FRANKLIN TEMPLETON INVESTMENTS

FRANKLIN ADJUSTABLE U.S. GOVERNMENT SECURITIES FUND

AS OF 12/31/13

FIXED INCOME

FUND DESCRIPTION

The fund seeks a high level of current income, while providing lower volatility of principal than a fund that invests in fixed-rate securities. The fund invests predominantly in adjustable-rate mortgage securities (ARMS) that are issued or guaranteed by the U.S. government, its agencies or instrumentalities.[1] The fund's investments may include securities issued by government-sponsored entities, such as Fannie Mae and Freddie Mac.[2]

FUND DATA[3]

Total Net Assets-All Share Classes: $2.0 billion

Number of Holdings: 2,878

Inception: 10/20/87

Dividends: Accrued daily and paid monthly on the last business day

Average Duration[4]: 0.8 year

Weighted Average Time to Reset: 6 months

CUSIP/Symbol by Class:

A	C	R6	Advisor
FISAX	FCSCX	353 612 492	FAUZX

MAXIMUM SALES CHARGES

Class A: 2.25% initial sales charge

Class C: 1% contingent deferred sales charge (CDSC) in the first year only

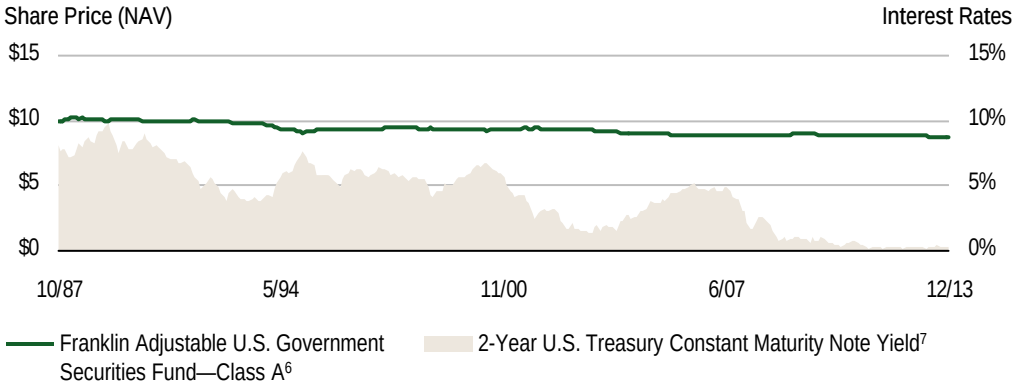
TOTAL ANNUAL OPERATING EXPENSES[5]

Class A: 0.87%; Class C: 1.27%

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/342-5236 or visit franklintempleton.com for the most recent month-end performance.

HISTORICALLY LOW SHARE PRICE VOLATILITY

October 20, 1987–December 31, 2013



Treasuries, if held to maturity, offer a fixed rate of return and fixed principal value; interest payments and principal are guaranteed.

AVERAGE ANNUAL TOTAL RETURNS *(As of December 31, 2013)*

With Maximum Sales Charges[8]

Class	Inception Date	1 Yr	5 Yrs	10 Yrs	Since Inception
A	10/20/87	-2.37%	1.26%	2.28%	4.16%
C	7/1/03	-1.65%	1.28%	2.09%	1.99%

Without Sales Charges

1 Yr	5 Yrs	10 Yrs	Since Inception
-0.16%	1.71%	2.51%	4.25%
-0.67%	1.28%	2.09%	1.99%

YIELDS *(As of December 31, 2013)*

Class	30-Day Standardized Yield[9]
A	0.55%
C	0.16%

1. Securities owned by the fund, but not shares of the fund, are guaranteed by the U.S. government, its agencies or instrumentalities as to timely payment of principal and interest.
2. Although U.S. government-sponsored entities may be chartered or sponsored by Acts of Congress, their securities are neither issued nor guaranteed by the U.S. government. Please see the fund's prospectus for a detailed discussion regarding various levels of credit support for government agency or instrumentality securities. The fund's yield and share price are not guaranteed and will vary with market conditions.
3. As of 12/31/13. Holdings are subject to change. For updated information, please call Franklin Templeton Investments at (800) DIAL BEN/342-5236 or visit franklintempleton.com.
4. Duration shown is the option-adjusted duration. Duration is an indication of a fund's sensitivity to changes in interest rates. The option-adjusted duration formula takes into account embedded call options and redemption features that impact a bond's expected cash flows, and thus its interest rate sensitivity.
5. The fund has a fee waiver associated with its investments in a Franklin Templeton money fund, contractually guaranteed through at least its current fiscal year end. Fund investment results reflect the fee waiver; without this reduction, the results would have been lower.
6. Based on the fund's month-end net asset value (NAV) for the periods indicated.
7. Source: Federal Reserve H15 Report.
8. Class C: Prior to 1/1/04, these shares were offered with an initial sales charge; thus actual returns would have differed. The fund offers other share classes, subject to different fees and expenses that will affect their performance.
9. 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.

