

APRIL 30, 2014

ANNUAL REPORT  
AND SHAREHOLDER LETTER

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INVESTMENTS

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# 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 continuously seek to provide investors with strong 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, 2014, the U.S. economy grew moderately, although severe weather in the first quarter of 2014 weighed on growth. The stock market performed strongly when investors became more confident as interest rates remained low. For much of the period, however, fixed income markets generally did not fare as well because investors were concerned about the timing and extent of the Federal Reserve Board's (Fed's) potential reduction of its asset purchases. The bond markets feared that interest rates would begin to rise, and investors reduced their holdings in fixed income instruments. In January 2014, Janet Yellen succeeded Ben Bernanke as the Fed Chair, and market reaction generally was positive as she supported the tapering program. Although investors faced global concerns about moderating economic growth and geopolitical tensions in several regions, market sentiment improved toward the end of the reporting period.

We remain encouraged as the U.S. showed signs of continued economic growth during the 12-month period. For example, U.S. private employment was recently at a record level, and near period-end the pace of hiring accelerated. With this positive economic environment, we believe the central bank's accommodative policies and continued low interest rate should support many fixed income markets. 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 diligent, fundamental analysis of securities with a continual emphasis on investment risk management.

Franklin Strategic Income 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.

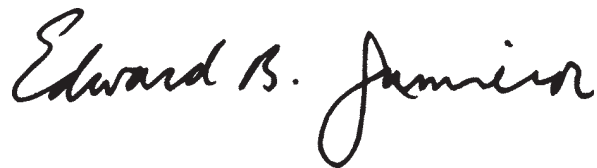
**NOT FDIC INSURED | MAY LOSE VALUE | NO BANK GUARANTEE**

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

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 will continue to be uneven, we are confident investors with a well-diversified portfolio and a patient, long-term outlook should be well positioned for 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,

A handwritten signature in black ink that reads "Edward B. Jamieson". The signature is written in a cursive, flowing style.

Edward B. Jamieson  
President and Chief Executive Officer – Investment Management  
Franklin Strategic Series

**This letter reflects our analysis and opinions as of April 30, 2014. 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 Strategic Income Fund

**Your Fund's Goals and Main Investments:** Franklin Strategic Income Fund seeks a high level of current income, with capital appreciation over the long term as a secondary objective. The Fund uses an active asset allocation process and under normal market conditions invests at least 65% of its assets in U.S. and foreign debt securities, including those in emerging markets. The Fund may invest in all varieties of fixed and floating rate income securities, including bonds, corporate loans (and loan participations), mortgage-backed securities and other asset-backed securities, convertible securities and municipal securities.

*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](http://franklintempleton.com) or call (800) 342-5236 for most recent month-end performance.*

We are pleased to bring you Franklin Strategic Income Fund's annual report for the fiscal year ended April 30, 2014.

### Performance Overview

Franklin Strategic Income Fund – Class A posted a +2.52% cumulative total return for the fiscal year under review. In comparison, the Barclays U.S. Aggregate Index, which represents the U.S. investment-grade fixed rate taxable bond market, had a -0.26% total return.<sup>1,2</sup> The Lipper Multi-Sector Income Funds Classification Average, which consists of funds chosen by Lipper that seek current income by allocating assets among different fixed income securities sectors, with a significant portion rated below investment grade, produced a +1.86% total return.<sup>3</sup> You can find the Fund's long-term performance data in the Performance Summary beginning on page 9.

### Economic and Market Overview

The U.S. economy continued to show signs of recovery during the 12-month period ended April 30, 2014, and especially in the second half of 2013, underpinned by consumer and business spending and rising inventories. Despite abnormally cold weather that suppressed economic activity in the first quarter of 2014, economic indicators were still broadly supportive of recovery at period-end. Manufacturing activity expanded during the period under review, although adverse weather led to a slowdown in early 2014. Retail sales for

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 22.

the period followed no clear trend, but they experienced a sharp rebound in March 2014, aided by improved weather. The housing market had some weather-related weakness early in 2014 as sales abated, but home prices were higher than a year ago. The unemployment rate declined to 6.3% in April 2014 from 7.5% in April 2013.<sup>4</sup> Inflation remained below the U.S. Federal Reserve Board's (Fed's) 2.0% target.

In October 2013, the federal government temporarily shut down after Congress reached a budget impasse. However, Congress passed a spending bill in January to fund the federal government through September 2014. Congress then approved suspension of the debt ceiling until March 2015.

In May 2013, the Fed indicated it might reduce its monthly asset purchases based on improved economic data, triggering a bond market sell-off that raised long-term U.S. Treasury yields to a two-year high. Long-term Treasury yields rose again late in 2013 as the Fed announced it would reduce its bond purchases \$10 billion a month beginning in January 2014 while keeping interest rates low. However, yields declined through period-end as investors shifted from emerging market assets to less risky assets because of concerns over emerging market growth prospects and the potential impact of the Fed's reductions to its asset-purchase program. Although economic data in early 2014 were soft in part because of severe winter weather, Fed Chair Janet Yellen kept the pace of asset-purchase tapering intact in the March meeting, while adopting a more qualitative approach to rate-hike guidance. However, the Fed remained committed to keeping interest rates low for a considerable time even after the asset-purchase program ends, depending on inflation and employment trends.

The 10-year Treasury yield rose from 1.70% at the beginning of the period to a high of 3.04% on December 31, 2013, mainly because of an improved economic environment and market certainty about the Fed's plans. However, some weakening economic data and increasing political tension in Ukraine contributed to the 10-year Treasury yield's decline to 2.67% at period-end.

The global economic recovery was mixed during the period under review. The recovery in emerging markets moderated after many economies had previously returned to and exceeded pre-crisis activity levels. Although some developed economies, such as those of Australia and some Scandinavian countries, also have enjoyed relatively strong recoveries in the aftermath of the global financial crisis, the G-3 (U.S., eurozone and Japan) continued to experience growth that was slow by the standards of previous recoveries. Policymakers in the largest developed economies continued to increase their already unprecedented efforts to supply liquidity. Actions elsewhere in the world were mixed, with some policymakers less willing to reverse previous tightening efforts in response to the external environment.

## Dividend Distributions\*

5/1/13–4/30/14

Month	Dividend per Share (cents)				
	Class A	Class C	Class R	Class R6	Advisor Class
May	3.70	3.34	3.46	4.04	3.93
June	3.65	3.30	3.43	3.97	3.87
July	3.85	3.49	3.61	4.17	4.07
August	3.80	3.44	3.58	4.14	4.02
September	3.90	3.56	3.69	4.22	4.11
October	3.93	3.57	3.71	4.26	4.16
November	4.19	3.84	3.97	4.53	4.41
December	3.80	3.44	3.58	4.15	4.02
January	3.61	3.25	3.39	3.95	3.83
February	3.86	3.54	3.66	4.17	4.06
March	3.78	3.42	3.56	4.13	4.00
April	3.00	2.65	2.78	3.34	3.22
<b>Total</b>	<b>45.07</b>	<b>40.84</b>	<b>42.42</b>	<b>49.07</b>	<b>47.70</b>

\*All Fund distributions will vary depending upon current market conditions, and past distributions are not indicative of future trends.

## Investment Strategy

The Fund uses an active asset allocation strategy, investing across the fixed income markets in sectors that may include high yield and investment-grade corporate bonds, international developed and emerging market bonds, U.S. government and agency securities, mortgage- and other asset-backed securities, corporate bank loans, convertible securities and preferred stocks, and municipal securities. In addition to our bottom-up fundamental analysis of market sectors, industries and issuers, we evaluate country risk, business cycles, yield curves, and values between and within markets as part of our portfolio construction process. We may also enter into various transactions involving certain currency-, interest rate- or credit-related derivative instruments for hedging purposes, to enhance returns or to obtain exposure to various market sectors.

## Manager's Discussion

During the 12-month period, the global economic outlook as well as U.S. and foreign central banks' policies influenced the direction of fixed income markets. During the second quarter of 2013, comments from then-Fed chairman Ben Bernanke regarding the potential tapering of the Fed's quantitative easing program moved longer term rates higher, with the 10-year benchmark Treasury yield climbing from 1.70% at the end of April 2013 to a peak of 3.04% by the end of 2013. Although concerns regarding the U.S. budget and debt ceiling arose during the second half of the year, those issues appeared to



be largely contained by early 2014. Longer maturity U.S. interest rates declined from their peaks by period-end as a result of a weather-induced, weak first-quarter economic growth rate and a focus on tensions surrounding Russia and Ukraine. However, even with higher interest rates, the stock market rose over the course of the Fund's fiscal year, with the Standard & Poor's® 500 Index gaining 20.44%, supported by corporate earnings and an improving outlook for U.S. and European economic growth.<sup>1, 5</sup>

The Fund posted a positive total return for the review period, outperforming the Barclays U.S. Aggregate Index and the Lipper Multi-Sector Income Funds peer average. The Fund's larger exposure to non-investment grade corporate credit sectors positively impacted performance compared to the longer duration and more rate-sensitive Barclays index. Compared to the Lipper peer average, the Fund's lower interest rate sensitivity was also beneficial for relative performance.

Fundamentals in the corporate credit sector remained broadly supportive, with a below-average default rate and percentage of bonds considered in distress, ample access to low-cost debt refinancing, rising equity markets and generally increasing corporate earnings. However, as is often typical several years into an economic recovery, many corporations began to focus on more shareholder-friendly actions, including stock buybacks, dividends, and mergers and acquisitions. In addition, the quality, structure and covenant protection of certain new corporate bond and leveraged loan issues also declined. Although spread valuations for the corporate credit markets have narrowed since the financial crisis, given what we viewed as a favorable fundamental backdrop, we still found value in the corporate credit sectors. In addition, high yield corporate and leveraged loan bonds have tended to be less sensitive to rate changes than traditional fixed income sectors, which may allow those sectors to offer more defensive benefits if U.S. interest rates increase. Following the short-term sell-off in high yield corporate bonds in the second quarter of 2013, we increased exposure to high yield corporate bonds and, conversely, reduced loan exposure considering loans' recent outperformance. However, as high yield bonds rebounded strongly going into 2014, we began to pare high yield bonds in favor of leveraged loans. The Fund held a lesser weighting in investment-grade corporate bonds at period-end, given their valuations and greater sensitivity to interest rates.

The international fixed income markets, particularly developing markets, were negatively affected by lower expectations for emerging market growth as well as improved U.S. growth forecasts. As a result, the U.S. dollar strengthened relative to certain foreign currencies, which pressured performance for certain non-U.S. dollar sovereign bond holdings. Exposure to the Uruguayan peso, Malaysian ringgit, Chilean peso and Brazilian real constrained returns. In contrast, the Fund's holdings in South Korean won-denominated bonds benefited



## Portfolio Breakdown

Based on Total Net Assets

	4/30/14	4/30/13
High Yield Corporate Bonds & Preferred Securities	28.3%	26.7%
International Government & Agency Bonds (Non-\$US)	20.0%	23.4%
Floating Rate Loans	14.5%	17.0%
Investment-Grade Corporate Bonds	8.2%	8.3%
Municipal Bonds	5.8%	1.8%
Mortgage-Backed Securities	4.5%	6.1%
Commercial Mortgage-Backed Securities	3.5%	2.8%
International Government & Agency Bonds (\$US)	2.4%	1.6%
U.S. Treasury Securities	1.7%	2.0%
Asset-Backed Securities	1.5%	0.8%
Equities	1.2%	0.4%
Convertible Securities	0.1%	—
Short-Term Investments & Other Net Assets*	8.3%	9.1%

\*Includes unrealized gains/losses on currency forward contracts and credit derivatives. Does not include short-term foreign government securities.

### What is a currency forward contract?

A currency forward contract is an agreement between the Fund and a counterparty to buy or sell a foreign currency for a specific exchange rate on a future date.

returns, as the won appreciated compared to the U.S. dollar. The Fund's short position in the Japanese yen, using currency forwards, was additive to performance, given weakness in the yen relative to the dollar over the past year. Overall, the Fund reduced its exposure to non-U.S. dollar government bonds during the period. In the U.S.-dollar denominated emerging market sector, the rise in interest rates during 2013 combined with outflows from dedicated emerging market bond funds negatively impacted sector performance, although the sector began to recover in 2014 as interest rates declined. The Fund maintained modest exposure to hard currency-denominated emerging market bonds, although we added some exposure to the sector given its underperformance.

Amid higher U.S. intermediate-term and longer term interest rates, the more rate-sensitive fixed income sectors, including Treasuries, agencies and mortgage-backed securities, generally delivered flat to slightly negative total returns. The Fund maintained lower exposure to these sectors, favoring instead higher income opportunities in corporate and global bond markets. However, with subdued inflation expectations and the already meaningful rise in rates during the period, inflation-adjusted yields became positive for longer term high-quality fixed income securities.

The rise in U.S. interest rates and negative headlines regarding Detroit and Puerto Rico contributed to investor outflows from dedicated municipal bond funds in 2013, pressuring bond prices. The Fund added to its municipal bond exposure during the period as valuations cheapened, although the sector began to recover during early 2014 as rates declined and investor pessimism toward the municipal market waned.

Thank you for your continued participation in Franklin Strategic Income Fund. We look forward to serving your future investment needs.



A handwritten signature in black ink that reads "Christopher J. Molumphy".

Christopher J. Molumphy, CFA



A handwritten signature in black ink that reads "Eric G. Takaha".

Eric G. Takaha, CFA

Portfolio Management Team  
Franklin Strategic Income Fund

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**The foregoing information reflects our analysis, opinions and portfolio holdings as of April 30, 2014, 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.**

The index is unmanaged and includes reinvestment of any income or distributions. One cannot invest directly in an index, and an index is not representative of the Fund's portfolio.

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2. Source: Barclays Global Family of Indices. © 2014 Barclays Capital Inc. Used with permission.
3. Source: Lipper, a Thomson Reuters Company. For the 12-month period ended 4/30/14, this category consisted of 229 funds. Lipper calculations do not include sales charges or expense subsidization by a fund's manager. Fund performance relative to the average may have differed if these or other factors had been considered.
4. Source: Bureau of Labor Statistics.
5. Standard & Poor's (S&P®) 500 Index: Copyright © 2014, S&P Dow Jones Indices LLC. All rights reserved. Reproduction of S&P U.S. Index data in any form is prohibited except with the prior written permission of S&P. S&P does not guarantee the accuracy, adequacy, completeness or availability of any information and is not responsible for any errors or omissions, regardless of the cause or for the results obtained from the use of such information. S&P DISCLAIMS ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. In no event shall S&P be liable for any direct, indirect, special or consequential damages, costs, expenses, legal fees, or losses (including lost income or lost profit and opportunity costs) in connection with subscriber's or others' use of S&P U.S. Index data.

# Performance Summary as of 4/30/14

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.

## Net Asset Value

Share Class	4/30/14	4/30/13	Change
A (FRSTX)	\$10.57	\$10.86	-\$0.29
C (FSGCX)	\$10.57	\$10.85	-\$0.28
R (FKSRX)	\$10.54	\$10.82	-\$0.28
Advisor (FKSAX)	\$10.58	\$10.86	-\$0.28
		<b>5/1/13</b>	
R6 (n/a)	\$10.58	\$10.87	-\$0.29

## Distributions

Share Class	Dividend Income	Short-Term Capital Gain	Long-Term Capital Gain	Total
A (5/1/13–4/30/14)	\$0.4507	\$0.0088	\$0.0873	\$0.5468
C (5/1/13–4/30/14)	\$0.4084	\$0.0088	\$0.0873	\$0.5045
R (5/1/13–4/30/14)	\$0.4242	\$0.0088	\$0.0873	\$0.5203
R6 (5/1/13–4/30/14)	\$0.4907	\$0.0088	\$0.0873	\$0.5868
Advisor (5/1/13–4/30/14)	\$0.4770	\$0.0088	\$0.0873	\$0.5731

# Performance Summary *(continued)*

## Performance as of 4/30/14<sup>1</sup>

Cumulative total return excludes sales charges. Average annual total returns include maximum sales charges. **Class A:** 4.25% maximum initial sales charge; **Class C:** 1% contingent deferred sales charge in first year only; **Class R/R6/Advisor Class:** no sales charges.

