

FUND CHARACTERISTICS (AS OF 12/31/13)

NASDAQ Symbol FISCX
Fund Inception Date 4/15/87
Dividends Quarterly
Investment Style Hybrid
Benchmark BofA Merrill Lynch All
Total Return
Alternatives U.S.
Convertibles Index

Lipper Classification Convertible Securities Funds

Morningstar Category™ US OE Convertibles
Total Net Assets—All Share 1,632 million

Total Net Assets—All Share 1,632 millio Classes

Number of Issuers 72 Maximum Initial Sales Charge 5.75%

THIRD-PARTY FUND DATA

Overall Morningstar Rating™ Traditional



As of December 31, 2013 the fund's Class A shares received a traditional 4 star overall Morningstar Rating™ and a load waived 4 star Morningstar Rating™, measuring risk-adjusted returns against 74, 58 and 46 U.S.-domiciled US OE Convertibles funds over the 3-, 5- and 10-year periods, respectively. A fund's overall rating is derived from a weighted average of the performance figures associated with its 3-, 5- and 10-year (if applicable) rating metrics.

Load waived Class A share Morningstar Ratings do not include front-end sales charges and are intended for investors who have access to such purchase terms (e.g., fee-based programs and participants of a defined contribution plan). Investors should contact their financial advisor to determine their eligibility to purchase Class A shares without paying the sales charge.

Franklin Convertible Securities Fund - Class A

PRODUCT PROFILE FOURTH QUARTER 2013

FUND DESCRIPTION

The fund seeks to maximize total return, consistent with reasonable risk, by investing at least 80% of its net assets in convertible securities. Convertible securities are bonds or preferred stock that may be converted into common stock.

PERFORMANCE DATA

Average Annual Total Returns for Periods Ended December 31, 2013 (%)

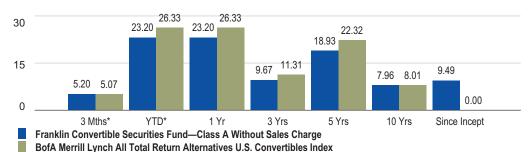
	3 Mths*	YTD*	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since Incept (4/15/87)
With Sales Charge	-0.86	16.11	16.11	7.53	17.54	7.32	9.25
Without Sales Charge	5.20	23.20	23.20	9.67	18.93	7.96	9.49
BofA Merrill Lynch All Total Return Alternatives U.S. Convertibles Index	5.07	26.33	26.33	11.31	22.32	8.01	N/A

Total Annual Operating Expenses—0.90%

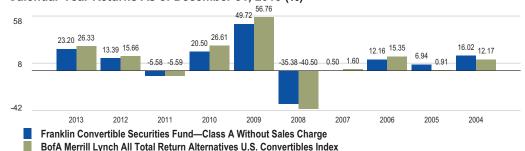
30-Day Standardized Yield (As of 12/31/13)-0.92%

Performance data represents past performance, which does not guarantee future results. Current performance may differ from figures shown. The fund's investment returns and principal values will change with market conditions, and you may have a gain or a loss when you sell your shares. Please call Franklin Templeton Investments at (800) DIAL BEN/(800) 342-5236 or visit franklintempleton.com for the most recent month-end performance.

Average Annual Total Returns for Periods Ended December 31, 2013 (%)



Calendar Year Returns As of December 31, 2013 (%)



If the Fund's sales charge had been included, the returns would have been lower.

The 30-Day Standardized Yield reflects an estimated yield to maturity. It should be regarded as an estimate of the fund's rate of investment income, and it may not equal the fund's actual income distribution rate, which reflects the fund's past dividends paid to shareholders.

For information related to the "Fund Characteristics," "Third-Party Fund Data," and "Performance Data" sections, please see Explanatory Notes.