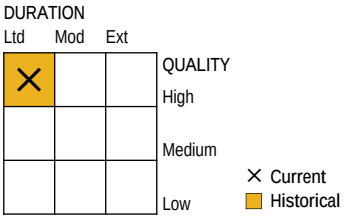
NOT FDIC INSURED I MAY LOSE VALUE I NO BANK GUARANTEE

PORTFOLIO MANAGERS[10]

Paul Varunok
Since 2003; joined Franklin Templeton in 2001

Roger Bayston, CFA
Since 1991; joined Franklin Templeton in 1991

MORNINGSTAR STYLE BOX™[11]



WHAT ARE THE RISKS?

All investments involve risks, including possible loss of principal. Interest rate movements, unscheduled mortgage prepayments and other risk factors will 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 a fund adjust to a rise in interest rates, the fund's share price may decline. Changes in the financial strength of a bond issuer or in a bond's credit rating may affect its value. The fund is actively managed but there is no guarantee that the manager's investment decisions will produce the desired results. These and other risk considerations are discussed in the fund's prospectus.

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/342-5236 or visit franklintempleton.com. Please carefully read a prospectus before you invest or send money.

MANAGER'S PERSPECTIVE

"Since the interest paid by adjustable-rate mortgage securities (ARMS) adjusts periodically to reflect current, short-term interest rates, these securities tend to have greater price stability than fixed-rate securities. Thus the fund may be an attractive option for investors who are concerned about interest rate volatility. We have a conservative investment strategy, and we strive to produce solid performance in a variety of interest rate climates."

—Paul Varunok, Portfolio Manager

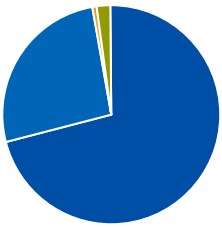
CALENDAR YEAR TOTAL RETURNS—CLASS A (Without Sales Charge)

2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
-0.16%	1.42%	1.72%	1.29%	4.35%	3.58%	5.03%	4.15%	2.06%	1.79%

2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
1.23%	3.41%	6.43%	6.68%	4.38%	3.86%	6.95%	6.23%	9.16%	-1.97%

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

PORTFOLIO BREAKDOWN[12] *(As of December 31, 2013)*



- FNMA 70.82%
- FHLMC 26.27%
- GNMA 0.92%
- Other 1.99%

GAIN FROM OUR PERSPECTIVE®

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

Specialized Expertise

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

- **Franklin.** Founded in 1947, Franklin is a recognized leader in fixed income investing and also brings expertise in growth- and value-style U.S. equity investing.
- **Templeton.** Founded in 1940, Templeton pioneered international investing and, in 1954, launched what has become the industry's oldest global fund. Today, with offices in over 25 countries, Templeton offers investors a truly global perspective.
- **Mutual Series.** Founded in 1949, Mutual Series is dedicated to a unique style of value investing, searching aggressively for opportunity among what it believes are undervalued stocks, as well as arbitrage situations and distressed securities.

10. CFA® and Chartered Financial Analyst® are trademarks owned by CFA Institute.

11. Source: Morningstar®, 9/30/13. The style box reveals a fund's investment style. For credit quality of the bonds owned, Morningstar combines credit rating information provided by the fund companies (only using ratings assigned by a Nationally Recognized Statistical Rating Organization - "NRSRO") with an average default rate calculation to come up with a weighted-average credit quality. The weighted-average credit quality is currently a letter that roughly corresponds to the scale used by a leading NRSRO. Funds with a low credit quality style box placement are those whose weighted-average credit quality is less than BBB-; medium are those less than AA- but greater or equal to BBB-; and high are those of AA- or higher. When classifying a bond portfolio, Morningstar first maps the NRSRO credit ratings of the underlying holdings to their respective default rates (as determined by Morningstar's analysis of actual historical default rates). Morningstar then averages these default rates to determine the average default rate for the entire bond fund. Finally, Morningstar maps this average default rate to its corresponding credit rating along a convex curve. For interest-rate sensitivity, Morningstar obtains from fund companies the average effective duration. Generally, Morningstar classifies a fixed-income fund's interest-rate sensitivity based on effective duration of the Morningstar Core Bond Index (MCBI), which is currently three years. The classification of Limited will be assigned to those funds whose average effective duration is between 25% to 75% of MCBI's average effective duration; average effective duration between 75% to 125% of the MCBI will be classified as Moderate; and those at 125% or greater of the MCBI will be classified as Extensive. Shaded areas show the past 3 years of quarterly data. **Past performance does not guarantee future results.** © 2014 Morningstar, Inc. All rights reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

12. Holdings are subject to change. Due to rounding, the sum of portfolio holdings may not equal 100%. For updated information, please call Franklin Templeton Investments at (800) DIAL BEN/342-5236 or visit franklintempleton.com.

FRANKLIN TEMPLETON INVESTMENTS

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

© 2014 Franklin Templeton Investments. All rights reserved.