Share Class	Cumulative Total Return <sup>2</sup>	Average Annual Total Return <sup>3</sup>	Average Annual Total Return (3/31/14) <sup>4</sup>	Total Annual Operating Expenses <sup>5</sup>	
				(with waiver)	(without waiver)
<b>A</b>				0.88%	0.89%
1-Year	+2.52%	-1.82%	-0.91%		
5-Year	+57.54%	+8.57%	+9.51%		
10-Year	+92.78%	+6.32%	+6.02%		
<b>C</b>				1.28%	1.29%
1-Year	+2.20%	+1.23%	+2.12%		
5-Year	+54.43%	+9.08%	+10.04%		
10-Year	+85.27%	+6.36%	+6.05%		
<b>R</b>				1.13%	1.14%
1-Year	+2.36%	+2.36%	+3.37%		
5-Year	+55.61%	+9.25%	+10.21%		
10-Year	+88.17%	+6.53%	+6.22%		
<b>R6</b>				0.50%	0.51%
Since Inception (5/1/13) <sup>6</sup>	+2.90%	+2.90%	+2.39%		
<b>Advisor Class</b>				0.63%	0.64%
1-Year	+2.87%	+2.87%	+3.77%		
5-Year	+59.47%	+9.78%	+10.75%		
10-Year	+97.74%	+7.06%	+6.75%		

Share Class	Distribution Rate <sup>7</sup>	30-Day Standardized Yield <sup>8</sup>	
		(with waiver)	(without waiver)
A	4.08%	3.10%	3.09%
C	3.86%	2.83%	2.83%
R	4.02%	2.99%	2.98%
R6	4.64%	3.62%	3.62%
Advisor	4.51%	3.49%	3.48%

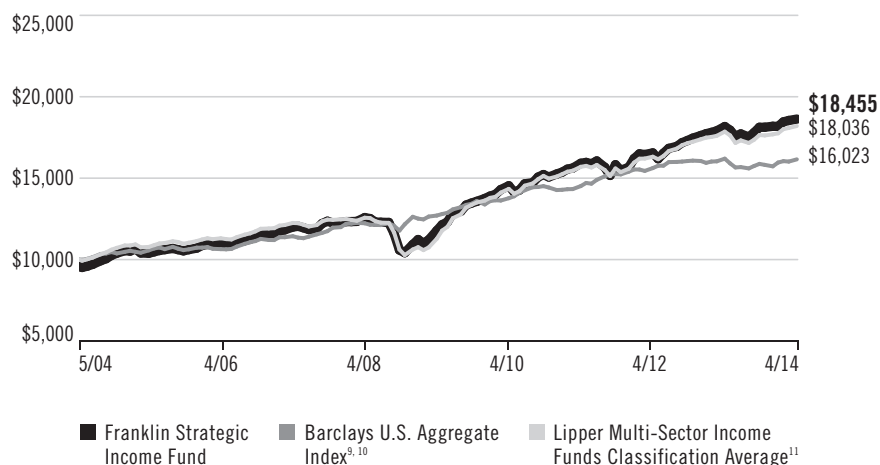
Performance data represent past performance, which does not guarantee future results. Investment return and principal value will fluctuate, and you may have a gain or loss when you sell your shares. Current performance may differ from figures shown. For most recent month-end performance, go to [franklintempleton.com](http://franklintempleton.com)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

# Performance Summary *(continued)*

## Total Return Index Comparison for a Hypothetical \$10,000 Investment<sup>1</sup>

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

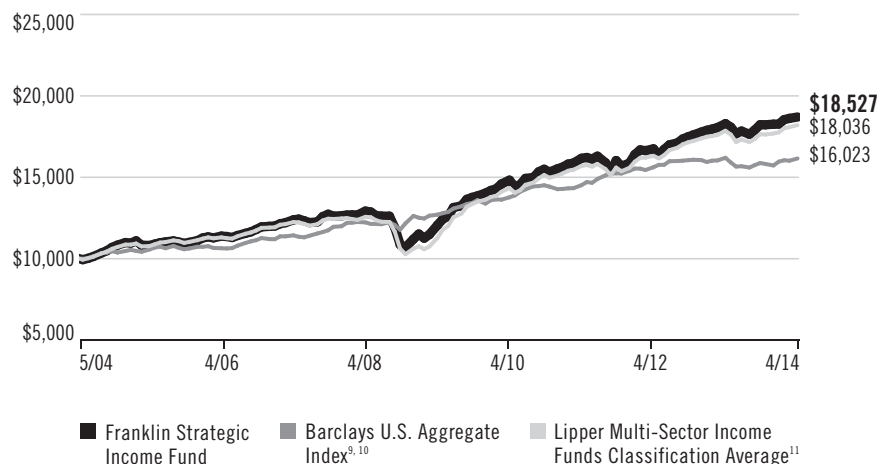
### Class A (5/1/04–4/30/14)



### Average Annual Total Return

Class A	4/30/14
1-Year	-1.82%
5-Year	+8.57%
10-Year	+6.32%

### Class C (5/1/04–4/30/14)



### Average Annual Total Return

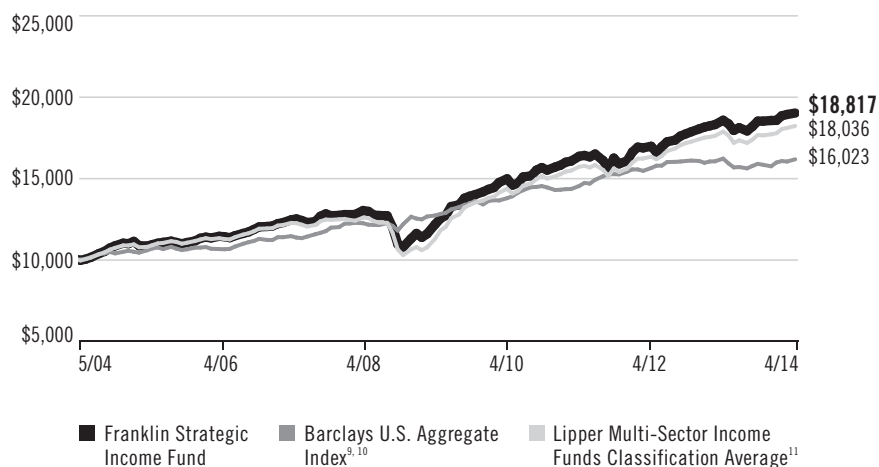
Class C	4/30/14
1-Year	+1.23%
5-Year	+9.08%
10-Year	+6.36%

# Performance Summary *(continued)*

## Average Annual Total Return

Class R	4/30/14
1-Year	+2.36%
5-Year	+9.25%
10-Year	+6.53%

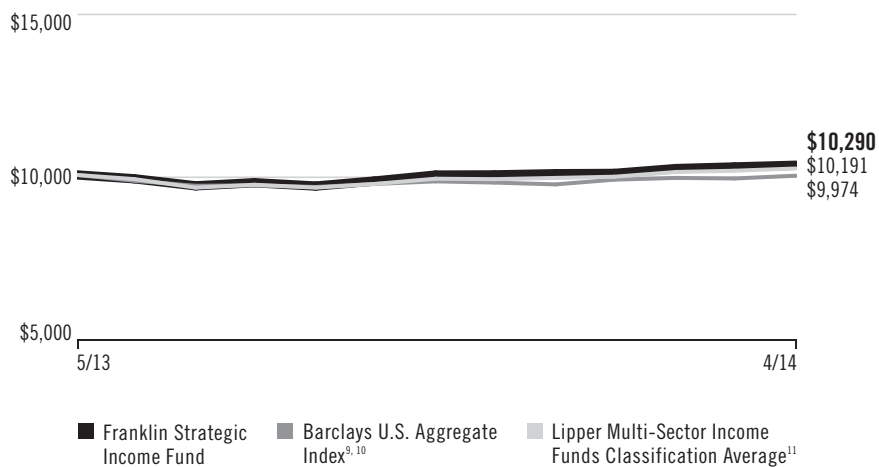
### Class R (5/1/04–4/30/14)



## Average Annual Total Return<sup>6</sup>

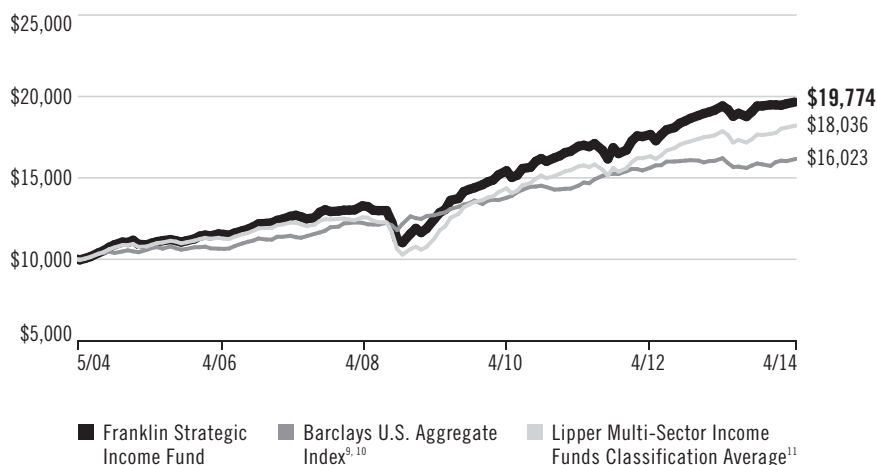
Class R6	4/30/14
Since Inception (5/1/13)	+2.90%

### Class R6 (5/1/13–4/30/14)



# Performance Summary *(continued)*

## Advisor Class (5/1/04–4/30/14)



## Average Annual Total Return

Advisor Class	4/30/14
1-Year	+2.87%
5-Year	+9.78%
10-Year	+7.06%

All investments involve risks, including possible loss of principal. Bond prices generally move in the opposite direction of interest rates. Thus, as prices of bonds in the Fund adjust to a rise in interest rates, the Fund's share price may decline. Changes in the financial strength of a bond issuer or in a bond's credit rating may affect its value. High yields reflect the higher credit risks associated with certain lower-rated securities held in the portfolio. Floating rate loans and high yield corporate bonds are rated below investment grade and are subject to greater risk of default, which could result in loss of principal — a risk that may be heightened in a slowing economy. The risks of foreign securities include currency fluctuations and political uncertainty. Investments in developing markets involve heightened risks related to the same factors, in addition to those associated with their relatively small size and lesser liquidity. Investing in derivative securities and the use of foreign currency techniques involve special risks as such may not achieve the anticipated benefits and/or may result in losses to the Fund. 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:** These shares have higher annual fees and expenses than Class A shares.

**Class R:** Shares are available to certain eligible investors as described in the prospectus. These shares have higher annual fees and expenses than Class A shares.

**Class R6:** Shares are available to certain eligible investors as described in the prospectus.

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



# Performance Summary *(continued)*

1. The Fund has a fee waiver associated with its investments in a Franklin Templeton money fund, contractually guaranteed through at least its current fiscal year-end. Fund investment results reflect the fee waiver, to the extent applicable; without this reduction, the results would have been lower.
2. Cumulative total return represents the change in value of an investment over the periods indicated.
3. Average annual total return represents the average annual change in value of an investment 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. Performance shown is not annualized.
7. Distribution rate is based on the sum of the respective class's dividend distributions over the past 12 months' and the maximum offering price (NAV for Classes C, R, R6 and Advisor) per share on 4/30/14.
8. The 30-day standardized yield for the 30 days ended 4/30/14 reflects an estimated yield to maturity (assuming all portfolio securities are held to maturity). It should be regarded as an estimate of the Fund's rate of investment income, and it may not equal the Fund's actual income distribution rate (which reflects the Fund's past dividends paid to shareholders) or the income reported in the Fund's financial statements.
9. Source: © 2014 Morningstar. The Barclays U.S. Aggregate Index is a market capitalization-weighted index representing the U.S. investment-grade, fixed-rate, taxable bond market with index components for government and corporate, mortgage pass-through and asset-backed securities. All issues included are SEC-registered, taxable, dollar denominated, and nonconvertible, must have at least one year to final maturity, and must be rated investment grade (Baa3/BBB-/BBB- or above) using the middle rating of Moody's, Standard & Poor's and Fitch, respectively.
10. Source: Barclays Global Family of Indices. © 2014 Barclays Capital Inc. Used with permission.
11. Source: Lipper, a Thomson Reuters Company. The Lipper Multi-Sector Income Funds Classification Average is calculated by averaging the total returns of all funds within the Lipper Multi-Sector Income Funds classification in the Lipper Open-End underlying funds universe. Lipper Multi-Sector Income Funds are defined as funds that seek current income by allocating assets among different fixed income securities sectors (not primarily in one sector except for defensive purposes), including U.S. and foreign governments, with a significant portion rated below investment grade. For the 12-month period ended 4/30/14, there were 229 funds in this category. Lipper calculations do not include sales charges, but include reinvestment of any income or distributions. Fund performance relative to the average may have differed if these and other factors had been considered.

# 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.

Share Class	Beginning Account Value 11/1/13	Ending Account Value 4/30/14	Expenses Paid During Period* 11/1/13–4/30/14
<b>A</b>			
Actual	\$1,000	\$1,027.80	\$4.32
Hypothetical (5% return before expenses)	\$1,000	\$1,020.53	\$4.31
<b>C</b>			
Actual	\$1,000	\$1,025.70	\$6.33
Hypothetical (5% return before expenses)	\$1,000	\$1,018.55	\$6.31
<b>R</b>			
Actual	\$1,000	\$1,026.60	\$5.58
Hypothetical (5% return before expenses)	\$1,000	\$1,019.29	\$5.56
<b>R6</b>			
Actual	\$1,000	\$1,029.70	\$2.42
Hypothetical (5% return before expenses)	\$1,000	\$1,022.41	\$2.41
<b>Advisor</b>			
Actual	\$1,000	\$1,029.00	\$3.07
Hypothetical (5% return before expenses)	\$1,000	\$1,021.77	\$3.06

\*Expenses are calculated using the most recent six-month expense ratio, net of expense waivers, annualized for each class (A: 0.86%; C: 1.26%; R: 1.11%; R6: 0.48%; and Advisor: 0.61%), multiplied by the average account value over the period, multiplied by 181/365 to reflect the one-half year period.

# Franklin Strategic Series

## Financial Highlights

### Franklin Strategic Income Fund

Class A	Year Ended April 30,				
	2014	2013	2012	2011	2010
<b>Per share operating performance</b> (for a share outstanding throughout the year)					
Net asset value, beginning of year . . . . .	\$10.86	\$10.48	\$10.68	\$10.30	\$ 8.83
Income from investment operations <sup>a</sup> :					
Net investment income <sup>b</sup> . . . . .	0.44	0.45	0.50	0.55	0.55
Net realized and unrealized gains (losses) . . . . .	(0.18)	0.54	(0.10)	0.39	1.45
Total from investment operations . . . . .	0.26	0.99	0.40	0.94	2.00
Less distributions from:					
Net investment income and net foreign currency gains . . .	(0.45)	(0.57)	(0.60)	(0.56)	(0.53)
Net realized gains . . . . .	(0.10)	(0.04)	—	—	—
Total distributions . . . . .	(0.55)	(0.61)	(0.60)	(0.56)	(0.53)
Net asset value, end of year . . . . .	\$10.57	\$10.86	\$10.48	\$10.68	\$10.30
Total return <sup>c</sup> . . . . .	2.52%	9.70%	3.97%	9.41%	23.15%
 <b>Ratios to average net assets</b>					
Expenses <sup>d</sup> . . . . .	0.86% <sup>e</sup>	0.87%	0.89%	0.88%	0.88%
Net investment income . . . . .	4.16%	4.21%	4.81%	5.26%	5.70%
 <b>Supplemental data</b>					
Net assets, end of year (000's) . . . . .	\$5,182,490	\$4,966,834	\$3,757,100	\$3,288,814	\$2,809,864
Portfolio turnover rate . . . . .	54.11%	47.27%	36.11%	66.78%	55.79%
Portfolio turnover rate excluding mortgage dollar rolls <sup>f</sup> . . . .	54.11%	44.33%	36.11%	66.78%	55.79%

<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 fair value of the investments of the Fund.

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

<sup>c</sup>Total return does not reflect sales commissions or contingent deferred sales charges, if applicable.

<sup>d</sup>Benefit of expense reduction rounds to less than 0.01%.

<sup>e</sup>Benefit of waiver and payments by affiliate rounds to less than 0.01%.

<sup>f</sup>See Note 1(g) regarding mortgage dollar rolls.

# Franklin Strategic Series

## Financial Highlights *(continued)*

### Franklin Strategic Income Fund

Class C	Year Ended April 30,				
	2014	2013	2012	2011	2010
<b>Per share operating performance</b> (for a share outstanding throughout the year)					
Net asset value, beginning of year . . . . .	\$10.85	\$10.48	\$10.68	\$10.30	\$ 8.83
Income from investment operations <sup>a</sup> :					
Net investment income <sup>b</sup> . . . . .	0.40	0.41	0.46	0.50	0.52
Net realized and unrealized gains (losses) . . . . .	(0.17)	0.53	(0.10)	0.40	1.44
Total from investment operations . . . . .	0.23	0.94	0.36	0.90	1.96
Less distributions from:					
Net investment income and net foreign currency gains . . .	(0.41)	(0.53)	(0.56)	(0.52)	(0.49)
Net realized gains . . . . .	(0.10)	(0.04)	—	—	—
Total distributions . . . . .	(0.51)	(0.57)	(0.56)	(0.52)	(0.49)
Net asset value, end of year . . . . .	\$10.57	\$10.85	\$10.48	\$10.68	\$10.30
Total return <sup>c</sup> . . . . .	2.20%	9.17%	3.56%	8.98%	22.64%
 <b>Ratios to average net assets</b>					
Expenses <sup>d</sup> . . . . .	1.26% <sup>e</sup>	1.27%	1.29%	1.28%	1.28%
Net investment income . . . . .	3.76%	3.81%	4.41%	4.86%	5.30%
 <b>Supplemental data</b>					
Net assets, end of year (000's) . . . . .	\$2,109,049	\$2,108,962	\$1,569,746	\$1,358,857	\$1,107,436
Portfolio turnover rate . . . . .	54.11%	47.27%	36.11%	66.78%	55.79%
Portfolio turnover rate excluding mortgage dollar rolls <sup>f</sup> . . . .	54.11%	44.33%	36.11%	66.78%	55.79%

<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 fair value of the investments of the Fund.

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

<sup>c</sup>Total return does not reflect sales commissions or contingent deferred sales charges, if applicable.

<sup>d</sup>Benefit of expense reduction rounds to less than 0.01%.

<sup>e</sup>Benefit of waiver and payments by affiliate rounds to less than 0.01%.

<sup>f</sup>See Note 1(g) regarding mortgage dollar rolls.

# Franklin Strategic Series

## Financial Highlights *(continued)*

### Franklin Strategic Income Fund

Class R	Year Ended April 30,				
	2014	2013	2012	2011	2010
<b>Per share operating performance</b> (for a share outstanding throughout the year)					
Net asset value, beginning of year	\$10.82	\$10.45	\$10.65	\$10.27	\$ 8.81
Income from investment operations <sup>a</sup> :					
Net investment income <sup>b</sup>	0.41	0.42	0.47	0.52	0.53
Net realized and unrealized gains (losses)	(0.17)	0.53	(0.10)	0.39	1.43
Total from investment operations	0.24	0.95	0.37	0.91	1.96
Less distributions from:					
Net investment income and net foreign currency gains	(0.42)	(0.54)	(0.57)	(0.53)	(0.50)
Net realized gains	(0.10)	(0.04)	—	—	—
Total distributions	(0.52)	(0.58)	(0.57)	(0.53)	(0.50)
Net asset value, end of year	\$10.54	\$10.82	\$10.45	\$10.65	\$10.27
Total return	2.36%	9.36%	3.72%	9.17%	22.77%
<b>Ratios to average net assets</b>					
Expenses <sup>c</sup>	1.11% <sup>d</sup>	1.12%	1.14%	1.13%	1.13%
Net investment income	3.91%	3.96%	4.56%	5.01%	5.45%
<b>Supplemental data</b>					
Net assets, end of year (000's)	\$227,359	\$260,647	\$249,662	\$234,775	\$194,901
Portfolio turnover rate	54.11%	47.27%	36.11%	66.78%	55.79%
Portfolio turnover rate excluding mortgage dollar rolls <sup>e</sup>	54.11%	44.33%	36.11%	66.78%	55.79%

<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 fair value of the investments of the Fund.

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

<sup>c</sup>Benefit of expense reduction rounds to less than 0.01%.

<sup>d</sup>Benefit of waiver and payments by affiliate rounds to less than 0.01%.

<sup>e</sup>See Note 1(g) regarding mortgage dollar rolls.

# Franklin Strategic Series

## Financial Highlights *(continued)*

### Franklin Strategic Income Fund

Year Ended  
April 30,  
2014<sup>a</sup>

#### Class R6

##### Per share operating performance

(for a share outstanding throughout the year)

Net asset value, beginning of year . . . . .	\$10.87
Income from investment operations <sup>b</sup> :	
Net investment income <sup>c</sup> . . . . .	0.49
Net realized and unrealized gains (losses) . . . . .	(0.19)
Total from investment operations . . . . .	0.30
Less distributions from:	
Net investment income . . . . .	(0.49)
Net realized gains . . . . .	(0.10)
Total distributions . . . . .	(0.59)
Net asset value, end of year . . . . .	\$10.58
Total return . . . . .	2.90%

#### Ratios to average net assets

Expenses <sup>d</sup> . . . . .	0.48%
Net investment income . . . . .	4.54%

#### Supplemental data

Net assets, end of year (000's) . . . . .	\$247,007
Portfolio turnover rate . . . . .	54.11%

<sup>a</sup>For the year May 1, 2013 (effective date) to April 30, 2014.

<sup>b</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>c</sup>Based on average daily shares outstanding.

<sup>d</sup>Benefit of waiver and payments by affiliate and expense reduction rounds to less than 0.01%.



# Franklin Strategic Series

## Financial Highlights *(continued)*

### Franklin Strategic Income Fund

Advisor Class	Year Ended April 30,				
	2014	2013	2012	2011	2010
<b>Per share operating performance</b> (for a share outstanding throughout the year)					
Net asset value, beginning of year	\$10.86	\$10.49	\$10.69	\$10.31	\$ 8.84
Income from investment operations <sup>a</sup> :					
Net investment income <sup>b</sup>	0.47	0.48	0.53	0.57	0.58
Net realized and unrealized gains (losses)	(0.17)	0.53	(0.10)	0.39	1.44
Total from investment operations	0.30	1.01	0.43	0.96	2.02
Less distributions from:					
Net investment income and net foreign currency gains	(0.48)	(0.60)	(0.63)	(0.58)	(0.55)
Net realized gains	(0.10)	(0.04)	—	—	—
Total distributions	(0.58)	(0.64)	(0.63)	(0.58)	(0.55)
Net asset value, end of year	\$10.58	\$10.86	\$10.49	\$10.69	\$10.31
Total return	2.87%	9.87%	4.22%	9.67%	23.45%
<b>Ratios to average net assets</b>					
Expenses <sup>c</sup>	0.61% <sup>d</sup>	0.62%	0.64%	0.63%	0.63%
Net investment income	4.41%	4.46%	5.06%	5.51%	5.95%
<b>Supplemental data</b>					
Net assets, end of year (000's)	\$1,010,755	\$956,001	\$713,659	\$589,220	\$346,585
Portfolio turnover rate	54.11%	47.27%	36.11%	66.78%	55.79%
Portfolio turnover rate excluding mortgage dollar rolls <sup>e</sup>	54.11%	44.33%	36.11%	66.78%	55.79%

<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 fair value of the investments of the Fund.

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

<sup>c</sup>Benefit of expense reduction rounds to less than 0.01%.

<sup>d</sup>Benefit of waiver and payments by affiliate rounds to less than 0.01%.

<sup>e</sup>See Note 1(g) regarding mortgage dollar rolls.

# Franklin Strategic Series

## Statement of Investments, April 30, 2014

Franklin Strategic Income Fund	Country	Shares/Units	Value
<b>Common Stocks and Other Equity Interests 1.2%</b>			
<b>Consumer Services 0.1%</b>			
<sup>a,b,c</sup> Turtle Bay Resort . . . . .	United States	5,579,939	\$ 7,198,122
<b>Diversified Financials 1.1%</b>			
iShares iBoxx High Yield Corporate Bond ETF . . . . .	United States	1,000,000	94,340,000
<b>Materials 0.0%<sup>†</sup></b>			
NewPage Holdings Inc. . . . .	United States	28,000	2,520,000
<b>Transportation 0.0%<sup>†</sup></b>			
<sup>a</sup> CEVA Holdings LLC . . . . .	United Kingdom	1,570	1,986,012
<b>Total Common Stocks and Other Equity Interests (Cost \$105,991,088)</b>			106,044,134
<b>Convertible Preferred Stocks 0.1%</b>			
<b>Transportation 0.1%</b>			
<sup>a</sup> CEVA Holdings LLC, cvt. pfd., A-1 . . . . .	United Kingdom	62	104,470
<sup>a</sup> CEVA Holdings LLC, cvt. pfd., A-2 . . . . .	United Kingdom	3,399	4,299,178
<b>Total Convertible Preferred Stocks (Cost \$5,149,789)</b>			4,403,648
<b>Preferred Stocks (Cost \$3,845,000) 0.0%<sup>†</sup></b>			
<b>Diversified Financials 0.0%<sup>†</sup></b>			
GMAC Capital Trust I, 8.125%, pfd. . . . .	United States	153,800	4,227,962
			<b>Principal Amount*</b>
<b>Corporate Bonds 36.5%</b>			
<b>Automobiles &amp; Components 0.6%</b>			
<sup>d</sup> Avis Budget Finance PLC, senior note, 144A, 6.00%, 3/01/21 . . . . .	United States	9,000,000 EUR	13,241,691
<sup>d</sup> General Motors Co., senior bond, 144A, 4.875%, 10/02/23 . . . . .	United States	20,000,000	20,775,000
The Goodyear Tire & Rubber Co., senior note, 6.50%, 3/01/21 . . . . .	United States	15,000,000	16,312,500
			50,329,191
<b>Banks 2.8%</b>			
Bank of America Corp.,			
<sup>e</sup> junior sub. bond, M, 8.125% to 5/15/18, FRN thereafter, Perpetual . . . . .	United States	22,000,000	25,100,614
senior note, 5.65%, 5/01/18 . . . . .	United States	10,000,000	11,351,990
CIT Group Inc., senior note,			
5.375%, 5/15/20 . . . . .	United States	6,900,000	7,391,625
5.00%, 8/15/22 . . . . .	United States	18,000,000	18,472,500
<sup>d</sup> 144A, 6.625%, 4/01/18 . . . . .	United States	7,000,000	7,848,750
Citigroup Inc.,			
<sup>e</sup> junior sub. bond, M, 6.30% to 5/15/24, FRN thereafter, Perpetual . . . . .	United States	6,900,000	6,902,932
senior note, 3.875%, 10/25/23 . . . . .	United States	20,000,000	20,026,320
sub. bond, 5.50%, 9/13/25 . . . . .	United States	15,000,000	16,296,105
sub. note, 4.05%, 7/30/22 . . . . .	United States	5,000,000	5,059,840

# Franklin Strategic Series

## Statement of Investments, April 30, 2014 (continued)

Franklin Strategic Income Fund	Country	Principal Amount*	Value
<b>Corporate Bonds (continued)</b>			
<b>Banks (continued)</b>			
JPMorgan Chase & Co.,			
<sup>e</sup> junior sub. bond, 6.00% to 8/01/23, FRN thereafter,			
Perpetual	United States	10,000,000	\$ 10,000,000
senior note, 4.25%, 10/15/20	United States	15,000,000	16,146,735
senior note, 3.25%, 9/23/22	United States	5,000,000	4,947,365
sub. note, 3.375%, 5/01/23	United States	10,000,000	9,584,430
Merrill Lynch & Co. Inc., senior note, 6.40%, 8/28/17	United States	10,000,000	11,463,130
Regions Bank, sub. note, 7.50%, 5/15/18	United States	8,000,000	9,460,984
Regions Financial Corp., senior note, 5.75%, 6/15/15	United States	1,200,000	1,263,149
Royal Bank of Scotland Group PLC, sub. note, 6.125%, 12/15/22	United Kingdom	10,000,000	10,650,000
The Royal Bank of Scotland PLC, sub. note, 6.934%, 4/09/18	United Kingdom	13,000,000 EUR	20,704,827
<sup>e</sup> Wells Fargo & Co., S, junior sub. bond, 5.90% to 6/15/14, FRN thereafter, Perpetual	United States	31,400,000	32,251,003
			<u>244,922,299</u>
<b>Capital Goods 1.0%</b>			
<sup>d</sup> Abengoa Finance SAU, senior note, 144A,			
8.875%, 11/01/17	Spain	18,000,000	20,430,000
7.75%, 2/01/20	Spain	2,600,000	2,866,500
Case New Holland Inc., senior note, 7.875%, 12/01/17	United States	6,000,000	7,080,000
<sup>d</sup> KM Germany Holdings GmbH, secured note, 144A, 8.75%, 12/15/20	Germany	10,000,000 EUR	15,727,380
<sup>d</sup> Loxam SAS, senior sub. note, 144A, 7.375%, 1/24/20	France	8,000,000 EUR	12,243,371
Meritor Inc., senior note, 6.75%, 6/15/21	United States	4,000,000	4,250,000
Navistar International Corp., senior note, 8.25%, 11/01/21	United States	12,200,000	12,459,250
Terex Corp., senior note, 6.00%, 5/15/21	United States	15,000,000	16,125,000
			<u>91,181,501</u>
<b>Commercial &amp; Professional Services 0.2%</b>			
<sup>d</sup> Algeco Scotsman Global Finance PLC, first lien, 144A, 9.00%, 10/15/18			
	United Kingdom	2,000,000 EUR	3,022,362
<sup>d</sup> Nielsen Finance LLC/Co., senior sub. note, 144A, 5.00%, 4/15/22	United States	11,000,000	11,068,750
			<u>14,091,112</u>
<b>Consumer Durables &amp; Apparel 0.9%</b>			
<sup>d</sup> Financiere Gaillon 8 SAS, senior note, 144A, 7.00%, 9/30/19			
	France	11,000,000 EUR	15,449,940
KB Home, senior note, 4.75%, 5/15/19	United States	9,400,000	9,400,000
7.00%, 12/15/21	United States	13,300,000	14,297,500
M/I Homes Inc., senior note, 8.625%, 11/15/18	United States	8,600,000	9,266,500
Toll Brothers Finance Corp., senior bond, 5.625%, 1/15/24	United States	10,300,000	10,737,750
Visant Corp., senior note, 10.00%, 10/01/17	United States	14,700,000	13,891,500
			<u>73,043,190</u>

# Franklin Strategic Series

## Statement of Investments, April 30, 2014 (continued)

Franklin Strategic Income Fund	Country	Principal Amount*	Value
<b>Corporate Bonds (continued)</b>			
<b>Consumer Services 1.0%</b>			
Caesars Entertainment Operating Co. Inc., senior secured note, 11.25%, 6/01/17 .....	United States	22,000,000	\$ 21,120,000
first lien, 9.00%, 2/15/20 .....	United States	1,900,000	1,667,250
first lien, 9.00%, 2/15/20 .....	United States	2,000,000	1,752,500
<sup>d,f</sup> Financiere Quick SAS, 144A, FRN, 7.825%, 10/15/19 .....	France	6,600,000 EUR	9,175,753
secured note, 144A, FRN, 5.075%, 4/15/19 .....	France	6,900,000 EUR	9,557,849
MGM Resorts International, senior note, 6.625%, 7/15/15 .....	United States	15,000,000	15,937,500
7.50%, 6/01/16 .....	United States	1,000,000	1,115,000
10.00%, 11/01/16 .....	United States	1,000,000	1,192,500
8.625%, 2/01/19 .....	United States	700,000	839,125
6.75%, 10/01/20 .....	United States	1,800,000	1,993,680
6.625%, 12/15/21 .....	United States	10,000,000	11,015,500
7.75%, 3/15/22 .....	United States	2,000,000	2,331,000
Pinnacle Entertainment Inc., senior sub. note, 7.75%, 4/01/22 .....	United States	2,200,000	2,398,000
<sup>d</sup> PNK Finance Corp., senior note, 144A, 6.375%, 8/01/21 .....	United States	4,900,000	5,169,500
			85,265,157
<b>Diversified Financials 2.4%</b>			
Ally Financial Inc., senior note, 7.50%, 9/15/20 .....	United States	28,000,000	33,285,000
Deutsche Bank AG, sub. bond, 4.296% to 5/24/23, FRN thereafter, 5/24/28 .....	Germany	33,000,000	31,622,250
E*TRADE Financial Corp., senior note, 6.375%, 11/15/19 .....	United States	10,000,000	10,912,500
General Electric Capital Corp., senior note, A, 8.50%, 4/06/18 .....	United States	94,000,000 MXN	7,947,314
sub. note, 5.30%, 2/11/21 .....	United States	15,000,000	16,991,700
General Motors Financial Co. Inc., senior bond, 4.25%, 5/15/23 .....	United States	3,700,000	3,639,875
senior note, 3.25%, 5/15/18 .....	United States	2,100,000	2,128,875
GMAC Inc., sub. note, 8.00%, 12/31/18 .....	United States	4,000,000	4,792,000
<sup>d</sup> KKR Group Finance Co., senior note, 144A, 6.375%, 9/29/20 .....	United States	20,000,000	23,228,440
Morgan Stanley, senior note, 6.00%, 4/28/15 .....	United States	8,000,000	8,419,312
5.50%, 7/24/20 .....	United States	10,000,000	11,360,390
5.50%, 7/28/21 .....	United States	5,000,000	5,665,010
<sup>d</sup> Neuberger Berman Group LLC/Finance Corp., senior note, 144A, 5.625%, 3/15/20 .....	United States	4,000,000	4,230,000
5.875%, 3/15/22 .....	United States	10,000,000	10,700,000
SLM Corp., senior note, 8.45%, 6/15/18 .....	United States	14,100,000	16,673,250
5.50%, 1/15/19 .....	United States	16,000,000	16,996,848
			208,592,764

# Franklin Strategic Series

## Statement of Investments, April 30, 2014 (continued)

Franklin Strategic Income Fund	Country	Principal Amount*	Value
<b>Corporate Bonds (continued)</b>			
<b>Energy 8.5%</b>			
Access Midstream Partner LP/ACMP Finance Corp., senior note, 5.875%, 4/15/21	United States	8,900,000	\$ 9,523,000
6.125%, 7/15/22	United States	7,300,000	7,929,625
<sup>d</sup> Antero Resources Corp., senior note, 144A, 5.375%, 11/01/21	United States	5,300,000	5,422,562
Antero Resources Finance Corp., senior note, 7.25%, 8/01/19	United States	640,000	684,320
BreitBurn Energy Partners LP/Finance Corp., senior bond, 7.875%, 4/15/22	United States	7,200,000	7,830,000
CGG SA, senior note, 9.50%, 5/15/16	France	500,000	514,400
7.75%, 5/15/17	France	10,000,000	10,187,500
<sup>d</sup> 144A, 5.875%, 5/15/20	France	3,500,000 EUR	5,022,097
6.50%, 6/01/21	France	10,000,000	10,125,000
<sup>d</sup> 144A, 6.875%, 1/15/22	France	10,000,000	10,075,000
Chaparral Energy Inc., senior note, 9.875%, 10/01/20	United States	8,000,000	9,100,000
8.25%, 9/01/21	United States	8,000,000	8,780,000
7.625%, 11/15/22	United States	1,400,000	1,498,000
CHC Helicopter SA, senior note, 9.375%, 6/01/21	Canada	4,000,000	4,160,000
senior secured note, first lien, 9.25%, 10/15/20	Canada	16,200,000	17,435,250
Chesapeake Energy Corp., senior note, 7.25%, 12/15/18	United States	1,000,000	1,167,500
6.625%, 8/15/20	United States	16,000,000	18,060,000
6.125%, 2/15/21	United States	6,000,000	6,600,000
5.75%, 3/15/23	United States	14,000,000	14,945,000
Clayton Williams Energy Inc., senior note, 7.75%, 4/01/19	United States	18,000,000	19,260,000
CONSOL Energy Inc., senior note, 8.00%, 4/01/17	United States	7,700,000	8,025,710
8.25%, 4/01/20	United States	8,000,000	8,750,000
6.375%, 3/01/21	United States	1,600,000	1,694,000
<sup>d</sup> 144A, 5.875%, 4/15/22	United States	10,700,000	11,047,750
El Paso Corp., senior bond, 6.50%, 9/15/20	United States	9,000,000	9,986,580
senior note, 7.00%, 6/15/17	United States	3,500,000	3,963,180
Energy Transfer Equity LP, senior note, 7.50%, 10/15/20	United States	30,000,000	34,725,000
Energy Transfer Partners LP, senior note, 5.20%, 2/01/22	United States	10,000,000	10,947,080
Energy XXI Gulf Coast Inc., senior note, 9.25%, 12/15/17	United States	15,000,000	16,368,750
<sup>d</sup> 144A, 7.50%, 12/15/21	United States	2,100,000	2,231,250
<sup>d</sup> Enquest PLC, senior note, 144A, 7.00%, 4/15/22	United Kingdom	7,800,000	7,965,750
Enterprise Products Operating LLC, junior sub. note, 7.034% to 1/15/18, FRN thereafter, 1/15/68	United States	10,000,000	11,334,330
<sup>d</sup> Expro Finance Luxembourg, senior secured note, 144A, 8.50%, 12/15/16	United Kingdom	20,000,000	20,912,500

# Franklin Strategic Series

## Statement of Investments, April 30, 2014 (continued)

Franklin Strategic Income Fund	Country	Principal Amount*	Value
<b>Corporate Bonds (continued)</b>			
<b>Energy (continued)</b>			
<sup>d,g</sup> Gaz Capital SA (OJSC Gazprom), loan participation, senior bond, 144A, 6.51%, 3/07/22	Russia	8,000,000	\$ 7,960,000
senior note, 144A, 5.092%, 11/29/15	Russia	12,000,000	12,258,120
senior note, 144A, 3.85%, 2/06/20	Russia	15,000,000	13,630,650
Halcon Resources Corp., senior note, 9.75%, 7/15/20	United States	4,000,000	4,300,000
8.875%, 5/15/21	United States	15,000,000	15,618,750
<sup>d</sup> 144A, 9.25%, 2/15/22	United States	5,300,000	5,591,500
<sup>d</sup> Kinder Morgan Finance Co. LLC, senior secured note, 144A, 6.00%, 1/15/18	United States	17,000,000	18,678,172
Linn Energy LLC/Finance Corp., senior note, 6.50%, 5/15/19	United States	2,000,000	2,085,000
8.625%, 4/15/20	United States	10,000,000	10,837,500
7.75%, 2/01/21	United States	10,000,000	10,750,000
<sup>d</sup> 144A, 6.25%, 11/01/19	United States	8,000,000	8,310,000
<sup>d</sup> LUKOIL International Finance BV, senior note, 144A, 4.563%, 4/24/23	Russia	30,000,000	26,724,900
Martin Midstream Partners LP/Martin Midstream Finance Corp., senior note, 7.25%, 2/15/21	United States	8,000,000	8,380,000
<sup>d</sup> 144A, 7.25%, 2/15/21	United States	10,200,000	10,684,500
Midstates Petroleum Co. Inc./LLC, senior note, 9.25%, 6/01/21	United States	12,500,000	12,843,750
<sup>d</sup> Oasis Petroleum Inc., senior note, 144A, 6.875%, 3/15/22	United States	10,400,000	11,336,000
Offshore Group Investment Ltd., senior bond, first lien, 7.125%, 4/01/23	United States	10,000,000	9,900,000
senior secured note, first lien, 7.50%, 11/01/19	United States	15,000,000	15,703,125
PBF Holding Co. LLC, first lien, 8.25%, 2/15/20	United States	18,000,000	19,755,000
Peabody Energy Corp., senior note, 7.375%, 11/01/16	United States	2,000,000	2,255,000
6.00%, 11/15/18	United States	5,000,000	5,337,500
6.50%, 9/15/20	United States	8,300,000	8,694,250
6.25%, 11/15/21	United States	20,000,000	20,400,000
Penn Virginia Corp., senior note, 8.50%, 5/01/20	United States	10,000,000	11,150,000
Penn Virginia Resource Partners LP/Finance Corp. II, senior note, 8.375%, 6/01/20	United States	7,890,000	8,955,150
6.50%, 5/15/21	United States	5,000,000	5,400,000
Plains Exploration & Production Co., senior note, 6.125%, 6/15/19	United States	1,700,000	1,882,750
8.625%, 10/15/19	United States	1,000,000	1,083,750
6.625%, 5/01/21	United States	2,562,000	2,847,023
6.75%, 2/01/22	United States	2,000,000	2,242,500
6.875%, 2/15/23	United States	6,000,000	6,750,000
QR Energy LP/QRE Finance, senior note, 9.25%, 8/01/20	United States	16,950,000	18,221,250
Quicksilver Resources Inc., <sup>d,f</sup> secured note, second lien, 144A, FRN, 7.00%, 6/21/19	United States	12,000,000	11,857,500
senior note, 9.125%, 8/15/19	United States	5,000,000	4,925,000

# Franklin Strategic Series

## Statement of Investments, April 30, 2014 (continued)

Franklin Strategic Income Fund	Country	Principal Amount*	Value
<b>Corporate Bonds (continued)</b>			
<b>Energy (continued)</b>			
Regency Energy Partners LP/Regency Energy Finance Corp., senior bond, 5.50%, 4/15/23 . . . . .	United States	5,000,000	\$ 5,087,500
senior note, 5.875%, 3/01/22 . . . . .	United States	1,300,000	1,365,000
Sabine Pass Liquefaction LLC, first lien, 5.625%, 2/01/21 . . . . .	United States	24,000,000	24,900,000
4/15/23 . . . . .	United States	6,200,000	6,285,250
<sup>d</sup> Samson Investment Co., senior note, 144A, 9.75%, 2/15/20 . . .	United States	20,000,000	21,200,000
<sup>d</sup> Sanchez Energy Corp., senior note, 144A, 7.75%, 6/15/21 . . .	United States	12,600,000	13,545,000
W&T Offshore Inc., senior note, 8.50%, 6/15/19 . . . . .	United States	20,000,000	21,700,000
			<u>747,702,524</u>
<b>Food &amp; Staples Retailing 0.2%</b>			
<sup>d</sup> Cencosud SA, senior note, 144A, 4.875%, 1/20/23 . . . . .	Chile	20,000,000	<u>19,520,900</u>
<b>Food, Beverage &amp; Tobacco 1.2%</b>			
<sup>d</sup> Barry Callebaut Services SA, senior note, 144A, 5.50%, 6/15/23 . . . . .	Belgium	5,300,000	5,574,937
<sup>d</sup> Boparan Finance PLC, senior note, 144A, 9.75%, 4/30/18 . . .	United Kingdom	11,300,000	EUR 16,890,200
Constellation Brands Inc., senior note, 4.25%, 5/01/23 . . . . .	United States	10,600,000	10,441,000
Del Monte Corp., senior note, 7.625%, 2/15/19 . . . . .	United States	15,288,000	15,956,850
<sup>d</sup> JBS USA LLC/Finance Inc., senior note, 144A, 8.25%, 2/01/20 . . . . .	United States	15,600,000	17,152,200
7.25%, 6/01/21 . . . . .	United States	4,500,000	4,876,875
Kraft Foods Group Inc., senior bond, 3.50%, 6/06/22 . . . . .	United States	20,000,000	20,355,260
<sup>d</sup> Post Holdings Inc., senior note, 144A, 6.75%, 12/01/21 . . . . .	United States	8,600,000	9,030,000
<sup>d</sup> Sun Merger Sub Inc., senior note, 144A, 5.25%, 8/01/18 . . . . .	United States	2,500,000	2,620,313
5.875%, 8/01/21 . . . . .	United States	2,000,000	2,111,250
			<u>105,008,885</u>
<b>Health Care Equipment &amp; Services 1.3%</b>			
Alere Inc., senior sub. note, 6.50%, 6/15/20 . . . . .	United States	4,900,000	5,169,500
<sup>d</sup> Cegedim SA, senior note, 144A, 6.75%, 4/01/20 . . . . .	France	5,800,000	EUR 8,473,191
CHS/Community Health Systems Inc., senior note, 8.00%, 11/15/19 . . . . .	United States	10,200,000	11,207,250
senior note, 7.125%, 7/15/20 . . . . .	United States	6,000,000	6,442,500
<sup>d</sup> senior note, 144A, 6.875%, 2/01/22 . . . . .	United States	3,300,000	3,436,125
senior secured note, 5.125%, 8/15/18 . . . . .	United States	6,000,000	6,322,500
DaVita HealthCare Partners Inc., senior note, 5.75%, 8/15/22 . . . . .	United States	10,000,000	10,625,000
HCA Inc., senior note, 6.50%, 2/15/16 . . . . .	United States	3,000,000	3,262,500
senior note, 7.50%, 2/15/22 . . . . .	United States	8,100,000	9,258,300
senior note, 5.875%, 5/01/23 . . . . .	United States	15,000,000	15,300,000
senior secured bond, 7.25%, 9/15/20 . . . . .	United States	1,700,000	1,838,125
senior secured note, 5.875%, 3/15/22 . . . . .	United States	10,000,000	10,750,000
Hologic Inc., senior note, 6.25%, 8/01/20 . . . . .	United States	4,700,000	4,993,750



# Franklin Strategic Series

## Statement of Investments, April 30, 2014 (continued)

Franklin Strategic Income Fund	Country	Principal Amount*	Value
<b>Corporate Bonds (continued)</b>			
<b>Health Care Equipment &amp; Services (continued)</b>			
Tenet Healthcare Corp., senior note, 8.125%, 4/01/22	United States	8,400,000	\$ 9,345,000
<sup>d</sup> 144A, 5.00%, 3/01/19	United States	2,600,000	2,613,000
<sup>d</sup> 144A, 6.00%, 10/01/20	United States	2,700,000	2,840,062
			111,876,803
<b>Insurance 0.5%</b>			
<sup>d</sup> MetLife Capital Trust X, secured bond, 144A, 9.25% to 4/08/38, FRN thereafter, 4/08/68	United States	1,900,000	2,565,000
MetLife Inc., junior sub. note, 6.40% to 12/15/36, FRN thereafter, 12/15/66	United States	20,000,000	21,800,000
<sup>d</sup> Mitsui Sumitomo Insurance Co. Ltd., junior sub. note, 144A, 7.00% to 3/15/22, FRN thereafter, 3/15/72	Japan	20,000,000	23,635,900
			48,000,900
<b>Materials 4.1%</b>			
ArcelorMittal, senior note, 6.00%, 3/01/21	Luxembourg	20,000,000	21,400,400
6.75%, 2/25/22	Luxembourg	15,000,000	16,614,225
<sup>d</sup> Ardagh Packaging Finance PLC, senior note, 144A, 9.125%, 10/15/20	Luxembourg	5,000,000	5,587,500
<sup>d</sup> Ardagh Packaging Finance PLC/Ardagh MP Holdings USA Inc., senior note, 144A, 6.25%, 1/31/19	Luxembourg	2,000,000	2,090,000
senior note, 144A, 7.00%, 11/15/20	Luxembourg	1,764,706	1,850,735
senior note, 144A, 6.75%, 1/31/21	Luxembourg	2,400,000	2,517,000
senior secured note, first lien, 144A, 7.375%, 10/15/17	Luxembourg	3,100,000	3,287,937
<sup>d</sup> Barmenco Finance Pty. Ltd., senior note, 144A, 9.00%, 6/01/18	Australia	15,000,000	13,884,375
<sup>d</sup> Cemex Finance LLC, senior secured note, 144A, 9.375%, 10/12/22	Mexico	1,400,000	1,620,500
6.00%, 4/01/24	Mexico	5,800,000	5,829,000
<sup>d</sup> Cemex SAB de CV, secured note, 144A, 5.875%, 3/25/19	Mexico	10,000,000	10,268,750
senior secured note, 144A, 9.00%, 1/11/18	Mexico	20,000,000	21,675,000
<sup>d</sup> Faenza GmbH, senior note, 144A, 8.25%, 8/15/21	Germany	6,700,000 EUR	10,229,473
<sup>d</sup> First Quantum Minerals Ltd., senior note, 144A, 6.75%, 2/15/20	Canada	15,000,000	15,225,000
7.00%, 2/15/21	Canada	14,125,000	14,389,844
<sup>d</sup> FMG Resources (August 2006) Pty. Ltd., senior note, 144A, 6.00%, 4/01/17	Australia	2,000,000	2,110,000
6.875%, 2/01/18	Australia	12,000,000	12,690,000
8.25%, 11/01/19	Australia	15,000,000	16,631,250
<sup>d</sup> Glencore Funding LLC, 144A, 4.625%, 4/29/24	Switzerland	5,000,000	5,024,000
senior note, 144A, 4.125%, 5/30/23	Switzerland	7,500,000	7,287,795
<sup>d</sup> Ineos Finance PLC, senior secured note, 144A, 8.375%, 2/15/19	Switzerland	700,000	773,500
7.50%, 5/01/20	Switzerland	2,000,000	2,193,750

# Franklin Strategic Series

Statement of Investments, April 30, 2014 (continued)

Franklin Strategic Income Fund	Country	Principal Amount*	Value
<b>Corporate Bonds (continued)</b>			
<b>Materials (continued)</b>			
<sup>d</sup> Ineos Group Holdings SA, senior note, 144A, 6.125%, 8/15/18 .....	Switzerland	6,800,000	\$ 7,072,000
6.50%, 8/15/18 .....	Switzerland	6,100,000 EUR	8,943,742
5.75%, 2/15/19 .....	Switzerland	2,800,000 EUR	3,993,402
<sup>d</sup> Kerling PLC, senior secured note, 144A, 10.625%, 2/01/17 ... Novelis Inc., senior note, 8.375%, 12/15/17 .....	United Kingdom	12,000,000 EUR	17,681,972
8.75%, 12/15/20 .....	Canada	9,000,000	9,618,750
<sup>d</sup> Orion Engineered Carbons Bondco GmbH, senior secured bond, 144A, 10.00%, 6/15/18 .....	Canada	8,000,000	8,960,000
<sup>d,h</sup> Orion Engineered Carbons Finance & Co. SCA, senior note, 144A, PIK, 9.25%, 8/01/19 .....	Germany	11,700,000 EUR	17,599,666
Reynolds Group Issuer Inc./LLC/SA, first lien, 5.75%, 10/15/20 .....	Germany	3,000,000	3,138,750
senior note, 8.50%, 5/15/18 .....	United States	6,600,000	6,897,000
senior note, 9.00%, 4/15/19 .....	United States	14,000,000	14,647,500
senior note, 9.875%, 8/15/19 .....	United States	1,000,000	1,072,500
senior note, 8.25%, 2/15/21 .....	United States	400,000	446,000
senior secured note, 7.125%, 4/15/19 .....	United States	10,000,000	10,862,500
<sup>d</sup> Sealed Air Corp., senior note, 144A, 8.125%, 9/15/19 .....	United States	5,000,000	5,300,000
6.50%, 12/01/20 .....	United States	4,000,000	4,470,000
8.375%, 9/15/21 .....	United States	4,000,000	4,440,000
<sup>d</sup> U.S. Coatings Acquisition Inc./Flash Dutch 2 BV, 144A, 5.75%, 2/01/21 .....	United States	4,000,000	4,630,000
<sup>d</sup> Xstrata Finance Canada Ltd., senior note, 144A, 4.95%, 11/15/21 .....	United States	8,000,000 EUR	11,936,856
	Canada	25,000,000	26,268,000
			<u>361,158,672</u>
<b>Media 3.0%</b>			
Cablevision Systems Corp., senior note, 8.625%, 9/15/17 ....	United States	3,000,000	3,540,000
CCO Holdings LLC/CCO Holdings Capital Corp., senior bond, 5.25%, 9/30/22 .....	United States	5,600,000	5,621,000
senior note, 8.125%, 4/30/20 .....	United States	5,000,000	5,493,750
senior note, 6.50%, 4/30/21 .....	United States	8,000,000	8,570,000
Clear Channel Communications Inc., senior secured bond, first lien, 9.00%, 3/01/21 .....	United States	25,000,000	26,687,500
Clear Channel Worldwide Holdings Inc., senior note, 6.50%, 11/15/22 .....	United States	3,000,000	3,210,000
senior note, 6.50%, 11/15/22 .....	United States	5,000,000	5,375,000
senior sub. note, 7.625%, 3/15/20 .....	United States	900,000	967,500
senior sub. note, 7.625%, 3/15/20 .....	United States	5,100,000	5,520,750
CSC Holdings Inc., senior deb., 7.625%, 7/15/18 .....	United States	6,000,000	6,960,000
CSC Holdings LLC, senior note, 6.75%, 11/15/21 .....	United States	22,000,000	24,612,500
DISH DBS Corp., senior bond, 5.00%, 3/15/23 .....	United States	10,000,000	10,225,000
senior note, 7.125%, 2/01/16 .....	United States	13,000,000	14,235,000
senior note, 6.75%, 6/01/21 .....	United States	4,000,000	4,530,000
senior note, 5.875%, 7/15/22 .....	United States	3,000,000	3,243,750

# Franklin Strategic Series

Statement of Investments, April 30, 2014 (continued)

Franklin Strategic Income Fund	Country	Principal Amount*	Value
<b>Corporate Bonds (continued)</b>			
<b>Media (continued)</b>			
<sup>d</sup> Gannett Co. Inc.,			
senior bond, 144A, 6.375%, 10/15/23	United States	19,200,000	\$ 20,400,000
senior note, 144A, 5.125%, 7/15/20	United States	5,200,000	5,408,000
Time Warner Inc.,			
7.625%, 4/15/31	United States	9,000,000	12,277,053
6.10%, 7/15/40	United States	3,000,000	3,535,299
senior bond, 3.40%, 6/15/22	United States	3,000,000	3,025,776
<sup>d</sup> Unitymedia Hessen GmbH & Co.KG/Unitymedia NRW GmbH,			
secured bond, 144A, 5.75%, 1/15/23	Germany	3,700,000 EUR	5,565,706
senior secured note, 144A, 9.50%, 3/15/21	Germany	7,000,000 EUR	11,221,581
senior secured note, 144A, 5.625%, 4/15/23	Germany	1,900,000 EUR	2,859,515
<sup>d</sup> Univision Communications Inc.,			
senior secured bond, 144A, 6.75%, 9/15/22	United States	3,622,000	4,002,310
senior secured note, 144A, 6.875%, 5/15/19	United States	5,000,000	5,356,250
senior secured note, 144A, 7.875%, 11/01/20	United States	11,000,000	12,141,250
senior secured note, 144A, 5.125%, 5/15/23	United States	2,000,000	2,050,000
<sup>d</sup> UPC Holding BV, senior note, 144A, 6.375%, 9/15/22	Netherlands	3,000,000 EUR	4,476,321
<sup>d</sup> UPCB Finance II Ltd., senior secured note, 144A, 6.375%, 7/01/20	Netherlands	8,000,000 EUR	11,884,364
<sup>d</sup> UPCB Finance VI Ltd., senior secured note, 144A, 6.875%, 1/15/22	Netherlands	5,000,000	5,459,375
<sup>d</sup> Videotron Ltd., senior bond, 144A, 5.375%, 6/15/24	Canada	6,400,000	6,464,000
<sup>d</sup> Virgin Media Secured Finance PLC, senior secured bond, 144A, 5.50%, 1/15/25	United Kingdom	14,000,000	14,113,750
<sup>d</sup> VTR Finance BV, senior secured note, 144A, 6.875%, 1/15/24	Chile	7,600,000	7,936,323
			<u>266,968,623</u>
<b>Pharmaceuticals, Biotechnology &amp; Life Sciences 1.0%</b>			
<sup>d</sup> Capsugel FinanceCo SCA, senior note, 144A, 9.875%, 8/01/19	United States	11,000,000 EUR	16,737,435
<sup>d</sup> Grifols Worldwide Operations Ltd., senior note, 144A, 5.25%, 4/01/22	United States	3,500,000	3,561,250
<sup>d</sup> inVentiv Health Inc., senior secured note, 144A, 9.00%, 1/15/18	United States	6,200,000	6,603,000
<sup>d,h</sup> Jaguar Holding Co. I, senior note, 144A, PIK, 9.375%, 10/15/17	United States	12,000,000	12,600,000
<sup>d</sup> Valeant Pharmaceuticals International Inc., senior note, 144A, 7.50%, 7/15/21	United States	10,800,000	12,096,000
5.625%, 12/01/21	United States	5,000,000	5,212,500
<sup>d</sup> VPI Escrow Corp., senior note, 144A, 6.375%, 10/15/20	United States	16,600,000	17,928,000
Zoetis Inc., senior bond, 3.25%, 2/01/23	United States	15,000,000	14,643,870
			<u>89,382,055</u>
<b>Real Estate 0.1%</b>			
Crown Castle International Corp., senior bond, 7.125%, 11/01/19	United States	400,000	427,360
5.25%, 1/15/23	United States	5,000,000	5,162,500
			<u>5,589,860</u>

# Franklin Strategic Series

Statement of Investments, April 30, 2014 (continued)

Franklin Strategic Income Fund	Country	Principal Amount*	Value
<b>Corporate Bonds (continued)</b>			
<b>Retailing 0.5%</b>			
<sup>d</sup> Edcon Holdings Pty. Ltd., senior note, 144A, 13.375%, 6/30/19	South Africa	1,800,000 EUR	\$ 2,273,794
<sup>d</sup> Edcon Pty. Ltd., secured note, 144A, 9.50%, 3/01/18	South Africa	15,325,000 EUR	21,228,333
<sup>d</sup> Matalan Finance Ltd., senior secured note, 144A, 8.875%, 4/29/16	United Kingdom	4,200,000 GBP	7,285,775
<sup>d</sup> New Look Bondco I PLC, 144A, 8.75%, 5/14/18	United Kingdom	9,100,000 GBP	16,582,812
			<u>47,370,714</u>
<b>Software &amp; Services 1.0%</b>			
<sup>d</sup> BMC Software Finance Inc., senior note, 144A, 8.125%, 7/15/21	United States	15,000,000	15,787,500
Equinix Inc., senior bond, 5.375%, 4/01/23	United States	20,000,000	20,450,000
First Data Corp., senior bond, 12.625%, 1/15/21	United States	2,000,000	2,410,000
senior note, 11.25%, 1/15/21	United States	5,000,000	5,737,500
<sup>d</sup> senior secured bond, 144A, 8.25%, 1/15/21	United States	28,000,000	30,310,000
Sterling International Inc., senior note, 11.00%, 10/01/19	United States	9,300,000	9,858,000
			<u>84,553,000</u>
<b>Technology Hardware &amp; Equipment 0.6%</b>			
<sup>d</sup> Alcatel-Lucent USA Inc., senior note, 144A, 6.75%, 11/15/20	France	16,900,000	17,829,500
CDW LLC/Finance Corp., senior note, 8.50%, 4/01/19	United States	15,000,000	16,481,250
<sup>d,h</sup> CommScope Holdings Co. Inc., senior note, 144A, PIK, 6.625%, 6/01/20	United States	1,800,000	1,939,500
<sup>d</sup> CommScope Inc., senior note, 144A, 8.25%, 1/15/19	United States	13,110,000	14,257,125
			<u>50,507,375</u>
<b>Telecommunication Services 3.9%</b>			
<sup>d</sup> Altice Financing SA, senior secured note, 144A, 6.50%, 1/15/22	Luxembourg	3,900,000 EUR	5,775,260
CenturyLink Inc., senior bond, 6.75%, 12/01/23	United States	2,000,000	2,155,000
senior note, 6.00%, 4/01/17	United States	12,000,000	13,320,000
senior note, 6.45%, 6/15/21	United States	4,100,000	4,438,250
senior note, 5.80%, 3/15/22	United States	2,000,000	2,060,000
<sup>d</sup> Digicel Group Ltd., senior note, 144A, 8.25%, 9/30/20	Bermuda	12,000,000	12,840,000
7.125%, 4/01/22	Bermuda	3,000,000	3,024,375
<sup>d</sup> Digicel Ltd., senior note, 144A, 8.25%, 9/01/17	Bermuda	1,000,000	1,042,550
6.00%, 4/15/21	Bermuda	5,700,000	5,796,187
<sup>d,e</sup> Access Ltd., senior note, 144A, 8.25%, 4/01/18	Japan	5,800,000	6,343,750
8.375%, 4/01/18	Japan	2,200,000 EUR	3,345,580
Frontier Communications Corp., senior bond, 7.625%, 4/15/24	United States	6,025,000	6,281,062
senior note, 8.50%, 4/15/20	United States	14,000,000	16,371,250
senior note, 8.75%, 4/15/22	United States	6,000,000	6,870,000

# Franklin Strategic Series

Statement of Investments, April 30, 2014 (continued)

Franklin Strategic Income Fund	Country	Principal Amount*	Value
<b>Corporate Bonds (continued)</b>			
<b>Telecommunication Services (continued)</b>			
Frontier Communications Corp., (continued)			
senior note, 7.125%, 1/15/23	United States	2,000,000	\$ 2,075,000
senior note, 7.875%, 1/15/27	United States	3,975,000	4,019,719
Intelsat Jackson Holdings SA,			
senior bond, 6.625%, 12/15/22	Luxembourg	10,000,000	10,293,750
<sup>d</sup> senior bond, 144A, 5.50%, 8/01/23	Luxembourg	3,000,000	2,951,250
senior note, 7.25%, 10/15/20	Luxembourg	15,000,000	16,237,500
senior note, 7.50%, 4/01/21	Luxembourg	9,000,000	9,900,000
<sup>d</sup> Lynx I Corp., first lien, 144A, 5.375%, 4/15/21	United Kingdom	4,300,000	4,429,000
<sup>d</sup> Lynx II Corp., senior bond, 144A, 6.375%, 4/15/23	United Kingdom	500,000	527,500
<sup>d</sup> Millicom International Cellular SA, senior note, 144A, 6.625%, 10/15/21	Luxembourg	12,000,000	12,667,500
<sup>d,h</sup> Mobile Challenger Intermediate Group SA, secured note, 144A, PIK, 8.75%, 3/15/19	Switzerland	3,650,000 EUR	5,240,495
<sup>d</sup> Nokia Siemens Networks Finance BV, senior note, 144A, 7.125%, 4/15/20	Netherlands	12,000,000 EUR	19,132,956
<sup>d</sup> Play Finance 1 SA, senior note, 144A, 6.50%, 8/01/19	Poland	3,900,000 EUR	5,768,498
<sup>d</sup> Play Finance 2 SA, senior secured note, 144A, 5.25%, 2/01/19	Poland	6,700,000 EUR	9,630,691
<sup>d</sup> Sprint Corp.,			
senior bond, 144A, 7.125%, 6/15/24	United States	2,700,000	2,841,750
senior note, 144A, 7.875%, 9/15/23	United States	4,700,000	5,193,500
Sprint Nextel Corp., senior note,			
8.375%, 8/15/17	United States	17,000,000	20,060,000
6.00%, 11/15/22	United States	10,000,000	10,112,500
<sup>d</sup> 144A, 9.00%, 11/15/18	United States	8,000,000	9,770,000
<sup>d</sup> 144A, 7.00%, 3/01/20	United States	5,000,000	5,793,750
T-Mobile USA Inc.,			
senior bond, 6.50%, 1/15/24	United States	3,500,000	3,679,375
senior note, 6.542%, 4/28/20	United States	5,000,000	5,393,750
senior note, 6.633%, 4/28/21	United States	3,500,000	3,793,125
senior note, 6.125%, 1/15/22	United States	2,000,000	2,110,000
senior note, 6.731%, 4/28/22	United States	3,500,000	3,788,750
Telefonica Emisiones SAU, senior note,			
5.462%, 2/16/21	Spain	12,000,000	13,511,220
4.57%, 4/27/23	Spain	11,000,000	11,541,530
Verizon Communications Inc., senior note, 5.15%, 9/15/23	United States	26,000,000	28,702,830
<sup>d</sup> Wind Acquisition Finance SA, senior secured note, 144A, 7.00%, 4/23/21	Italy	17,300,000 EUR	24,854,708
			<u>343,683,911</u>
<b>Transportation 0.6%</b>			
<sup>d</sup> Florida East Coast Holdings Corp.,			
secured note, 144A, 6.75%, 5/01/19	United States	7,600,000	7,828,000
senior note, 144A, 9.75%, 5/01/20	United States	4,000,000	4,140,000
HDTFS Inc., senior note,			
5.875%, 10/15/20	United States	1,800,000	1,917,000
6.25%, 10/15/22	United States	10,000,000	10,750,000

# Franklin Strategic Series

## Statement of Investments, April 30, 2014 (continued)

Franklin Strategic Income Fund	Country	Principal Amount*	Value
<b>Corporate Bonds (continued)</b>			
<b>Transportation (continued)</b>			
Hertz Corp., senior note, 6.75%, 4/15/19 . . . . .	United States	11,900,000	\$ 12,822,250
<sup>d</sup> Stena AB, senior bond, 144A, 7.00%, 2/01/24 . . . . .	Sweden	7,500,000	7,612,500
<sup>d</sup> Stena International SA, secured bond, 144A, 5.75%, 3/01/24 . . . . .	Sweden	10,000,000	9,931,250
			<u>55,001,000</u>
<b>Utilities 1.1%</b>			
<sup>d</sup> Calpine Corp.,			
senior secured bond, first lien, 144A, 5.875%, 1/15/24 . . .	United States	4,700,000	4,846,875
senior secured note, 144A, 7.875%, 7/31/20 . . . . .	United States	4,378,000	4,821,272
senior secured note, 144A, 7.50%, 2/15/21 . . . . .	United States	6,352,000	6,955,440
senior secured note, 144A, 7.875%, 1/15/23 . . . . .	United States	4,832,000	5,436,000
senior secured note, first lien, 144A, 6.00%, 1/15/22 . . . .	United States	1,300,000	1,387,750
<sup>d,e</sup> EDF SA,			
junior sub. bond, 144A, 5.625% to 1/22/24, FRN thereafter, Perpetual . . . . .	France	5,000,000	5,169,425
sub. note, 144A, 5.25% to 1/29/23, FRN thereafter, Perpetual . . . . .	France	25,000,000	25,593,750
<sup>d</sup> InterGen NV, secured bond, 144A, 7.00%, 6/30/23 . . . . .	Netherlands	17,000,000	17,998,750
<sup>d,i</sup> Texas Competitive Electric Holdings Co. LLC/Texas Competitive Electric Holdings Finance Inc., senior secured note, 144A, 11.50%, 10/01/20 . . . . .	United States	30,000,000	24,150,000
			<u>96,359,262</u>
			<u>3,200,109,698</u>
<b>Total Corporate Bonds (Cost \$2,999,270,690) . . . .</b>			
<b><sup>f,j</sup>Senior Floating Rate Interests 14.5%</b>			
<b>Automobiles &amp; Components 0.5%</b>			
<sup>k</sup> August LuxUK Holding Co., Lux Second Lien, 10.50%, 4/27/19 . . . . .	Luxembourg	10,536,643	10,773,717
<sup>k</sup> August U.S. Holding Co. Inc., U.S. Second Lien, 10.50%, 4/27/19 . . . . .	United States	3,450,051	3,527,678
FRAM Group Holdings Inc. (Autoparts Holdings), Second Lien Term Loan, 10.50%, 1/29/18 . . . . .	United States	21,928,750	20,941,956
Term Loan, 6.50%, 7/29/17 . . . . .	United States	8,846,403	8,853,772
			<u>44,097,123</u>
<b>Capital Goods 0.8%</b>			
Air Distribution Technologies (Tomkins Air Distribution), Second Lien Initial Loan, 9.25%, 5/09/20 . . . . .	United States	10,841,980	10,991,057
<sup>k</sup> Doncasters U.S. Finance LLC, Term B Loans, 5.75%, 4/09/20 . . . . .	United States	2,488,100	2,498,468
<sup>l</sup> Erickson Inc., Purchase Price Notes, 6.00%, 11/02/20 . . . . .	United States	1,202,322	1,160,988
Quikrete Holdings Inc., First Lien Initial Loan, 4.00%, 9/26/20 . . . . .	United States	13,685,873	13,696,137
Sensus USA Inc., Second Lien Term Loan, 8.50%, 5/09/18 . . .	United States	13,947,904	14,026,361
<sup>k</sup> Signode Industrial Group U.S. Inc., Term Loan B, 5.25%, 5/01/21 . . . . .	United States	10,884,112	10,858,599
TransDigm Inc., Tranche C Term Loan, 3.75%, 2/28/20 . . . . .	United States	5,199,445	5,181,164

# Franklin Strategic Series

## Statement of Investments, April 30, 2014 (continued)

Franklin Strategic Income Fund	Country	Principal Amount*	Value
<b>f,j Senior Floating Rate Interests (continued)</b>			
<b>Capital Goods (continued)</b>			
Wesco Distribution Inc., Tranche B-1 Loan, 3.75%, 12/12/19 .....	United States	12,784,460	\$ 12,784,384
			<u>71,197,158</u>
<b>Commercial &amp; Professional Services 0.8%</b>			
AlixPartners LLP, Second Lien 2013 Recapitalization Term Loan, 9.00%, 7/10/21 .....	United States	2,134,146	2,184,166
Altegrity Inc., Tranche D Term Loan, 7.75%, 2/21/15 .....	United States	39,019,727	38,401,928
Interactive Data Corp., Term B Loan, 3.75%, 2/11/18 .....	United States	21,713,079	21,708,563
Term Loan, 6.00%, 5/05/21 .....	United States	5,146,921	5,150,940
Pacific Industrial Services US Finco LLC (Spotless), Second Lien Initial Term Loan, 8.75%, 4/02/19 .....	United States	253,000	259,483
			<u>67,705,080</u>
<b>Consumer Services 0.6%</b>			
Caesars Entertainment Resort Properties LLC, Term B Loans, 7.00%, 10/11/20 .....	United States	6,857,143	6,879,524
<sup>k</sup> ClubCorp Club Operations Inc., Term B Loans, 5.25%, 7/24/20 .....	United States	5,098,400	5,092,027
Diamond Resorts Corp., First Lien Term Loan, 6.75%, 5/09/21 .....	United States	3,157,400	3,163,320
Hilton Worldwide Finance LLC, Initial Term Loan, 3.50%, 10/25/20 .....	United States	39,590	39,510
La Quinta Intermediate Holdings LLC, Initial Term Loans, 4.00%, 4/14/21 .....	United States	10,525,271	10,498,958
<sup>b,h</sup> Turtle Bay Holdings LLC, Term Loan B, PIK, 3.00%, 3/01/15 ...	United States	25,949,828	24,587,462
			<u>50,260,801</u>
<b>Diversified Financials 0.4%</b>			
Asurion LLC, Incremental Tranche B-1 Term Loan, 5.00%, 5/24/19 .....	United States	9,605,902	9,621,914
Second Lien Term Loan, 8.50%, 3/03/21 .....	United States	8,900	9,126
Guggenheim Partners Investment Management Holdings LLC, Initial Term Loan, 4.25%, 7/22/20 .....	United States	4,773,001	4,793,286
Trans Union LLC, 2014 Replacement Term Loan, 4.00%, 4/09/21 .....	United States	22,675,900	22,615,673
			<u>37,039,999</u>
<b>Energy 0.3%</b>			
Bowie Resource Holdings LLC, 2nd Lien Initial Term Loan, 11.75%, 2/16/21 .....	United States	6,530,612	6,628,571
McJunkin Red Man Corp., 2013 Term Loan, 4.75%, 11/11/19 .....	United States	6,381,283	6,435,129
<sup>k</sup> Pacific Drilling SA, Term Loan, 4.50%, 6/03/18 .....	Luxembourg	10,339,910	10,356,071
			<u>23,419,771</u>
<b>Food &amp; Staples Retailing 0.1%</b>			
AdvancePierre Foods Inc., Second Lien Term Loan, 9.50%, 10/10/17 .....	United States	8,931,383	8,685,770



# Franklin Strategic Series

## Statement of Investments, April 30, 2014 *(continued)*

Franklin Strategic Income Fund	Country	Principal Amount*	Value
<b>f.) Senior Floating Rate Interests (continued)</b>			
<b>Food, Beverage &amp; Tobacco 0.3%</b>			
Allflex Holdings III Inc., Second Lien Initial Term Loan, 8.00%, 7/17/21	United States	5,270,000	\$ 5,331,485
Big Heart Pet Brands (Del Monte Pet), Initial Term Loans, 3.50%, 2/24/20	United States	19,189,952	19,060,420
<sup>k</sup> CSM Bakery Supplies LLC (U.S. Acquisition), Second Lien Term Loan, 9.75%, 7/03/21	United States	1,141,805	1,161,786
			<u>25,553,691</u>
<b>Health Care Equipment &amp; Services 2.1%</b>			
Carestream Health Inc., Second Lien Loan, 9.50%, 12/07/19	United States	14,978,703	15,315,724
Community Health Systems Inc., 2017 Term E Loan, 3.447% - 3.483%, 1/25/17	United States	12,686,421	12,712,479
2021 Term D Loan, 4.25%, 1/27/21	United States	36,542,000	36,701,725
DaVita HealthCare Partners Inc., Tranche B Term Loan, 4.50%, 10/20/16	United States	13,470,879	13,517,960
Tranche B-2 Term Loan, 4.00%, 8/24/19	United States	24,751,509	24,850,787
<sup>k</sup> Dialysis Newco Inc., First Lien Term Loan, 6.00%, 4/21/21	United States	4,273,800	4,279,142
Second Lien Term Loan, 9.00%, 10/21/21	United States	2,417,433	2,423,477
<sup>k</sup> Millennium Laboratories LLC, Tranche B Term Loan, 6.50%, 4/16/21	United States	35,490,400	35,345,990
<sup>k</sup> Prescrix Inc., Second Lien Facility, 9.25%, 4/30/22	United States	5,969,191	5,978,521
Surgery Centers Holdings Inc., Incremental Second Lien Term Loan, 9.75%, 4/10/20	United States	69,500	69,391
<sup>k</sup> Truven Health Analytics Inc., New Tranche B Term Loan, 5.50%, 6/06/19	United States	10,195,065	10,137,718
<sup>k</sup> U.S. Renal Care Inc., Tranche B-2 Term Loan, 4.25%, 7/03/19	United States	22,428,989	22,457,025
			<u>183,789,939</u>
<b>Household &amp; Personal Products 0.7%</b>			
<sup>k</sup> FGI Operating Co. LLC (Freedom Group), Term B Loans, 5.50%, 4/19/19	United States	31,754,701	32,191,328
Otter Products LLC, Loans, 5.25%, 4/29/19	United States	28,086,996	28,098,708
Sun Products Corp., Tranche B Term Loan, 3.25%, 3/23/20	United States	1,331,171	1,286,244
			<u>61,576,280</u>
<b>Insurance 0.0%<sup>†</sup></b>			
<sup>k</sup> HUB International Ltd., Initial Term Loan, 5.50%, 10/02/20	United States	4,146,500	4,144,945
<b>Materials 2.6%</b>			
<sup>k</sup> American Rock Salt Co. LLC, Initial Loan, 6.00%, 4/25/17	United States	24,101,741	24,154,475
Arysta Lifescience SPC LLC, Initial Term Loan, 4.50%, 5/29/20	United States	32,088,171	32,087,914
Second Lien Initial Term Loan, 8.25%, 11/30/20	United States	30,729,712	31,401,925
<sup>k</sup> Atkore International Inc., Second Lien Initial Term Loan, 9.00%, 10/09/21	United States	1,941,300	1,949,793
Axalta Coating Systems U.S. Holdings Inc., 2014 Specified Refinancing Term, 4.00%, 2/01/20	United States	14,923,713	14,904,028

# Franklin Strategic Series

Statement of Investments, April 30, 2014 (continued)

Franklin Strategic Income Fund	Country	Principal Amount*	Value
<b>f.) Senior Floating Rate Interests (continued)</b>			
<b>Materials (continued)</b>			
Caraustar Industries Inc., Initial Term Loan, 7.50%, 5/01/19 . . .	United States	3,048,069	\$ 3,096,649
Exopack Holdings SA, USD Term Loan, 5.25%, 5/08/19 . . . . .	Luxembourg	5,100,137	5,157,514
FMG America Finance Inc. (Fortescue Metals Group), Loans, 4.25%, 6/30/19 . . . . .	United States	15,545,286	15,556,214
MacDermid Holdings LLC, First Lien Tranche B Term Loan, 4.00%, 6/07/20 . . . . .	United States	18,346,405	18,309,712
<sup>k</sup> OCI Beaumont LLC, Term B-3 Loan, 5.00%, 8/20/19 . . . . .	United States	5,144,459	5,202,334
Oxbow Carbon LLC, First Lien Tranche B Term Loan, 4.25%, 7/19/19 . . . . .	United States	6,870,731	6,892,202
OXEA GmbH, Second Lien Term Loan, 8.25%, 7/15/20 . . . . .	Luxembourg	11,139,546	11,348,413
Reynolds Group Holdings Inc., U.S. Term Loan, 4.00%, 12/01/18 . . . . .	United States	42,189,449	42,271,845
Tronox Pigments (Netherlands) BV, Term Loan, 4.00%, 3/19/20 . . . . .	Netherlands	18,114,630	18,134,447
			<u>230,467,465</u>
<b>Media 1.4%</b>			
<sup>k</sup> Cengage Learning Acquisitions Inc., Original Term Loans, 7.00%, 3/31/20 . . . . .	United States	32,693,536	33,196,199
Cumulus Media Holdings Inc., Term Loans, 4.25%, 12/23/20 . . . . .	United States	15,404,327	15,404,327
<sup>k</sup> NEP/NCP Holdco Inc., Second Lien Term Loan, 9.50%, 7/22/20 . . . . .	United States	5,918,932	6,085,402
<sup>k</sup> Radio One Inc., Term Loan, 7.50%, 3/31/16 . . . . .	United States	4,560,163	4,634,266
<sup>k</sup> William Morris Endeavor Entertainment LLC, Term Loans First Lien, 6.50%, 3/21/21 . . . . .	United States	46,451,489	46,428,264
Term Loans Second Lien, 9.50%, 3/21/22 . . . . .	United States	15,931,764	16,086,111
Zuffa LLC, Initial Term Loan, 3.75%, 2/25/20 . . . . .	United States	3,649,204	3,637,800
			<u>125,472,369</u>
<b>Pharmaceuticals, Biotechnology &amp; Life Sciences 0.2%</b>			
Valeant Pharmaceuticals International Inc., Series E-1 Tranche B Term Loan, 3.75%, 8/05/20 . . . . .	Canada	16,229,129	16,243,784
<b>Retailing 2.3%</b>			
BJ's Wholesale Club Inc., 2013 (Nov) Replacement Loans, 4.50%, 9/26/19 . . . . .	United States	36,234,546	36,244,619
<sup>k</sup> Second Lien 2013 (Nov) Replacement Loans, 8.50%, 3/26/20 . . . . .	United States	25,278,297	25,844,810
Evergreen AcqCo. 1 LP (Savers), Term Loan, 5.00%, 7/09/19 . . . . .	United States	20,179,087	20,246,344
Harbor Freight Tools USA Inc., Loans, 4.75%, 7/26/19 . . . . .	United States	9,544,912	9,590,203
<sup>k</sup> The Men's Wearhouse Inc., Term Loan B, 5.75%, 4/15/21 . . . . .	United States	14,278,400	14,258,767
The Neiman Marcus Group Ltd. Inc., Other Term Loan, 4.25%, 10/25/20 . . . . .	United States	8,046,400	8,039,697
Party City Holdings Inc., 2014 Replacement Term Loan, 4.00%, 7/27/19 . . . . .	United States	24,314,125	24,260,950
<sup>k</sup> Sears Roebuck Acceptance Corp., Term Loan, 5.50%, 6/30/18 . . . . .	United States	42,129,041	42,516,333

# Franklin Strategic Series

## Statement of Investments, April 30, 2014 (continued)

Franklin Strategic Income Fund	Country	Principal Amount*	Value
<b>f,] Senior Floating Rate Interests (continued)</b>			
<b>Retailing (continued)</b>			
Sungard Availability Services Capital Inc., Tranche B Term Loan, 6.00%, 3/31/19 .....	United States	19,681,085	\$ 19,582,680
			<u>200,584,403</u>
<b>Software &amp; Services 0.7%</b>			
BMC Software Finance Inc., Initial U.S. Term Loans, 5.00%, 9/10/20 .....	United States	28,313,659	28,304,826
MoneyGram International Inc., Term Loan, 4.25%, 3/28/20 .....	United States	28,365,788	27,763,015
Vertafore Inc., Second Lien Term Loan, 9.75%, 10/27/17 .....	United States	8,638,639	8,792,519
			<u>64,860,360</u>
<b>Technology Hardware &amp; Equipment 0.4%</b>			
Alcatel-Lucent USA Inc., U.S. Term Loan C (TLC), 4.50%, 1/30/19 .....	France	13,143,873	13,167,151
Dell International LLC, Term B Loan, 4.50%, 4/29/20 .....	United States	11,252,807	11,226,239
<sup>k</sup> Presidio Inc., Term Loan, 6.25%, 3/31/17 .....	United States	7,566,521	7,613,812
			<u>32,007,202</u>
<b>Telecommunication Services 0.1%</b>			
Intelsat Jackson Holdings SA, Tranche B-2 Term Loan, 3.75%, 6/30/19 .....	Luxembourg	13,437,434	13,451,436
<b>Transportation 0.2%</b>			
<sup>k</sup> Global Tip Finance BV/Finance America LLC, Facility C Commitment, 6.50%, 10/16/20 .....	United States	16,672,657	16,464,249
			<u>1,277,021,825</u>
<b>Total Senior Floating Rate Interests (Cost \$1,273,083,951) .....</b>			
<b>Foreign Government and Agency Securities 20.3%</b>			
Government of Canada,			
2.25%, 8/01/14 .....	Canada	4,385,000 CAD	4,014,132
1.00%, 11/01/14 .....	Canada	3,697,000 CAD	3,373,257
2.00%, 12/01/14 .....	Canada	8,878,000 CAD	8,149,567
1.00%, 5/01/15 .....	Canada	34,283,000 CAD	31,280,872
Government of Hungary,			
7.75%, 8/24/15 .....	Hungary	57,900,000 HUF	279,116
5.50%, 2/12/16 .....	Hungary	7,719,020,000 HUF	36,509,368
5.50%, 12/22/16 .....	Hungary	584,040,000 HUF	2,787,476
4.125%, 2/19/18 .....	Hungary	4,390,000	4,521,700
6.50%, 6/24/19 .....	Hungary	721,600,000 HUF	3,573,278
7.50%, 11/12/20 .....	Hungary	8,507,000,000 HUF	44,203,130
5.375%, 2/21/23 .....	Hungary	16,250,000	16,997,094
A, 8.00%, 2/12/15 .....	Hungary	183,720,000 HUF	865,903
A, 6.75%, 11/24/17 .....	Hungary	1,955,920,000 HUF	9,711,551
A, 5.50%, 12/20/18 .....	Hungary	426,500,000 HUF	2,034,078
A, 7.00%, 6/24/22 .....	Hungary	11,570,000 HUF	58,780
A, 6.00%, 11/24/23 .....	Hungary	1,015,870,000 HUF	4,876,245
D, 6.75%, 8/22/14 .....	Hungary	890,000,000 HUF	4,074,685
senior note, 6.25%, 1/29/20 .....	Hungary	21,690,000	24,062,344
senior note, 6.375%, 3/29/21 .....	Hungary	14,820,000	16,533,563
senior note, 5.75%, 11/22/23 .....	Hungary	5,000,000	5,337,500

# Franklin Strategic Series

Statement of Investments, April 30, 2014 (continued)

Franklin Strategic Income Fund	Country	Principal Amount*	Value
<b>Foreign Government and Agency Securities (continued)</b>			
Government of Indonesia,			
FR26, 11.00%, 10/15/14 .....	Indonesia	4,500,000,000 IDR	\$ 398,202
FR28, 10.00%, 7/15/17 .....	Indonesia	10,200,000,000 IDR	948,530
FR34, 12.80%, 6/15/21 .....	Indonesia	169,210,000,000 IDR	18,532,387
FR36, 11.50%, 9/15/19 .....	Indonesia	35,400,000,000 IDR	3,574,692
FR39, 11.75%, 8/15/23 .....	Indonesia	29,150,000,000 IDR	3,107,501
FR44, 10.00%, 9/15/24 .....	Indonesia	8,340,000,000 IDR	810,628
Government of Ireland,			
5.90%, 10/18/19 .....	Ireland	9,393,000 EUR	16,074,422
4.50%, 4/18/20 .....	Ireland	1,390,000 EUR	2,231,612
5.00%, 10/18/20 .....	Ireland	26,083,000 EUR	43,107,636
senior bond, 5.40%, 3/13/25 .....	Ireland	15,868,580 EUR	26,868,718
Government of Malaysia,			
3.434%, 8/15/14 .....	Malaysia	77,675,000 MYR	23,841,761
3.741%, 2/27/15 .....	Malaysia	115,230,000 MYR	35,531,457
3.835%, 8/12/15 .....	Malaysia	32,480,000 MYR	10,045,156
4.72%, 9/30/15 .....	Malaysia	72,594,000 MYR	22,733,882
3.197%, 10/15/15 .....	Malaysia	27,690,000 MYR	8,493,297
senior bond, 4.24%, 2/07/18 .....	Malaysia	64,800,000 MYR	20,400,331
senior note, 3.172%, 7/15/16 .....	Malaysia	120,000,000 MYR	36,711,724
Government of Mexico,			
7.00%, 6/19/14 .....	Mexico	2,187,000 <sup>m</sup> MXN	16,794,431
9.50%, 12/18/14 .....	Mexico	3,566,870 <sup>m</sup> MXN	28,280,105
6.00%, 6/18/15 .....	Mexico	94,510 <sup>m</sup> MXN	740,595
8.00%, 12/17/15 .....	Mexico	5,837,850 <sup>m</sup> MXN	47,492,777
6.25%, 6/16/16 .....	Mexico	1,778,270 <sup>m</sup> MXN	14,201,371
7.25%, 12/15/16 .....	Mexico	8,765,870 <sup>m</sup> MXN	71,961,659
Government of Poland,			
5.50%, 4/25/15 .....	Poland	31,255,000 PLN	10,594,489
6.25%, 10/24/15 .....	Poland	70,991,000 PLN	24,606,643
5.00%, 4/25/16 .....	Poland	11,250,000 PLN	3,862,464
4.75%, 10/25/16 .....	Poland	265,000,000 PLN	91,136,451
5.75%, 9/23/22 .....	Poland	23,880,000 PLN	8,872,012
<sup>f</sup> FRN, 2.72%, 1/25/17 .....	Poland	7,098,000 PLN	2,339,542
<sup>f</sup> FRN, 2.72%, 1/25/21 .....	Poland	7,201,000 PLN	2,336,706
Strip, 7/25/14 .....	Poland	3,190,000 PLN	1,048,099
Strip, 7/25/15 .....	Poland	38,982,000 PLN	12,459,429
Strip, 1/25/16 .....	Poland	67,525,000 PLN	21,235,836
<sup>d</sup> Government of Russia, senior bond, 144A, 7.50%, 3/31/30 ..	Russia	12,020,380	13,415,345
<sup>d</sup> Government of Serbia, senior note, 144A,			
4.875%, 2/25/20 .....	Serbia	29,400,000	29,289,750
7.25%, 9/28/21 .....	Serbia	16,990,000	18,971,968
Government of Singapore, senior note,			
3.625%, 7/01/14 .....	Singapore	21,250,000 SGD	17,045,073
1.125%, 4/01/16 .....	Singapore	39,000,000 SGD	31,505,286
Government of Sri Lanka,			
A, 11.25%, 7/15/14 .....	Sri Lanka	528,200,000 LKR	4,076,569
A, 11.75%, 3/15/15 .....	Sri Lanka	3,490,000 LKR	27,748
A, 6.50%, 7/15/15 .....	Sri Lanka	86,940,000 LKR	660,439
A, 11.00%, 8/01/15 .....	Sri Lanka	601,300,000 LKR	4,807,155

# Franklin Strategic Series

Statement of Investments, April 30, 2014 (continued)

Franklin Strategic Income Fund	Country	Principal Amount*	Value
<b>Foreign Government and Agency Securities (continued)</b>			
Government of Sri Lanka, (continued)			
A, 6.40%, 8/01/16	Sri Lanka	48,100,000 LKR	\$ 359,172
A, 8.00%, 11/15/18	Sri Lanka	198,900,000 LKR	1,473,320
A, 9.00%, 5/01/21	Sri Lanka	220,720,000 LKR	1,616,608
B, 6.60%, 6/01/14	Sri Lanka	24,400,000 LKR	186,741
B, 6.40%, 10/01/16	Sri Lanka	45,400,000 LKR	336,411
B, 8.50%, 7/15/18	Sri Lanka	54,290,000 LKR	410,684
C, 8.50%, 4/01/18	Sri Lanka	24,240,000 LKR	184,049
D, 8.50%, 6/01/18	Sri Lanka	162,140,000 LKR	1,230,006
Government of Sweden, 6.75%, 5/05/14	Sweden	1,020,860,000 SEK	156,995,002
Government of the Philippines,			
senior bond, 7.00%, 1/27/16	Philippines	154,290,000 PHP	3,674,764
senior bond, 9.125%, 9/04/16	Philippines	41,860,000 PHP	1,048,974
senior note, 1.625%, 4/25/16	Philippines	867,450,000 PHP	19,170,984
<sup>d</sup> Government of Ukraine,			
144A, 9.25%, 7/24/17	Ukraine	10,720,000	9,694,900
144A, 7.75%, 9/23/20	Ukraine	25,000,000	21,242,000
senior bond, 144A, 7.80%, 11/28/22	Ukraine	26,860,000	22,595,975
senior note, 144A, 6.75%, 11/14/17	Ukraine	900,000	767,250
senior note, 144A, 7.95%, 2/23/21	Ukraine	13,970,000	11,970,544
senior note, 144A, 7.50%, 4/17/23	Ukraine	24,915,000	20,956,629
<sup>n</sup> Government of Uruguay, senior bond, Index Linked, 4.375%, 12/15/28	Uruguay	1,679,845,207 UYU	78,317,403
Korea Monetary Stabilization Bond,			
senior bond, 2.47%, 4/02/15	South Korea	58,588,400,000 KRW	56,615,418
senior bond, 2.80%, 8/02/15	South Korea	29,565,730,000 KRW	28,651,685
senior bond, 2.81%, 10/02/15	South Korea	1,911,000,000 KRW	1,851,722
senior note, 3.28%, 6/02/14	South Korea	15,790,650,000 KRW	15,293,025
senior note, 2.82%, 8/02/14	South Korea	4,726,000,000 KRW	4,577,212
senior note, 2.78%, 10/02/14	South Korea	18,849,700,000 KRW	18,258,264
senior note, 2.84%, 12/02/14	South Korea	9,106,970,000 KRW	8,826,136
senior note, 2.74%, 2/02/15	South Korea	6,249,720,000 KRW	6,053,874
senior note, 2.76%, 6/02/15	South Korea	31,746,600,000 KRW	30,756,589
Korea Treasury Bond,			
senior bond, 3.50%, 6/10/14	South Korea	23,735,250,000 KRW	22,995,277
senior note, 3.25%, 12/10/14	South Korea	7,058,110,000 KRW	6,857,414
senior note, 3.25%, 6/10/15	South Korea	7,137,850,000 KRW	6,951,517
senior note, 2.75%, 12/10/15	South Korea	19,650,740,000 KRW	19,022,586
senior note, 3.00%, 12/10/16	South Korea	60,500,000,000 KRW	58,776,416
Nota Do Tesouro Nacional,			
10.00%, 1/01/17	Brazil	125,850 <sup>o</sup> BRL	53,716,461
<sup>p</sup> Index Linked, 6.00%, 5/15/15	Brazil	16,430 <sup>o</sup> BRL	18,096,975
<sup>p</sup> Index Linked, 6.00%, 8/15/16	Brazil	4,799 <sup>o</sup> BRL	5,259,285
<sup>p</sup> Index Linked, 6.00%, 8/15/18	Brazil	34,550 <sup>o</sup> BRL	37,503,029
Uruguay Notas del Tesoro,			
10.50%, 3/21/15	Uruguay	80,790,000 UYU	3,353,557
10.25%, 8/22/15	Uruguay	395,600,000 UYU	16,113,357
9.50%, 1/27/16	Uruguay	50,700,000 UYU	2,003,772
<sup>n</sup> 18, Index Linked, 2.25%, 8/23/17	Uruguay	113,190,084 UYU	4,602,646
<sup>n</sup> Index Linked, 4.00%, 6/14/15	Uruguay	136,891,039 UYU	5,829,258

# Franklin Strategic Series

Statement of Investments, April 30, 2014 (continued)

Franklin Strategic Income Fund	Country	Principal Amount*	Value
<b>Foreign Government and Agency Securities (continued)</b>			
Uruguay Treasury Bill,			
<sup>q</sup> 8/29/14 . . . . .	Uruguay	91,376,000 UYU	\$ 3,768,980
Strip, 7/02/15 . . . . .	Uruguay	3,560,000 UYU	130,232
Strip, 8/20/15 . . . . .	Uruguay	445,261,000 UYU	16,013,552
<b>Total Foreign Government and Agency Securities (Cost \$1,763,443,357)</b> . . . . .			<u>1,778,527,172</u>
<b>U.S. Government and Agency Securities 1.7%</b>			
U.S. Treasury Bond,			
4.50%, 2/15/16 . . . . .	United States	10,000,000	10,749,800
4.50%, 5/15/17 . . . . .	United States	8,000,000	8,867,184
7.125%, 2/15/23 . . . . .	United States	3,000,000	4,107,657
6.25%, 8/15/23 . . . . .	United States	4,000,000	5,240,780
6.875%, 8/15/25 . . . . .	United States	1,000,000	1,403,906
5.25%, 2/15/29 . . . . .	United States	1,750,000	2,209,921
U.S. Treasury Note,			
4.25%, 11/15/14 . . . . .	United States	700,000	715,818
2.375%, 3/31/16 . . . . .	United States	24,000,000	24,922,968
4.75%, 8/15/17 . . . . .	United States	7,000,000	7,848,750
3.875%, 5/15/18 . . . . .	United States	22,000,000	24,216,324
3.75%, 11/15/18 . . . . .	United States	39,000,000	42,855,813
<sup>n</sup> Index Linked, 0.125%, 4/15/16 . . . . .	United States	9,571,746	9,850,676
<sup>n</sup> Index Linked, 0.625%, 7/15/21 . . . . .	United States	10,415,662	10,815,197
<b>Total U.S. Government and Agency Securities (Cost \$149,213,653)</b> . . . . .			<u>153,804,794</u>
<b>Asset-Backed Securities and Commercial Mortgage-Backed Securities 5.0%</b>			
<b>Banks 3.5%</b>			
Banc of America Commercial Mortgage Trust, 2006-4, AJ,			
5.695%, 7/10/46 . . . . .	United States	24,537,000	25,849,693
Bear Stearns Commercial Mortgage Securities Inc.,			
<sup>f</sup> 2006-PW11, AJ, FRN, 5.441%, 3/11/39 . . . . .	United States	19,604,000	20,646,541
<sup>f</sup> 2006-PW12, AJ, FRN, 5.75%, 9/11/38 . . . . .	United States	20,666,000	21,424,236
2006-PW13, AJ, 5.611%, 9/11/41 . . . . .	United States	30,225,000	31,456,926
<sup>f</sup> 2007-PW16, AM, FRN, 5.707%, 6/11/40 . . . . .	United States	4,680,000	5,226,418
Bear Stearns Commercial Mortgage Securities Trust,			
2007-PW15, A4, 5.331%, 2/11/44 . . . . .	United States	1,488,403	1,614,737
Citigroup Commercial Mortgage Trust,			
2006-C5, AJ, 5.482%, 10/15/49 . . . . .	United States	23,850,000	23,974,115
<sup>f</sup> 2007-C6, AM, FRN, 5.71%, 6/10/17 . . . . .	United States	25,650,000	28,336,812
<sup>f</sup> Citigroup/Deutsche Bank Commercial Mortgage Trust,			
2006-CD3, AJ, FRN, 5.688%, 10/15/48 . . . . .	United States	21,795,000	20,999,822
Countrywide Asset-Backed Certificates, 2005-11, AF4,			
5.192%, 3/25/34 . . . . .	United States	2,800,000	2,239,216
Greenwich Capital Commercial Funding Corp.,			
<sup>f</sup> 2006-GG7, AJ, FRN, 5.82%, 7/10/38 . . . . .	United States	24,320,000	25,322,434
2007-GG9, A4, 5.444%, 3/10/39 . . . . .	United States	12,365,000	13,543,496
2007-GG9, AM, 5.475%, 3/10/39 . . . . .	United States	6,165,000	6,653,527

# Franklin Strategic Series

Statement of Investments, April 30, 2014 (continued)

Franklin Strategic Income Fund	Country	Principal Amount*	Value
<b>Asset-Backed Securities and Commercial Mortgage-Backed Securities (continued)</b>			
<b>Banks (continued)</b>			
JPMorgan Chase Commercial Mortgage Securities Corp., 2006-CB17, AM, 5.464%, 12/12/43	United States	6,840,000	\$ 7,227,151
<sup>f</sup> 2006-LDP7, AJ, FRN, 5.873%, 4/15/45	United States	15,080,000	15,579,736
<sup>f</sup> LB-UBS Commercial Mortgage Trust, 2006-C4, AM, FRN, 5.855%, 6/15/38	United States	9,280,000	10,123,413
<sup>f</sup> Merrill Lynch Mortgage Trust, 2005-CK11, AJ, FRN, 5.281%, 11/12/37	United States	2,875,000	3,026,865
<sup>f</sup> Morgan Stanley Capital I Trust, 2006-HQ8, AJ, FRN, 5.497%, 3/12/44	United States	7,045,000	7,228,720
2007-IQ16, AM, FRN, 6.099%, 12/12/49	United States	11,777,000	13,286,970
2007-IQ16, AMA, FRN, 6.094%, 12/12/49	United States	12,415,000	13,973,989
Wells Fargo Mortgage Backed Securities Trust, <sup>f</sup> 04-W, A9, FRN, 2.762%, 11/25/34	United States	4,111,189	4,260,760
2007-3, 3A1, 5.50%, 4/25/37	United States	1,448,382	1,502,500
			<u>303,498,077</u>
<b>Diversified Financials 1.5%</b>			
<sup>d,f</sup> ARES CLO Funds, 2007-12A, B, 144A, FRN, 1.235%, 11/25/20	United States	3,840,000	3,728,256
<sup>d,f</sup> Atrium CDO Corp., 10A, C, 144A, FRN, 2.829%, 7/16/25	United States	13,950,000	13,694,715
<sup>d,f</sup> Catamaran CLO Ltd., 2013-1A, C, 144A, FRN, 2.828%, 1/27/25	Cayman Islands	11,250,000	10,918,226
<sup>d,f</sup> Cent CDO Ltd., 2007-15A, A2B, 144A, FRN, 0.576%, 3/11/21	United States	3,881,000	3,642,031
<sup>d,f</sup> Cent CLO LP, 2013-17A, D, 144A, FRN, 3.236%, 1/30/25	Cayman Islands	7,450,980	7,458,237
<sup>d,f</sup> CIFC Funding Ltd., 2007-3A, A1J, 144A, FRN, 0.628%, 7/26/21	United States	5,130,000	4,892,994
<sup>d,f</sup> Columbus Nova CLO Ltd., 2007-2A, A2, 144A, FRN, 1.227%, 10/15/21	United States	2,680,000	2,607,495
<sup>d,f</sup> CT CDO IV Ltd., 2006-4A, A1, 144A, FRN, 0.462%, 10/20/43	United States	11,080,511	10,775,797
<sup>d</sup> G-Force LLC, 2005-RRA, C, 144A, 5.20%, 8/22/36	United States	11,144,000	10,359,463
<sup>d,f</sup> Gleneagles CLO Ltd., 2005-1A, A2, 144A, FRN, 0.638%, 11/01/17	United States	8,002,000	7,833,910
<sup>d,f</sup> ING Investment Management CLO Ltd., 2013-1A, B, 144A, FRN, 3.127%, 4/15/24	Cayman Islands	2,740,000	2,736,712
2013-1A, C, 144A, FRN, 3.727%, 4/15/24	Cayman Islands	4,440,000	4,301,472
2013-2A, B, 144A, FRN, 2.909%, 4/25/25	United States	10,770,000	10,655,569
<sup>d,f</sup> Newcastle CDO Ltd., 2004-5A, 1, 144A, FRN, 0.574%, 12/24/39	United States	6,589,897	6,382,341
Residential Asset Securities Corp., 2004-KS1, A14, 4.213%, 4/25/32	United States	78,183	78,168
<sup>f,r</sup> Talisman 6 Finance, Reg S, FRN, 0.507%, 10/22/16	Ireland	13,739,515 EUR	18,368,550
<sup>d,f</sup> Westchester CLO Ltd., 2007-1A, A1A, 144A, FRN, 0.463%, 8/01/22	United States	13,563,100	13,332,174
			<u>131,766,110</u>
<b>Total Asset-Backed Securities and Commercial Mortgage-Backed Securities (Cost \$416,646,821)</b>			<u>435,264,187</u>



# Franklin Strategic Series

Statement of Investments, April 30, 2014 (continued)

Franklin Strategic Income Fund	Country	Principal Amount*	Value
<b>Mortgage-Backed Securities 4.5%</b>			
<b>† Federal Home Loan Mortgage Corp. (FHLMC)</b>			
<b>Adjustable Rate 0.0%<sup>†</sup></b>			
FHLMC, 2.348%, 1/01/33	United States	123,202	\$ 130,827
<b>Federal Home Loan Mortgage Corp. (FHLMC) Fixed Rate 0.7%</b>			
FHLMC Gold 15 Year, 4.50%, 10/01/18 - 9/01/19	United States	938,662	996,496
FHLMC Gold 15 Year, 5.00%, 12/01/17 - 7/01/22	United States	1,209,029	1,291,818
FHLMC Gold 15 Year, 5.50%, 7/01/17 - 2/01/19	United States	142,082	151,089
FHLMC Gold 30 Year, 3.00%, 11/01/42 - 4/01/43	United States	30,755,887	30,037,760
FHLMC Gold 30 Year, 3.50%, 4/01/42 - 5/01/43	United States	4,094,985	4,162,723
FHLMC Gold 30 Year, 4.00%, 9/01/40 - 1/01/41	United States	14,134,525	14,821,589
FHLMC Gold 30 Year, 4.50%, 10/01/40	United States	493,967	531,543
FHLMC Gold 30 Year, 5.00%, 5/01/27 - 2/01/38	United States	4,196,672	4,609,651
FHLMC Gold 30 Year, 5.50%, 6/01/33 - 6/01/36	United States	2,716,297	3,023,715
FHLMC Gold 30 Year, 6.00%, 6/01/33 - 6/01/37	United States	1,128,644	1,268,542
FHLMC Gold 30 Year, 6.50%, 10/01/21 - 6/01/36	United States	590,932	665,579
FHLMC Gold 30 Year, 7.00%, 9/01/21 - 8/01/32	United States	61,778	67,292
FHLMC Gold 30 Year, 7.50%, 1/01/26 - 1/01/31	United States	12,808	14,755
FHLMC Gold 30 Year, 8.00%, 11/01/25 - 1/01/26	United States	288	303
FHLMC Gold 30 Year, 9.00%, 12/01/24	United States	169	196
			<u>61,643,051</u>
<b>† Federal National Mortgage Association (FNMA)</b>			
<b>Adjustable Rate 0.0%<sup>†</sup></b>			
FNMA, 2.31%, 12/01/34	United States	342,990	365,351
FNMA, 2.33%, 4/01/20	United States	89,835	93,052
			<u>458,403</u>
<b>Federal National Mortgage Association (FNMA) Fixed Rate 3.5%</b>			
FNMA 15 Year, 2.50%, 7/01/27	United States	704,098	712,102
FNMA 15 Year, 3.00%, 11/01/26 - 8/01/28	United States	80,547,816	83,362,842
FNMA 15 Year, 3.00%, 8/01/28 - 9/01/28	United States	17,790,481	18,403,337
FNMA 15 Year, 3.50%, 1/01/26	United States	471,268	497,391
FNMA 15 Year, 4.50%, 3/01/20	United States	177,079	188,398
FNMA 15 Year, 5.00%, 1/01/18 - 6/01/18	United States	234,861	249,745
FNMA 15 Year, 5.50%, 6/01/14 - 4/01/22	United States	2,393,572	2,549,715
FNMA 15 Year, 6.00%, 7/01/16 - 10/01/16	United States	10,703	11,026
FNMA 15 Year, 7.50%, 10/01/14	United States	115	116
FNMA 30 Year, 3.00%, 1/01/28 - 5/01/43	United States	51,419,882	50,331,780
FNMA 30 Year, 3.50%, 5/01/43	United States	19,136,658	19,476,947
FNMA 30 Year, 4.00%, 11/01/40 - 8/01/43	United States	83,365,701	87,454,037
FNMA 30 Year, 4.00%, 8/01/43	United States	14,523,928	15,246,949
FNMA 30 Year, 4.50%, 3/01/28 - 2/01/41	United States	1,311,473	1,411,243
FNMA 30 Year, 5.00%, 9/01/23 - 1/01/42	United States	14,422,534	15,898,165
FNMA 30 Year, 5.50%, 9/01/33 - 7/01/38	United States	5,605,010	6,228,389
FNMA 30 Year, 6.00%, 6/01/34 - 5/01/38	United States	6,454,142	7,236,445
FNMA 30 Year, 6.50%, 3/01/28 - 10/01/37	United States	1,334,385	1,503,280
FNMA 30 Year, 7.50%, 10/01/29	United States	12,904	15,380



# Franklin Strategic Series

## Statement of Investments, April 30, 2014 (continued)

Franklin Strategic Income Fund	Country	Principal Amount*	Value
<b>Mortgage-Backed Securities (continued)</b>			
<b>Federal National Mortgage Association (FNMA)</b>			
<b>Fixed Rate (continued)</b>			
FNMA 30 Year, 8.00%, 1/01/25 - 5/01/26 .....	United States	6,585	\$ 7,717
FNMA 30 Year, 8.50%, 7/01/25 .....	United States	591	616
			<hr/>
			310,785,620
<b>Government National Mortgage Association (GNMA)</b>			
<b>Fixed Rate 0.3%</b>			
GNMA I SF 30 Year, 5.00%, 6/15/34 - 7/15/34 .....	United States	373,956	414,835
GNMA I SF 30 Year, 5.50%, 2/15/33 - 6/15/36 .....	United States	1,018,774	1,141,417
GNMA I SF 30 Year, 6.00%, 8/15/36 .....	United States	104,886	120,478
GNMA I SF 30 Year, 6.50%, 12/15/28 - 3/15/32 .....	United States	73,092	82,710
GNMA I SF 30 Year, 7.00%, 11/15/27 - 5/15/28 .....	United States	32,764	36,398
GNMA I SF 30 Year, 7.50%, 9/15/23 - 5/15/27 .....	United States	4,529	5,115
GNMA I SF 30 Year, 8.00%, 2/15/25 - 9/15/27 .....	United States	6,837	7,780
GNMA I SF 30 Year, 8.50%, 8/15/24 .....	United States	93	106
GNMA I SF 30 Year, 9.00%, 1/15/25 .....	United States	362	364
GNMA I SF 30 Year, 9.50%, 6/15/25 .....	United States	593	597
GNMA II SF 30 Year, 3.50%, 4/20/42 .....	United States	19,774,256	20,383,828
GNMA II SF 30 Year, 5.00%, 9/20/33 - 11/20/33 .....	United States	568,815	631,785
GNMA II SF 30 Year, 5.50%, 6/20/34 .....	United States	282,652	322,002
GNMA II SF 30 Year, 6.00%, 11/20/34 .....	United States	247,400	285,007
GNMA II SF 30 Year, 6.50%, 7/20/28 - 12/20/31 .....	United States	132,310	151,840
GNMA II SF 30 Year, 7.50%, 8/20/16 - 4/20/32 .....	United States	32,853	36,847
			<hr/>
			23,621,109
<b>Total Mortgage-Backed Securities</b>			
<b>(Cost \$398,385,135)</b> .....			<hr/>
			396,639,010
<b>Municipal Bonds 5.8%</b>			
Arkansas State GO, Four-Lane Highway Construction and Improvement Bonds, 3.25%, 6/15/22 .....	United States	16,000,000	16,841,120
California State GO,			
Build America Bonds, Various Purpose, 7.625%, 3/01/40 . . .	United States	6,200,000	8,814,788
Various Purpose, 6.00%, 4/01/38 .....	United States	10,000,000	11,742,400
Various Purpose, 6.00%, 11/01/39 .....	United States	1,000,000	1,190,900
Various Purpose, 5.25%, 11/01/40 .....	United States	3,375,000	3,750,334
Various Purpose, 7.60%, 11/01/40 .....	United States	15,000,000	21,581,100
Various Purpose, Refunding, 5.25%, 3/01/38 .....	United States	7,220,000	7,815,794
Various Purpose, