FRANKLIN TEMPLETON INVESTMENTS

Franklin Convertible Securities Fund—Class A

Product Profile Fourth Quarter 2014

FUND CHARACTERISTICS (AS OF 12/31/14)

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™	Convertibles
Total Net Assets—All Share Classes	2,041 million
Number of Issuers	76
Maximum Initial Sales Charge	5.75%

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, 2014 (%)

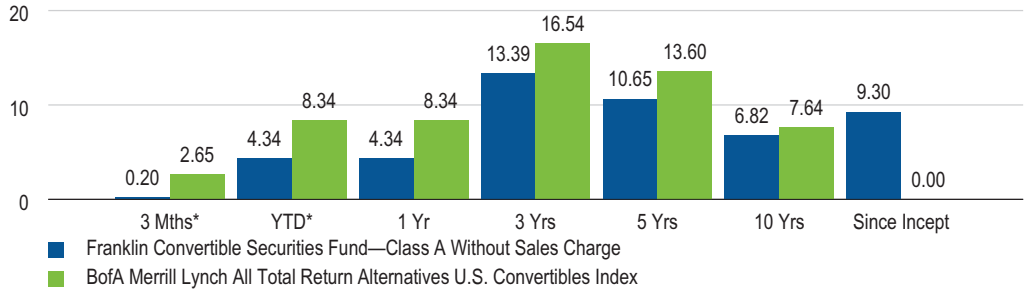
	3 Mths*	YTD*	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since Incept (4/15/87)
With Sales Charge	-5.58	-1.65	-1.65	11.17	9.35	6.19	9.07
Without Sales Charge	0.20	4.34	4.34	13.39	10.65	6.82	9.30
BofA Merrill Lynch All Total Return Alternatives U.S. Convertibles Index	2.65	8.34	8.34	16.54	13.60	7.64	N/A

Total Annual Operating Expenses—*0.88%*

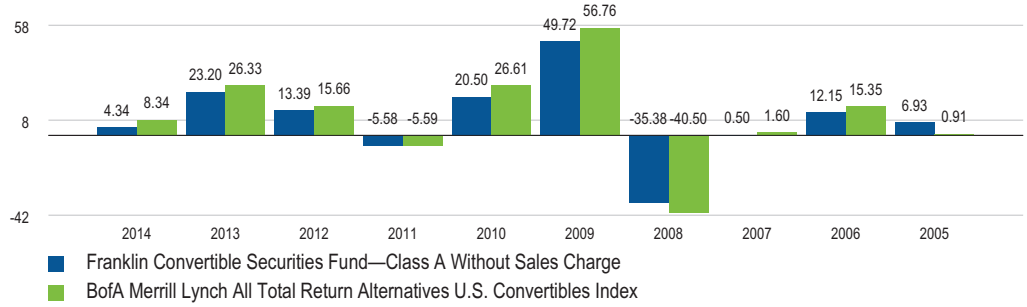
30-Day Standardized Yield (As of 12/31/14)—With Waiver: 1.35% Without Waiver: 1.35%

Performance data represents past performance, which does not guarantee future results. Current performance may differ from figures shown. The fund's investment return and principal value 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, 2014 (%)



Calendar Year Returns As of December 31, 2014 (%)



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.

*Cumulative Total Returns.

