**APRIL 30, 2013** 

ANNUAL REPORT AND SHAREHOLDER LETTER



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SECTOR

# Franklin Real Estate Securities Fund



Franklin • Templeton • Mutual Series

# Franklin Templeton Investments

## Gain From Our Perspective®

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

#### SPECIALIZED EXPERTISE

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

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

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

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

#### TRUE DIVERSIFICATION

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

#### **RELIABILITY YOU CAN TRUST**

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

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



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# Shareholder Letter

#### Dear Shareholder:

During the 12-month period ended April 30, 2013, U.S. gross domestic product growth accelerated as the drag of federal spending cuts and weak overseas demand was largely offset by the lift of encouraging trends in U.S. consumer spending, manufacturing, housing and employment. The growing U.S. economy enabled many companies to report record earnings, and certain U.S. stock indexes overcame periods of volatility to reach all-time high price levels in April.

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

Franklin Real Estate Securities Fund's annual report goes into greater detail about prevailing conditions during the period under review. In addition, you will find Fund performance data, financial information, and a discussion from the portfolio managers. Please remember all securities markets fluctuate, as do mutual fund share prices.

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

NOT FDIC INSURED | MAY LOSE VALUE | NO BANK GUARANTEE

We believe active management serves investors well. We also see the important role financial advisors serve in markets like these and encourage investors to continue to seek their counsel. While headwinds remain and the global recovery may continue to be uneven, we are confident investors with a well-diversified portfolio and a patient, long-term outlook will be well positioned in the years ahead.

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

Sincerely,

Edward B. Jamieson

President and Chief Executive Officer - Investment Management

Edward B. Jamier

Franklin Real Estate Securities Trust

This letter reflects our analysis and opinions as of April 30, 2013. The information is not a complete analysis of every aspect of any market, country, industry, security or fund. Statements of fact are from sources considered reliable.

# Annual Report

# Franklin Real Estate Securities Fund

Your Fund's Goal and Main Investments: Franklin Real Estate Securities Fund seeks to maximize total return by investing at least 80% of its net assets in equity securities of companies in the real estate industry, including real estate investment trusts (REITs) and companies that derive at least half of their assets or revenues from the ownership, construction, management or sale of residential, commercial or industrial real estate.1

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

This annual report for Franklin Real Estate Securities Fund covers the fiscal year ended April 30, 2013.

#### **Performance Overview**

For the 12 months under review, Franklin Real Estate Securities Fund – Class A delivered a +16.38% cumulative total return. In comparison, the Standard & Poor's® (S&P®) U.S. Property Index, which tracks the investable universe of publicly traded U.S. property companies, produced a +19.45% total return.<sup>2</sup> You can find the Fund's long-term performance data in the Performance Summary beginning on page 7.

#### **Economic and Market Overview**

The U.S. economy, as measured by gross domestic product, continued to expand during the 12-month period ended April 30, 2013. Increasing job creation helped the unemployment rate decline during the period, and consumer spending remained strong. In the housing sector, accelerating new and existing homes sales accompanied record-low mortgage rates, affordable

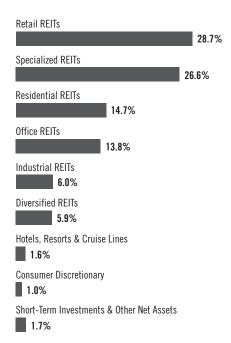
The dollar value, number of shares or principal amount, and names of all portfolio holdings are listed in the Fund's Statement of Investments (SOI). The SOI begins on page 16.

<sup>1.</sup> A REIT is a type of real estate company that is dedicated to owning and usually operating income-producing real estate properties such as apartments, hotels, industrial properties, office buildings or shopping centers. Equity REITs generally receive income from rents received, are generally operated by experienced property management teams and typically concentrate on a specific geographic region or property type.

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#### Portfolio Breakdown

Based on Total Net Assets as of 4/30/13



housing prices, low new-home inventories and a six-year low in U.S. foreclosures. Orders for manufactured goods and manufacturers' inventory reached record levels in March and the sector expanded for the fifth consecutive month through period-end.

Businesses and investors awaited the U.S. election that resulted in an unchanged balance of power in Washington, given the re-election of President Obama and respective control of the House and Senate by Republicans and Democrats. Uncertainty surrounding budget deadlines set for the end of 2012 largely abated when an agreement between Congress and the President resolved many issues, including preserving lower income tax rates for most U.S. households. Concerns remained about the effects of the expired payroll tax cut, far-reaching federal spending cuts and future negotiations regarding the federal debt ceiling.

U.S. stocks generated healthy returns as the S&P 500 Index and Dow Jones Industrial Average reached all-time highs near period-end. Rising corporate profits and generally favorable economic reports bolstered investor confidence, but some caution surrounded the extent to which positive business and market results were dependent on the Federal Reserve Board's accommodative monetary policy.

#### **Investment Strategy**

We are research-driven, fundamental investors with an active investment strategy. We use a bottom-up security selection process that incorporates macro-level views in our evaluation process. We analyze individual stock and real estate market fundamentals to provide regional, property type and company-size perspectives in identifying local cyclical and thematic trends that highlight investment opportunities.

#### Manager's Discussion

During the 12 months under review, the Fund's performance relative to its benchmark, the S&P U.S. Property Index, was helped by stock selection in diversified REITs, where American Assets Trust benefited from a continued, robust recovery in west coast real estate values. American Assets' retail, office and residential properties are concentrated in California and Hawaii, and the regional market exposure contributed to the REIT's operational performance.

Another key contributor to relative performance was STAG Industrial, a position we added during the period. Focusing on secondary markets across the U.S., the industrial property manager's successful acquisitions of single-tenant industrial buildings with high capitalization rates contributed to better-thanexpected growth in funds from operations (FFO), a key profit metric for REITs. STAG Industrial's low debt costs and equity issuance, combined with what we viewed as the healthy initial returns on assets from acquired properties, enabled the firm to effectively deploy capital and, in our opinion, supported the potential for continued earnings growth. Although stock selection in the health care property industry overall weighed on relative performance, Health Care REIT was one of the Fund's strongest performing holdings. The company's relatively high dividend yield and resilient growth in FFO appeared to attract investors. Health Care REIT, which owns senior living facilities, medical offices and life science buildings, also effectively managed capital in our assessment, issuing equity and deploying capital at capitalization rates we considered attractive. Transactions in the health care property industry also suggested to us a reduced risk premium for health care REITs, benefiting the company's performance.

In contrast, stock selection among REITs that specialize in hotels and resorts weighed on the Fund's relative performance. Although global hotel and leisure firm Starwood Hotels & Resorts Worldwide's share price rose, the offbenchmark company's stock underperformed the hotels and resorts segment and the benchmark as concerns lingered surrounding exposure to challenging international markets. In the office space segment, Boston Properties' positive absolute performance trailed that of its industry and the benchmark. Despite strong demand in the Boston office market and robust occupancy and rental rate growth in San Francisco, where the office property owner and developer has some of its real estate portfolio, Boston Properties' exposure to the sluggish New York and Washington, DC, markets weighed on returns. In addition, investors seemed to rotate out of larger REITs during the period, which adversely affected Boston Properties' performance. Economic concerns and the investor preference for smaller REITs also hampered performance of Essex Property Trust, despite the company's robust FFO growth. Operating on the west coast, the residential property manager was exposed to a slowdown in apartment rental rate growth. In addition, we believe that investors may have perceived Essex Property Trust's shares as richly valued compared to some apartment sector REITs.

Top 10 Holdings 4/30/13

Company Sector/Industry	% of Total Net Assets
Simon Property Group Inc. Retail REITs	11.5%
Ventas Inc.  Specialized REITs	4.8%
Prologis Inc.  Industrial REITs	4.8%
Health Care REIT Inc.  Specialized REITs	4.5%
HCP Inc.  Specialized REITs	4.4%
Public Storage  Specialized REITs	4.0%
Boston Properties Inc. Office REITs	3.5%
Host Hotels & Resorts Inc.  Specialized REITs	3.2%
Vornado Realty Trust  Diversified REITs	3.2%
Equity Residential Residential REITs	2.9%

Thank you for your continued participation in Franklin Real Estate Securities Fund. We look forward to serving your future investment needs.



Wilson Magee



**Jack Foster** 

Portfolio Management Team Franklin Real Estate Securities Fund

The foregoing information reflects our analysis, opinions and portfolio holdings as of April 30, 2013, the end of the reporting period. The way we implement our main investment strategies and the resulting portfolio holdings may change depending on factors such as market and economic conditions. These opinions may not be relied upon as investment advice or an offer for a particular security. The information is not a complete analysis of every aspect of any market, country, industry, security or the Fund. Statements of fact are from sources considered reliable, but the investment manager makes no representation or warranty as to their completeness or accuracy. Although historical performance is no guarantee of future results, these insights may help you understand our investment management philosophy.

# Performance Summary as of 4/30/13

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

### **Price and Distribution Information**

Class A (Symbol: FREEX)		Change	4/30/13	4/30/12
Net Asset Value (NAV)		+\$2.51	\$19.29	\$16.78
Distributions (5/1/12-4/30/13)				
Dividend Income	\$0.2077			
Class C (Symbol: FRRSX)		Change	4/30/13	4/30/12
Net Asset Value (NAV)		+\$2.45	\$18.65	\$16.20
Distributions (5/1/12-4/30/13)				
Dividend Income	\$0.0508			
Advisor Class (Symbol: FRLAX)		Change	4/30/13	4/30/12
Net Asset Value (NAV)		+\$2.51	\$19.43	\$16.92
Distributions (5/1/12-4/30/13)				
Dividend Income	\$0.2653			

# Performance Summary (continued)

### **Performance**

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

Class A		1-Year	5-Year	10-Year
Cumulative Total Return <sup>1</sup>		+16.38%	+24.14%	+127.55%
Average Annual Total Return <sup>2</sup>		+9.71%	+3.19%	+7.93%
Value of \$10,000 Investment <sup>3</sup>		\$10,971	\$11,701	\$21,441
Avg. Ann. Total Return (3/31/13) <sup>4</sup>		+5.98%	+2.99%	+7.69%
Total Annual Operating Expenses <sup>5</sup>	1.16%			
Class C		1-Year	5-Year	10-Year
Cumulative Total Return <sup>1</sup>		+15.47%	+19.48%	+111.13%
Average Annual Total Return <sup>2</sup>		+14.47%	+3.62%	+7.76%
Value of \$10,000 Investment <sup>3</sup>		\$11,447	\$11,948	\$21,113
Avg. Ann. Total Return (3/31/13) <sup>4</sup>		+10.59%	+3.42%	+7.53%
Total Annual Operating Expenses <sup>5</sup>	1.91%			
Advisor Class		1-Year	5-Year	10-Year
Cumulative Total Return <sup>1</sup>		+16.64%	+25.72%	+133.17%
Average Annual Total Return <sup>2</sup>		+16.64%	+4.68%	+8.83%
Value of \$10,000 Investment <sup>3</sup>		\$11,664	\$12,572	\$23,317
Avg. Ann. Total Return (3/31/13) <sup>4</sup>		+12.72%	+4.47%	+8.61%
Total Annual Operating Expenses <sup>5</sup>	0.91%			

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

# Performance Summary (continued)

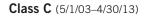
### Total Return Index Comparison for a Hypothetical \$10,000 Investment

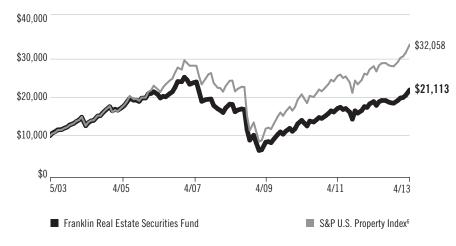
Total return represents the change in value of an investment over the periods shown. It includes any current, applicable, maximum sales charge, Fund expenses, account fees and reinvested distributions. The unmanaged index includes reinvestment of any income or distributions. It differs from the Fund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



#### **Average Annual Total Return**

Class A	4/30/13
1-Year	+9.71%
5-Year	+3.19%
10-Year	+7.93%





### **Average Annual Total Return**

Class C	4/30/13
1-Year	+14.47%
5-Year	+3.62%
10-Year	+7.76%

# Performance Summary (continued)

#### Average Annual Total Return

Advisor Class	4/30/13
1-Year	+16.64%
5-Year	+4.68%
10-Year	+8.83%

#### Advisor Class (5/1/03-4/30/13)



#### **Endnotes**

All investments involve risks, including possible loss of principal. The Fund concentrates in real estate securities, which involve special risks, such as declines in the value of real estate and increased susceptibility to adverse economic or regulatory developments affecting the sector. The Fund's investments in REITs involve additional risks; since REITs typically are invested in a limited number of projects or in a particular market segment, they are more susceptible to adverse developments affecting a single project or market segment than more broadly diversified investments. Also, the Fund is a nondiversified fund and investing in a nondiversified fund involves the risk of greater price fluctuation than a more diversified portfolio. The Fund is actively managed but there is no guarantee that the manager's investment decisions will produce the desired results. The Fund's prospectus also includes a description of the main investment risks.

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

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

- 1. Cumulative total return represents the change in value of an investment over the periods indicated.
- 2. Average annual total return represents the average annual change in value of an investment over the periods indicated.
- 3. These figures represent the value of a hypothetical \$10,000 investment in the Fund over the periods indicated.
- 4. In accordance with SEC rules, we provide standardized average annual total return information through the latest calendar quarter.
- 5. Figures are as stated in the Fund's current prospectus. In periods of market volatility, assets may decline significantly, causing total annual Fund operating expenses to become higher than the figures shown.
- 6. Source: © 2013 Morningstar. The S&P U.S. Property Index measures the investable universe of publicly traded property companies in the U.S.

# Your Fund's Expenses

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

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

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

#### **Actual Fund Expenses**

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

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

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

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

#### Hypothetical Example for Comparison with Other Funds

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

# Your Fund's Expenses (continued)

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

Class A	Beginning Account Value 11/1/12	Ending Account Value 4/30/13	Expenses Paid During Period* 11/1/12-4/30/13
Actual	\$1,000	\$1,178.20	\$5.51
Hypothetical (5% return before expenses)	\$1,000	\$1,019.74	\$5.11
Class C			
Actual	\$1,000	\$1,173.70	\$9.54
Hypothetical (5% return before expenses)	\$1,000	\$1,016.02	\$8.85
Advisor Class			
Actual	\$1,000	\$1,179.50	\$4.16
Hypothetical (5% return before expenses)	\$1,000	\$1,020.98	\$3.86

<sup>\*</sup>Expenses are calculated using the most recent six-month expense ratio, annualized for each class (A: 1.02%; C: 1.77%; and Advisor: 0.77%), multiplied by the average account value over the period, multiplied by 181/365 to reflect the one-half year period.

## **Financial Highlights**

#### Franklin Real Estate Securities Fund

Class A	2013	2009			
Per share operating performance (for a share outstanding throughout the year)		2012			
Net asset value, beginning of year	\$16.78	\$15.26	\$12.57	\$ 7.84	\$18.53
Income from investment operations <sup>a</sup> :					
Net investment income <sup>b</sup>	0.23	0.14	0.09	0.15	0.36
Net realized and unrealized gains (losses)	2.49	1.46	2.66	4.78	(9.75)
Total from investment operations	2.72	1.60	2.75	4.93	(9.39)
Less distributions from:					
Net investment income	(0.21)	(0.08)	(0.06)	(0.16)	(0.36)
Net realized gains	_	_	_	_	(0.94)
Tax return of capital		_	_	(0.04)	
Total distributions	(0.21)	(0.08)	(0.06)	(0.20)	(1.30)
Contingent deferred sales charges retained by the Fund <sup>c</sup>	_	_	_	d	d
Redemption feese	_	_	_	_	d
Net asset value, end of year	\$19.29	\$16.78	\$15.26	\$12.57	\$ 7.84
Total return <sup>f</sup>	16.38%	10.59%	22.00%	63.61%	(51.68)%g
Ratios to average net assets					
Expenses	1.03%	1.14%	1.18%	1.32% <sup>h</sup>	1.22% <sup>h</sup>
Net investment income	1.33%	0.92%	0.67%	1.54%	2.92%
Supplemental data					
Net assets, end of year (000's)	\$347,101	\$262,991	\$228,472	\$182,793	\$140,567
Portfolio turnover rate	22.69%	23.43%	40.15%	58.27%	134.36%

a The amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations for the period due to the timing of sales and repurchases of the Fund shares in relation to income earned and/or fluctuating market value of the investments of the Fund.

<sup>&</sup>lt;sup>b</sup>Based on average daily shares outstanding.

