5236.

The secondary index in the table below shows how the Fund's performance compares to a group of securities that aligns more closely with the Fund's investment strategies.

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

CLASS A ANNUAL TOTAL RETURNS




| | | |
|---|---|---|
| Best Quarter: | Q3'10 | 12.21% |
| Worst Quarter: | Q3'08 | -13.14% |

AVERAGE ANNUAL TOTAL RETURNS

(figures reflect sales charges) *For the periods ended December 31, 2013*

| | 1 Year | 5 Years | 10 Years |
|---|---|---|---|
| **Franklin Utilities Fund - Class A** | | | |
| Return Before Taxes | 8.91% | 10.81% | 9.35% |
| Return After Taxes on Distributions | 7.98% | 10.06% | 8.52% |
| Return After Taxes on Distributions and Sale of Fund Shares | 5.75% | 8.70% | 7.76% |
| **Franklin Utilities Fund - Class C** | 12.19% | 11.23% | 9.29% |
| **Franklin Utilities Fund - Class R** | 13.35% | 11.39% | 9.44% |
| **Franklin Utilities Fund - Class R6** | 14.04% | 12.08% | 10.15% |
| **Franklin Utilities Fund - Advisor Class** | 13.96% | 11.95% | 10.00% |
| S&P 500® Utilities Index (index reflects no deduction for fees, expenses or taxes) | 13.21% | 10.17% | 9.23% |
| S&P 500® Index (index reflects no deduction for fees, expenses or taxes) | 32.39% | 17.94% | 7.40% |

Performance information for Class R6 shares is not shown because this class did not have a full calendar year of operations as of the date of this prospectus.

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





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

## Investment Manager

Franklin Advisers, Inc. (Advisers)

## Portfolio Managers

**JOHN KOHLI, CFA**

*Vice President of Advisers and portfolio manager of the Fund since 1998.*

**BLAIR SCHMICKER, CFA**

*Research Analyst of Advisers and portfolio manager of the Fund since 2009.*

## Purchase and Sale of Fund Shares

You may purchase or redeem shares of the Fund on any business day online through our website at franklintempleton.com, by mail (Franklin Templeton Investor Services, P.O. Box 997151, Sacramento, CA 95899-7151), or by telephone at (800) 632-2301. For Class A, C and R, the minimum initial purchase for most accounts is $1,000 (or $50 under an automatic investment plan). Class R6 and Advisor Class are only available to certain qualified investors and the minimum initial investment will vary depending on the type of qualified investor, as described under "Your Account — Choosing a Share Class — Qualified Investors — Class R6" and "— Advisor Class" in the Fund's prospectus.

## Taxes

The Fund's distributions are generally taxable to you as ordinary income, capital gains, or some combination of both, unless you are investing through a tax-deferred arrangement, such as a 401(k) plan or an individual retirement account, in which case your distributions would generally be taxed when withdrawn from the tax-deferred account.

## Payments to Broker-Dealers and Other Financial Intermediaries

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





# FRANKLIN DYNATECH FUND

## Investment Goal

The Fund's investment goal is capital appreciation.

## Principal Investment Policies and Practices

Under normal market conditions, the Fund seeks investments primarily in equity securities of companies that the investment manager believes are leaders in innovation, take advantage of new technologies, have superior management, and benefit from new industry conditions in the dynamically changing global economy. The Fund invests predominantly in common stock.

In pursuing these objectives, the investment manager may invest in companies in any economic sector or of any market capitalization and may invest in companies both inside and outside of the United States. An equity security represents a proportionate share, or the right to acquire a proportionate share, of the ownership of a company; its value is based on the success of the company's business and the value of its assets, as well as general market conditions. Common stocks and preferred stocks are examples of equity securities.

Although the investment manager will search for investments across a large number of sectors, it expects to have significant positions in particular sectors. These sectors may include, for example, technology (including software and computers) and health care (including biotechnology). Due to market appreciation, the Fund's investment in an industry sector or the securities of a single company may come to represent a significant portion of the Fund's portfolio. Nevertheless, the investment manager will maintain such a position so long as it believes that the company or industry continues to meet its investment guidelines.

### Portfolio Selection

The investment manager uses fundamental, "bottom-up" research to seek companies meeting its criteria of growth potential, quality and valuation. In seeking sustainable growth characteristics, the investment manager looks for companies it believes can produce sustainable earnings and cash flow growth, evaluating the long-term market opportunity and competitive

structure of an industry to target leaders and emerging leaders. The investment manager defines quality companies as those with strong and improving competitive positions in attractive markets. The investment manager also believes important attributes of quality are experienced and talented management teams as well as financial strength reflected in the capital structure, gross and operating margins, free cash flow generation and returns on capital employed. The investment manager's valuation analysis includes a range of potential outcomes based on an assessment of multiple scenarios. In assessing value, the investment manager considers whether security prices fully reflect the balance of the sustainable growth opportunities relative to business and financial risks.

### Temporary Investments

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

## Principal Risks

### Market

The market values of securities owned by the Fund will go up or down, sometimes rapidly or unpredictably. Securities may decline in value due to factors affecting individual issuers, securities markets generally or sectors within the securities markets. The value of a security may go up or down due to general market conditions which are not specifically related to a particular issuer, such as real or perceived adverse economic conditions, changes in interest rates or adverse investor sentiment generally. They may also go up or down due to factors that affect an individual issuer or a particular sector. During a general downturn in the securities markets, multiple asset classes may decline in value. When markets perform well,





there can be no assurance that securities held by the Fund will participate in or otherwise benefit from the advance.

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

### Technology Companies

The technology sector has historically been volatile due to the rapid pace of product change and development within the sector. For example, their products may not prove commercially successful or may become obsolete quickly. In addition, delays in or cancellation of the release of anticipated products may also affect the price of a technology company's stock. The activities of these companies may also be adversely affected by changes in government regulations, worldwide technological developments or investor perception of a company or its products or services. The stock prices of companies operating within this sector may be subject to abrupt or erratic movements.

### Health Care Companies

The activities of health care companies may be funded or subsidized by federal and state governments. If government funding and subsidies are reduced or discontinued, the profitability of these companies could be adversely affected. Health care companies may also be affected by government policies on health care reimbursements, regulatory approval for new drugs and medical instruments, and similar matters. They are also subject to legislative risk, i.e., the risk of a reform of the health care system through legislation.

### Smaller and Midsize Companies

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

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

### Foreign Securities

Investing in foreign securities typically involves more risks than investing in U.S. securities. Certain of these risks also may apply to securities of U.S. companies with significant foreign operations. These risks can increase the potential for investment loss in the Fund and may include, among others, currency risks (such as fluctuations in currency exchange rates and currency devaluations); country risks (such as political, diplomatic, or regional conflicts, terrorism or war, social and economic instability, and policies limiting or restricting foreign investment or the movement of assets); and risks associated with the state of a country's financial markets and legal institutions. Other foreign securities risks may include unfavorable trading, settlement or custodial practices, less government supervision, less publicly available information, less stringent investor protection standards, limited legal redress for violations of law, limited trading markets and greater illiquidity and greater price volatility.

The risks of investing in foreign securities typically are greater in less developed or emerging market countries.

### Management

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





### Growth Style Investing

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

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

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

## Management

Franklin Advisers, Inc. (Advisers), One Franklin Parkway, San Mateo, CA 94403-1906, is the Fund's investment manager. Together, Advisers and its affiliates manage, as of December 31, 2013, over $879 billion in assets, and have been in the investment management business since 1947.

The Fund is managed by a team of dedicated professionals focused on investments in scientific, technological or fast-growing industries. The portfolio managers of the team are as follows:

**MATTHEW J. MOBERG, CPA** *Vice President of Advisers*
Mr. Moberg has been a portfolio manager of the Fund since 2004. He has final authority over all aspects of the Fund's investment portfolio, including but not limited to, purchases and sales of individual securities, portfolio risk assessment, and the management of daily cash balances in accordance with anticipated investment management requirements. The degree to which he may perform these functions, and the nature of these functions, may change from time to time. He joined Franklin Templeton Investments in 1998.

**RUPERT H. JOHNSON, JR.** *Director of Advisers*
Mr. Johnson has been a portfolio manager of the Fund since its inception, providing research and advice on the purchases and sales of individual securities, and portfolio risk assessment. He joined Franklin Templeton Investments in 1965.

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

The Fund pays Advisers a fee for managing the Fund's assets.

For the fiscal year ended September 30, 2013, Advisers agreed to reduce its fees to reflect reduced services resulting from the Fund's investment in a Franklin Templeton money fund. However, this fee reduction was less than 0.01% of the Fund's average net assets. The management fees for the fiscal year ended September 30, 2013, were 0.47%.

A discussion regarding the basis for the board of trustees approving the investment management contract of the Fund is available in the Fund's semiannual report to shareholders for the six-month period ended March 31.

## Financial Highlights

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





CLASS A

*Year Ended September 30,*

| | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| Per share operating performance (for a share outstanding throughout the year) | | | | | |
| Net asset value, beginning of year | $34.00 | $27.66 | $27.16 | $23.20 | $24.87 |
| Income from investment operations:[a] | | | | | |
| Net investment income (loss)[b] | (0.12) | (0.11) | (0.14) | (0.11) | (0.06) |
| Net realized and unrealized gains (losses) | 8.25 | 7.10 | 0.64 | 4.07 | (0.03) |
| Total from investment operations | 8.13 | 6.99 | 0.50 | 3.96 | (0.09) |
| Less distributions from net realized gains | — | (0.65) | — | — | (1.58) |
| **Net asset value, end of year** | **$42.13** | **$34.00** | **$27.66** | **$27.16** | **$23.20** |
| Total return[c] | 23.91% | 25.59% | 1.84% | 17.07% | 2.71% |
| Ratios to average net assets | | | | | |
| Expenses | 0.94% | 0.96% | 0.97% | 1.03% | 1.16%[d] |
| Net investment income (loss) | (0.34)% | (0.35)% | (0.46)% | (0.44)% | (0.34)% |
| Supplemental data | | | | | |
| Net assets, end of year (000's) | $1,072,814 | $898,665 | $642,552 | $566,764 | $503,472 |
| Portfolio turnover rate | 35.40% | 16.65% | 30.11% | 31.39% | 46.05% |

a. The amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations in the annual report for the period due to the timing of sales and repurchases of the Fund shares in relation to income earned and/or fluctuating market value of the investments of the Fund.
b. Based on average daily shares outstanding.
c. Total return does not reflect sales commissions or contingent deferred sales charges, if applicable.
d. Benefit of expense reduction rounds to less than 0.01%.

**CLASS C** *Year Ended September 30,*

| | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| Per share operating performance (for a share outstanding throughout the year) | | | | | |
| Net asset value, beginning of year | $30.52 | $25.07 | $24.81 | $21.34 | $23.23 |
| Income from investment operations:[a] | | | | | |
| Net investment income (loss)[b] | (0.35) | (0.32) | (0.34) | (0.28) | (0.19) |
| Net realized and unrealized gains (losses) | 7.36 | 6.42 | 0.60 | 3.75 | (0.12) |
| Total from investment operations | 7.01 | 6.10 | 0.26 | 3.47 | (0.31) |
| Less distributions from net realized gains | — | (0.65) | — | — | (1.58) |
| **Net asset value, end of year** | **$37.53** | **$30.52** | **$25.07** | **$24.81** | **$21.34** |
| Total return[c] | 22.97% | 24.67% | 1.05% | 16.26% | 1.89% |
| Ratios to average net assets | | | | | |
| Expenses | 1.69% | 1.71% | 1.72% | 1.78% | 1.91%[d] |
| Net investment income (loss) | (1.09)% | (1.10)% | (1.21)% | (1.19)% | (1.09)% |
| Supplemental data | | | | | |
| Net assets, end of year (000's) | $176,556 | $142,903 | $105,707 | $93,927 | $83,435 |
| Portfolio turnover rate | 35.40% | 16.65% | 30.11% | 31.39% | 46.05% |

a. The amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations in the annual report for the period due to the timing of sales and repurchases of the Fund shares in relation to income earned and/or fluctuating market value of the investments of the Fund.
b. Based on average daily shares outstanding.
c. Total return does not reflect sales commissions or contingent deferred sales charges, if applicable.
d. Benefit of expense reduction rounds to less than 0.01%.





**CLASS R** *Year Ended September 30,*

| | 2013 | 2012 | 2011 | 2010 | 2009[a] |
|---|---|---|---|---|---|
| Per share operating performance (for a share outstanding throughout the year) | | | | | |
| Net asset value, beginning of year | $33.65 | $27.44 | $27.02 | $23.13 | $15.66 |
| Income from investment operations:[b] | | | | | |
| Net investment income (loss)[c] | (0.21) | (0.19) | (0.22) | (0.17) | (0.09) |
| Net realized and unrealized gains (losses) | 8.14 | 7.05 | 0.64 | 4.06 | 7.56 |
| Total from investment operations | 7.93 | 6.86 | 0.42 | 3.89 | 7.47 |
| Less distributions from net realized gains | — | (0.65) | — | — | — |
| **Net asset value, end of year** | **$41.58** | **$33.65** | **$27.44** | **$27.02** | **$23.13** |
| Total return[d] | 23.57% | 25.32% | 1.55% | 16.82% | 47.70% |
| Ratios to average net assets[e] | | | | | |
| Expenses | 1.19% | 1.21% | 1.22% | 1.28% | 1.41%[f] |
| Net investment income (loss) | (0.59)% | (0.60)% | (0.71)% | (0.69)% | (0.59)% |
| Supplemental data | | | | | |
| Net assets, end of year (000's) | $41,825 | $33,338 | $11,100 | $7,034 | $6,345 |
| Portfolio turnover rate | 35.40% | 16.65% | 30.11% | 31.39% | 46.05% |

a. For the period December 1, 2008 (effective date) to September 30, 2009.
b. The amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations in the annual report for the period due to the timing of sales and repurchases of the Fund shares in relation to income earned and/or fluctuating market value of the investments of the Fund.
c. Based on average daily shares outstanding.
d. Total return is not annualized for periods less than one year.
e. Ratios are annualized for periods less than one year.
f. Benefit of expense reduction rounds to less than 0.01%.

**CLASS R6** *Period Ended September 30,*

| | 2013[a] |
|---|---|
| Per share operating performance (for a share outstanding throughout the period) | |
| Net asset value, beginning of period | $36.56 |
| Income from investment operations:[b] | |
| Net investment income[c] | 0.01 |
| Net realized and unrealized gains (losses) | 6.17 |
| Total from investment operations | 6.18 |
| **Net asset value, end of period** | **$42.74** |
| Total return[d] | 16.90% |
| Ratios to average net assets[e] | |
| Expenses | 0.52% |
| Net investment income | 0.08% |
| Supplemental data | |
| Net assets, end of period (000's) | $317,315 |
| Portfolio turnover rate | 35.40% |

a. For the period May 1, 2013 (effective date) to September 30, 2013.
b. The amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations in the annual report for the period due to the timing of sales and repurchases of the Fund shares in relation to income earned and/or fluctuating market value of the investments of the Fund.
c. Based on average daily shares outstanding.
d. Total return is not annualized for periods less than one year.
e. Ratios are annualized for periods less than one year.