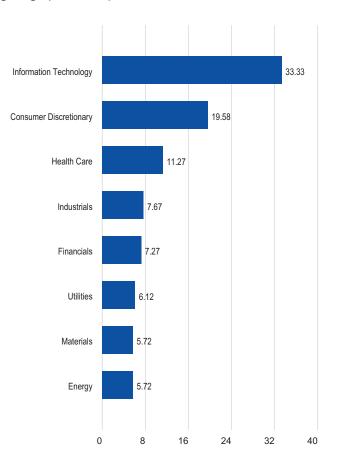
^{*}Cumulative Total Returns.

PORTFOLIO DIVERSIFICATION (AS OF 12/31/13)

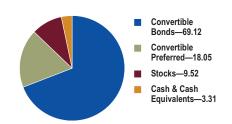
Top Ten Holdings

Issuer Name	% of Total
1. MICRON TECHNOLOGY INC	2.52
2. MICROCHIP TECHNOLOGY INC	2.14
3. ICONIX BRAND GROUP INC	2.11
4. MGM MIRAGE	2.08
5. SALIX PHARMACEUTICALS LTD	2.06
6. SWIFT TRANSPORTATION CO	2.05
7. THE GOODYEAR TIRE & RUBBER CO	2.04
8. UNITED TECHNOLOGIES CORP	2.01
9. ELECTRONIC ARTS INC	1.97
10. PRICELINE.COM INC	1.97
Total	20.94

Sector Weightings (% of Total)



Portfolio Allocation (%)



PORTFOLIO CHARACTERISTICS (AS OF 12/31/13)

	Fund
Weighted Average Market Capitalization (Millions USD)	18,499
Median Market Capitalization (Millions USD)	8,229

Price to Earnings

	Fund
Weighted Average	19.29x
Median	20.72x

Price to Cash Flow

	Fund
Weighted Average	11.18x
Median	11.61x

Price to Book Value

	Fund
Weighted Average	2.44x
Median	2.48x

PERFORMANCE RISK STATISTICS - Class A

Modern Portfolio Theory (MPT) Statistics (As of 12/31/13)

Performance Risk Statistics	3 Years	5 Years	10 Years
Standard Deviation	11.12	12.35	13.69
Alpha	-0.72	-1.15	0.47
Beta	0.93	0.92	0.91
Sharpe Ratio	0.86	1.53	0.47
Information Ratio	-0.59	-1.05	-0.02
Tracking Error	2.80	3.21	3.21
R-Squared	94.27	94.03	95.47

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GLOSSARY

Alpha: Alpha measures the difference between a fund's actual returns and its expected returns given its risk level as measured by its beta. A positive alpha figure indicates the fund has performed better than its beta would predict. In contrast, a negative alpha indicates a fund has underperformed, given the expectations established by the fund's beta. Some investors see alpha as a measurement of the value added or subtracted by a fund's manager.

Benchmark: An unmanaged group of securities whose overall performance is used as a standard to measure investment performance.

<u>Beta:</u> A measure of the magnitude of a portfolio's past share-price fluctuations in relation to the ups and downs of the overall market (or appropriate market index). The market (or index) is assigned a beta of 1.00, so a portfolio with a beta of 1.20 would have seen its share price rise or fall by 12% when the overall market rose or fell by 10%.

Information Ratio: In investing terminology, the ratio of expected return to risk. Usually, this statistical technique is used to measure a manager's performance against a benchmark. This measure explicitly relates the degree by which an investment has beaten the benchmark to the consistency by which the investment has beaten the benchmark.

Market Capitalization: A determination of a company's value, calculated by multiplying the total number of company stock shares outstanding by the price per share.

<u>Price to Book Value (P/BV)</u>: The price per share of a stock divided by its book value (i.e., net worth) per share. For a portfolio, the ratio is the weighted average price/book ratio of the stocks it holds. <u>Price to Cash Flow (P/CF)</u>: Supplements price/earnings ratio as a measure of relative value; represents a weighted average of the price/cash flow ratios for the underlying fund holdings. <u>Price to Earnings (P/E)</u>: The share price of a stock, divided by its per-share earnings over the past year. For a portfolio, the weighted average P/E ratio of the stocks in the portfolio. P/E is a good

indicator of market expectations about a company's performance can be explained by the returns from the overall market (or a benchmark index). If a portfolio's total return precisely matched that of

the overall market or benchmark, its R-squared would be 100. If a portfolio's return bore no relationship to the market's returns, its R-squared would be 0.