<sup>&</sup>lt;sup>c</sup>Effective October 1, 2009, the fund no longer retains contingent deferred sales charges.

dAmount rounds to less than \$0.01 per share.

eEffective September 1, 2008, the redemption fee was eliminated.

<sup>&</sup>lt;sup>†</sup>Total return does not reflect sales commissions or contingent deferred sales charges, if applicable.

If The Trust's advisor fully reimbursed the Fund for a loss on transactions not meeting the Fund's investment guidelines, which otherwise would have reduced total return by 0.31%.

<sup>&</sup>lt;sup>h</sup>Benefit of expense reduction rounds to less than 0.01%.

## Financial Highlights (continued)

#### Franklin Real Estate Securities Fund

Class C	Year Ended April 30, 2013 2012 2011 2010				2009
Per share operating performance (for a share outstanding throughout the year)					
Net asset value, beginning of year	\$16.20	\$14.77	\$12.23	\$ 7.64	\$18.13
Income from investment operations <sup>a</sup> :					
Net investment income (loss) <sup>b</sup>	0.10	0.02	(0.01)	0.07	0.26
Net realized and unrealized gains (losses)	2.40	1.42	2.58	4.66	(9.54)
Total from investment operations	2.50	1.44	2.57	4.73	(9.28)
Less distributions from:					
Net investment income	(0.05)	(0.01)	(0.03)	(0.10)	(0.27)
Net realized gains	_	_	_	_	(0.94)
Tax return of capital			_	(0.04)	
Total distributions	(0.05)	(0.01)	(0.03)	(0.14)	(1.21)
Contingent deferred sales charges retained by the Fund <sup>c</sup>	_	_	_	d	d
Redemption feese		_	_	_	d
Net asset value, end of year	\$18.65	\$16.20	\$14.77	\$12.23	\$ 7.64
Total return <sup>f</sup>	15.47%	9.77%	21.10%	62.31%	(52.04)% <sup>g</sup>
Ratios to average net assets					
Expenses	1.78%	1.89%	1.93%	2.07% <sup>h</sup>	1.97% <sup>h</sup>
Net investment income (loss)	0.58%	0.17%	(0.08)%	0.79%	2.17%
Supplemental data					
Net assets, end of year (000's)	\$77,324	\$58,296	\$54,089	\$43,732	\$27,610
Portfolio turnover rate	22.69%	23.43%	40.15%	58.27%	134.36%

a The amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations for the period due to the timing of sales and repurchases of the Fund shares in relation to income earned and/or fluctuating market value of the investments of the Fund.

<sup>&</sup>lt;sup>b</sup>Based on average daily shares outstanding.

<sup>&</sup>lt;sup>c</sup>Effective October 1, 2009, the fund no longer retains contingent deferred sales charges.

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If The Trust's advisor fully reimbursed the Fund for a loss on transactions not meeting the Fund's investment guidelines, which otherwise would have reduced total return by 0.31%.

<sup>&</sup>lt;sup>h</sup>Benefit of expense reduction rounds to less than 0.01%.

## Financial Highlights (continued)

#### Franklin Real Estate Securities Fund

	Year Ended April 30,				
Advisor Class	2013	2012	2011	2010	2009
Per share operating performance (for a share outstanding throughout the year)					
Net asset value, beginning of year	\$16.92	\$15.38	\$12.65	\$ 7.89	\$18.62
Income from investment operations <sup>a</sup> :					
Net investment income <sup>b</sup>	0.27	0.16	0.13	0.17	0.34
Net realized and unrealized gains (losses)	2.51	1.50	2.67	4.81	(9.74)
Total from investment operations	2.78	1.66	2.80	4.98	(9.40)
Less distributions from:					
Net investment income	(0.27)	(0.12)	(0.07)	(0.18)	(0.39)
Net realized gains	_	_	_	_	(0.94)
Tax return of capital		_	_	(0.04)	
Total distributions	(0.27)	(0.12)	(0.07)	(0.22)	(1.33)
Contingent deferred sales charges retained by the Fund <sup>c</sup>	_	_	_	d	d
Redemption feese		_	_	_	d
Net asset value, end of year	\$19.43	\$16.92	\$15.38	\$12.65	\$ 7.89
Total return	16.64%	10.91%	22.28%	63.98%	(51.53)% <sup>f</sup>
Ratios to average net assets					
Expenses	0.78%	0.89%	0.93%	1.07%g	0.97%g
Net investment income	1.58%	1.17%	0.92%	1.79%	3.17%
Supplemental data					
Net assets, end of year (000's)	\$108,076	\$10,542	\$7,833	\$5,308	\$1,979
Portfolio turnover rate	22.69%	23.43%	40.15%	58.27%	134.36%
TOILIONO LUMOVEI TALE	22.03/0	23.43/0	40.13/0	JU.Z1 /0	134.30 /0

<sup>&</sup>lt;sup>a</sup>The amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations for the period due to the timing of sales and repurchases of the Fund shares in relation to income earned and/or fluctuating market value of the investments of the Fund.

<sup>&</sup>lt;sup>b</sup>Based on average daily shares outstanding.

<sup>&</sup>lt;sup>c</sup>Effective October 1, 2009, the fund no longer retains contingent deferred sales charges.

dAmount rounds to less than \$0.01 per share.

eEffective September 1, 2008, the redemption fee was eliminated.

The Trust's advisor fully reimbursed the Fund for a loss on transactions not meeting the Fund's investment guidelines, which otherwise would have reduced total return by 0.31%.  ${}^{\rm g}$ Benefit of expense reduction rounds to less than 0.01%.

## Statement of Investments, April 30, 2013

Franklin Real Estate Securities Fund	Shares/Units	Value
Common Stocks and Other Equity Interests 98.3%		
Consumer Discretionary 1.0%		
SPDR S&P Homebuilders ETF	176,500	\$ 5,346,185
Diversified REITs 5.9%	,	· · · · · · · · · · · · · · · · · · ·
American Assets Trust Inc.	198,200	6,691,232
Liberty Property Trust	174,000	7,480,260
Vornado Realty Trust	195,445	17,113,164
vollade Neurly Hust	155,445	
		31,284,656
Hotels, Resorts & Cruise Lines 1.6%		
Starwood Hotels & Resorts Worldwide Inc.	130,500	8,419,860
Industrial REITs 6.0%		
Prologis Inc.	609,061	25,550,109
STAG Industrial Inc.	289,300	6,376,172
		31,926,281
		31,320,201
Office REITs 13.8%		
Alexandria Real Estate Equities Inc.	47,700	3,471,129
Boston Properties Inc.	171,700	18,789,131
Brandywine Realty Trust	545,800	8,148,794
Coresite Realty Corp.  Digital Realty Trust Inc.	74,300 69,400	2,688,174 4,894,088
Douglas Emmett Inc.	249,200	6,521,564
Highwoods Properties Inc.	210,500	8,636,815
Kilroy Realty Corp.	171,900	9,727,821
SL Green Realty Corp.	118,200	10,720,740
of dicell reality odip.	110,200	
		73,598,256
Residential REITs 14.7%		
Apartment Investment & Management Co., A	267,300	8,315,703
AvalonBay Communities Inc.	84,772	11,278,067
BRE Properties Inc.	83,600	4,220,128
Camden Property Trust	143,700	10,395,258
Campus Crest Communities Inc.	271,500	3,708,690
Equity Lifestyle Properties Inc.	64,300	5,224,375
Equity Residential	267,144	15,510,381
Essex Property Trust Inc.	58,100 33,900	9,124,605 2,185,194
Home Properties Inc.  Post Properties Inc.	103,100	5,096,233
UDR Inc.	145,362	3,572,998
ODN IIIC.	143,302	
		78,631,632
Retail REITs 28.7%		
CBL & Associates Properties Inc.	237,900	5,742,906
DDR Corp.	656,307	12,036,670
Federal Realty Investment Trust	40,600	4,750,606
General Growth Properties Inc.	532,400	12,096,128
Kimco Realty Corp.	601,700	14,308,426
The Macerich Co	127,421	8,925,841
Ramco-Gershenson Properties Trust	246,500	4,306,355

Statement of Investments, April 30, 2013 (continued)

Franklin Real Estate Securities Fund	Shares/Units	Value
Common Stocks and Other Equity Interests (continued)		
Retail REITs (continued)		
Realty Income Corp.	110,300	\$ 5,621,991
Regency Centers Corp.	88,900	5,001,514
Simon Property Group Inc.	343,100	61,095,817
Tanger Factory Outlet Centers Inc.	152,800	5,671,936
Taubman Centers Inc.	89,000	7,610,390
Weingarten Realty Investors	169,100	5,761,237
		152,929,817
Specialized REITs 26.6%		
CubeSmart	287,400	5,049,618
Extra Space Storage Inc.	140,300	6,114,274
HCP Inc.	444,300	23,681,190
Health Care REIT Inc.	320,000	23,990,400
Host Hotels & Resorts Inc.	938,500	17,146,395
Pebblebrook Hotel Trust	290,300	7,884,548
Public Storage	128,200	21,153,000
Sabra Health Care REIT Inc.	125,900	3,754,338
Senior Housing Properties Trust	99,900	2,840,157
<sup>a</sup> Sunstone Hotel Investors Inc.	332,900	4,131,289
Ventas Inc.	324,050	25,804,102
		141,549,311
Total Common Stocks and Other Equity Interests (Cost \$324,428,856)		523,685,998
Short Term Investments (Cost \$9,527,051) 1.8% Money Market Funds 1.8%		
a,b Institutional Fiduciary Trust Money Market Portfolio	9,527,051	9,527,051
Total Investments (Cost \$333,955,907) 100.1%		533,213,049
Other Assets, less Liabilities (0.1)%		(710,962)
Net Assets 100.0%		\$532,502,087

See Abbreviations on page 30.

<sup>a</sup>Non-income producing.

 $^{\mathrm{b}}$ See Note 7 regarding investments in the Institutional Fiduciary Trust Money Market Portfolio.

## **Financial Statements**

### Statement of Assets and Liabilities

April 30, 2013

	Franklin Real Estate
	Securities Fund
Assets:	
Investments in securities:	¢204 400 056
Cost - Unaffiliated issuers Cost - Sweep Money Fund (Note 7)	\$324,428,856 9,527,051
Total cost of investments	\$333,955,907
Value - Unaffiliated issuers	\$523,685,998 9,527,051
Total value of investments	533,213,049
Capital shares sold	1,401,441
Dividends	93,029
Other assets	162
Total assets	534,707,681
Liabilities:	
Payables:	
Investment securities purchased	1,075,320
Capital shares redeemed	608,440
Affiliates	379,099
Allocator Funds (Note 8)	13,083
Accrued expenses and other liabilities	129,652
Total liabilities	2,205,594
Net assets, at value	\$532,502,087
Net assets consist of:	
Paid-in capital	\$429,528,311
Undistributed net investment income	1,934,889
Net unrealized appreciation (depreciation)	199,257,142
Accumulated net realized gain (loss)	(98,218,255)
Net assets, at value	\$532,502,087

## Financial Statements (continued)

### Statement of Assets and Liabilities (continued)

April 30, 2013

	Franklin Real Estate
Class A:	Securities Fund
	40.47.101.000
Net assets, at value	\$347,101,382
Shares outstanding	17,993,974
Net asset value per share <sup>a</sup>	\$19.29
Maximum offering price per share (net asset value per share ÷ 94.25%)	\$20.47
Class C:	
Net assets, at value	\$ 77,324,236
Shares outstanding	4,146,257
Net asset value and maximum offering price per share <sup>a</sup>	\$18.65
Advisor Class:	
Net assets, at value	\$108,076,469
Shares outstanding	5,560,966
Net asset value and maximum offering price per share	\$19.43

<sup>&</sup>lt;sup>a</sup>Redemption price is equal to net asset value less contingent deferred sales charges, if applicable.

## Financial Statements (continued)

## **Statement of Operations**

for the year ended April 30, 2013

	Franklin Real Estate Securities Fund
Investment income:	
Dividends	\$10,058,714
Expenses:	
Management fees (Note 3a)	2,150,108
Class A	711,453
Class B	8,083
Class C	623,545
Transfer agent fees: (Note 3e)	507.000
Class A	537,390
Class B	1,621
Class C	117,755 144,942
Advisor Class Special servicing agreement fees (Note 8)	124,697
Custodian fees (Note 4)	6,243
Reports to shareholders	85,904
Registration and filing fees	74,453
Professional fees	48,865
Trustees' fees and expenses	21,528
Other	16,723
Total expenses	4,673,310
Expenses waived/paid by affiliates (Note 3c)	(6,377)
Net expenses	4,666,933
Net investment income	5,391,781
Realized and unrealized gains (losses):  Net realized gain (loss) from:	
Investments	4,810,780
Realized gain distributions from REITs	1,773,309
Net realized gain (loss)	6,584,089
Net change in unrealized appreciation (depreciation) on investments	62,548,290
Net realized and unrealized gain (loss)	69,132,379
Net increase (decrease) in net assets resulting from operations	\$74,524,160

## Financial Statements (continued)

### **Statements of Changes in Net Assets**

	Franklin Real Estate Securities Fund	
	Year Ended April 30,	
	2013	2012
Increase (decrease) in net assets:		
Operations:		
Net investment income	\$ 5,391,781	\$ 2,245,170
Net realized gain (loss) from investments and realized gain distributions from REITs	6,584,089	14,289,847
Net change in unrealized appreciation (depreciation) on investments	62,548,290	13,362,189
Net increase (decrease) in net assets resulting from operations	74,524,160	29,897,206
Distributions to shareholders from:  Net investment income:		
Class A	(3,447,634)	(1,228,278)
Class B	(9,148)	(18,709)
Class C	(197,102)	(42,000)
Advisor Class	(948,501)	(61,671)
Total distributions to shareholders	(4,602,385)	(1,350,658)
Capital share transactions: (Note 2)		
Class A	40,197,068	12,025,384
Class B	(1,891,920)	(2,506,948)
Class C	9,326,120	(693,343)
Advisor Class	81,225,023	1,666,280
Total capital share transactions	128,856,291	10,491,373
Net increase (decrease) in net assets	198,778,066	39,037,921
Net assets:	000 704 001	004.606.165
Beginning of year	333,724,021	294,686,100
End of year	\$532,502,087	\$333,724,021
Undistributed net investment income included in net assets:		
End of year	\$ 1,934,889	\$ 1,143,088

#### **Notes to Financial Statements**

#### Franklin Real Estate Securities Fund

#### 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Franklin Real Estate Securities Trust (Trust) is registered under the Investment Company Act of 1940, as amended, (1940 Act) as an open-end investment company, consisting of one fund, the Franklin Real Estate Securities Fund (Fund). The Fund offers three classes of shares: Class A, Class C, and Advisor Class. Effective May 1, 2013, the Fund began offering a new class of shares, Class R6. Effective March 22, 2013, all Class B shares were converted to Class A. Each class of shares differs by its initial sales load, contingent deferred sales charges, voting rights on matters affecting a single class, its exchange privilege and fees primarily due to differing arrangements for distribution and transfer agent fees.

The following summarizes the Fund's significant accounting policies.

#### a. Financial Instrument Valuation

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

Equity securities and exchange traded funds listed on an exchange or on the NASDAQ National Market System are valued at the last quoted sale price or the official closing price of the day, respectively. Over-the-counter (OTC) securities are valued within the range of the most recent quoted bid and ask prices. Securities that trade in multiple markets or on multiple exchanges are valued according to the broadest and most representative market. Certain equity securities are valued based upon fundamental characteristics or relationships to similar securities. Investments in open-end mutual funds are valued at the closing net asset value.

The Fund has procedures to determine the fair value of financial instruments for which market prices are not reliable or readily available. Under these procedures, the VLOC convenes on a regular basis to review such financial instruments and considers a number of factors, including significant unobservable valuation inputs, when arriving at fair value. The VLOC primarily employs a market-based approach which may use related or comparable assets or liabilities, recent transactions, market multiples, book values, and other relevant information for the investment to determine the fair value of the investment. An income-based valuation approach may also be used in which the anticipated future cash flows of the investment are discounted to calculate

#### **Notes to Financial Statements** (continued)

#### Franklin Real Estate Securities Fund

#### 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

#### a. Financial Instrument Valuation (continued)

fair value. Discounts may also be applied due to the nature or duration of any restrictions on the disposition of the investments. Due to the inherent uncertainty of valuations of such investments, the fair values may differ significantly from the values that would have been used had an active market existed. The VLOC employs various methods for calibrating these valuation approaches including a regular review of key inputs and assumptions, transactional back-testing or disposition analysis, and reviews of any related market activity.

#### b. Income Taxes

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

The Fund recognizes the tax benefits of uncertain tax positions only when the position is "more likely than not" to be sustained upon examination by the tax authorities based on the technical merits of the tax position. As of April 30, 2013, and for all open tax years, the Fund has determined that no liability for unrecognized tax benefits is required in the Fund's financial statements related to uncertain tax positions taken on a tax return (or expected to be taken on future tax returns). Open tax years are those that remain subject to examination and are based on each tax jurisdiction statute of limitation.

#### c. Security Transactions, Investment Income, Expenses and Distributions

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

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

### **Notes to Financial Statements** (continued)

#### Franklin Real Estate Securities Fund

#### 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

#### c. Security Transactions, Investment Income, Expenses and Distributions (continued)

Distributions received by the Fund from certain securities may be a return of capital (ROC). Such distributions reduce the cost basis of the securities, and any distributions in excess of the cost basis are recognized as capital gains.

#### d. Accounting Estimates

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

#### e. Guarantees and Indemnifications

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

#### 2. SHARES OF BENEFICIAL INTEREST

At April 30, 2013, there were an unlimited number of shares authorized (\$0.01 par value). Transactions in the Fund's shares were as follows:

	Year Ended April 30,				
	2013 <sup>a</sup>		20	2012	
	Shares	Amount	Shares	Amount	
Class A Shares:					
Shares sold	5,600,580	\$ 96,015,752	4,439,646	\$ 66,714,843	
Shares issued in reinvestment of distributions	194,212	3,283,271	81,078	1,158,390	
Shares redeemed	(3,470,077)	(59,101,955)	(3,821,228)	(55,847,849)	
Net increase (decrease)	2,324,715	\$ 40,197,068	699,496	\$ 12,025,384	
Class B Shares:					
Shares sold	6,321	\$ 104,085	15,570	\$ 230,433	
Shares issued in reinvestment of distributions	503	8,196	1,244	17,478	
Shares redeemed	(121,686)	(2,004,201)	(188,128)	(2,754,859)	
Net increase (decrease)	(114,862)	\$ (1,891,920)	(171,314)	\$ (2,506,948)	

## **Notes to Financial Statements** (continued)

#### Franklin Real Estate Securities Fund

#### 2. SHARES OF BENEFICIAL INTEREST (continued)

	Year Ended April 30,				
	2013 <sup>a</sup>		20	2012	
	Shares	Amount	Shares	Amount	
Class C Shares:					
Shares sold	1,334,841	\$ 22,310,479	795,797	\$ 11,518,452	
Shares issued in reinvestment of distributions	11,186	189,356	2,921	40,099	
Shares redeemed	(799,013)	(13,173,715)	(862,346)	(12,251,894)	
Net increase (decrease)	547,014	\$ 9,326,120	(63,628)	\$ (693,343)	
Advisor Class Shares:					
Shares sold	5,231,684	\$ 86,156,868	373,476	\$ 5,574,192	
Shares issued in reinvestment of distributions	54,038	934,016	4,006	57,637	
Shares redeemed	(347,783)	(5,865,861)	(263,622)	(3,965,549)	
Net increase (decrease)	4,937,939	\$ 81,225,023	113,860	\$ 1,666,280	

<sup>&</sup>lt;sup>a</sup>Effective March 22, 2013, all Class B shares were converted to Class A.

#### 3. TRANSACTIONS WITH AFFILIATES

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

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

#### a. Management Fees

The Fund pays an investment management fee to FT Institutional based on the month-end net assets of the Fund as follows:

Annualized Fee Rate	Net Assets
0.625%	Up to and including \$100 million
0.500%	Over \$100 million, up to and including \$250 million
0.450%	Over \$250 million, up to and including \$7.5 billion
0.440%	Over \$7.5 billion, up to and including \$10 billion
0.430%	Over \$10 billion, up to and including \$12.5 billion
0.420%	Over \$12.5 billion, up to and including \$15 billion
0.400%	In excess of \$15 billion

### **Notes to Financial Statements** (continued)

#### Franklin Real Estate Securities Fund

#### 3. Transactions with Affiliates (continued)

#### b. Administrative Fees

Under an agreement with FT Institutional, FT Services provides administrative services to the Fund. The fee is paid by FT Institutional based on average daily net assets, and is not an additional expense of the Fund.

#### c. Distribution Fees

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

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

Class A	 0.25%
Class B	 1.00%a
Class C	1 00%

<sup>a</sup>The Class B maximum annual plan rate consisted of a dealer-service fee of 0.25% and an asset based sales charge of 0.75%. For the period from December 17, 2007 through September 30, 2009, the Fund temporarily discontinued payments of the asset-based sales charge in accordance with NASD Rule 2830, which sets forth a maximum aggregate sales charge payable by a fund. Because the maximum aggregate sales charge adjusts based on certain factors, payments of the asset-based sales charge could have resumed on October 1, 2009. However, Distributors had voluntarily agreed to waive the asset-based sales charge until further notice to the Board.

#### d. Sales Charges/Underwriting Agreements

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

Sales charges retained net of commissions paid to unaffiliated	
broker/dealers	\$231,185
CDSC retained	\$ 9,083

### **Notes to Financial Statements** (continued)

#### Franklin Real Estate Securities Fund

#### 3. Transactions with Affiliates (continued)

#### e. Transfer Agent Fees

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

For the year ended April 30, 2013, the Fund paid transfer agent fees of \$801,708, of which \$482,283 was retained by Investor Services.

#### 4. EXPENSE OFFSET ARRANGEMENT

The Fund has entered into an arrangement with its custodian whereby credits realized as a result of uninvested cash balances are used to reduce a portion of the Fund's custodian expenses. During the year ended April 30, 2013, there were no credits earned.

#### 5. Income Taxes

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

At April 30, 2013, capital loss carryforwards were as follows:

Capital loss carryforwards expiring in:	
2017	\$ 2,084,950
2018	63,919,027
	\$66,003,977

During the year ended April 30, 2013, the Fund utilized \$6,336,111 of capital loss carryforwards.

For tax purposes, the Fund may elect to defer any portion of a post-October capital loss to the first day of the following fiscal year. At April 30, 2013, the Fund deferred post-October capital losses of \$198,630.

The tax character of distributions paid during the years ended April 30, 2013 and 2012, was as follows:

	2013	2012
Distributions paid from ordinary income	\$4,602,385	\$1,350,658

### **Notes to Financial Statements** (continued)

#### Franklin Real Estate Securities Fund

#### **5. Income Taxes** (continued)

At April 30, 2013, the cost of investments, net unrealized appreciation (depreciation) and undistributed ordinary income for income tax purposes were as follows:

Cost of investments	\$365,971,555
Unrealized appreciation	\$167,255,918 (14,424)
Net unrealized appreciation (depreciation)	\$167,241,494
Distributable earnings – undistributed ordinary income	\$ 1,934,884

Differences between income and/or capital gains as determined on a book basis and a tax basis are primarily due to differing treatments of wash sales.

#### 6. Investment Transactions

Purchases and sales of investments (excluding short term securities) for the year ended April 30, 2013, aggregated \$227,797,289 and \$94,879,486, respectively.

#### 7. INVESTMENTS IN INSTITUTIONAL FIDUCIARY TRUST MONEY MARKET PORTFOLIO

The Fund invests in the Institutional Fiduciary Trust Money Market Portfolio (Sweep Money Fund), an open-end investment company managed by Franklin Advisers, Inc. (an affiliate of the investment manager). Management fees paid by the Fund are reduced on assets invested in the Sweep Money Fund, in an amount not to exceed the management and administrative fees paid by the Sweep Money Fund.

#### 8. Special Servicing Agreement

The Fund, which is an eligible underlying investment of one or more of the Franklin Templeton Fund Allocator Series Funds (Allocator Funds), participates in a Special Servicing Agreement (SSA) with the Allocator Funds and certain service providers of the Fund and the Allocator Funds. Under the SSA, the Fund may pay a portion of the Allocator Funds' expenses (other than any asset allocation, administrative, and distribution fees) to the extent such payments are less than the amount of the benefits realized or expected to be realized by the Fund (e.g., due to reduced costs associated with servicing accounts) from the investment in the Fund by the Allocator Funds. The Allocator Funds are either managed by Franklin Advisers, Inc. or administered by FT Services. For the year ended April 30, 2013, the Fund was held by one or more of the Allocator Funds and the amount of expenses borne by the Fund is noted in the Statement of Operations. At April 30, 2013, 17.64% of the Fund's outstanding shares were held by one or more of the Allocator Funds. Effective May 1, 2013, the SSA was discontinued until further notice and approval by the Board.

### Notes to Financial Statements (continued)

#### Franklin Real Estate Securities Fund

#### 9. CREDIT FACILITY

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

Under the terms of the Global Credit Facility, the Fund shall, in addition to interest charged on any borrowings made by the Fund and other costs incurred by the Fund, pay its share of fees and expenses incurred in connection with the implementation and maintenance of the Global Credit Facility, based upon its relative share of the aggregate net assets of all of the Borrowers, including an annual commitment fee of 0.07% based upon the unused portion of the Global Credit Facility. These fees are reflected in other expenses on the Statement of Operations. During the year ended April 30, 2013, the Fund did not use the Global Credit Facility.

#### 10. FAIR VALUE MEASUREMENTS

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

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

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

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

At April 30, 2013, all of the Fund's investments in financial instruments carried at fair value were valued using Level 1 inputs. For detailed categories, see the accompanying Statement of Investments.

### **Notes to Financial Statements** (continued)

#### Franklin Real Estate Securities Fund

#### 11. New Accounting Pronouncements

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

#### 12. Subsequent Events

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

#### **ABBREVIATIONS**

#### Selected Portfolio

ETF - Exchange Traded Fund **REIT** - Real Estate Investment Trust SPDR - S&P Depositary Receipt

## Report of Independent Registered Public Accounting Firm

#### Franklin Real Estate Securities Fund

#### To the Board of Trustees and Shareholders of Franklin Real Estate Securities Fund

In our opinion, the accompanying statement of assets and liabilities, including the statement of investments, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of Franklin Real Estate Securities Fund (the "Fund") at April 30, 2013, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at April 30, 2013 by correspondence with the custodian, transfer agent and brokers, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

San Francisco, California June 19, 2013

## Tax Information (unaudited)

#### Franklin Real Estate Securities Fund

Under Section 854(b)(1)(A) of the Internal Revenue Code (Code), the Fund hereby reports 3.50% of the ordinary income dividends as income qualifying for the dividends received deduction for the fiscal year ended April 30, 2013.

Under Section 854(b)(1)(B) of the Code, the Fund hereby reports the maximum amount allowable but no less than \$161,125 as qualified dividends for purposes of the maximum rate under Section 1(h)(11) of the Code for the fiscal year ended April 30, 2013. Distributions, including qualified dividend income, paid during calendar year 2013 will be reported to shareholders on Form 1099-DIV by mid-February 2014. Shareholders are advised to check with their tax advisors for information on the treatment of these amounts on their individual income tax returns.

#### **Board Members and Officers**

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

### **Independent Board Members**

Name, Year of Birth and Address	Position	Length of Time Served	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years
Harris J. Ashton (1932) One Franklin Parkway San Mateo. CA 94403-1906	Trustee	Since 1993	135	Bar-S Foods (meat packing company) (1981-2010).

#### Principal Occupation During at Least the Past 5 Years:

Director of various companies; and formerly, Director, RBC Holdings, Inc. (bank holding company) (until 2002); and President, Chief Executive Officer and Chairman of the Board, General Host Corporation (nursery and craft centers) (until 1998).

Sam Ginn (1937) Trustee Since 2007 109 One Franklin Parkway San Mateo, CA 94403-1906	ICO Global Communications (Holdings) Limited (satellite company) (2006-2010), Chevron Corporation (global energy company) (1989-2009), Hewlett-Packard Company (technology company) (1996-2002), Safeway, Inc. (grocery retailer) (1991-1998) and TransAmerica Corporation (insurance company) (1989-1999)
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#### Principal Occupation During at Least the Past 5 Years:

Private investor; Chairman, First Responder Network Authority (FirstNet) (interoperable wireless broadband network) (August 2012); and formerly, Chairman of the Board, Vodafone AirTouch, PLC (wireless company) (1999-2000); Chairman of the Board and Chief Executive Officer, AirTouch Communications (cellular communications) (1993-1998) and Pacific Telesis Group (telephone holding company) (1988-1994).

Edith E. Holiday (1952) One Franklin Parkway San Mateo, CA 94403-1906	Trustee	Since 2005	135	Hess Corporation (exploration and refining of oil and gas), H.J. Heinz Company (processed foods and allied products), RTI International Metals, Inc. (manufacture and distribution of titanium), Canadian National Railway (railroad) and White Mountains Insurance Group, Ltd.
				(holding company).

#### Principal Occupation During at Least the Past 5 Years:

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

Name, Year of Birth and Address	Position	Length of Time Served	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years
J. Michael Luttig (1954) One Franklin Parkway	Trustee	Since 2009	135	Boeing Capital Corporation (aircraft financing).
San Mateo, CA 94403-1906				ilidicing).

#### Principal Occupation During at Least the Past 5 Years:

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

Frank A. Olson (1932)	Trustee	Since 2007	135	Hess Corporation (exploration and
One Franklin Parkway				refining of oil and gas.
San Mateo, CA 94403-1906				

#### Principal Occupation During at Least the Past 5 Years:

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

Larry D. Thompson (1945)	Trustee	Since 2007	145	Cbeyond, Inc. (business communica-
One Franklin Parkway				tions provider), The Southern Company
San Mateo, CA 94403-1906				(energy company) (2010-2012) and
				The Washington Post Company
				(education and media organization).

#### Principal Occupation During at Least the Past 5 Years:

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

John B. Wilson (1959)  One Franklin Parkway  San Mateo, CA 94403-1906  Lead  Independent  Trustee	Trustee since 2006 and Lead Independent Trustee since 2008	109	None
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#### Principal Occupation During at Least the Past 5 Years:

President, Staples Europe (office supplies) (October 2012); President and Founder, Hyannis Port Capital, Inc. (real estate and private equity investing); serves on private and non-profit boards; and formerly, Chief Operating Officer and Executive Vice President, Gap, Inc. (retail) (1996-2000); Chief Financial Officer and Executive Vice President – Finance and Strategy, Staples, Inc. (1992-1996); Senior Vice President – Corporate Planning, Northwest Airlines, Inc. (airlines) (1990-1992); and Vice President and Partner, Bain & Company (consulting firm) (1986-1990).

## **Interested Board Members and Officers**

Name, Year of Birth and Address	Position	Length of Time Served	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years
**Charles B. Johnson (1933) 300 S.E. 2nd Street Fort Lauderdale, FL 33301-1923	Trustee and Chairman of the Board	Since 1993	135	None

### Principal Occupation During at Least the Past 5 Years:

Chairman of the Board, Member - Office of the Chairman and Director, Franklin Resources, Inc.; and officer and/or director or trustee, as the case may be, of some of the other subsidiaries of Franklin Resources, Inc. and of 42 of the investment companies in Franklin Templeton Investments.

**Gregory E. Johnson (1961)	Trustee	Since 2007	95	None
One Franklin Parkway				
San Mateo, CA 94403-1906				

## Principal Occupation During at Least the Past 5 Years:

Director, President and Chief Executive Officer, Franklin Resources, Inc.; officer and/or director or trustee, as the case may be, of some of the other subsidiaries of Franklin Resources, Inc. and of 34 of the investment companies in Franklin Templeton Investments; and Chairman, Investment Company Institute.

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

## Principal Occupation During at Least the Past 5 Years:

Deputy General Counsel, Franklin Templeton Investments; and officer of some of the other subsidiaries of Franklin Resources, Inc. and of 47 of the investment companies in Franklin Templeton Investments.

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

## Principal Occupation During at Least the Past 5 Years:

Senior Vice President, Franklin Templeton Services, LLC; and officer of 47 of the investment companies in Franklin Templeton Investments.

Gaston Gardey (1967) One Franklin Parkway San Mateo, CA 94403-1906	Treasurer, Chief Financial Officer and	Since 2009	Not Applicable	Not Applicable
	Chief			
	Accounting			
	Officer			

### Principal Occupation During at Least the Past 5 Years:

Director, Fund Accounting, Franklin Templeton Investments; and officer of 28 of the investment companies in Franklin Templeton Investments.

Aliya S. Gordon (1973)	Vice President	Since 2009	Not Applicable	Not Applicable
One Franklin Parkway San Mateo, CA 94403-1906				

## Principal Occupation During at Least the Past 5 Years:

Senior Associate General Counsel, Franklin Templeton Investments; officer of 47 of the investment companies in Franklin Templeton Investments; and formerly, Litigation Associate, Steefel, Levitt & Weiss, LLP (2000-2004).