**ADVISOR CLASS** *Year Ended September 30,*

| | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| Per share operating performance (for a share outstanding throughout the year) | | | | | |
| Net asset value, beginning of year | $34.39 | $27.89 | $27.33 | $23.28 | $24.90 |
| Income from investment operations:[a] | | | | | |
| Net investment income (loss)[b] | (0.03) | (0.03) | (0.06) | (0.05) | (0.02) |
| Net realized and unrealized gains (losses) | 8.35 | 7.18 | 0.62 | 4.10 | (0.02) |
| Total from investment operations | 8.32 | 7.15 | 0.56 | 4.05 | (0.04) |
| Less distributions from net realized gains | — | (0.65) | — | — | (1.58) |
| **Net asset value, end of year** | **$42.71** | **$34.39** | **$27.89** | **$27.33** | **$23.28** |
| Total return | 24.19% | 25.96% | 2.05% | 17.40% | 2.92% |
| Ratios to average net assets | | | | | |
| Expenses | 0.69% | 0.71% | 0.72% | 0.78% | 0.91%[c] |
| Net investment income (loss) | (0.09)% | (0.10)% | (0.21)% | (0.19)% | (0.09)% |
| Supplemental data | | | | | |
| Net assets, end of year (000's) | $122,287 | $260,012 | $102,221 | $11,541 | $8,208 |
| Portfolio turnover rate | 35.40% | 16.65% | 30.11% | 31.39% | 46.05% |

a. The amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations in the annual report for the period due to the timing of sales and repurchases of the Fund shares in relation to income earned and/or fluctuating market value of the investments of the Fund.
b. Based on average daily shares outstanding.
c. Benefit of expense reduction rounds to less than 0.01%.

## FRANKLIN GROWTH FUND

### Investment Goal

The Fund's investment goal is capital appreciation.

### Principal Investment Policies and Practices

Under normal market conditions, the Fund invests substantially in the equity securities of companies that are leaders in their industries. In selecting securities, the investment manager considers many factors, including historical and potential growth in revenues and earnings, assessment of strength and quality of management, and determination of a company's strategic positioning in its industry.

Although the Fund normally invests substantially in the equity securities (principally common stocks) of U.S.-based large and medium market capitalization companies, it may invest in companies in new and emerging industries where growth is expected to be above average and may invest up to 40% of its assets in smaller companies. Smaller company stocks are generally those with market capitalizations of less than $1.5 billion. The Fund may invest up to 40% of its assets in foreign securities and up to 10% of its assets in non-U.S. dollar denominated securities.

An equity security represents a proportionate share, or right to acquire a proportionate share, of the ownership of a company; its value is based on the success of the company's business and the value of its assets, as well as general market conditions. Common stocks and preferred stocks are examples of equity securities. Convertible securities generally are debt securities or preferred stock that may be converted into common stock after certain time periods or under certain circumstances. The Fund may invest in convertible securities without regard to the ratings assigned by ratings services.

The Fund's investment manager is a research driven, fundamental investor, generally pursuing a "buy-and-hold" growth strategy. The Fund has historically had low portfolio turnover, and its portfolio turnover is expected to be significantly lower than that of comparable actively managed equity funds. Because the Fund uses a "buy-and-hold" investment strategy the Fund's portfolio securities may have a higher level of unrealized capital appreciation than if the Fund did not use these strategies.





During periods of net redemptions of Fund shares or when market conditions warrant, the investment manager may sell these securities, generating a higher level of taxable gain for shareholders than would occur if the Fund had not used these strategies.

Although the investment manager will search for investments across a large number of sectors, it expects to have significant positions in particular sectors. These sectors may include, for example, technology (including software and computers), health care (including biotechnology) and industrials. Due to market appreciation, the Fund's investment in an industry sector or the securities of a single company may come to represent a significant portion of the Fund's portfolio. Nevertheless, the investment manager will maintain such a position so long as it believes that the company or industry continues to meet its investment guidelines.

From time to time, the Fund may have a significant cash position.

#### Portfolio Selection

The investment manager uses fundamental, "bottom-up" research to seek companies meeting its criteria of growth potential, quality and valuation. In seeking sustainable growth characteristics, the investment manager looks for companies it believes can produce sustainable earnings and cash flow growth, evaluating the long-term market opportunity and competitive structure of an industry to target leaders and emerging leaders. The investment manager defines quality companies as those with strong and improving competitive positions in attractive markets. The investment manager also believes important attributes of quality are experienced and talented management teams as well as financial strength reflected in the capital structure, gross and operating margins, free cash flow generation and returns on capital employed. The investment manager's valuation analysis includes a range of potential outcomes based on an assessment of multiple scenarios. In assessing value, the investment manager considers whether security prices fully reflect the balance of the sustainable growth opportunities relative to business and financial risks.

#### Temporary Investments

When the investment manager believes market or economic conditions are unfavorable for investors, the investment manager may invest up to 100% of the Fund's assets in a temporary defensive manner by holding all or a substantial portion of its assets in cash, cash equivalents or other high quality short-term investments. Temporary defensive investments generally

may include short-term U.S. government securities, high-grade commercial paper, bank obligations, repurchase agreements, money market fund shares (including shares of an affiliated money market fund) and other money market instruments. The investment manager also may invest in these types of securities or hold cash while looking for suitable investment opportunities or to maintain liquidity. In these circumstances, the Fund may be unable to achieve its investment goal.

## Principal Risks

### Market

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

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

### Focus

The greater the Fund's exposure to any single type of investment – including investment in a given industry, sector, region, country, issuer, or type of security – the greater the losses the Fund may experience upon any single economic, business, political, regulatory, or other occurrence. As a result, there may be more fluctuation in the price of the Fund's shares.

### Technology Companies

The technology sector has historically been volatile due to the rapid pace of product change and development within the sector. For example, their products may not prove commercially successful or may become obsolete quickly. In addition, delays in or cancellation of the release of anticipated





products may also affect the price of a technology company's stock. The activities of these companies may also be adversely affected by changes in government regulations, worldwide technological developments or investor perception of a company or its products or services. The stock prices of companies operating within this sector may be subject to abrupt or erratic movements.

### Health Care Companies

The activities of health care companies may be funded or subsidized by federal and state governments. If government funding and subsidies are reduced or discontinued, the profitability of these companies could be adversely affected. Health care companies may also be affected by government policies on health care reimbursements, regulatory approval for new drugs and medical instruments, and similar matters. They are also subject to legislative risk, i.e., the risk of a reform of the health care system through legislation.

### Industrials

The stock prices of companies in the industrials sector are affected by supply and demand both for their specific product or service and for industrials sector products in general. Companies in the industrials sector may be adversely affected by changes in government regulation, world events and economic conditions. In addition, these companies are at risk for environmental damage and product liability claims. Companies in this sector could be adversely affected by commodity price volatility, changes in exchange rates, imposition of export or import controls, increased competition, depletion of resources, technological developments and labor relations.

### Foreign Securities

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

**Currency exchange rates.** Foreign securities may be issued and traded in foreign currencies. As a result, their market values in U.S. dollars may be affected by changes in exchange rates between such foreign currencies and the U.S. dollar, as well as between currencies of countries other than the U.S. For example, if the value of the U.S. dollar goes up compared to a foreign currency, an investment traded in that foreign currency

will go down in value because it will be worth fewer U.S. dollars. The Fund accrues additional expenses when engaging in currency exchange transactions, and valuation of the Fund's foreign securities may be subject to greater risk because both the currency (relative to the U.S. dollar) and the security must be considered.

**Political and economic developments.** The political, economic and social structures of some foreign countries may be less stable and more volatile than those in the United States. Investments in these countries may be subject to greater risks of internal and external conflicts, expropriation, nationalization of assets, foreign exchange controls (such as suspension of the ability to transfer currency from a given country), restrictions on removal of assets, political or social instability, military action or unrest, diplomatic developments, currency devaluations, foreign ownership limitations, and punitive or confiscatory tax increases. It is possible that a government may take over the assets or operations of a company or impose restrictions on the exchange or export of currency or other assets. Some countries also may have different legal systems that may make it difficult or expensive for the Fund to vote proxies, exercise shareholder rights, and pursue legal remedies with respect to its foreign investments. Diplomatic and political developments, including rapid and adverse political changes, social instability, regional conflicts, terrorism and war, could affect the economies, industries and securities and currency markets, and the value of the Fund's investments, in non-U.S. countries. These factors are extremely difficult, if not impossible, to predict and take into account with respect to the Fund's investments.

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

**Availability of information.** Foreign issuers may not be subject to the same disclosure, accounting, auditing and financial reporting standards





and practices as U.S. issuers. Thus, there may be less information publicly available about foreign issuers than about most U.S. issuers.

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

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

### Smaller and Midsize Companies

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

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

### Management

The Fund is actively managed and could experience losses if the investment manager's judgment about markets, interest rates or the attractiveness,

relative values, liquidity, or potential appreciation of particular investments made for the Fund's portfolio prove to be incorrect. There can be no guarantee that these techniques or the investment manager's investment decisions will produce the desired results. Additionally, legislative, regulatory, or tax developments may affect the investment techniques available to the investment manager in connection with managing the Fund and may also adversely affect the ability of the Fund to achieve its investment goal.

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

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

## Management

Franklin Advisers, Inc. (Advisers), One Franklin Parkway, San Mateo, CA 94403-1906, is the Fund's investment manager. Together, Advisers and its affiliates manage, as of December 31, 2013, over $879 billion in assets, and have been in the investment management business since 1947.

Under an agreement with Advisers, Franklin Investment Advisory Services, LLC (Investment Advisory), One Franklin Parkway, San Mateo, CA 94403-1906, is the Fund's sub-advisor. Investment Advisory provides Advisers with investment management advice and assistance. For purposes of the Fund's investment strategies, techniques and risks, the term "investment manager" includes any sub-advisor.

The Fund is managed by a team of dedicated professionals focused on investments in securities of companies that are leaders in their industry. The portfolio managers of the team are as follows:

**VIVIAN J. PALMIERI** *Vice President of Investment Advisory*
Mr. Palmieri has been a portfolio manager of the Fund since 1965. He joined Franklin Templeton Investments in 1965.

**SERENA PERIN VINTON, CFA** *Senior Vice President of Advisers*
Ms. Vinton has been a portfolio manager of the Fund since 2008. She joined Franklin Templeton Investments in 1991.





**CONRAD B. HERRMANN, CFA** *Senior Vice President of Advisers*
Mr. Herrmann has been a portfolio manager of the Fund since 1991. He joined Franklin Templeton Investments in 1989.

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Mr. Palmieri and Ms. Vinton are lead portfolio managers of the Fund and have equal authority over all aspects of the Fund's investment portfolio, including but not limited to, purchases and sales of individual securities, portfolio risk assessment, and the management of daily cash balances in accordance with anticipated investment management requirements. Mr. Herrmann is a portfolio manager of the Fund, providing research and advice on the purchases and sales of individual securities, and portfolio risk assessment. The degree to which each manager may perform these functions, and the nature of these functions, may change from time to time.

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

The Fund pays Advisers a fee for managing the Fund's assets.

For the fiscal year ended September 30, 2013, Advisers agreed to reduce its fees to reflect reduced services resulting from the Fund's investment in a Franklin Templeton money fund. The management fees before and after such waiver for the fiscal year ended September 30, 2013, were 0.46% and 0.45%.

A discussion regarding the basis for the board of trustees approving the investment management contract of the Fund is available in the Fund's semiannual report to shareholders for the six-month period ended March 31.

## Financial Highlights

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

**CLASS A** *Year Ended September 30,*

| | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| Per share operating performance (for a share outstanding throughout the year) | | | | | |
| Net asset value, beginning of year | $50.13 | $40.45 | $41.11 | $36.48 | $37.17 |
| Income from investment operations:[a] | | | | | |
| Net investment income[b] | 0.26 | 0.20 | 0.19 | 0.20 | 0.29 |
| Net realized and unrealized gains (losses) | 9.24 | 9.76 | (0.67) | 4.71 | (0.67) |
| Total from investment operations | 9.50 | 9.96 | (0.48) | 4.91 | (0.38) |
| Less distributions from: | | | | | |
| Net investment income | (0.14) | (0.16) | (0.18) | (0.28) | (0.31) |
| Net realized gains | — | (0.12) | — | — | — |
| Total distributions | (0.14) | (0.28) | (0.18) | (0.28) | (0.31) |
| **Net asset value, end of year** | **$59.49** | **$50.13** | **$40.45** | **$41.11** | **$36.48** |
| Total return[c] | 19.01% | 24.74% | (1.23)% | 13.52% | (0.71)% |
| Ratios to average net assets | | | | | |
| Expenses | 0.91%[d] | 0.94% | 0.92% | 0.94% | 1.00%[d] |
| Net investment income | 0.49% | 0.43% | 0.42% | 0.50% | 0.95% |
| Supplemental data | | | | | |
| Net assets, end of year (000's) | $5,305,031 | $4,135,962 | $3,046,277 | $2,587,802 | $2,173,714 |
| Portfolio turnover rate | 0.83% | 3.50% | 2.72% | 4.36% | 3.92% |

a. The amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations in the annual report for the period due to the timing of sales and repurchases of the Fund shares in relation to income earned and/or fluctuating market value of the investments of the Fund.
b. Based on average daily shares outstanding.
c. Total return does not reflect sales commissions or contingent deferred sales charges, if applicable.
d. Benefit of expense reduction rounds to less than 0.01%.





**CLASS C** *Year Ended September 30,*

| | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| Per share operating performance (for a share outstanding throughout the year) | | | | | |
| Net asset value, beginning of year | $47.10 | $38.16 | $38.92 | $34.61 | $35.14 |
| Income from investment operations:[a] | | | | | |
| Net investment income (loss)[b] | (0.13) | (0.14) | (0.14) | (0.09) | 0.06 |
| Net realized and unrealized gains (losses) | 8.67 | 9.20 | (0.62) | 4.47 | (0.57) |
| Total from investment operations | 8.54 | 9.06 | (0.76) | 4.38 | (0.51) |
| Less distributions from: | | | | | |
| Net investment income | — | — | — | (0.07) | (0.02) |
| Net realized gains | — | (0.12) | — | — | — |
| Total distributions | — | (0.12) | — | (0.07) | (0.02) |
| **Net asset value, end of year** | **$55.64** | **$47.10** | **$38.16** | **$38.92** | **$34.61** |
| Total return[c] | 18.13% | 23.79% | (1.95)% | 12.69% | (1.45)% |
| Ratios to average net assets | | | | | |
| Expenses | 1.66%[d] | 1.69% | 1.67% | 1.69% | 1.75%[d] |
| Net investment income (loss) | (0.26)% | (0.32)% | (0.33)% | (0.25)% | 0.20% |
| Supplemental data | | | | | |
| Net assets, end of year (000's) | $546,505 | $466,205 | $390,171 | $349,188 | $315,305 |
| Portfolio turnover rate | 0.83% | 3.50% | 2.72% | 4.36% | 3.92% |

a. The amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations in the annual report for the period due to the timing of sales and repurchases of the Fund shares in relation to income earned and/or fluctuating market value of the investments of the Fund.
b. Based on average daily shares outstanding.
c. Total return does not reflect sales commissions or contingent deferred sales charges, if applicable.
d. Benefit of expense reduction rounds to less than 0.01%.