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

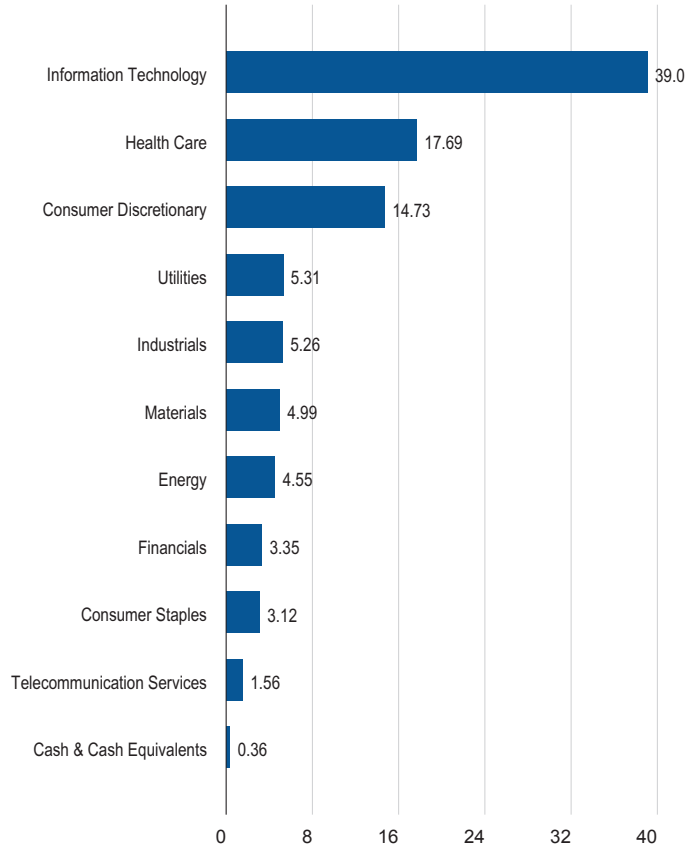
Not FDIC Insured | May Lose Value | No Bank Guarantee

PORTFOLIO DIVERSIFICATION (AS OF 12/31/14)

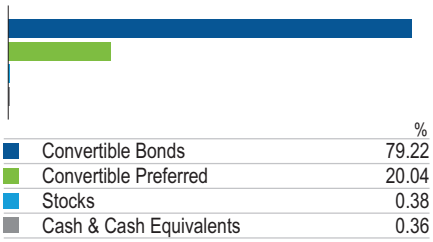
Top Ten Holdings

Issuer Name	% of Total
1. ELECTRONIC ARTS INC	2.57
2. LAM RESEARCH CORP	2.55
3. BIOMARIN PHARMACEUTICAL INC	2.51
4. TRULIA INC	2.27
5. JARDEN CORP	2.21
6. FOREST CITY ENTERPRISES INC	2.21
7. OMNICARE INC	2.17
8. JDS UNIPHASE CORP	2.08
9. INTEL CORP	2.04
10. MGM MIRAGE	2.04
Total	**22.65**

Sector Weightings (% of Total)



Portfolio Allocation



PORTFOLIO CHARACTERISTICS (AS OF 12/31/14)

	Fund
Weighted Average Market Capitalization (Millions USD)	20,079
Median Market Capitalization (Millions USD)	7,139

Price to Earnings	Fund
Weighted Average	18.26x
Median	21.52x

Price to Book Value	Fund
Weighted Average	2.45x
Median	2.73x

Price to Cash Flow	Fund
Weighted Average	13.05x
Median	15.58x

PERFORMANCE RISK STATISTICS - Class A

Modern Portfolio Theory (MPT) Statistics (As of 12/31/14)

Performance Risk Statistics	3 Years	5 Years	10 Years
Standard Deviation	8.07	10.74	13.71
Alpha	-1.24	-1.33	-0.29
Beta	0.90	0.89	0.91
Sharpe Ratio	1.65	0.98	0.39
Information Ratio	-1.22	-1.05	-0.26
Tracking Error	2.59	2.82	3.14
R-Squared	90.77	94.42	95.66

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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.
Beta: 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.
Price to Book Value (P/BV): 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.
Price to Cash Flow (P/CF): 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.
Price to Earnings (P/E): The share price of a stock, divided by its per-share earnings over the past year. P/E is a good indicator of market expectations about a company's prospects; the higher the P/E, the greater the expectations for a company's future growth in earnings.
R-Squared: A measure of how much of a portfolio'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 deviation.
Standard Deviation: 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.
Tracking Error: 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

Despite steep intermittent selloffs that sent volatility gauges to two-year highs, major US equity indexes rose solidly in the fourth quarter as investors were encouraged by rising corporate earnings and broadening US economic strength. Supportive domestic data helped US stocks overcome concerns about growth in China, Europe and Japan, intensifying geopolitical tensions with Russia, collapsing oil prices, and the Federal Reserve's (Fed's) plans for interest rates. The market also continued to be underpinned by elevated levels of merger-and-acquisition and initial public offering activity. As major US equity indexes advanced, seven out of 10 sectors traded higher, led by utilities, consumer discretionary and consumer staples, contrasting with modest declines for telecommunication services and materials as well as a pronounced selloff in the energy sector. Small-capitalization stocks generally outperformed their mid-cap peers by a wide margin, while both tiers topped the large-cap universe. By investment style, value-oriented equities slightly outperformed their growth counterparts among large- and mid-cap stocks, while the inverse was generally true for small caps. Across the world, the US stock market outpaced the vast majority of developed and emerging markets, many of which sold off in the fourth quarter.

The US dollar rose versus the currencies of America's major trading partners as the US expansion deepened amid upswings in industrial activity, hiring and spending. The unemployment rate hit a six-year low and consumer confidence gauges reached seven-year highs during the quarter. Additionally, retail sales increased to record levels, led by growth in auto sales. Americans' purchasing power was bolstered by lower energy costs and mild inflation. In the housing market, home sales were up, but the pace of home-price appreciation ebbed. Notably, the expanding US factory sector remained a bright light amid dimming manufacturing data elsewhere as overall domestic output climbed above its prerecession peak.

PERFORMANCE REVIEW AND CONTRIBUTORS TO PERFORMANCE

Performance Review

During the fourth quarter of 2014, exposures to six out of 10 sectors held by the fund increased in value and supported absolute returns for 2014's fourth quarter. The information technology (IT) and health care sectors had the most significant positive impact on performance over the three-month period. To a lesser extent, the utilities, industrials and consumer staples sectors also aided returns, followed by a much smaller contribution from the telecommunication services sector.

IT remained the fund's largest sector allocation, and it contained several of our top individual contributors for the quarter. Chief among these were video game designer Electronic Arts; network security specialist Palo Alto Networks; ServiceNow, a platform-as-a-service provider of enterprise service management software; and Proofpoint, which provides software-as-a-service and on-premises solutions for email security, data loss prevention, privacy protection, email encryption, electronic discovery and email archiving. All four holdings had robust double-digit share-price gains over the October-December span. Additionally, the majority of our health care holdings had positive returns, and the top contributors to fund performance were generic and specialty pharmaceuticals developer and manufacturer Mylan; BioMarin Pharmaceutical, a biotechnology firm with a growing product pipeline and several promising drug candidates currently in development; and Omnicare, which provides pharmaceuticals to health care facilities as well as related consulting and data management services.

Favorable bond market conditions such as continued low and stable long-term interest rates amid easing inflationary pressures, combined with the stable, yet moderate, growth profiles of many utility companies, helped underpin their fourth-quarter share-price advances. Gains were widespread across the sector, including both regulated and diversified utilities. All of the fund's related holdings increased in value against this broadly favorable backdrop, including top contributor NextEra Energy. Our other major contributors at the individual security level included Jarden (consumer discretionary sector), a global consumer products company with over 120 brands sold globally, and food processing and consumer packaged goods conglomerate Post Holdings, which was the top contributor in the consumer staples sector.