Sharpe Ratio: To calculate a Sharpe ratio, an asset's excess returns (its return in excess of the return generated by risk-free assets such as Treasury bills) are divided by the asset's standard

Sharpe Ratio. To calculate a Sharpe ratio, an asset's excess returns (its return in excess of the return generated by fisk-free assets such as Treasury bills) are divided by the asset's standard deviation.

<u>Standard Deviation:</u> A measure of the degree to which a fund's return varies from its previous returns or from the average of all similar funds. The larger the standard deviation, the greater the likelihood (and risk) that a security's performance will fluctuate from the average return.

<u>Tracking Error:</u> Measure of the deviation of the return of a fund compared to the return of a benchmark over a fixed period of time. Expressed as a percentage. The more passively the investment fund is managed, the smaller the tracking error.

MARKET REVIEW

The US equity bull market that began in March 2009 continued during the fourth quarter of 2013 and capped the best annual gain for the US stock market since 1997. Stocks of industries closely tied to economic growth generally fared best during the quarter. All 10 major equity sectors advanced, led by industrials, information technology (IT), consumer discretionary and materials, while the more defensive and interest-rate-sensitive utilities and telecommunication services sectors had smaller gains. In broad terms, fourth-quarter performance was led by large-capitalization stocks, followed by smaller advances for small- and mid-cap equities. By investment style, growth stocks generally gained more than their value counterparts among large- and mid-cap companies, while value stocks outperformed in the small-cap tier. Geographically, US equities outperformed those of most other developed markets, as well as most emerging markets, for the quarter.

Key macroeconomic indicators, both domestic and foreign, bolstered the US stock market, as did the removal of uncertainty about when the US Federal Reserve (Fed) would begin tapering its bond-buying program. Diminished fiscal headwinds, low interest rates and inflation, and continued strength in corporate earnings also had a positive impact. In addition to strength in data regarding housing, household wealth, consumer sentiment and retail spending, other indications of a modestly accelerating US economy heading into 2014 included a five-year low in unemployment, a five-year high in manufacturing output, record export levels and the fastest gross domestic product growth in nearly two years. Signs of progress outside the US also factored heavily in the equity market rally: The global economy resumed its momentum as trade grew at its fastest rate since early 2011, Europe reported modest growth as it emerged from recession, Japan addressed persistent deflation and appeared to be succeeding, and China proposed reforms that could lead to an economic transformation.

PERFORMANCE REVIEW AND CONTRIBUTORS TO PERFORMANCE

Performance Review

In 2013's fourth quarter, seven of the fund's eight sector allocations generated positive returns, led by strong contributions from the consumer discretionary and IT sectors. Most of our consumer discretionary holdings aided absolute returns, including strong gains for Outerwall, which delivers retail products and services to consumers through self-service interactive kiosks; Jarden, a diverse provider of consumer products with a portfolio of over 100 brands sold globally; and Iconix Brand Group, a brand-management firm operating primarily in the apparel, footwear and apparel accessory industries. Our results in IT were assisted by contributors such as semiconductor and memory chip manufacturer Micron Technology, Internet infrastructure services provider VeriSign, and microcontroller and analog semiconductor manufacturer Microchip Technology. In the health care sector, positions in pharmaceutical companies Salix Pharmaceuticals and Mylan were most helpful. The financials sector was another area of strength for the fund, and Affiliated Managers Group was a key contributor.

In contrast, the fund's overall fourth-quarter return was pared by declines in the energy sector, in which results were hindered by Cobalt International Energy and James River Coal. Shares of Cobalt International Energy declined on short-term setbacks after the company announced somewhat disappointing drilling test results for its sizable offshore discovery in Angola that came in on the lower end of its expected reserve range; furthermore, on-site tests showed smaller oil condensate reserves in the well and a larger amount of natural gas than previously expected. Fund performance was also hindered by a few biotechnology-related health care sector holdings, including biopharmaceutical firm Amarin, Savient Pharmaceuticals and BioMarin Pharmaceutical. Shares of Amarin, in particular, sold off after a US Food and Drug Adminstration ruling delayed approval of its primary cholesterol-lowering drug candidate. Within IT, the sector's overall advance was hindered by declines for communications equipment and network product manufacturer JDS Uniphase, integrated travel and expense management software solutions provider Concur Technologies, and EMC, a data storage, backup and recovery specialist with a significant presence in related cloud computing applications. Elsewhere, tool manufacturer Stanley Black & Decker was a significant detractor from otherwise positive returns in the industrials sector.

Portfolio Positioning

Under normal market conditions we buy primarily convertible securities and seek to remain close to fully invested at all times. We believe that if we remain focused on our disciplined investment strategy and assess individual issuers and security terms on a case-by-case basis by utilizing the equity and credit analyses produced by our team of research analysts, we should be able to produce solid risk-adjusted returns for our shareholders over the long term.

Outlook & Strategy

Broad US equity-market gauges ended 2013 at record levels powered by record-high corporate profits, increased dividend payouts, continued share repurchases and improved investor confidence. The Fed's decision to begin tapering its stimulus efforts also appeared to be positive for investor sentiment and could signal a favorable environment for earnings growth potential, in our view. After the market rise in 2013, valuations at year-end were generally closer to fair value, in our opinion. We would expect to see market performance driven less by multiple expansion and more by earnings growth in 2014.

There are a number of specific trends that led to particularly strong earnings growth for some companies in 2013 that we think could continue into 2014. For example, in the United States, consumer spending growth has boosted sales and profits for auto and auto parts manufacturers. Manufacturers that have developed advanced fuel-efficiency technologies have benefited from this trend, as well as the trend for more fuel-efficient cars. Fuel efficiency also has been a growth driver in aerospace, benefiting companies that have developed new high-strength, lightweight carbon fiber materials used in modern aircraft. This composite material is stronger than aluminum while being significantly lighter, and it is more reliable than other traditional metallic materials, all of which can lead to lower aircraft maintenance and fuel costs. Longer term, additional applications of these materials may include cars and other industrial products for which innovations that can reduce weight are highly valued.

Among other industrial companies, new technologies and methods for the production of oil and gas in the United States have driven profit growth for the developers of those technologies, as well as oil producers, and they have moved the country further down the road to energy independence. Our positive outlook for these firms is underpinned by the fact that combined oil and natural gas shale resources in the United States have put it on pace to potentially top Russia as the world's largest producer of both fuels, with the possibility of also surpassing Saudi Arabia as the world's largest oil producer by 2020, a somewhat

The above commentary does not provide a complete analysis of every material fact regarding any market, region, industry, security, portfolio or pooled investment vehicle. Portfolio holdings information, opinions and other market or economic information and data provided are as of the date of the commentary, unless another date is expressly indicated, and may change without notice. Statements of fact cited by the manager have been obtained from sources considered reliable but no representation is made as to their completeness or accuracy. The manager's assessment of a particular industry, region, security, sector or investment is intended solely to provide insight into the manager's investment process and is not a recommendation to buy or sell any security, nor investment advice. References to particular securities or sectors are only for the limited purpose of illustrating general market or economic conditions and are not recommendations to buy or sell a security. Although historical data is no guarantee of future results, these insights may help you understand our investment management philosophy.

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PERFORMANCE REVIEW AND CONTRIBUTORS TO PERFORMANCE (CONTINUED)

startling shift that has been reshaping global energy markets.

Elsewhere, new developments in electronic technology have enabled brand-new content and Internet-focused industries to spring up, generating extraordinary revenue growth. Just one such strategic shift involves treating software as a service: Companies that provide as-needed delivery of software through cloud computing can give corporate purchasers access to state-of-the-art programs whose affordability might otherwise be out of their reach.

Additionally, we have significant optimism about what we view as a new renaissance period for drug research, development and production. In 2013 alone, new developments in genetic mapping and analysis led to spectacular breakthroughs in the treatment of cancer, cystic fibrosis, multiple sclerosis and hepatitis C, creating billions of dollars of new market value for the discoverers of these treatments. Overall, we believe the biotech industry has reached a tipping point in terms of targeted therapies often termed "personalized medicine" because they target a specific molecule, which can both improve effectiveness and reduce the instance of off-target side effects.

These are just some of the examples of how the dynamic private economy in the United States and rapid technology changes for many industries have met our society's needs and driven the US stock market higher in recent years. Looking forward, we believe this dynamism will continue to raise living standards and could potentially deliver profit growth for many companies.

As we remain committed to our investment strategy, we will continue our efforts to identify those convertible securities that our research has determined to have attractive risk/reward profiles, which we typically associate with "balanced" convertibles. We believe "balanced" convertibles should allow greater participation in common stock price increases than common stock price declines.

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INVESTMENT PHILOSOPHY AND PROCESS

Balanced

We believe our bottom-up approach to investing in "balanced" convertible securities, with their potential for common stock price appreciation and reduced downside risk from their fixed-income attributes, can offer solid long-term results for our shareholders.

Fundamental

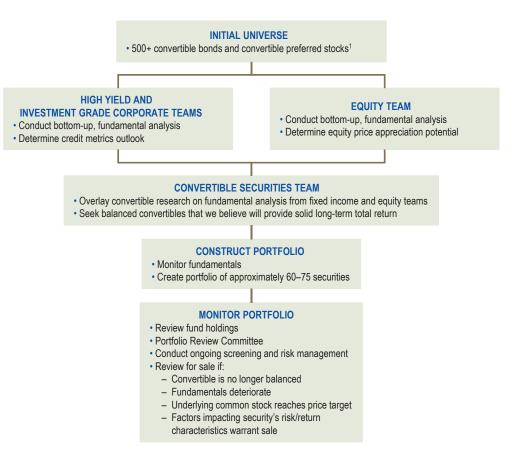
We seek to exploit a fundamental view that differs from the "market consensus" regarding growth potential or valuation.

Diversified

We seek to invest in a diverse set of securities across industry sectors and market capitalizations and styles.

Long Term

We seek financially strong companies with favorable secular growth potential and sustainable competitive advantages. We apply a long-term perspective through the spectrum of market cycles.



INVESTMENT AND MANAGEMENT TEAM (AS OF 12/31/13)

Franklin Convertible Securities Fund Management Team	Years with Firm	Years Experience
Alan Muschott, CFA	15	15
Matt Quinlan	8	19
Blair Schmicker, CFA	6	10
Franklin Equity Group Management Team	Years with Firm	Years Experience
Edward Jamieson - CIO Franklin Equity Group	26	38
Edward Perks, CFA - Director of Portfolio Management	21	21
Coleen Barbeau, CFA - Director of Global Growth	30	33
Donald G. Taylor - CIO U.S. Value	17	32
Michael McCarthy, CFA - Director of Equity Research	21	22
Franklin Core/Hybrid Team	Years with Firm	Years Experience
Investment Professionals	10	23

WHAT ARE THE RISKS

All investments involve risks, including possible loss of principal. The fund may invest in high-yielding, fixed income securities. High yields reflect the higher credit risk associated with these lower-rated securities and, in some cases, the lower market prices for these instruments. Interest rate movements may affect the fund's share price and yield. Bond prices generally move in the opposite direction of interest rates. As the prices of bonds in the fund adjust to a rise in interest rates, the fund's share price may decline. The fund may also invest in foreign securities, which involve special risks, including political uncertainty and currency volatility. These and other risks are described more fully in the fund's prospectus.

^{1.} Source: Morgan Stanley & Co., Inc.

EXPLANATORY NOTES

FUND CHARACTERISTICS

Number of Issuers: All portfolio holdings are subject to change. Holdings of the same issuer have been combined.

THIRD-PARTY FUND DATA

Morningstar Rating™: Source: Morningstar® 12/31/13. For each fund with at least a three-year history, Morningstar calculates a Morningstar Rating™ based on how a fund ranks on a Morningstar Risk-Adjusted Return measure against other funds in the same category. This measure takes into account variations in a fund's monthly performance after adjusting for sales loads (except for load-waived A shares), redemption fees, and the risk free rate, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of funds in each category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars and the bottom 10% receive 1 star. Class A shares of Franklin Convertible Securities Fund received a traditional Morningstar Rating of 2, 4 and 4 star(s) for the 3-, 5- and 10-year periods, respectively. Load-waived Class A shares of Franklin Convertible Securities Fund received Morningstar Ratings of 4, 4 and 4 star(s) for the 3-, 5- and 10- year periods, respectively. The Morningstar Rating™ may differ among share classes of a mutual fund as a result of different sales loads and/or expense structure. Past performance does not guarantee future results. ©2014 Morningstar, Inc. All rights reserved. The information contained herein is proprietary to Morningstar and/or its content providers; may not be copied or distributed; and is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

PERFORMANCE DATA

The fund offers other share classes subject to different fees and expenses, which will affect their performance. Source for Index: FactSet. Indexes are unmanaged and one cannot invest directly in an index.

Source: BofA Merrill Lynch, used with permission.

On 5/1/94, the fund implemented a Rule 12b-1 plan, which affects subsequent performance.

PORTFOLIO DIVERSIFICATION

<u>Top Ten Holdings</u>: Holdings of the same issuer have been combined. Information is historical and may not reflect current or future portfolio characteristics. All portfolio holdings are subject to change. The portfolio manager for the fund reserves the right to withhold release of information with respect to holdings that would otherwise be included. For updated information, call Franklin Templeton Investments at (800) DIAL BEN/(800) 342-5236 or visit franklintempleton.com.

<u>Sector Weightings</u>: Weightings as percent of equity (unless otherwise noted). Percentage may not equal 100% due to rounding. Information is historical and may not reflect current or future portfolio characteristics.

PORTFOLIO CHARACTERISTICS

The portfolio characteristics listed are based on the fund's underlying holdings, and do not necessarily reflect the fund's characteristics. Due to data limitations all equity holdings are assumed to be the primary equity issue (usually the ordinary or common shares) of each security's issuing company. This methodology may cause small differences between the portfolio's reported characteristics and the portfolio's actual characteristics. In practice, Franklin Templeton's portfolio managers invest in the class or type of security which they believe is most appropriate at the time of purchase. The market capitalization figures for both the portfolio and the benchmark are at the security level, not aggregated up to the main issuer. All portfolio holdings are subject to change.

Source: FactSet. For the portfolio, the Price to Earnings, Price to Cash Flow, and Price to Book Value calculations for the weighted average use harmonic means. Values less than 0.01 (i.e., negative values) are excluded and values in excess of 200x are capped at 200x. For the benchmark, no limits are applied to these ratios in keeping with the benchmark's calculation methodology. Market capitalization statistics are indicated in the base currency for the portfolio presented.



Franklin Templeton Distributors, Inc. One Franklin Parkway San Mateo, California 94403-1906 (800) DIAL BEN® (800) 342-5236 franklintempleton.com Investors should carefully consider a fund's investment goals, risks, charges and expenses before investing. To obtain a summary prospectus and/or prospectus, which contains this and other information, talk to your financial advisor, call us at (800) DIAL BEN/(800) 342-5236 or visit franklintempleton.com. Please carefully read a prospectus before you invest or send money.

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