**CLASS R** *Year Ended September 30,*

| | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| Per share operating performance (for a share outstanding throughout the year) | | | | | |
| Net asset value, beginning of year | $49.82 | $40.23 | $40.94 | $36.37 | $36.87 |
| Income from investment operations:[a] | | | | | |
| Net investment income[b] | 0.13 | 0.08 | 0.06 | 0.08 | 0.20 |
| Net realized and unrealized gains (losses) | 9.18 | 9.71 | (0.65) | 4.72 | (0.59) |
| Total from investment operations | 9.31 | 9.79 | (0.59) | 4.80 | (0.39) |
| Less distributions from: | | | | | |
| Net investment income | (0.06) | (0.08) | (0.12) | (0.23) | (0.11) |
| Net realized gains | — | (0.12) | — | — | — |
| Total distributions | (0.06) | (0.20) | (0.12) | (0.23) | (0.11) |
| **Net asset value, end of year** | **$59.07** | **$49.82** | **$40.23** | **$40.94** | **$36.37** |
| Total return | 18.71% | 24.42% | (1.47)% | 13.26% | (0.98)% |
| Ratios to average net assets | | | | | |
| Expenses | 1.16%[c] | 1.19% | 1.17% | 1.19% | 1.25%[c] |
| Net investment income | 0.24% | 0.18% | 0.17% | 0.25% | 0.70% |
| Supplemental data | | | | | |
| Net assets, end of year (000's) | $552,391 | $466,954 | $283,464 | $117,484 | $65,113 |
| Portfolio turnover rate | 0.83% | 3.50% | 2.72% | 4.36% | 3.92% |

a. The amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations in the annual report for the period due to the timing of sales and repurchases of the Fund shares in relation to income earned and/or fluctuating market value of the investments of the Fund.
b. Based on average daily shares outstanding.
c. Benefit of expense reduction rounds to less than 0.01%.





**CLASS R6** *Period Ended September 30,*

| | 2013[a] |
|---|---|
| Per share operating performance (for a share outstanding throughout the period) | |
| Net asset value, beginning of period | $54.58 |
| Income from investment operations:[b] | |
| Net investment income[c] | 0.24 |
| Net realized and unrealized gains (losses) | 4.89 |
| Total from investment operations | 5.13 |
| **Net asset value, end of period** | **$59.71** |
| Total return[d] | 9.40% |
| Ratios to average net assets[e] | |
| Expenses | 0.48%[f] |
| Net investment income | 0.92% |
| Supplemental data | |
| Net assets, end of period (000's) | $871,260 |
| Portfolio turnover rate | 0.83% |

a. For the period May 1, 2013 (effective date) to September 30, 2013.
b. The amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations in the annual report for the period due to the timing of sales and repurchases of the Fund shares in relation to income earned and/or fluctuating market value of the investments of the Fund.
c. Based on average daily shares outstanding.
d. Total return is not annualized for periods less than one year.
e. Ratios are annualized for periods less than one year.
f. Benefit of expense reduction rounds to less than 0.01%.

ADVISOR CLASS

*Year Ended September 30,*

| | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| Per share operating performance (for a share outstanding throughout the year) | | | | | |
| Net asset value, beginning of year | $50.24 | $40.53 | $41.18 | $36.53 | $37.25 |
| Income from investment operations:[a] | | | | | |
| Net investment income[b] | 0.39 | 0.32 | 0.30 | 0.29 | 0.36 |
| Net realized and unrealized gains (losses) | 9.26 | 9.78 | (0.68) | 4.72 | (0.68) |
| Total from investment operations | 9.65 | 10.10 | (0.38) | 5.01 | (0.32) |
| Less distributions from: | | | | | |
| Net investment income | (0.23) | (0.27) | (0.27) | (0.36) | (0.40) |
| Net realized gains | — | (0.12) | — | — | — |
| Total distributions | (0.23) | (0.39) | (0.27) | (0.36) | (0.40) |
| **Net asset value, end of year** | **$59.66** | **$50.24** | **$40.53** | **$41.18** | **$36.53** |
| Total return | 19.29% | 25.04% | (0.96)% | 13.82% | (0.45)% |
| Ratios to average net assets | | | | | |
| Expenses | 0.66%[c] | 0.69% | 0.67% | 0.69% | 0.75%[c] |
| Net investment income | 0.74% | 0.68% | 0.67% | 0.75% | 1.20% |
| Supplemental data | | | | | |
| Net assets, end of year (000's) | $1,080,811 | $1,399,191 | $917,394 | $544,936 | $430,926 |
| Portfolio turnover rate | 0.83% | 3.50% | 2.72% | 4.36% | 3.92% |

a. The amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations in the annual report for the period due to the timing of sales and repurchases of the Fund shares in relation to income earned and/or fluctuating market value of the investments of the Fund.
b. Based on average daily shares outstanding.
c. Benefit of expense reduction rounds to less than 0.01%.





# FRANKLIN INCOME FUND

## Investment Goal

The Fund's investment goal is to maximize income while maintaining prospects for capital appreciation.

## Principal Investment Policies and Practices

Under normal market conditions, the Fund invests in a diversified portfolio of debt and equity securities. The Fund may shift its investments from one asset class to another based on the investment manager's analysis of the best opportunities for the Fund's portfolio in a given market. The equity securities in which the Fund invests consist primarily of common stock.

An equity security represents a proportionate share, or right to acquire a proportionate share, of the ownership of a company; its value is based on the success or failure of the company's business, any income paid to stockholders, the value of its assets and general market conditions. Common stocks and preferred stocks, and securities convertible into common stocks, are examples of equity securities. Convertible securities generally are debt securities or preferred stock that may be converted into common stock after certain time periods or under certain circumstances. The Fund may invest in convertible securities without regard to the ratings assigned by the rating agencies.

Debt securities obligate the issuer to repay a loan of money at a future date and generally provide for the payment of interest on the amount borrowed to the bond or note holders. Debt securities include all varieties of fixed, floating and variable rate instruments including secured and unsecured bonds, bonds convertible into common stock, senior floating rate and term loans, mortgage-backed securities and other asset-backed securities, debentures, zero coupon bonds, notes, and short-term debt instruments. Debt securities tend to increase in value when interest rates decline and decrease in value when interest rates rise. Generally, lower-rated securities pay higher yields than more highly rated securities to compensate investors for the greater risk of default or of price fluctuations due to changes in the issuer's creditworthiness.

The Fund seeks income by selecting investments such as corporate, foreign and U.S. Treasury bonds, as well as stocks with dividend yields

the investment manager believes are attractive. In its search for growth opportunities, the Fund maintains the flexibility, based on economic conditions, to invest in common stocks of companies from a variety of industries such as energy and utilities. From time to time, based on economic conditions, the Fund may have significant investments in particular sectors.

The Fund may invest up to 100% of total assets in debt securities that are rated below investment grade (sometimes called "junk bonds"), including a portion in defaulted securities. Securities rated in the top four ratings categories by at least one independent rating agencies such as Standard & Poor's (S&P®) and Moody's Investors Service (Moody's) are considered investment grade. Securities rated Ba or lower by Moody's or BB or lower by S&P, or that are unrated but determined to be of comparable quality, are considered to be below investment grade. If, subsequent to its purchase a security is downgraded in rating or goes into default, the Fund will consider such events in its evaluation of the overall investment merits of that security but will not necessarily dispose of the security immediately.

The Fund may invest up to 25% of its assets in foreign securities, either directly or through depositary receipts, which are certificates typically issued by a bank or trust company that give their holders the right to receive securities issued by a foreign or a domestic company.

As of September 30, 2013, approximately 34.62% of the Fund's net assets were invested in lower-rated and comparable quality unrated debt securities. The percentage of the Fund's net assets invested in such securities at any given time may vary substantially from this number.

The Fund may, from time to time, seek to hedge (protect) against currency risks, using principally forward foreign currency exchange contracts and currency futures contracts when, in the investment manager's opinion, it would be advantageous to the Fund to do so. The Fund may also, from time to time, seek to hedge against market risk or generate income, using a variety of derivative instruments, which may include purchasing or selling call and put options. A currency forward contract is an obligation to purchase or sell a specific foreign currency at an agreed exchange rate (price) at a future date, which is typically individually negotiated and privately traded by currency traders and their customers in the interbank market. A futures contract is a standard binding agreement to buy or sell a specified quantity of an underlying instrument or asset, such as a specific currency, at a specified price at a specified later date that trade on an





exchange. A call option gives the purchaser of the option, upon payment of a premium, the right to buy, and the seller the obligation to sell, the underlying instrument at the exercise price. Conversely, a put option gives the purchaser of the option, upon payment of a premium, the right to sell, and the seller of the option the obligation to buy, the underlying instrument at the exercise price. For example, when the investment manager expects the price of a stock held by the Fund to decline in value, the Fund may also purchase put options that are expected to increase in value as the market price of the stock declines to hedge against such anticipated decline in value. The investment manager considers various factors, such as availability and cost, in deciding whether, when and to what extent to enter into derivative transactions.

The Fund may invest up to 15% of its net assets in equity-linked notes (ELNs), which are hybrid derivative-type instruments that are specially designed to combine the characteristics of one or more reference securities (usually a single stock, a stock index or a basket of stocks (underlying securities)) and a related equity derivative, such as a put or call option, in a single note form. The Fund may engage in all types of ELNs, including those that: (1) provide for protection of the Fund's principal in exchange for limited participation in the appreciation of the underlying securities, and (2) do not provide for such protection and subject the Fund to the risk of loss of the Fund's principal investment. ELNs can provide the Fund with an efficient investment tool that may be less expensive than investing directly in the underlying securities and the related equity derivative.

The Fund's investment manager searches for undervalued or out-of-favor securities it believes offer opportunities for income today and significant growth tomorrow. It generally performs independent analysis of the debt securities being considered for the Fund's portfolio, rather than relying principally on the ratings assigned by rating organizations. In analyzing both debt and equity securities, the investment manager considers a variety of factors, including:

- a security's relative value based on such factors as anticipated cash flow, interest or dividend coverage, asset coverage, and earnings prospects;
- the experience and strength of the company's management;
- the company's changing financial condition and market recognition of the change;

- the company's sensitivity to changes in interest rates and business conditions; and
- the company's debt maturity schedules and borrowing requirements.

With respect to debt and equity securities in the utilities industry, the investment manager considers the effects of the regulatory environment on utilities companies.

When choosing equity investments for the Fund, the investment manager applies a "bottom-up," value oriented, long-term approach, focusing on the market price of a company's securities relative to the investment manager's evaluation of the company's long-term earnings, asset value and cash flow potential. The investment manager also considers a company's price/earnings ratio, profit margins and liquidation value.

### Exclusion of Investment Manager from Commodity Pool Operator Definition

With respect to the Fund, the investment manager has claimed an exclusion from the definition of "commodity pool operator" (CPO) under the Commodity Exchange Act (CEA) and the rules of the Commodity Futures Trading Commission (CFTC) and, therefore, is not subject to CFTC registration or regulation as a CPO. In addition, the investment manager is relying upon a related exclusion from the definition of "commodity trading advisor" (CTA) under the CEA and the rules of the CFTC.

The terms of the CPO exclusion require the Fund, among other things, to adhere to certain limits on its investments in commodity futures, commodity options and swaps, which in turn include non-deliverable foreign currency forwards, as further described in the Fund's Statement of Additional Information (SAI). Because the investment manager and the Fund intend to comply with the terms of the CPO exclusion, the Fund may, in the future, need to adjust its investment strategies, consistent with its investment goal, to limit its investments in these types of instruments. The Fund is not intended as a vehicle for trading in the commodity futures, commodity options, or swaps markets. The CFTC has neither reviewed nor approved the investment manager's reliance on these exclusions, or the Fund, its investment strategies or this prospectus.

### Temporary Investments

When the investment manager believes market or economic conditions are unfavorable for investors, the investment manager may invest up to





100% of the Fund's assets in a temporary defensive manner by holding all or a substantial portion of its assets in cash, cash equivalents or other high quality short-term investments. Temporary defensive investments generally may include short-term U.S. government securities, high-grade commercial paper, bank obligations, repurchase agreements, money market fund shares (including shares of an affiliated money market fund) and other money market instruments. The investment manager also may invest in these types of securities or hold cash while looking for suitable investment opportunities or to maintain liquidity. In these circumstances, the Fund may be unable to achieve its investment goal.

## Principal Risks

### Market

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

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

### High-Yield Debt Securities

High-yield debt securities (including loans) and unrated securities of similar credit quality ("high-yield debt instruments" or "junk bonds") involve greater risk of a complete loss of the Fund's investment, or delays of interest and principal payments, than higher-quality debt securities. Issuers of high-yield debt instruments are not as strong financially as those issuing securities of higher credit quality. High-yield debt instruments are generally considered predominantly speculative by the applicable rating agencies as these issuers are more likely to encounter financial difficulties and are

more vulnerable to changes in the relevant economy, such as a recession or a sustained period of rising interest rates, that could affect their ability to make interest and principal payments when due. If an issuer stops making interest and/or principal payments, payments on the securities may never resume. These instruments may be worthless and the Fund could lose its entire investment.

The prices of high-yield debt instruments fluctuate more than higher-quality securities. Prices are especially sensitive to developments affecting the issuer's business or operations and to changes in the ratings assigned by rating agencies. In addition, the entire high-yield debt market can experience sudden and sharp price swings due to changes in economic conditions, stock market activity, large sustained sales by major investors, a high-profile default, or other factors. Prices of corporate high-yield debt instruments often are closely linked with the company's stock prices and typically rise and fall in response to factors that affect stock prices.

High-yield debt instruments are generally less liquid than higher-quality securities. Many of these securities are not registered for sale under the federal securities laws and/or do not trade frequently. When they do trade, their prices may be significantly higher or lower than expected. At times, it may be difficult to sell these securities promptly at an acceptable price, which may limit the Fund's ability to sell securities in response to specific economic events or to meet redemption requests. As a result, high-yield debt instruments generally pose greater illiquidity and valuation risks.

Substantial declines in the prices of high-yield debt instruments can dramatically increase the yield of such bonds or loans. The decline in market prices generally reflects an expectation that the issuer(s) may be at greater risk of defaulting on the obligation to pay interest and principal when due. Therefore, substantial increases in yield may reflect a greater risk by the Fund of losing some or part of its investment rather than any increase in income from the higher yield that the debt security or loan may pay to the Fund on its investment.

### Interest Rate

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





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

### Credit

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

### Income

Because the Fund can only distribute what it earns, the Fund's distributions to shareholders may decline when prevailing interest rates fall, when dividend income from investments in stocks decline, or when the Fund experiences defaults on debt securities it holds. The Fund's income generally declines during periods of falling interest rates because the Fund must reinvest the proceeds it receives from existing investments (upon their maturity, prepayment, amortization, call or buy-back) at a lower rate of interest or return.

### Prepayment

Debt securities are subject to prepayment risk when the issuer can "call" the security, or repay principal, in whole or in part, prior to the security's maturity. When the Fund reinvests the prepayments of principal it receives, it may receive a rate of interest that is lower than the rate on the existing security, potentially lowering the Fund's income, yield and its distributions to shareholders. Securities subject to prepayment may offer less potential for gains during a declining interest rate environment and have greater price volatility. Prepayment risk is greater in periods of falling interest rates.