Name, Year of Birth and Address	Position	Length of	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years
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Steven J. Gray (1955) Vice President Since 2009 Not Applicable Not Applicable

One Franklin Parkway San Mateo, CA 94403-1906

### Principal Occupation During at Least the Past 5 Years:

Senior Associate General Counsel, Franklin Templeton Investments; Vice President, Franklin Templeton Distributors, Inc.; and officer of 47 of the investment companies in Franklin Templeton Investments.

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

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

### Principal Occupation During at Least the Past 5 Years:

Director, Global Compliance Monitoring; and officer of 47 of the investment companies in Franklin Templeton Investments.

Edward B. Jamieson (1948) President and Not Applicable Since 2010 Not Applicable

One Franklin Parkway Chief San Mateo, CA 94403-1906 Executive Officer -Investment Management

### Principal Occupation During at Least the Past 5 Years:

President, Chief Investment Officer and Director, Franklin Advisers, Inc.; Executive Vice President, Franklin Templeton Institutional, LLC; and officer and/or trustee, as the case may be, of some of the other subsidiaries of Franklin Resources, Inc. and of 10 of the investment companies in Franklin Templeton Investments.

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

300 S.E. 2nd Street

Fort Lauderdale, FL 33301-1923

### Principal Occupation During at Least the Past 5 Years:

Senior Corporate Counsel, Franklin Templeton Investments; Vice President, Fiduciary Trust International of the South and Templeton Investment Counsel, LLC; Assistant Secretary, Franklin Resources, Inc.; and officer of 47 of the investment companies in Franklin Templeton Investments.

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

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

### Principal Occupation During at Least the Past 5 Years:

Director, Global Compliance, Franklin Templeton Investments; Vice President, Secretary and Trust Officer, Fiduciary Trust International of the South; and officer of 47 of the investment companies in Franklin Templeton Investments.

Karen L. Skidmore (1952) Vice President Not Applicable Since 2006 Not Applicable

One Franklin Parkway and Secretary

San Mateo, CA 94403-1906

## Principal Occupation During at Least the Past 5 Years:

Senior Associate General Counsel, Franklin Templeton Investments; and officer of 47 of the investment companies in Franklin Templeton Investments.

Name, Year of Birth and Address	Position			Other Directorships Held During at Least the Past 5 Years
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Not Applicable

Not Applicable

One Franklin Parkway San Mateo, CA 94403-1906

Craig S. Tyle (1960)

### Principal Occupation During at Least the Past 5 Years:

General Counsel and Executive Vice President, Franklin Resources, Inc.; officer of some of the other subsidiaries of Franklin Resources, Inc. and of 47 of the investment companies in Franklin Templeton Investments; and formerly, Partner, Shearman & Sterling, LLP (2004-2005); and General Counsel, Investment Company Institute (ICI) (1997-2004).

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

## Principal Occupation During at Least the Past 5 Years:

Senior Associate General Counsel, Franklin Templeton Investments; Assistant Secretary, Franklin Resources, Inc.; Vice President and Secretary, Templeton Investment Counsel, LLC; and officer of 47 of the investment companies in Franklin Templeton Investments.

- Note 1: Charles B. Johnson is the father of Gregory E. Johnson.
- Note 2: Officer information is current as of the date of this report. It is possible that after this date, information about officers may change.

Vice President Since 2005

The Sarbanes-Oxley Act of 2002 and Rules adopted by the Securities and Exchange Commission require the Fund to disclose whether the Fund's Audit Committee includes at least one member who is an audit committee financial expert within the meaning of such Act and Rules. The Fund's Board has determined that there is at least one such financial expert on the Audit Committee and has designated John B. Wilson as its audit committee financial expert. The Board believes that Mr. Wilson qualifies as such an expert in view of his extensive business background and experience, including service as chief financial officer of Staples, Inc. from 1992 to 1996. Mr. Wilson has been a Member and Chairman of the Fund's Audit Committee since 2006. As a result of such background and experience, the Board believes that Mr. Wilson has acquired an understanding of generally accepted accounting principles and financial statements, the general application of such principles in connection with the accounting estimates, accruals and reserves, and analyzing and evaluating financial statements that present a breadth and level of complexity of accounting issues generally comparable to those of the Fund, as well as an understanding of internal controls and procedures for financial reporting and an understanding of audit committee functions. Mr. Wilson is an independent Board member as that term is defined under the relevant Securities and Exchange Commission Rules and Releases.

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

<sup>\*</sup>We base the number of portfolios on each separate series of the U.S. registered investment companies within the Franklin Templeton Investments fund complex. These portfolios have a common investment manager or affiliated investment managers.

<sup>\*\*</sup>Charles B. Johnson is considered to be an interested person of the Fund under the federal securities laws due to his position as officer and director and major shareholder of Franklin Resources, Inc. (Resources), which is the parent company of the Fund's investment manager and distributor. Gregory E. Johnson is considered to be an interested person of the Fund under the federal securities laws due to his position as an officer and director of Resources.

## Shareholder Information

### Franklin Real Estate Securities Fund

## **Board Review of Investment Management Agreement**

At a Board meeting held April 16, 2013, the Board of Trustees (Board), including a majority of non-interested or independent Trustees, approved renewal of the investment management agreement for the Trust (Fund). In reaching this decision, the Board took into account information furnished throughout the year at regular Board meetings, as well as information prepared specifically in connection with the annual renewal review process. Information furnished and discussed throughout the year included investment performance reports and related financial information for the Fund, along with periodic reports on expenses, shareholder services, legal and compliance matters, pricing, brokerage commissions and execution and other services provided by the Investment Manager (Manager) and its affiliates, as well as a third-party survey of transfer agent fees charged funds within the Franklin Templeton Investments complex in comparison with those charged other fund complexes deemed comparable. Information furnished specifically in connection with the renewal process included a report for the Fund prepared by Lipper, Inc. (Lipper), an independent organization, as well as additional material, including a Fund profitability analysis prepared by management. The Lipper reports compared the Fund's investment performance and expenses with those of other mutual funds deemed comparable to the Fund as selected by Lipper. The Fund profitability analysis discussed the profitability to Franklin Templeton Investments from its overall U.S. fund operations, as well as on an individual fund-by-fund basis. Additional material accompanying such profitability analysis included information on a fund-by-fund basis listing portfolio managers and other accounts they manage, as well as information on management fees charged by the Manager and its affiliates to U.S. mutual funds and other accounts, including management's explanation of differences where relevant. Such material also included a memorandum prepared by management describing project initiatives and capital investments relating to the services provided to the Fund by the Franklin Templeton Investments organization, as well as a memorandum relating to economies of scale and an analysis concerning transfer agent fees charged by an affiliate of the Manager.

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

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

Shareholder Information (continued)

### Franklin Real Estate Securities Fund

## **Board Review of Investment Management Agreement** (continued)

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

INVESTMENT PERFORMANCE. The Board placed significant emphasis on the investment performance of the Fund in view of its importance to shareholders. While consideration was given to performance reports and discussions with portfolio managers at Board meetings during the year, particular attention in assessing performance was given to the Lipper reports furnished for the agreement renewal. The Lipper report prepared for the Fund showed the investment performance of its Class A shares for the 12-month period ended January 31, 2013, and the previous 10-year period ended that date in comparison with a performance universe consisting of all retail and institutional real estate funds as selected by Lipper. The Lipper report showed the Fund's total return to be in the second-lowest performing quintile of such universe for the one-year period, and on an annualized

## Shareholder Information (continued)

### Franklin Real Estate Securities Fund

## **Board Review of Investment Management Agreement** (continued)

basis to be in the middle performing quintile of such universe for the previous three-year period and to be in the lowest performing quintile of such universe for each of the previous five- and 10-year periods. The Board reviewed steps previously taken by management to improve performance, including the addition of a new portfolio manager in 2010 and the hiring of a senior research analyst during the past year and discussed with management the reasons for the Fund's underperformance during the one-year period. Based on such actions and discussions, the Board did not believe any immediate change in portfolio management was warranted, noting, as shown in the Lipper report, the Fund's total return for the one-year period was 12.89%, being within 53 basis points of the median for the Lipper performance universe, and that the Fund's annualized performance for the previous threeyear period was in the upper half of such universe.

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

MANAGEMENT PROFITABILITY. The Board also considered the level of profits realized by the Manager and its affiliates in connection with the operation of the Fund. In this respect, the Board reviewed the Fund profitability analysis that addresses the overall profitability of Franklin Templeton's U.S. fund business, as well as its profits in providing management and other services to each of the individual funds during the 12-month period ended September 30, 2012, being the most recent fiscal year-end for Franklin Resources, Inc., the Manager's parent. In reviewing the analysis, attention was given to the methodology followed in allocating costs to the Fund, it being recognized that allocation methodologies are inherently subjective and various allocation methodologies may each be reasonable while producing different results. In this respect, the Board noted

## **Shareholder Information** (continued)

### Franklin Real Estate Securities Fund

## **Board Review of Investment Management Agreement** (continued)

that, while being continuously refined and reflecting changes in the Manager's own cost accounting, the cost allocation methodology was consistent with that followed in profitability report presentations for the Fund made in prior years and that the Fund's independent registered public accounting firm had been engaged by the Manager to periodically review the reasonableness of the allocation methodologies solely for use by the Fund's Board. In reviewing and discussing such analysis, management discussed with the Board its belief that costs incurred in establishing the infrastructure necessary for the type of mutual fund operations conducted by the Manager and its affiliates may not be fully reflected in the expenses allocated to the Fund in determining its profitability, as well as the fact that the level of profits, to a certain extent, reflected operational cost savings and efficiencies initiated by management. The Board also took into account management's expenditures in improving shareholder services provided the Fund, as well as the need to implement systems and meet additional regulatory and compliance requirements resulting from statutes such as the Sarbanes-Oxley and Dodd Frank Acts and recent SEC and other regulatory requirements. In addition, the Board considered a third-party study comparing the profitability of the Manager's parent on an overall basis to other publicly held managers broken down to show profitability from management operations exclusive of distribution expenses, as well as profitability including distribution expenses. The Board also considered the extent to which the Manager and its affiliates might derive ancillary benefits from fund operations, including revenues generated from transfer agent services and potential benefits resulting from allocation of fund brokerage and the use of commission dollars to pay for research. Based upon its consideration of all these factors, the Board determined that the level of profits realized by the Manager and its affiliates from providing services to the Fund was not excessive in view of the nature, quality and extent of services provided.

ECONOMIES OF SCALE. The Board also considered whether economies of scale are realized by the Manager as the Fund grows larger and the extent to which this is reflected in the level of management fees charged. While recognizing that any precise determination is inherently subjective, the Board noted that based upon the Fund profitability analysis, it appears that as some funds get larger, at some point economies of scale do result in the Manager realizing a larger profit margin on management services provided such a fund. The Board also noted that economies of scale are shared with a fund and its shareholders through management fee breakpoints so that as a fund grows in size, its effective management fee rate declines. The fee structure under the Fund's investment management agreement provides an initial fee of 0.625% on the first \$100 million of assets; 0.50% on the next \$150 million of assets and 0.45% on the next \$7.25 billion of assets, with breakpoints continuing in stages thereafter until declining to a final breakpoint of 0.40% on assets in excess of \$15 billion. The Fund had assets of approximately \$443 million at the end of 2012 and management expressed its view that the existing fee schedule reaches a relatively low rate quickly as the Fund grows and anticipates economies of scale as shown in the favorable effective management fee and expense comparisons within its Lipper expense group. The Board believes that to the extent any economies of scale may be realized by the Manager and its affiliates, the schedule of

## Shareholder Information (continued)

### Franklin Real Estate Securities Fund

## **Board Review of Investment Management Agreement** (continued)

fees under the investment management agreement provides a sharing of benefits with the Fund and its shareholders.

## **Proxy Voting Policies and Procedures**

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

## Quarterly Statement of Investments

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

## **Householding of Reports and Prospectuses**

You will receive the Fund's financial reports every six months as well as an annual updated summary prospectus (prospectus available upon request). To reduce Fund expenses, we try to identify related shareholders in a household and send only one copy of the financial reports and summary prospectus. This process, called "householding," will continue indefinitely unless you instruct us otherwise. If you prefer not to have these documents householded, please call us at (800) 632-2301. At any time you may view current prospectuses/summary prospectuses and financial reports on our website. If you choose, you may receive these documents through electronic delivery.

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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. Investors should carefully consider a fund's investment goals, risks, charges and expenses before investing. The prospectus contains this and other information. Please carefully read a prospectus before investing. To ensure the highest quality of service, we may monitor, record and access telephone calls to or from our service departments. These calls can be identified by the presence of a regular beeping tone.

### **VALUE**

Franklin All Cap Value Fund
Franklin Balance Sheet Investment Fund
Franklin Large Cap Value Fund
Franklin MicroCap Value Fund
Franklin MidCap Value Fund
Franklin Small Cap Value Fund
Mutual Beacon Fund
Mutual Quest Fund
Mutual Recovery Fund<sup>2</sup>
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 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<sup>3</sup>
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

### HYBRID

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

### **ASSET ALLOCATION**

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 LifeSmart™ 2015 Retirement Target Fund⁴
Franklin LifeSmart™ 2020 Retirement Target Fund⁴
Franklin LifeSmart™ 2025 Retirement Target Fund⁴
Franklin LifeSmart™ 2030 Retirement Target Fund⁴
Franklin LifeSmart™ 2035 Retirement Target Fund⁴
Franklin LifeSmart™ 2040 Retirement Target Fund⁴
Franklin LifeSmart™ 2045 Retirement Target Fund⁴
Franklin LifeSmart™ 2050 Retirement Target Fund⁴
Franklin LifeSmart™ 2050 Retirement Target Fund⁴
Franklin LifeSmart™ 2050 Retirement Target Fund⁴
Franklin Templeton Global Allocation Fund
Franklin Templeton Multi-Asset Real Return Fund

### **FIXED INCOME**

Franklin Adjustable U.S. Government Securities Fund<sup>5</sup> Franklin Floating Rate Daily Access Fund Franklin High Income Fund Franklin Limited Maturity U.S. Government Securities Fund<sup>5</sup> Franklin Low Duration Total Return Fund Franklin Real Return Fund Franklin Strategic Income Fund Franklin Strategic Mortgage Portfolio Franklin Templeton Hard Currency Fund Franklin Total Return Fund Franklin U.S. Government Securities Fund<sup>5</sup> Templeton Emerging Markets Bond Fund Templeton Global Bond Fund Templeton Global Total Return Fund Templeton International Bond Fund

### TAX-FREE INCOME®

#### National

Double Tax-Free Income Fund<sup>7</sup> Federal Tax-Free Income Fund High Yield Tax-Free Income Fund Insured Tax-Free Income Fund<sup>8,9</sup>

### 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

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Alabama	Kentucky	New York
Arizona	Louisiana	(2 funds)
California	Maryland	North Carolina
(4 funds)9	Massachusetts	Ohio
Colorado	Michigan	Oregon
Connecticut	Minnesota	Pennsylvania
Florida	Missouri	Tennessee
Georgia	New Jersey	Virginia

### **INSURANCE FUNDS**

Franklin Templeton Variable Insurance Products Trust<sup>10</sup>

- 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 6/3/13, the fund closed to new investors, with limited exceptions.
- 4. Effective 5/1/13, the Franklin Templeton Retirement Target Funds changed their names to Franklin LifeSmart Retirement Target Funds. The funds' investment goals and principal investment strategies remained unchanged.
- 5. An investment in the fund is neither insured nor guaranteed by the U.S. government or by any other entity or institution.

- 6. For investors subject to the alternative minimum tax, a small portion of fund dividends may be taxable. Distributions of capital gains are generally taxable.
- The fund is closed to all new investments (other than reinvestment of dividends and capital gains distributions).
- 8. The fund invests primarily in insured municipal securities.
- 9. Effective at the close of market 3/1/13, Franklin Insured Tax-Free Income Fund and Franklin California Insured Tax-Free Income Fund closed to all new investments (other than reinvestment of dividends and capital gains distributions).
- 10. The funds of the Franklin Templeton Variable Insurance Products Trust are generally available only through insurance company variable contracts.

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



## < GAIN FROM OUR PERSPECTIVE® >

Annual Report and Shareholder Letter FRANKLIN REAL ESTATE SECURITIES FUND

## **Investment Manager**

Franklin Templeton Institutional, LLC

### Distributor

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

## Shareholder Services (800) 632-2301

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

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