Conversely, the fund's overall gains were pared by steep and widespread declines among its energy sector holdings, though allocations to the materials, consumer discretionary and financials sectors also shed value for the period under review. Of these, the most meaningful individual detractors from performance were concentrated in the energy and materials sectors. The collapse in global crude oil prices amid a rising supply/demand imbalance and a price war driven by OPEC (Organization of the Petroleum Exporting Countries) weighed heavily on share prices across the energy sector, including major integrated oil conglomerates, independent exploration and production (E&P) companies, and oilfield services and equipment providers. The fund's most significant detractors for the period included E&P firms Rex Energy, Cobalt International Energy, Sanchez Energy and SandRidge Energy. Among oilfield services-related holdings that tracked plummeting global crude oil prices, our position in McDermott International was a notable detractor; the company offers integrated upstream engineering, procurement, construction and installation services with a focus on drilling rigs. The slowdown in economic activity around the world (particularly in regions outside North America) also weighed on materials and basic industry companies. Weakness in iron ore, copper and coal pricing led to declines in most of the fund's related holdings, though our largest detractor was Mexican cement and building products conglomerate CEMEX. The majority of our consumer discretionary holdings also shed value, and none more so than key detractor Shutterfly, which provides web-based photo publishing services. Gains in IT were clipped by declines for a handful of holdings, including a fairly sizable drop in the value of micro-blogging site Twitter.

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

Despite mixed results in the equity and convertible securities markets over 2014's final quarter, we hold a fairly optimistic outlook for global convertible securities heading into 2015. From a macroeconomic perspective, and aside from ongoing weakness in Europe, we have been seeing some improvement in select economies throughout the world, including in North America, which makes up more than half of the global convertibles market in terms of issuance. Our research-based, bottom-up strategy has been finding what we view as attractive investment opportunities in many different places as we work closely with our equity analyst team and our credit analysts, the latter of which help us evaluate the credit metrics of a convertible and determine where the downside protection in a convertible is likely to kick in. Most recently, we have been finding some exciting prospects in the IT and consumer discretionary sectors that fit our investment criteria.

New issuance in the convertible securities market has been quite impressive over the past two years, in our view, widening our opportunity set within the asset class. This trend has been driven mainly by rising equity prices that left companies to consider conversion prices that would be at or near record highs on their stock,

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.

PERFORMANCE REVIEW AND CONTRIBUTORS TO PERFORMANCE (*CONTINUED)*

according to our analysis. The end result is that corporations seem to have grown more comfortable issuing convertible securities as an alternative means of financing by taking advantage of market conditions that can potentially lower their overall cost of capital below what it would be if they issued only one class of debt and common stock. Lately, issuers have been coming from a diverse mix of sectors, industries and market-capitalization sizes, which has widened our potential investment universe.

We did, at times, see brief reappearances of higher US interest rates during 2014--they were fairly minimal, but we anticipate that an eventual, inevitable and more meaningful period of rising rates could drive more new issuance because convertible securities tend to have a lower coupon than a company's straight debt would carry. Therefore, when interest rates are higher on straight bonds, the generally lower rate for a convertible security can become important to companies. Recently, there has been a growing focus on the Fed as the market braces for an end of the Fed's near-zero interest-rate regime (widely expected by mid-2015) that has helped prop up the US economic recovery. We believe a rising-rate environment in the United States could have a positive impact on the global convertible securities market. Convertible securities, because of their sensitivity to movement in a company's common stock through the option to convert, tend to have a different reaction to rising rates than straight bonds. When US interest rates assume an upward track for what we believe are the right reasons--a healthier economy and improving corporate revenues and profits--the resulting environment of solid corporate fundamentals, in our view, lends support to equity markets which, in turn, can support the convertible securities market through the option to convert into common stock.

We also witnessed the equity sensitivity, or delta, of the overall convertible securities market rising through the end of the year, much as we have for the past few years of the prolonged bull market. Using our strategy for managing convertible securities, we intend to continue to focus on “balanced” convertibles. Now, as ever, there is a broad spectrum of convertible products in the market: Some are equity-sensitive and tend to act like stocks, some are “busted” and act much like bonds, while others have a balance of the two characteristics, which we consider balanced convertibles. We think such balanced convertible securities can increase our likelihood of capturing upside performance potential of the underlying equity with less downside risk.

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.

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

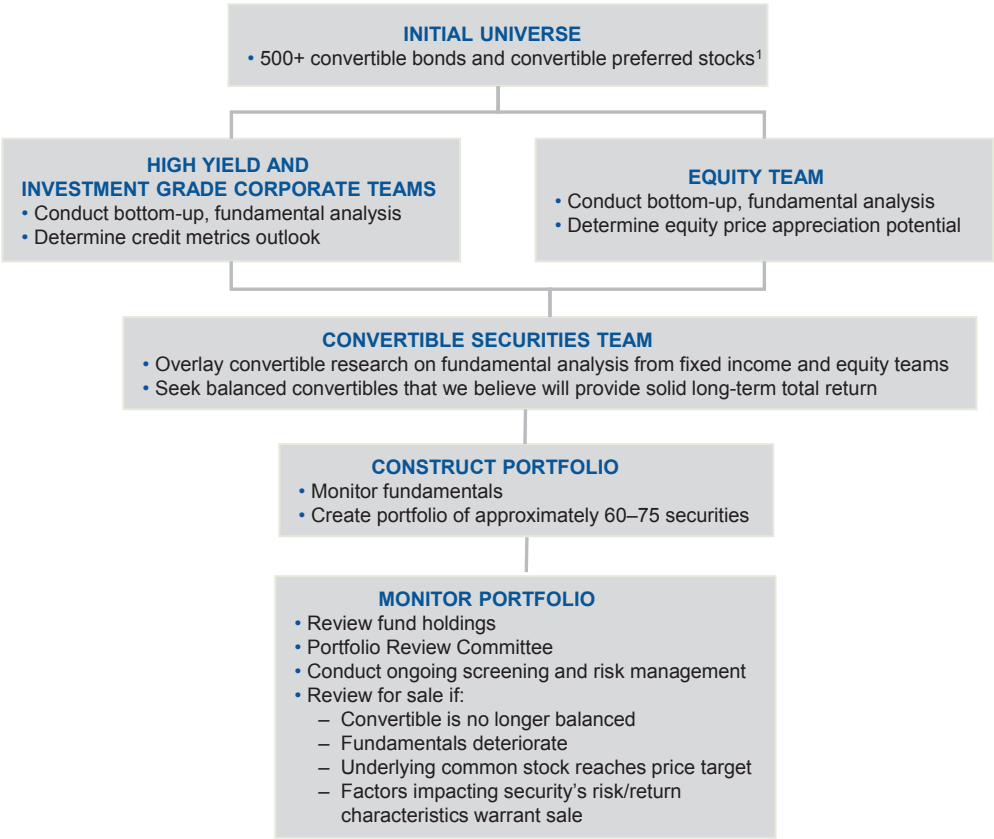
We seek to exploit a fundamental view that differs from the "market consensus" regarding growth potential or valuation.

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.



1. Source: Morgan Stanley & Co., Inc.

INVESTMENT AND MANAGEMENT TEAM (AS OF 12/31/14)

Franklin Convertible Securities Fund Management Team	Years with Firm	Years Experience
Alan Muschott, CFA	16	16
Matt Quinlan	9	20
Blair Schmicker, CFA	7	11

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.

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EXPLANATORY NOTES

FUND CHARACTERISTICS

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

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.
BofA Merrill Lynch, used with permission.

On May 1, 1994, the fund implemented a Rule 12b-1 plan, which affects subsequent performance.

PORTFOLIO DIVERSIFICATION

Top Ten Holdings: 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.
Sector Weightings: 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.

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.

Franklin Templeton Distributors, Inc.
One Franklin Parkway
San Mateo, California 94403-1906
(800) DIAL BEN® (800) 342-5236
franklintempleton.com

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