### Foreign Securities

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

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

**Currency management strategies.** Currency management strategies may substantially change the Fund's exposure to currency exchange rates and could result in losses to the Fund if currencies do not perform as the investment manager expects. In addition, currency management strategies, to the extent that they reduce the Fund's exposure to currency risks, may also reduce the Fund's ability to benefit from favorable changes in currency exchange rates. There is no assurance that the investment manager's use of currency management strategies will benefit the Fund or that they will be, or can be, used at appropriate times. Furthermore, there may not be perfect correlation between the amount of exposure to a particular currency and the amount of securities in the portfolio denominated in that currency. Investing in foreign currencies for purposes of gaining from projected changes in exchange rates, as opposed to hedging currency risks applicable to the Fund's holdings, further increases the Fund's exposure to foreign investment losses.

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





pursue legal remedies with respect to its foreign investments. Diplomatic and political developments, including rapid and adverse political changes, social instability, regional conflicts, terrorism and war, could affect the economies, industries and securities and currency markets, and the value of the Fund's investments, in non-U.S. countries. These factors are extremely difficult, if not impossible, to predict and take into account with respect to the Fund's investments.

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

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

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

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

## Focus

The greater the Fund's exposure to any single type of investment – including investment in a given industry, sector, region, country, issuer, or type of security – the greater the losses the Fund may experience upon any single economic, business, political, regulatory, or other occurrence. As a result, there may be more fluctuation in the price of the Fund's shares.

**Energy companies.** Companies that are involved in oil or gas exploration, production, refining or marketing, or any combination of the above are greatly affected by the prices and supplies of raw materials such as oil or gas. The earnings and dividends of energy companies can fluctuate significantly as a result of international economics, politics and regulation.

**Utilities industry** Utility company equity securities, generally historically have been sensitive to interest rate movements: when interest rates have risen, the stock prices of these companies have tended to fall. In some states, utility companies and their rates are regulated; other states have moved to deregulate such companies thereby causing non-regulated companies' returns to generally be more volatile and more sensitive to changes in revenue and earnings. Certain utilities companies face risks associated with the operation of nuclear facilities for electric generation, including, among other considerations, litigation, the problems associated with the use of radioactive materials and the effects of natural or man-made disasters. In general, all utility companies may face additional regulation and litigation regarding their power plant operations; increased costs from new or greater regulation of these operations; the need to purchase expensive emissions control equipment or new operations due to regulations, and the availability and cost of fuel, all of which may lower their earnings.

## Management

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





## Value Style Investing

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

## Equity-Linked Notes (ELNs)

Investments in ELNs often have risks similar to their underlying securities, which could include management risk, market risk and, as applicable, foreign securities and currency risks. In addition, since ELNs are in note form, ELNs are also subject to certain debt securities risks, such as interest rate and credit risks. Should the prices of the underlying securities move in an unexpected manner, the Fund may not achieve the anticipated benefits of an investment in an ELN, and may realize losses, which could be significant and could include the Fund's entire principal investment. An investment in an ELN is also subject to counterparty risk, which is the risk that the issuer of the ELN will default or become bankrupt and the Fund will have difficulty being repaid, or fail to be repaid, the principal amount of, or income from, its investment. Investments in ELNs are also subject to liquidity risk, which may make ELNs difficult to sell and value. In addition, ELNs may exhibit price behavior that does not correlate with the underlying securities or a fixed-income investment.

## Derivative Instruments

The performance of derivative instruments depends largely on the performance of an underlying instrument and such instruments often have risks similar to the underlying instrument in addition to other risks. Derivative instruments involve costs and can create leverage in the Fund's portfolio which may result in significant volatility and cause the Fund to participate in losses (as well as gains) in an amount that significantly exceeds the Fund's initial investment. Certain derivatives have the potential for unlimited loss, regardless of the size of the initial investment. Other risks include illiquidity, mispricing or improper valuation of the derivative instrument, and imperfect correlation between the value of the derivative and the underlying instrument so that the Fund may not realize the intended benefits. Their successful use will usually depend on the investment manager's ability to accurately forecast movements in the market relating to the underlying instrument. Should a market or markets, or prices of particular classes of investments move in an unexpected

manner, especially in unusual or extreme market conditions, the Fund may not achieve the anticipated benefits of the transaction, and it may realize losses, which could be significant. If the investment manager is not successful in using such derivative instruments, the Fund's performance may be worse than if the investment manager did not use such derivative instruments at all. To the extent that the Fund uses such instruments for hedging purposes, there is the risk of imperfect correlation between movements in the value of the derivative instrument and the value of the underlying investment or other asset being hedged. There is also the risk, especially under extreme market conditions, that an instrument, which usually would operate as a hedge, provides no hedging benefits at all.

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

### Convertible Securities

A convertible security is generally a debt obligation, preferred stock or other security that pays interest or dividends and may be converted by the holder within a specified period of time into common stock. The value of convertible securities may rise and fall with the market value of the underlying stock or, like a debt security, vary with changes in interest rates





and the credit quality of the issuer. A convertible security tends to perform more like a stock when the underlying stock price is high relative to the conversion price (because more of the security's value resides in the option to convert) and more like a debt security when the underlying stock price is low relative to the conversion price (because the option to convert is less valuable). Because its value can be influenced by many different factors, a convertible security is not as sensitive to interest rate changes as a similar non-convertible debt security, and generally has less potential for gain or loss than the underlying stock.

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

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

## Management

Franklin Advisers, Inc. (Advisers), One Franklin Parkway, San Mateo, CA 94403-1906, is the Fund's investment manager. Together, Advisers and its affiliates manage, as of December 31, 2013, over $879 billion in assets, and have been in the investment management business since 1947.

The Fund is managed by a team of dedicated professionals focused on investments in debt and equity securities. The portfolio managers of the team are as follows:

**EDWARD D. PERKS, CFA** *Executive Vice President and Director of Portfolio Management of Advisers*

Mr. Perks has been a portfolio manager of the Fund since 2002. He has final authority over all aspects of the Fund's investment portfolio, including but not limited to, purchases and sales of individual securities, portfolio risk assessment, and the management of daily cash balances in accordance with anticipated investment management requirements. The degree to which he may perform these functions, and the nature of these functions, may change from time to time. He joined Franklin Templeton Investments in 1992.

**MATTHEW QUINLAN** *Portfolio Manager of Advisers*

Mr. Quinlan has been a portfolio manager of the Fund since 2012, providing research and advice on the purchases and sales of individual

securities, and portfolio risk assessment. He joined Franklin Templeton Investments in 2005.

**ALEX W. PETERS, CFA** *Vice President of Advisers*
Mr. Peters has been a portfolio manager of the Fund since 2012, providing research and advice on the purchases and sales of individual securities, and portfolio risk assessment. He joined Franklin Templeton Investments in 1992.

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The Fund pays Advisers a fee for managing the Fund's assets.

For the fiscal year ended September 30, 2013, Advisers agreed to reduce its fees to reflect reduced services resulting from the Fund's investment in a Franklin Templeton money fund. However, this fee reduction was less than 0.01% of the Fund's average net assets. The management fees for the fiscal year ended September 30, 2013, were 0.37%.

A discussion regarding the basis for the board of trustees approving the investment management contract of the Fund is available in the Fund's semiannual report to shareholders for the six-month period ended March 31.

## Financial Highlights

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





**CLASS A** *Year Ended September 30,*

| | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| Per share operating performance (for a share outstanding throughout the year) | | | | | |
| Net asset value, beginning of year | $2.23 | $1.98 | $2.11 | $1.99 | $1.98 |
| Income from investment operations:[a] | | | | | |
| Net investment income[b] | 0.11 | 0.13 | 0.13 | 0.13 | 0.13 |
| Net realized and unrealized gains (losses) | 0.12 | 0.26 | (0.12) | 0.14 | 0.04 |
| Total from investment operations | 0.23 | 0.39 | 0.01 | 0.27 | 0.17 |
| Less distributions from: | | | | | |
| Net investment income | (0.13) | (0.14) | (0.14) | (0.15) | (0.16) |
| Net realized gains | — | — | — | — | —[c] |
| Total distributions | (0.13) | (0.14) | (0.14) | (0.15) | (0.16) |
| **Net asset value, end of year** | **$2.33** | **$2.23** | **$1.98** | **$2.11** | **$1.99** |
| Total return[d] | 10.72% | 20.38% | 0.01% | 13.90% | 10.56% |
| Ratios to average net assets | | | | | |
| Expenses[e] | 0.62% | 0.64% | 0.63% | 0.65% | 0.68% |
| Net investment income | 4.98% | 5.90% | 6.03% | 6.40% | 7.93% |
| Supplemental data | | | | | |
| Net assets, end of year (000's) | $48,320,611 | $41,280,437 | $32,847,934 | $32,281,991 | $27,773,006 |
| Portfolio turnover rate | 37.60% | 33.44% | 35.83% | 46.85% | 51.36% |

a. The amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations in the annual report for the period due to the timing of sales and repurchases of the Fund shares in relation to income earned and/or fluctuating market value of the investments of the Fund.
b. Based on average daily shares outstanding.
c. Amount rounds to less than $0.01 per share.
d. Total return does not reflect sales commissions or contingent deferred sales charges, if applicable.
e. Benefit of expense reduction rounds to less than 0.01%.

**CLASS C** *Year Ended September 30,*

| | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| Per share operating performance (for a share outstanding throughout the year) | | | | | |
| Net asset value, beginning of year | $2.25 | $2.00 | $2.13 | $2.00 | $1.99 |
| Income from investment operations:[a] | | | | | |
| Net investment income[b] | 0.10 | 0.12 | 0.12 | 0.12 | 0.13 |
| Net realized and unrealized gains (losses) | 0.12 | 0.26 | (0.12) | 0.15 | 0.03 |
| Total from investment operations | 0.22 | 0.38 | — | 0.27 | 0.16 |
| Less distributions from: | | | | | |
| Net investment income | (0.12) | (0.13) | (0.13) | (0.14) | (0.15) |
| Net realized gains | — | — | — | — | —[c] |
| Total distributions | (0.12) | (0.13) | (0.13) | (0.14) | (0.15) |
| **Net asset value, end of year** | **$2.35** | **$2.25** | **$2.00** | **$2.13** | **$2.00** |
| Total return[d] | 10.07% | 19.58% | (0.48)% | 13.76% | 9.93% |
| Ratios to average net assets | | | | | |
| Expenses[e] | 1.12% | 1.14% | 1.13% | 1.15% | 1.18% |
| Net investment income | 4.48% | 5.40% | 5.53% | 5.90% | 7.43% |
| Supplemental data | | | | | |
| Net assets, end of year (000's) | $24,016,797 | $20,220,114 | $16,217,805 | $15,605,055 | $13,054,203 |
| Portfolio turnover rate | 37.60% | 33.44% | 35.83% | 46.85% | 51.36% |

a. The amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations in the annual report for the period due to the timing of sales and repurchases of the Fund shares in relation to income earned and/or fluctuating market value of the investments of the Fund.
b. Based on average daily shares outstanding.
c. Amount rounds to less than $0.01 per share.
d. Total return does not reflect sales commissions or contingent deferred sales charges, if applicable.
e. Benefit of expense reduction rounds to less than 0.01%.





**CLASS R** *Year Ended September 30,*

| | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| Per share operating performance (for a share outstanding throughout the year) | | | | | |
| Net asset value, beginning of year | $2.20 | $1.96 | $2.09 | $1.96 | $1.95 |
| Income from investment operations:[a] | | | | | |
| Net investment income[b] | 0.11 | 0.12 | 0.12 | 0.12 | 0.13 |
| Net realized and unrealized gains (losses) | 0.10 | 0.25 | (0.12) | 0.15 | 0.03 |
| Total from investment operations | 0.21 | 0.37 | — | 0.27 | 0.16 |
| Less distributions from: | | | | | |
| Net investment income | (0.12) | (0.13) | (0.13) | (0.14) | (0.15) |
| Net realized gains | — | — | — | — | —[c] |
| Total distributions | (0.12) | (0.13) | (0.13) | (0.14) | (0.15) |
| **Net asset value, end of year** | **$2.29** | **$2.20** | **$1.96** | **$2.09** | **$1.96** |
| Total return | 10.03% | 19.66% | (0.32)% | 14.23% | 10.31% |
| Ratios to average net assets | | | | | |
| Expenses[d] | 0.97% | 0.99% | 0.98% | 1.00% | 1.03% |
| Net investment income | 4.63% | 5.55% | 5.68% | 6.05% | 7.58% |
| Supplemental data | | | | | |
| Net assets, end of year (000's) | $446,463 | $426,525 | $360,907 | $370,564 | $315,298 |
| Portfolio turnover rate | 37.60% | 33.44% | 35.83% | 46.85% | 51.36% |

a. The amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations in the annual report for the period due to the timing of sales and repurchases of the Fund shares in relation to income earned and/or fluctuating market value of the investments of the Fund.
b. Based on average daily shares outstanding.
c. Amount rounds to less than $0.01 per share.
d. Benefit of expense reduction rounds to less than 0.01%.

**CLASS R6** *Period Ended September 30,*

| | 2013[a] |
|---|---|
| Per share operating performance (for a share outstanding throughout the period) | |
| Net asset value, beginning of period | $2.33 |
| Income from investment operations:[b] | |
| Net investment income[c] | 0.04 |
| Net realized and unrealized gains (losses) | (0.02) |
| Total from investment operations | 0.02 |
| Less distributions from net investment income | (0.04) |
| **Net asset value, end of period** | **$2.31** |
| Total return[d] | 1.06% |
| Ratios to average net assets[e] | |
| Expenses | 0.39%[f] |
| Net investment income | 5.21% |
| Supplemental data | |
| Net assets, end of period (000's) | $1,921,084 |
| Portfolio turnover rate | 37.60% |

a. For the period May 1, 2013 (effective date) to September 30, 2013.
b. The amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations in the annual report for the period due to the timing of sales and repurchases of the Fund shares in relation to income earned and/or fluctuating market value of the investments of the Fund.
c. Based on average daily shares outstanding.
d. Total return is not annualized for periods less than one year.
e. Ratios are annualized for periods less than one year.
f. Benefit of expense reduction rounds to less than 0.01%.





**ADVISOR CLASS** *Year Ended September 30,*

| | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| Per share operating performance (for a share outstanding throughout the year) | | | | | |
| Net asset value, beginning of year | $2.22 | $1.97 | $2.10 | $1.98 | $1.97 |
| Income from investment operations:[a] | | | | | |
| Net investment income[b] | 0.12 | 0.13 | 0.13 | 0.13 | 0.14 |
| Net realized and unrealized gains (losses) | 0.11 | 0.26 | (0.12) | 0.14 | 0.03 |
| Total from investment operations | 0.23 | 0.39 | 0.01 | 0.27 | 0.17 |
| Less distributions from: | | | | | |
| Net investment income | (0.14) | (0.14) | (0.14) | (0.15) | (0.16) |
| Net realized gains | — | — | — | — | —[c] |
| Total distributions | (0.14) | (0.14) | (0.14) | (0.15) | (0.16) |
| **Net asset value, end of year** | **$2.31** | **$2.22** | **$1.97** | **$2.10** | **$1.98** |
| Total return | 10.49% | 20.69% | 0.16% | 14.15% | 10.79% |
| Ratios to average net assets | | | | | |
| Expenses[d] | 0.47% | 0.49% | 0.48% | 0.50% | 0.53% |
| Net investment income | 5.13% | 6.05% | 6.18% | 6.55% | 8.08% |
| Supplemental data | | | | | |
| Net assets, end of year (000's) | $5,903,701 | $6,444,763 | $5,032,128 | $4,593,709 | $4,183,925 |
| Portfolio turnover rate | 37.60% | 33.44% | 35.83% | 46.85% | 51.36% |

a. The amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations in the annual report for the period due to the timing of sales and repurchases of the Fund shares in relation to income earned and/or fluctuating market value of the investments of the Fund.
b. Based on average daily shares outstanding.
c. Amount rounds to less than $0.01 per share.
d. Benefit of expense reduction rounds to less than 0.01%.

## FRANKLIN U.S. GOVERNMENT SECURITIES FUND

### Investment Goal

The Fund's investment goal is income.

### Principal Investment Policies and Practices

Under normal market conditions, the Fund invests at least 80% of its net assets in U.S. government securities. Shareholders will be given at least 60 days' advance notice of any change to the 80% policy regarding investment in U.S. government securities. The Fund presently invests substantially all of its assets in Government National Mortgage Association obligations (Ginnie Maes).

Ginnie Maes represent an ownership interest in mortgage loans pooled together for sale to investors to finance purchases of homes. The mortgage loans may have either fixed or adjustable interest rates. As the underlying mortgage loans are paid off, Ginnie Maes provide investors with monthly payments of interest and principal as well as any unscheduled prepayments on the underlying mortgage loans.

Ginnie Maes carry a guarantee as to the timely repayment of principal and interest that is backed by the full faith and credit of the U.S. government. The full faith and credit guarantee does not apply to the market prices and yields of the Ginnie Maes or to the net asset value or performance of the Fund, which will vary with changes in interest rates and other market conditions.

The Fund may also invest in other U.S. government securities, which are also backed by the full faith and credit of the U.S. government, such as U.S. Treasury STRIPS, bills, bonds and notes. The Fund's short-term investments include short-term government securities and cash. The Fund may also invest in repurchase agreements collateralized by U.S. government securities.

The Fund may buy securities on a "when-issued" or "delayed delivery" basis. This means that the securities will be paid for and delivered to the Fund at a future date, generally in 30 to 45 days.

In addition, the Fund may invest in mortgage dollar rolls. In a mortgage dollar roll, the Fund sells or buys mortgage-backed securities for delivery in the current month and simultaneously contracts to repurchase substantially similar (same type, coupon, and maturity) securities on a specified future date. During the period between the sale and repurchase, the Fund forgoes principal and interest paid on the mortgage-backed securities. The Fund earns money on a mortgage dollar roll from any difference between the sale price and the future purchase price, as well as the interest earned on the cash proceeds of the initial sale. The Fund will invest only in covered mortgage dollar rolls, meaning that the Fund establishes a segregated account with liquid securities equal in value to the securities it will repurchase.

#### Temporary Investments

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

### Principal Risks

#### Interest Rate

Interest rate changes can be sudden and unpredictable. Debt securities generally tend to lose market value when interest rates rise. While debt securities also generally increase in value when interest rates fall, this may be less true for Ginnie Maes since homeowners may refinance their mortgages when interest rates fall, thus limiting the potential of the Ginnie Maes to appreciate in value. In general, securities with longer maturities or lower coupons or that make little (or no) interest payments before maturity tend to be more sensitive to these interest rate changes. The longer the Fund's average weighted portfolio maturity, the greater the impact a change in interest rates will have on its share price.

### Prepayment

The Fund may receive unscheduled payments of principal due to voluntary prepayments, refinancing or foreclosure on the underlying mortgage loans. During periods of declining interest rates, the volume of principal prepayments generally increases as borrowers refinance their mortgages at lower rates. The Fund may be forced to reinvest returned principal at lower interest rates, reducing the Fund's income. Also, if a security has been purchased at a premium, the value of the premium would be lost in the event of prepayment.

### Ginnie Maes

Ginnie Maes differ from conventional debt securities, such as Treasury securities, because principal is paid back monthly over the life of the security rather than at maturity. The Fund may receive unscheduled payments of principal due to voluntary prepayments, refinancing or foreclosure on the underlying mortgage loans. During periods of declining interest rates, the volume of principal prepayments generally increases as borrowers refinance their mortgages at lower rates. The Fund may be forced to reinvest returned principal at lower interest rates, reducing the Fund's income. For this reason, Ginnie Maes may be less effective than some other types of securities as a means of "locking in" long-term interest rates and may have less potential for capital appreciation during periods of falling interest rates than some other investments with similar maturities. A reduction in the anticipated rate of principal prepayments, especially during periods of rising interest rates, may increase the effective maturity of Ginnie Maes, making them more susceptible than some other debt securities to a decline in market value when interest rates rise. This could increase the volatility of the Fund's performance and share price.

### Income

Because the Fund can only distribute what it earns, the Fund's distributions to shareholders may decline when prevailing interest rates fall or when the Fund experiences defaults on debt securities it holds. The Fund's income generally declines during periods of falling interest rates because the Fund must reinvest the proceeds it receives from existing investments (upon their maturity, prepayment, amortization, call, or buy-back) at a lower rate of interest or return.





### Credit

U.S. government investments generally have the least credit risk but are not completely free of credit risk. The Fund may incur substantial losses on debt securities that are inaccurately perceived to present a different amount of credit risk by the market, the investment manager or the rating agencies than such securities actually do. Any downgrade of securities issued by the U.S. government may result in a downgrade of securities issued by its agencies or instrumentalities, including securities issued by Ginnie Mae. While securities issued by Ginnie Mae are backed by the full faith and credit of the U.S. Government, guarantees of principal and interest do not apply to market prices, yields or the Fund's share price.

### Management

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

### Market

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

### Mortgage Dollar Rolls

In a mortgage dollar roll, the Fund takes the risk that the market price of the mortgage-backed securities will drop below their future purchase price. The Fund also takes the risk that the mortgage-backed securities that it repurchases at a later date will have less favorable market characteristics than the securities originally sold (e.g., greater prepayment risk). When the Fund uses a mortgage dollar roll, it is also subject to the risk that the other party to the agreement will not be able to perform. Mortgage dollar rolls add leverage to the Fund's portfolio and increase the Fund's sensitivity to interest rate changes. In addition, investment in mortgage dollar rolls may increase the Fund's portfolio turnover rate.

### When-Issued and Delayed Delivery Transactions

Mortgage-backed securities may be issued on a when-issued or delayed delivery basis, where payment and delivery take place at a future date. Since the market price of the security may fluctuate during the time before payment and delivery, the Fund assumes the risk that the value of the security at delivery may be more or less than the purchase price.

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

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

## Management

Franklin Advisers, Inc. (Advisers), One Franklin Parkway, San Mateo, CA 94403-1906, is the Fund's investment manager. Together, Advisers and its affiliates manage, as of December 31, 2013, over $879 billion in assets, and have been in the investment management business since 1947.

The Fund is managed by a team of dedicated professionals focused on investments in U.S. government securities. The portfolio managers of the team are as follows:

**ROGER BAYSTON, CFA** *Senior Vice President of Advisers*

Mr. Bayston has been a portfolio manager of the Fund since 1993. He has primary responsibility for the investments of the Fund. He has final authority over all aspects of the Fund's investment portfolio, including but not limited to, purchases and sales of individual securities, portfolio risk assessment, and the management of daily cash balances in accordance with anticipated investment management requirements. The degree to which he may perform these functions, and the nature of these functions, may change from time to time. He joined Franklin Templeton Investments in 1991.

**PAUL VARUNOK** *Portfolio Manager of Advisers*

Mr. Varunok has been a portfolio manager of the Fund since 2003, providing research and advice on the purchases and sales of individual securities, and portfolio risk assessment. He joined Franklin Templeton Investments in 2001.

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

The Fund pays Advisers a fee for managing the Fund's assets.

For the fiscal year ended September 30, 2013, Advisers agreed to reduce its fees to reflect reduced services resulting from the Fund's investment in a Franklin Templeton money fund. However, this fee reduction was less than 0.01% of the Fund's average net assets. The management fees for the fiscal year ended September 30, 2013, were 0.44%.

A discussion regarding the basis for the board of trustees approving the investment management contract of the Fund is available in the Fund's semiannual report to shareholders for the six-month period ended March 31.

## Financial Highlights

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

**CLASS A** *Year Ended September 30,*

| | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| Per share operating performance (for a share outstanding throughout the year) | | | | | |
| Net asset value, beginning of year | $6.91 | $6.92 | $6.81 | $6.69 | $6.45 |
| Income from investment operations:[a] | | | | | |
| Net investment income[b] | 0.15 | 0.20 | 0.24 | 0.25 | 0.27 |
| Net realized and unrealized gains (losses) | (0.29) | 0.04 | 0.15 | 0.14 | 0.27 |
| Total from investment operations | (0.14) | 0.24 | 0.39 | 0.39 | 0.54 |
| Less distributions from net investment income | (0.24) | (0.25) | (0.28) | (0.27) | (0.30) |
| **Net asset value, end of year** | **$6.53** | **$6.91** | **$6.92** | **$6.81** | **$6.69** |
| Total return[c] | (2.03)% | 3.49% | 5.93% | 5.94% | 8.50% |
| Ratios to average net assets | | | | | |
| Expenses | 0.73% | 0.73% | 0.72% | 0.73% | 0.73%[d] |
| Net investment income | 2.17% | 2.86% | 3.55% | 3.70% | 4.11% |
| Supplemental data | | | | | |
| Net assets, end of year (000's) | $5,138,613 | $6,861,193 | $6,423,821 | $6,771,471 | $6,275,792 |
| Portfolio turnover rate | 46.16% | 40.15% | 20.23% | 47.41% | 34.74% |
| Portfolio turnover rate excluding mortgage dollar rolls | 40.83% | 40.15% | 20.23% | 47.41% | 34.74% |

a. The amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations in the annual report for the period due to the timing of sales and repurchases of the Fund shares in relation to income earned and/or fluctuating market value of the investments of the Fund.
b. Based on average daily shares outstanding.
c. Total return does not reflect sales commissions or contingent deferred sales charges, if applicable.
d. Benefit of expense reduction rounds to less than 0.01%.





**CLASS C** *Year Ended September 30,*

| | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| Per share operating performance (for a share outstanding throughout the year) | | | | | |
| Net asset value, beginning of year | $6.86 | $6.88 | $6.77 | $6.66 | $6.42 |
| Income from investment operations:[a] | | | | | |
| Net investment income[b] | 0.11 | 0.16 | 0.21 | 0.21 | 0.23 |
| Net realized and unrealized gains (losses) | (0.28) | 0.03 | 0.15 | 0.14 | 0.27 |
| Total from investment operations | (0.17) | 0.19 | 0.36 | 0.35 | 0.50 |
| Less distributions from net investment income | (0.20) | (0.21) | (0.25) | (0.24) | (0.26) |
| **Net asset value, end of year** | **$6.49** | **$6.86** | **$6.88** | **$6.77** | **$6.66** |
| Total return[c] | (2.45)% | 2.85% | 5.44% | 5.28% | 8.01% |
| Ratios to average net assets | | | | | |
| Expenses | 1.23% | 1.23% | 1.23% | 1.24% | 1.24%[d] |
| Net investment income | 1.67% | 2.36% | 3.04% | 3.19% | 3.60% |
| Supplemental data | | | | | |
| Net assets, end of year (000's) | $1,640,787 | $2,981,724 | $2,294,707 | $2,484,847 | $1,464,614 |
| Portfolio turnover rate | 46.16% | 40.15% | 20.23% | 47.41% | 34.74% |
| Portfolio turnover rate excluding mortgage dollar rolls | 40.83% | 40.15% | 20.23% | 47.41% | 34.74% |

a. The amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations in the annual report for the period due to the timing of sales and repurchases of the Fund shares in relation to income earned and/or fluctuating market value of the investments of the Fund.
b. Based on average daily shares outstanding.
c. Total return does not reflect sales commissions or contingent deferred sales charges, if applicable.
d. Benefit of expense reduction rounds to less than 0.01%.

**CLASS R** *Year Ended September 30,*

| | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| Per share operating performance (for a share outstanding throughout the year) | | | | | |
| Net asset value, beginning of year | $6.90 | $6.91 | $6.81 | $6.69 | $6.45 |
| Income from investment operations:[a] | | | | | |
| Net investment income[b] | 0.12 | 0.17 | 0.22 | 0.23 | 0.25 |
| Net realized and unrealized gains (losses) | (0.27) | 0.04 | 0.14 | 0.13 | 0.26 |
| Total from investment operations | (0.15) | 0.21 | 0.36 | 0.36 | 0.51 |
| Less distributions from net investment income | (0.22) | (0.22) | (0.26) | (0.24) | (0.27) |
| **Net asset value, end of year** | **$6.53** | **$6.90** | **$6.91** | **$6.81** | **$6.69** |
| Total return | (2.27)% | 3.13% | 5.41% | 5.55% | 8.12% |
| Ratios to average net assets | | | | | |
| Expenses | 1.08% | 1.08% | 1.08% | 1.09% | 1.09%[c] |
| Net investment income | 1.82% | 2.51% | 3.19% | 3.34% | 3.75% |
| Supplemental data | | | | | |
| Net assets, end of year (000's) | $94,110 | $141,140 | $131,692 | $140,147 | $138,548 |
| Portfolio turnover rate | 46.16% | 40.15% | 20.23% | 47.41% | 34.74% |
| Portfolio turnover rate excluding mortgage dollar rolls | 40.83% | 40.15% | 20.23% | 47.41% | 34.74% |

a. The amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations in the annual report for the period due to the timing of sales and repurchases of the Fund shares in relation to income earned and/or fluctuating market value of the investments of the Fund.
b. Based on average daily shares outstanding.
c. Benefit of expense reduction rounds to less than 0.01%.





**CLASS R6** *Period Ended September 30,*

| | 2013[a] |
|---|---|
| Per share operating performance (for a share outstanding throughout the period) | |
| Net asset value, beginning of period | $6.76 |
| Income from investment operations:[b] | |
| Net investment income[c] | 0.07 |
| Net realized and unrealized gains (losses) | (0.17) |
| Total from investment operations | (0.10) |
| Less distributions from net investment income | (0.11) |
| **Net asset value, end of period** | **$6.55** |
| Total return[d] | (1.53)% |
| Ratios to average net assets[e] | |
| Expenses | 0.46% |
| Net investment income | 2.44% |
| Supplemental data | |
| Net assets, end of period (000's) | $480,590 |
| Portfolio turnover rate | 46.16% |
| Portfolio turnover rate excluding mortgage dollar rolls | 40.83% |

a. For the period May 1, 2013 (effective date) to September 30, 2013.
b. The amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations in the annual report for the period due to the timing of sales and repurchases of the Fund shares in relation to income earned and/or fluctuating market value of the investments of the Fund.
c. Based on average daily shares outstanding.
d. Total return is not annualized for periods less than one year.
e. Ratios are annualized for periods less than one year.

ADVISOR CLASS

*Year Ended September 30,*

| | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| Per share operating performance (for a share outstanding throughout the year) | | | | | |
| Net asset value, beginning of year | $6.93 | $6.94 | $6.83 | $6.71 | $6.47 |
| Income from investment operations:[a] | | | | | |
| Net investment income[b] | 0.16 | 0.21 | 0.25 | 0.26 | 0.28 |
| Net realized and unrealized gains (losses) | (0.29) | 0.04 | 0.15 | 0.14 | 0.27 |
| Total from investment operations | (0.13) | 0.25 | 0.40 | 0.40 | 0.55 |
| Less distributions from net investment income | (0.25) | (0.26) | (0.29) | (0.28) | (0.31) |
| **Net asset value, end of year** | **$6.55** | **$6.93** | **$6.94** | **$6.83** | **$6.71** |
| Total return | (1.86)% | 3.63% | 6.08% | 6.06% | 8.63% |
| Ratios to average net assets | | | | | |
| Expenses | 0.58% | 0.58% | 0.58% | 0.59% | 0.59%[c] |
| Net investment income | 2.32% | 3.01% | 3.69% | 3.84% | 4.25% |
| Supplemental data | | | | | |
| Net assets, end of year (000's) | $949,085 | $1,586,928 | $1,478,504 | $1,193,213 | $863,951 |
| Portfolio turnover rate | 46.16% | 40.15% | 20.23% | 47.41% | 34.74% |
| Portfolio turnover rate excluding mortgage dollar rolls | 40.83% | 40.15% | 20.23% | 47.41% | 34.74% |

a. The amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations in the annual report for the period due to the timing of sales and repurchases of the Fund shares in relation to income earned and/or fluctuating market value of the investments of the Fund.
b. Based on average daily shares outstanding.
c. Benefit of expense reduction rounds to less than 0.01%.





# FRANKLIN UTILITIES FUND

## Investment Goal

The Fund's investment goals are capital appreciation and current income.

## Principal Investment Policies and Practices

Under normal market conditions, the Fund invests at least 80% of its net assets in the securities of public utilities companies. These are companies that provide electricity, natural gas, water, and communications services to the public and companies that provide services to public utilities companies. Shareholders will be given at least 60 days' advance notice of any change to the 80% policy regarding investment in securities of public utilities companies. The Fund concentrates (invests more than 25% of its total assets) in companies operating in the utilities industry.

The Fund searches for the best return opportunities available in the global utilities arena with a specific focus on the U.S. electricity and gas sector. Generally, the Fund seeks to invest in companies producing a high percentage of earnings from regulated power plant operations.

The Fund invests primarily in equity securities, which consist mainly of common stocks. An equity security represents a proportionate share, or the right to acquire a proportionate share, of the ownership of a company; its value is based on the success of the company's business and the value of its assets, as well as general market conditions. Common stocks, preferred stocks and convertible securities are examples of equity securities. A convertible security is generally a debt security or preferred stock that may be converted within a specified period of time into common stock of the same or a different issuer. The Fund may invest in convertible securities without regard to the ratings assigned by ratings services.

### Temporary Investments

When the investment manager believes market or economic conditions are unfavorable for investors, the investment manager may invest up to 100% of the Fund's assets in a temporary defensive manner by holding all or a substantial portion of its assets in cash, cash equivalents or other high quality short-term investments. Temporary defensive investments generally may include short-term U.S. government securities, high-grade commercial

paper, bank obligations, repurchase agreements, money market fund shares (including shares of an affiliated money market fund) and other money market instruments. The investment manager also may invest in these types of securities or hold cash while looking for suitable investment opportunities or to maintain liquidity. In these circumstances, the Fund may be unable to achieve its investment goal.

## Principal Risks

### Utilities Industry

Utility company equity securities historically have been sensitive to interest rate movements: when interest rates have risen, the stock prices of these companies have tended to fall.

The Fund's performance is closely tied to conditions affecting the public utilities industry. These conditions may change rapidly. Regulatory changes in certain states have led to greater competition in the industry and the emergence of non-regulated providers as a significant part of the industry, and could impact the operations of regulated providers and increase cost of compliance. While regulated providers tend to have regulated returns, non-regulated providers' returns are not regulated and generally are more volatile. These developments have reduced stability of cash flows in those states with non-regulated providers and could impact the short-term earnings potential of some in this industry. These trends have also made shares of some utility companies less sensitive to interest rate changes but more sensitive to changes in revenue and earnings and caused them to reduce the ratio of their earnings they pay out as dividends.

In addition, the industry is subject to a variety of risks specific to this industry: utilities may find it difficult to obtain adequate returns on invested capital in spite of rate increases or because rate increases become increasingly difficult to obtain; they may face difficulty in financing large construction programs during inflationary and rising interest rate periods; utilities are subject to many restrictions on operations and increased costs due to environmental and safety regulations; utilities may face difficulties in obtaining fuel sources, such as coal, for electric generation at reasonable prices; utilities may face risks associated with the operation of nuclear power plants (including litigation, issues associated with the use of radioactive materials and the effects of natural or man-made disasters); utilities may face greater demands in providing reliable service with the increasing complexity of the power grid; utilities also may be subject to





adverse effects of the results of energy conservation programs as well as other factors affecting the level of demand for services. State and other regulators monitor and control utility revenues and costs, and therefore may limit utility profits and dividends paid to investors. Regulatory authorities also may restrict a utility company's access to new markets, thereby diminishing the company's long-term prospects.

### Market

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

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

### Concentration

By focusing on an industry or a group of industries, the Fund carries much greater risks of adverse developments and price movements in such industries than a fund that invests in a wider variety of industries. Because the Fund concentrates in a specific industry or group of industries, there is also the risk that the Fund will perform poorly during a slump in demand for securities of companies in such industries.

### Management

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

available to the investment manager in connection with managing the Fund and may also adversely affect the ability of the Fund to achieve its investment goal.

### Interest Rate

Interest rate changes can be sudden and unpredictable. Debt securities generally tend to lose market value when interest rates rise and increase in value when interest rates fall. The values of equity securities of regulated providers in the utilities industry may respond in a similar fashion to changes in interest rate.

### Income

Because the Fund can only distribute what it earns, the Fund's distributions to shareholders may decline when prevailing interest rates fall, when dividend income from investments in stocks decline, or when the Fund experiences defaults on debt securities it holds.

### Foreign Securities

Investing in foreign securities typically involves more risks than investing in U.S. securities. Certain of these risks also may apply to securities of U.S. companies with significant foreign operations. These risks can increase the potential for investment loss in the Fund and may include, among others, currency risks (such as fluctuations in currency exchange rates and currency devaluations); country risks (such as political, diplomatic, or regional conflicts, terrorism or war, social and economic instability, and policies limiting or restricting foreign investment or the movement of assets); and risks associated with the state of a country's financial markets and legal institutions. Other foreign securities risks may include unfavorable trading, settlement or custodial practices, less government supervision, less publicly available information, less stringent investor protection standards, limited legal redress for violations of law, limited trading markets and greater illiquidity and greater price volatility.

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

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





## Management

Franklin Advisers, Inc. (Advisers), One Franklin Parkway, San Mateo, CA 94403-1906, is the Fund's investment manager. Together, Advisers and its affiliates manage, as of December 31, 2013, over $879 billion in assets, and have been in the investment management business since 1947.

The Fund is managed by a dedicated professional focused on investments in public utilities companies. The portfolio manager of the Fund is:

**JOHN KOHLI, CFA** *Vice President of Advisers*
Mr. Kohli has been a portfolio manager of the Fund since 1998. He has primary responsibility for the investments of the Fund. He has final authority over all aspects of the Fund's investment portfolio, including but not limited to, purchases and sales of individual securities, portfolio risk assessment, and the management of daily cash balances in accordance with anticipated investment management requirements. The degree to which he may perform these functions, and the nature of these functions, may change from time to time. He joined Franklin Templeton Investments in 1992.

**BLAIR SCHMICKER, CFA** *Research Analyst of Advisers*
Mr. Schmicker has been a portfolio manager of the Fund since 2009, providing research and advice on the purchases and sales of individual securities, and portfolio risk assessment. He joined Franklin Templeton Investments in 2007.

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

The Fund pays Advisers a fee for managing the Fund's assets.

For the fiscal year ended September 30, 2013, Advisers agreed to reduce its fees to reflect reduced services resulting from the Fund's investment in a Franklin Templeton money fund. However, this fee reduction was less than 0.01% of the Fund's average net assets. The management fees for the fiscal year ended September 30, 2013, were 0.46%.

A discussion regarding the basis for the board of trustees approving the investment management contract of the Fund is available in the Fund's semiannual report to shareholders for the six-month period ended March 31.

# Financial Highlights

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

CLASS A — *Year Ended September 30,*

| | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| Per share operating performance (for a share outstanding throughout the year) | | | | | |
| Net asset value, beginning of year | $14.04 | $12.42 | $11.44 | $10.74 | $11.92 |
| Income from investment operations:[a] | | | | | |
| Net investment income[b] | 0.49 | 0.48 | 0.44 | 0.43 | 0.43 |
| Net realized and unrealized gains (losses) | 0.60 | 1.60 | 0.97 | 0.88 | (1.11) |
| Total from investment operations | 1.09 | 2.08 | 1.41 | 1.31 | (0.68) |
| Less distributions from: | | | | | |
| Net investment income | (0.51) | (0.46) | (0.43) | (0.45) | (0.42) |
| Net realized gains | — | — | — | (0.16) | (0.08) |
| Total distributions | (0.51) | (0.46) | (0.43) | (0.61) | (0.50) |
| **Net asset value, end of year** | **$14.62** | **$14.04** | **$12.42** | **$11.44** | **$10.74** |
| Total return[c] | 7.92% | 16.99% | 12.50% | 12.69% | (5.20)% |
| Ratios to average net assets | | | | | |
| Expenses | 0.75%[d] | 0.76% | 0.76% | 0.78% | 0.80%[d] |
| Net investment income | 3.34% | 3.61% | 3.67% | 3.91% | 4.29% |
| Supplemental data | | | | | |
| Net assets, end of year (000's) | $3,275,129 | $3,076,131 | $2,220,083 | $1,823,972 | $1,543,060 |
| Portfolio turnover rate | 4.57% | 1.27% | 5.21% | 5.27% | 15.49% |

a. The amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations in the annual report for the period due to the timing of sales and repurchases of the Fund shares in relation to income earned and/or fluctuating market value of the investments of the Fund.
b. Based on average daily shares outstanding.
c. Total return does not reflect sales commissions or contingent deferred sales charges, if applicable.
d. Benefit of expense reduction rounds to less than 0.01%.





CLASS C — *Year Ended September 30,*

| | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| Per share operating performance (for a share outstanding throughout the year) | | | | | |
| Net asset value, beginning of year | $13.98 | $12.37 | $11.40 | $10.71 | $11.88 |
| Income from investment operations:[a] | | | | | |
| Net investment income[b] | 0.41 | 0.42 | 0.38 | 0.37 | 0.38 |
| Net realized and unrealized gains (losses) | 0.61 | 1.58 | 0.96 | 0.88 | (1.10) |
| Total from investment operations | 1.02 | 2.00 | 1.34 | 1.25 | (0.72) |
| Less distributions from: | | | | | |
| Net investment income | (0.44) | (0.39) | (0.37) | (0.40) | (0.37) |
| Net realized gains | — | — | — | (0.16) | (0.08) |
| Total distributions | (0.44) | (0.39) | (0.37) | (0.56) | (0.45) |
| **Net asset value, end of year** | **$14.56** | **$13.98** | **$12.37** | **$11.40** | **$10.71** |
| Total return[c] | 7.40% | 16.32% | 12.00% | 12.08% | (5.64)% |
| Ratios to average net assets | | | | | |
| Expenses | 1.25%[d] | 1.26% | 1.26% | 1.28% | 1.30%[d] |
| Net investment income | 2.84% | 3.11% | 3.17% | 3.41% | 3.79% |
| Supplemental data | | | | | |
| Net assets, end of year (000's) | $845,173 | $774,711 | $528,391 | $405,024 | $300,544 |
| Portfolio turnover rate | 4.57% | 1.27% | 5.21% | 5.27% | 15.49% |

a. The amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations in the annual report for the period due to the timing of sales and repurchases of the Fund shares in relation to income earned and/or fluctuating market value of the investments of the Fund.
b. Based on average daily shares outstanding.
c. Total return does not reflect sales commissions or contingent deferred sales charges, if applicable.
d. Benefit of expense reduction rounds to less than 0.01%.

**CLASS R** *Year Ended September 30,*

| | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| Per share operating performance (for a share outstanding throughout the year) | | | | | |
| Net asset value, beginning of year | $14.00 | $12.39 | $11.41 | $10.71 | $11.89 |
| Income from investment operations:[a] | | | | | |
| Net investment income[b] | 0.44 | 0.44 | 0.40 | 0.39 | 0.40 |
| Net realized and unrealized gains (losses) | 0.60 | 1.58 | 0.97 | 0.88 | (1.11) |
| Total from investment operations | 1.04 | 2.02 | 1.37 | 1.27 | (0.71) |
| Less distributions from: | | | | | |
| Net investment income | (0.46) | (0.41) | (0.39) | (0.41) | (0.39) |
| Net realized gains | — | — | — | (0.16) | (0.08) |
| Total distributions | (0.46) | (0.41) | (0.39) | (0.57) | (0.47) |
| **Net asset value, end of year** | **$14.58** | **$14.00** | **$12.39** | **$11.41** | **$10.71** |
| Total return | 7.56% | 16.55% | 12.14% | 12.33% | (5.57)% |
| Ratios to average net assets | | | | | |
| Expenses | 1.10%[c] | 1.11% | 1.11% | 1.13% | 1.15%[c] |
| Net investment income | 2.99% | 3.26% | 3.32% | 3.56% | 3.94% |
| Supplemental data | | | | | |
| Net assets, end of year (000's) | $86,216 | $80,478 | $51,732 | $42,285 | $37,795 |
| Portfolio turnover rate | 4.57% | 1.27% | 5.21% | 5.27% | 15.49% |

a. The amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations in the annual report for the period due to the timing of sales and repurchases of the Fund shares in relation to income earned and/or fluctuating market value of the investments of the Fund.
b. Based on average daily shares outstanding.
c. Benefit of expense reduction rounds to less than 0.01%.





**CLASS R6** *Period Ended September 30,*

| | 2013[a] |
|---|---|
| Per share operating performance (for a share outstanding throughout the period) | |
| Net asset value, beginning of period | $15.88 |
| Income from investment operations:[b] | |
| Net investment income[c] | 0.25 |
| Net realized and unrealized gains (losses) | (1.17) |
| Total from investment operations | (0.92) |
| Less distributions from net investment income | (0.25) |
| **Net asset value, end of period** | **$14.71** |
| Total return[d] | (5.79)% |
| Ratios to average net assets[e] | |
| Expenses | 0.48%[f] |
| Net investment income | 3.61% |
| Supplemental data | |
| Net assets, end of period (000's) | $218,746 |
| Portfolio turnover rate | 4.57% |

a. For the period May 1, 2013 (effective date) to September 30, 2013.
b. The amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations in the annual report for the period due to the timing of sales and repurchases of the Fund shares in relation to income earned and/or fluctuating market value of the investments of the Fund.
c. Based on average daily shares outstanding.
d. Total return is not annualized for periods less than one year.
e. Ratios are annualized for periods less than one year.
f. Benefit of expense reduction rounds to less than 0.01%.

ADVISOR CLASS

*Year Ended September 30,*

| | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| Per share operating performance (for a share outstanding throughout the year) | | | | | |
| Net asset value, beginning of year | $14.12 | $12.49 | $11.50 | $10.79 | $11.98 |
| Income from investment operations:[a] | | | | | |
| Net investment income[b] | 0.50 | 0.51 | 0.46 | 0.45 | 0.45 |
| Net realized and unrealized gains (losses) | 0.62 | 1.60 | 0.97 | 0.89 | (1.12) |
| Total from investment operations | 1.12 | 2.11 | 1.43 | 1.34 | (0.67) |
| Less distributions from: | | | | | |
| Net investment income | (0.53) | (0.48) | (0.44) | (0.47) | (0.44) |
| Net realized gains | — | — | — | (0.16) | (0.08) |
| Total distributions | (0.53) | (0.48) | (0.44) | (0.63) | (0.52) |
| **Net asset value, end of year** | **$14.71** | **$14.12** | **$12.49** | **$11.50** | **$10.79** |
| Total return | 8.11% | 17.15% | 12.68% | 12.89% | (5.12)% |
| Ratios to average net assets | | | | | |
| Expenses | 0.60%[c] | 0.61% | 0.61% | 0.63% | 0.65%[c] |
| Net investment income | 3.49% | 3.76% | 3.82% | 4.06% | 4.44% |
| Supplemental data | | | | | |
| Net assets, end of year (000's) | $343,082 | $574,803 | $347,983 | $222,788 | $124,454 |
| Portfolio turnover rate | 4.57% | 1.27% | 5.21% | 5.27% | 15.49% |

a. The amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations in the annual report for the period due to the timing of sales and repurchases of the Fund shares in relation to income earned and/or fluctuating market value of the investments of the Fund.
b. Based on average daily shares outstanding.
c. Benefit of expense reduction rounds to less than 0.01%.





# Distributions and Taxes

The information is provided with respect to each Fund (hereafter "the Fund").

## Income and Capital Gain Distributions

As a regulated investment company, the Fund generally pays no federal income tax on the income and gains it distributes to you. The Fund intends to pay income dividends from its net investment income as follows:

- The Income and U.S. Government Securities Funds: monthly
- The Utilities Fund: quarterly
- The Growth and DynaTech Funds: at least annually

Capital gains, if any, may be paid at least annually. The Fund may distribute income dividends and capital gains more frequently, if necessary, in order to reduce or eliminate federal excise or income taxes on the Fund. The amount of any distribution will vary, and there is no guarantee the Fund will pay either income dividends or capital gain distributions. Your income dividends and capital gain distributions will be automatically reinvested in additional shares at NAV unless you elect to receive them in cash.

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

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

## Tax Considerations

If you are a taxable investor, Fund distributions are generally taxable to you as ordinary income, capital gains or some combination of both, as follows:

- The Growth, Income and Utilities Funds: ordinary income or capital gains
- The U.S. Government Securities Fund: primarily ordinary income
- The DynaTech Fund: primarily capital gains

This is the case whether you reinvest your distributions in additional Fund shares or receive them in cash.

**Dividend income.** Income dividends are generally subject to tax at ordinary rates. Income dividends reported by the Fund to shareholders as qualified dividend income may be subject to tax by individuals at reduced long-term capital gains tax rates provided certain holding period requirements are met. Because the U.S. Government Securities Fund invests primarily in debt securities, it is expected that either none or only a small portion of its income dividends may be qualified dividends. A return-of-capital distribution is generally not taxable but will reduce the cost basis of your shares, and will result in a higher capital gain or a lower capital loss when you later sell your shares.

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

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





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

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

**Backup withholding.** A shareholder may be subject to backup withholding on any distributions of income, capital gains, or proceeds from the sale or exchange of Fund shares if the shareholder (1) has provided either an incorrect tax identification number or no number at all, (2) is subject to backup withholding by the IRS for failure to properly report payments of interest or dividends, (3) has failed to certify that the shareholder is not subject to backup withholding, or (4) has not certified that the shareholder is a U.S. person (including a U.S. resident alien). The backup withholding rate is currently 28%. State backup withholding may also apply.

**State and local taxes.** Distributions of ordinary income and capital gains, and gains from the sale of your Fund shares, are generally subject to state and local taxes.

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

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

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

## YOUR ACCOUNT

### Choosing a Share Class

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





| Class A | Class C | Class R | Class R6 | Advisor Class |
|---|---|---|---|---|
| Initial sales charge 5.75% (DynaTech Fund and Growth Fund), 4.25% (Income Fund, Utilities Fund and U.S. Government Fund) or less | No initial sales charge | No initial sales charge | See “Qualified Investors - Class R6” below | See “Qualified Investors - Advisor Class” below |
| Deferred sales charge of 1% or 0.75% on purchases of $1 million or more sold within 18 months | Deferred sales charge of 1% on shares you sell within 12 months | Deferred sales charge is not applicable | | |
| Lower annual expenses than Class C or R due to lower distribution fees | Higher annual expenses than Class A due to higher distribution fees | Higher annual expenses than Class A due to higher distribution fees (lower than Class C) | | |

The Fund began offering Class R6 shares on May 1, 2013.

## Class A, C & R

| SALES CHARGES - Class A | | |
|---|---|---|
| when you invest this amount | the sales charge makes up this % of the offering price[1] | which equals this % of your net investment[1] |
| **DynaTech and Growth Funds** | | |
| Under $50,000 | 5.75 | 6.10 |
| $50,000 but under $100,000 | 4.50 | 4.71 |
| $100,000 but under $250,000 | 3.50 | 3.63 |
| $250,000 but under $500,000 | 2.50 | 2.56 |
| $500,000 but under $1 million | 2.00 | 2.04 |
| **Income, U.S. Government Securities, and Utilities Funds** | | |
| Under $100,000 | 4.25 | 4.44 |
| $100,000 but under $250,000 | 3.50 | 3.63 |
| $250,000 but under $500,000 | 2.50 | 2.56 |
| $500,000 but under $1 million | 2.00 | 2.04 |

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

### Sales Charge Reductions

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

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

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





- You, individually;
- Your spouse or domestic partner, as recognized by applicable state law, and your children under the age of 21 (each a "family member");
- You jointly with one or more family members;
- You jointly with another person(s) who is (are) not family members if that other person has not included the value of the shares as cumulative quantity discount eligible shares for purposes of that person's separate investments in Franklin Templeton fund shares;
- A Coverdell Education Savings account for which you or a family member is the identified responsible person;
- A trustee/custodian of an IRA (which includes a Roth IRA and an employer sponsored IRA such as a SIMPLE IRA) or your non-ERISA covered 403(b) plan account, if the shares are registered/recorded under your or a family member's Social Security number;
- A 529 college savings plan over which you or a family member has investment discretion and control;
- Any entity over which you or a family member has (have) individual or shared authority, as principal, has investment discretion and control (for example, an UGMA/UTMA account for a child on which you or a family member is the custodian, a trust on which you or a family member is the trustee, a business account [not to include retirement plans] for your solely owned business [or the solely owned business of a family member] on which you or a family member is the authorized signer);
- A trust established by you or a family member as grantor.

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

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

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

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

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

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

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

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

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

### Sales Charge Waivers

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

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

- Dividend and capital gain distributions from any Franklin Templeton fund. The distributions generally must be reinvested in the same share class. Certain exceptions apply, however, to Class C shareholders who chose to reinvest their distributions in Class A shares of the Fund before November 17, 1997, and to Class R6, Advisor Class or Class Z shareholders of a Franklin Templeton fund who may reinvest their distributions in the Fund's Class A shares.
- Annuity payments received under either an annuity option or from death benefit proceeds, if the annuity contract offers as an investment option the Franklin Templeton Variable Insurance Products Trust. You should

contact your tax advisor for information on any tax consequences that may apply.

- Redemption proceeds from the sale of Class A shares of any of the Franklin Templeton Investment Funds if you are a qualified investor.
- If you paid a CDSC when you redeemed your Class A shares from a Franklin Templeton Investment Fund, a new CDSC will apply to your purchase of Fund shares and the CDSC holding period will begin again. We will, however, credit your Fund account with additional shares based on the CDSC you previously paid and the amount of the redemption proceeds that you reinvest.
- If you immediately placed your redemption proceeds in a Franklin Templeton money fund, you may reinvest them as described above. The proceeds must be reinvested within 90 days from the date they are redeemed from the money fund.

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

- Governments, municipalities, and tax-exempt entities that meet the requirements for qualification under section 501 of the Internal Revenue Code when purchasing direct from the Fund. Please consult your legal and investment advisors to determine if an investment in the Fund is permissible and suitable for you.
- Registered securities dealers and their affiliates, for their investment accounts only.
- Current employees of securities dealers and their affiliates and their family members, as allowed by the internal policies of their employer.
- Current and former officers, trustees, directors, full-time employees (and, in each case, their family members) of both Franklin Templeton Investments and Franklin Templeton funds, consistent with our then-current policies.
- Current partners of law firms that currently provide legal counsel to the funds, Franklin Resources, Inc. or its affiliates.





- Assets held in accounts managed by a subsidiary of Franklin Resources, Inc.: (1) under an advisory agreement (including sub-advisory agreements); and/or (2) as trustee of an inter vivos or testamentary trust.
- Certain unit investment trusts and their holders reinvesting distributions from the trusts.
- Any trust or plan established as part of a qualified tuition program under Section 529 of the Internal Revenue Code, as amended.
- Group annuity separate accounts offered to retirement plans.
- Chilean retirement plans that meet the requirements described under "Retirement plans" below.
- Assets held in accounts managed by a state or federally regulated trust company or bank (Trust Company) either as discretionary trustee of an inter vivos or testamentary trust or as investment manager under an advisory agreement (including sub-advisory) or other agreement that grants the Trust Company investment discretion over those assets (Trust Company Managed Assets) if (i) the aggregate value of Trust Company Managed Assets invested in Franklin Templeton funds at the time of purchase equals at least $1 million; and (ii) the purchased shares are registered directly to the Trust Company in its corporate capacity (not as trustee of an individual trust) and held solely as Trust Company Managed Assets.
- Advisory Fee Programs. Shares acquired by an investor in connection with a comprehensive fee or other advisory fee arrangement between the investor and a registered broker-dealer or investment advisor, trust company or bank (referred to as the "Sponsor") in which the investor pays that Sponsor a fee for investment advisory services and the Sponsor or a broker-dealer through whom the shares are acquired has an agreement with Distributors authorizing the sale of Fund shares. No minimum initial investment.

Class C shares may be purchased without limit or CDSC by the Franklin Templeton Charitable Giving Fund.

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

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

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

### Investments of $1 Million or More

If you invest $1 million or more, either as a lump sum or through our cumulative quantity discount or letter of intent programs, you can buy Class A shares without an initial sales charge. However, there is a 1% CDSC for funds that have a maximum initial sales charge of 5.75%; for all the other funds, the maximum CDSC will be 0.75%. The CDSC is assessed on any shares you sell within 18 months of purchase. The way we calculate the CDSC is the same for each class (please see "Contingent Deferred Sales Charge (CDSC) - Class A & C").

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

Class A has a distribution plan, sometimes known as a Rule 12b-1 plan, that allows DynaTech and Growth Funds to pay distribution fees of up to 0.25% per year and Income, Utilities and U.S. Government Securities Funds to pay distribution fees of up to 0.15% per year to those who sell and distribute Class A shares and provide other services to shareholders. Because these fees are paid out of Class A's assets on an ongoing basis, over time these fees will increase the cost of your investment and may cost you more than paying other types of sales charges.

**SALES CHARGES - Class C**

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

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

### CDSC

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

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

Class C has a distribution plan, sometimes known as a Rule 12b-1 plan, that allows DynaTech and Growth Funds to pay distribution and other fees of up to 1% per year and Income, Utilities and U.S. Government Securities Funds to pay distribution and other fees of up to 0.65% per year for the sale of Class C shares and for services provided to shareholders. Because these fees are paid out of Class C's assets on an ongoing basis, over time these fees will increase the cost of your investment and may cost you more than paying other types of sales charges.

**SALES CHARGES - Class R**

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

### Retirement Plans

Class R shares are available to the following investors:

- Employer Sponsored Retirement Plans
- Any trust or plan established as part of a qualified tuition program under Section 529 of the Internal Revenue Code
- Health Reimbursement Accounts and Health Savings Accounts, either as a direct investment or as a separate or managed account.
- Insurance company separate accounts supporting variable annuities that are an investment option under individual retirement accounts, variable annuities that themselves qualify as individual retirement annuities, and variable annuities used to fund Employer Sponsored Retirement Plans, provided that the insurance company has entered into an agreement with Distributors authorizing the sale of Fund shares (applicable to the Franklin Income Fund only).

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

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

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

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

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

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





### Reinstatement Privilege

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

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

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

- Class C or Class R shares will be reinvested in Class A shares if at the time of investment you have not appointed an investment representative (financial advisor) of record for the Fund account(s) in which the purchased shares will be held.

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

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

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

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

### Qualified Investors - Class R6

Class R6 shares are available to the following investors:

- Employer Sponsored Retirement Plans where plan level or omnibus accounts are held on the books of Franklin Templeton Investor Services.
- Endowments; foundations; local, city and state governmental institutions; corporations; non-profit organizations that are organized as corporations; and insurance companies, (collectively "institutional investors") when purchasing directly from a Fund. The minimum initial investment for institutional investors is $1,000,000 per Fund.
- Other Franklin Templeton funds.

### Qualified Investors - Advisor Class

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

- Advisory Fee Programs. Shares acquired by an investor in connection with a comprehensive fee or other advisory fee arrangement between the investor and a registered broker-dealer or investment advisor, trust company or bank (referred to as the "Sponsor") in which the investor pays that Sponsor a fee for investment advisory services and the Sponsor or a broker-dealer through whom the shares are acquired has an agreement with Distributors authorizing the sale of Fund shares. No minimum initial investment.
- Governments, municipalities, and tax-exempt entities that meet the requirements for qualification under section 501 of the Internal Revenue Code when purchasing direct from the Fund. Minimum initial investment: $1 million in Advisor Class or Class Z shares of any Franklin Templeton fund.
- Current and former officers, trustees, directors, full-time employees (and, in each case, their family members) of both Franklin Templeton Investments and Franklin Templeton funds, consistent with our then-current policies. Minimum initial investment: $1,000 ($50 for accounts with an automatic investment plan).
- Assets held in accounts managed by a subsidiary of Franklin Resources, Inc.: (1) under an advisory agreement (including sub-advisory agreements); and/or (2) as trustee of an inter vivos or testamentary trust.
- Assets held in accounts managed by a state or federally regulated trust company or bank (Trust Company) either as discretionary trustee of an inter vivos or testamentary trust or as investment manager under an advisory agreement (including sub-advisory) or other agreement that grants the Trust Company investment discretion over those assets (Trust Company Managed Assets) if (i) the aggregate value of Trust Company Managed Assets invested in Franklin Templeton funds at the time of purchase equals at least $1 million; and (ii) the purchased shares are registered directly to the Trust Company in its corporate capacity (not as trustee of an individual trust) and held solely as Trust Company Managed Assets.
- An Employer Sponsored Retirement Plan (Plan) if the employer sponsors one or more Plans with aggregate Plan assets of $1 million or more.
- A Plan that invests indirectly in Fund shares through Fund omnibus accounts registered to a financial intermediary.
- Any trust or plan established as part of a qualified tuition program under Section 529 of the Internal Revenue Code, provided that Distributors or an affiliate of Distributors has entered into a contract with the state sponsor of the program or one of its service providers to provide certain services relating to the operation of the program or to provide Fund shares for purchase in connection with the program. No initial minimum investment.
- An individual or entity associated with a current customer of Franklin Templeton Institutional, LLC (FTI, LLC) if approved by FTI, LLC in consultation with its customer.
- Unaffiliated U.S. registered mutual funds, including those that operate as "fund of funds." Minimum initial investment: $1 million in Advisor Class or Class Z shares of any Franklin Templeton fund.
- Assets held in accounts under the recommendation of an investment consultant provided that (1) assets are held with a firm unaffiliated with the investment consultant's firm; (2) the investment consultant is under

a retainer or other similar fee arrangement with its clients; (3) the client is not an individual; and (4) a subsidiary of Franklin Resources, Inc. approves the investment.





# Buying Shares

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

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

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

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

## Account Application

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

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





BUYING SHARES

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

# Investor Services

## Automatic Investment Plan

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

## Automated Telephone System

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

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

## Distribution Options

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

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

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

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





## Retirement Plans

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

## Telephone/Online Privileges

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

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

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

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

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

### Systematic Withdrawal Plan

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

### Franklin Templeton VIP Services®

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





## Selling Shares

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

### Selling Shares in Writing

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

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

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

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

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

A notary public CANNOT provide a signature guarantee.

### Selling Recently Purchased Shares

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

### Redemption Proceeds

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

## Retirement Plans

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





SELLING SHARES

### To sell some or all of your shares

**Through your investment representative**

Contact your investment representative

**By Mail**

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

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

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

**By Phone/Online**

(800) 632-2301
franklintempleton.com

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

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

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

**By Electronic Funds Transfer (ACH)**

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

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

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

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

**By Exchange**

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

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

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

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

# Exchanging Shares

## Exchange Privilege

**Class A, C & R**

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

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

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

**Class R6**

You can exchange your Class R6 shares for Class R6 shares of other Franklin Templeton funds. You also may exchange your Class R6 shares for Advisor Class shares of a fund that does not currently offer Class R6 shares.

**Advisor Class**

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

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

**All Classes**

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

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

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

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

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

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

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

## Frequent Trading Policy

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

The Fund does not intend to accommodate short-term or frequent purchases and redemptions of Fund shares that may be detrimental to the Fund. For example, this type of trading activity could interfere with the

efficient management of the Fund's portfolio or materially increase the Fund's transaction costs, administrative costs or taxes.

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

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

Through its transfer agent, the Fund performs ongoing monitoring of shareholder trading in shares of the Fund and other Franklin Templeton funds in order to try and identify shareholder trading patterns that suggest an ongoing short-term trading strategy. If shareholder trading patterns identified by the transfer agent through monitoring or from other information regarding the shareholder's trading activity in non-Franklin





Templeton funds leads the transfer agent to reasonably conclude that such trading may be detrimental to the Fund as described in this Frequent Trading Policy, the transfer agent, on behalf of the Fund, may temporarily or permanently bar future purchases into the Fund or, alternatively, may limit the amount, number or frequency of any future purchases and/or the method by which you may request future purchases and redemptions (including purchases and/or redemptions by an exchange or transfer between the Fund and any other mutual fund).

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

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

Some financial intermediaries maintain master accounts with the Fund on behalf of their customers ("omnibus accounts"). The Fund has entered into "information sharing agreements" with these financial intermediaries, which permit the Fund to obtain, upon request, information about the trading activity of the intermediary's customers that invest in the Fund. If the Fund's transfer agent identifies omnibus account level trading

patterns that have the potential to be detrimental to the Fund, the transfer agent may, in its sole discretion, request from the financial intermediary information concerning the trading activity of its customers. Based upon its review of the information, if the transfer agent determines that the trading activity of any customer may be detrimental to the Fund, it may, in its sole discretion, request the financial intermediary to restrict or limit further trading in the Fund by that customer. There can be no assurance that the transfer agent's monitoring of omnibus account level trading patterns will enable it to identify all short-term trading by a financial intermediary's customers.

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





# Account Policies

## Calculating Share Price

**Class A, C & R**

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

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

**All Classes**

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

The Fund calculates the NAV per share each business day as of 1 p.m. Pacific time which normally coincides with the close of trading on the New York Stock Exchange (NYSE). The Fund does not calculate the NAV on days the NYSE is closed for trading, which include New Year's Day, Martin Luther King Jr. Day, President's Day, Good Friday, Memorial Day, Independence Day, Labor Day, Thanksgiving Day and Christmas Day. If the NYSE has a scheduled early close or unscheduled early close, the Fund's share price would still be determined as of 1 p.m. Pacific time/4 p.m. Eastern time. The Fund's NAV per share for each class is readily available online at https://www.franklintempleton.com/retail/app/product/views/price_performance.jsf?menu=true.

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

When determining its NAV, the Fund values cash and receivables at their realizable amounts, and records interest as accrued and dividends on the

ex-dividend date. The Fund generally utilizes two independent pricing services to assist in determining a current market value for each security. If market quotations are readily available for portfolio securities listed on a securities exchange, the Fund values those securities at the last quoted sale price or the official closing price of the day, respectively, or, if there is no reported sale, within the range of the most recent quoted bid and ask prices. The Fund values over-the-counter portfolio securities within the range of the most recent bid and ask prices. If portfolio securities trade both in the over-the-counter market and on a stock exchange, the Fund values them according to the broadest and most representative market.

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

### Fair Valuation – Individual Securities

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

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





### Security Valuation – Pass-Through Securities, CMO, ABS, MBS

The Income and U.S. Government Securities Funds invest in mortgage pass-through securities. Mortgage pass-through securities (such as Ginnie Mae, Fannie Mae and Freddie Mac), other mortgage-backed securities (MBS), collateralized mortgage obligations (CMOs) and asset-backed securities (ABS), generally trade in the over-the-counter market rather than on a securities exchange. Each Fund may value these portfolio securities by utilizing quotations from bond dealers, information with respect to bond and note transactions and may rely on independent pricing services. The Fund's pricing services use valuation models or matrix pricing to determine current value. In general, they use information with respect to comparable bond and note transactions, quotations from bond dealers or by reference to other securities that are considered comparable in such characteristics as rating, interest rate, maturity date, option adjusted spread models, prepayment projections, interest rate spreads and yield curves. Matrix pricing is considered a form of fair value pricing.

### Security Valuation - Corporate Debt Securities (all Funds except U.S. Government Securities Fund)

Corporate debt securities generally trade in the over-the-counter market rather than on a securities exchange. The Fund may value these portfolio securities by utilizing quotations from bond dealers, information with respect to bond and note transactions and may rely on independent pricing services to assist in determining a current market value for each security. The Fund's pricing services may utilize independent quotations from bond dealers and bond market activity to determine current value.

### Security Valuation - Options (all Funds, except U.S. Government Securities Fund)

The Fund values traded call options at their market price as determined above. The current market value of any option the Fund holds is its last sale price on the relevant exchange before the Fund values its assets. If there are no sales that day or if the last sale price is outside the bid and ask prices, the Fund values options within the range of the current closing bid and ask prices if the Fund believes the valuation fairly reflects the contract's market value.

### Security Valuation - Foreign Securities - Computation of U.S. Equivalent Value (all Funds except U.S. Government Securities Fund)

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

### Accounts with Low Balances

If your account has been open for more than one year and its value falls below $500, we will mail you a notice asking you to bring the account back up to its applicable minimum investment amount. If you choose not to do so within 30 days, we will close your account and mail the proceeds to the address of record. You will not be charged a CDSC if your account is closed for this reason. This policy does not apply to: (1) certain broker-controlled accounts established through the National Securities Clearing Corporation's Networking system; (2) Class A accounts established pursuant to a conversion from Class B; (3) tax-deferred retirement plan accounts; (4) active automatic investment plan accounts; (5) broker-dealer sponsored separately managed accounts (wrap accounts); (6) accounts held through a 529 college savings program; and (7) Coverdell Education Savings Plan accounts.

### Statements, Reports and Prospectuses

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

You also will receive the Fund's financial reports every six months as well as an annual updated prospectus. To reduce Fund expenses, we try to identify related shareholders in a household and send only one copy of the





financial reports and prospectus. This process, called "householding," will continue indefinitely unless you instruct us otherwise. If you prefer not to have these documents householded, please call us at (800) 632-2301. At any time you may view current prospectuses and financial reports on our website.

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

### Investment Representative Account Access

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

### Street or Nominee Accounts

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

### Joint Accounts

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

### Joint Account Risk with Telephone/Online Privileges

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

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

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

## Additional Policies

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

- The Fund may restrict, reject or cancel any purchase orders, including an exchange request.
- The Fund may modify, suspend, or terminate telephone/online privileges at any time.
- The Fund may make material changes to or discontinue the exchange privilege on 60 days' notice or as otherwise provided by law.
- The Fund may stop offering shares completely or may offer shares only on a limited basis, for a period of time or permanently.
- Normally, redemptions are processed by the next business day, but may take up to seven days to be processed if making immediate payment would adversely affect the Fund.
- In unusual circumstances, we may temporarily suspend redemptions or postpone the payment of proceeds, as allowed by federal securities laws.





- For redemptions over a certain amount, the Fund may pay redemption proceeds in securities or other assets rather than cash if the investment manager determines it is in the best interest of the Fund, consistent with applicable law.
- You may only buy shares of a fund (including the purchase side of an exchange) eligible for sale in your state or jurisdiction.
- To permit investors to obtain the current price, dealers are responsible for transmitting all orders to the Fund promptly.

## Dealer Compensation

**Class A, C & R**

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

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

If any dealer commissions are paid in connection with a purchase which is subsequently rejected or results in any trading restriction placed on the purchaser as a result of a determination by the Fund's investment manager or transfer agent that the purchase may be connected with trading activity that may be detrimental to the Fund as described in the Fund's "Frequent Trading Policy," the dealer shall, upon demand, refund such commissions to Distributors.

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

| Utilities and U.S. Government Securities Funds | Class A | Class C | Class R |
|---|---|---|---|
| **Commission (%)** | — | 1.00[1] | — |
| Investment under $100,000 | 4.00 | — | — |
| $100,000 but under $250,000 | 2.80 | — | — |
| $250,000 but under $500,000 | 2.00 | — | — |
| $500,000 but under $1 million | 1.60 | — | — |
| $1 million or more | up to 0.75[2] | — | — |
| **12b-1 fee to dealer** | 0.15[2] | 0.65[3] | 0.50 |

| Income Fund | Class A | Class C | Class R |
|---|---|---|---|
| **Commission (%)** | — | 1.00[1] | — |
| Investment under $100,000 | 4.00 | — | — |
| $100,000 but under $250,000 | 2.80 | — | — |
| $250,000 but under $500,000 | 2.00 | — | — |
| $500,000 but under $1 million | 1.60 | — | — |
| $1 million or more | up to 0.75[2] | — | — |
| **12b-1 fee to dealer** | 0.15[2] | 0.65[3] | 0.50 |

1. Commission includes advance of the first year's 12b-1 service fee of 0.25% for DynaTech and Growth Funds and 0.15% for Income, Utilities and U.S. Government Securities Funds. Distributors may pay a prepaid commission. However, Distributors does not pay a prepaid commission on any purchases by Employer Sponsored Retirement Plans.
2. For purchases at NAV where Distributors paid a prepaid commission, dealers may start to receive the 12b-1 fee in the 13th month after purchase. For purchases at NAV where Distributors did not pay a prepaid commission, dealers may start to receive the 12b-1 fee at the time of purchase.





3. Dealers may be eligible to receive up to 0.25% for DynaTech and Growth Funds and 0.15% for Income, Utilities and U.S. Government Securities Funds at the time of purchase and may be eligible to receive 1.00% for DynaTech and Growth Funds and 0.65% for Income, Utilities and U.S. Government Securities Funds starting in the 13th month. During the first 12 months, the full 12b-1 fee will be paid to Distributors to partially offset the commission and the prepaid service fee paid at the time of purchase. For purchases at NAV where Distributors did not pay a prepaid commission, dealers may start to receive the 12b-1 fee at the time of purchase.

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

Except with respect to Class R6 shares, Distributors and/or its affiliates may also make payments (a portion of which may be reimbursable under the terms of the Fund's Rule 12b-1 distribution plans) to certain financial intermediaries in connection with their activities that are intended to assist in the sale of shares of the Franklin Templeton mutual funds, directly or indirectly, to certain Employer Sponsored Retirement Plans. In the case of any one financial intermediary, such payments will not exceed 0.10% of the total assets of Franklin Templeton mutual funds held, directly or indirectly, by such Employer Sponsored Retirement Plans, on an annual basis.

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

by the Fund's transfer agent from payments it receives under its agreement with the Fund.

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

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

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





## Questions

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

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

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## FRANKLIN TEMPLETON FUNDS

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

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

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

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

### SECTOR
Franklin Biotechnology Discovery Fund
Franklin Global 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[3]
Mutual European Fund
Mutual International Fund
Templeton Asian Growth Fund
Templeton BRIC Fund
Templeton China World Fund
Templeton Developing Markets Trust
Templeton Emerging Markets Small Cap Fund
Templeton Foreign Fund
Templeton Foreign Smaller Companies Fund
Templeton Frontier Markets Fund[4]

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

### ALTERNATIVE
Franklin K2 Alternative Strategies Fund
Franklin Pelagos Commodities Strategy Fund

### 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 Fund[6]
Franklin Floating Rate Daily Access Fund
Franklin Global Government Bond Fund
Franklin High Income Fund
Franklin Limited Maturity U.S. Government Securities Fund[6]
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 Fund[6]
Templeton Constrained Bond Fund
Templeton Emerging Markets Bond Fund
Templeton Global Bond Fund
Templeton Global Total Return Fund
Templeton International Bond Fund

### TAX-FREE INCOME[7]
**National**
Double Tax-Free Income Fund[8]
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**[10, 11]

### INSURANCE FUNDS
Franklin Templeton Variable Insurance Products Trust[12]

1. The fund is closed to new investors. Existing shareholders and select retirement plans can continue adding to their accounts.
2. The fund is a continuously offered, closed-end fund. Shares may be purchased daily; there is no daily redemption. However, each quarter, pending board approval, the fund will authorize the repurchase of 5%-25% of the outstanding number of shares. Investors may tender all or a portion of their shares during the tender period.
3. Effective June 3, 2013, the fund closed to new investors, with limited exceptions.
4. Effective June 28, 2013, the fund closed to new investors. Existing shareholders and select retirement plans may add to their accounts.
5. Effective May 1, 2013, the Franklin Templeton Retirement Target Funds changed their names to Franklin LifeSmart Retirement Target Funds. The funds' investment goals and principal investment strategies remained unchanged. These funds are in increments of 5 years.
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 March 1, 2013, Franklin Insured Tax-Free Income Fund and Franklin California Insured Tax-Free Income Fund closed to all new investments (other than reinvestment of dividends and capital gains distributions).
11. Visit franklintempleton.com for a list of state-specific tax-free funds available and their respective prospectuses.
12. The funds of the Franklin Templeton Variable Insurance Products Trust are generally available only through insurance company variable contracts.

## FOR MORE INFORMATION

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

### Annual/Semiannual Report to Shareholders

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

### Statement of Additional Information (SAI)

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

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

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

FRANKLIN TEMPLETON INVESTMENTS

< GAIN FROM OUR PERSPECTIVE® >

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**franklintempleton.com**

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

Investment Company Act file #811-00537

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10% Total Recycled Fiber

FCF P 02/14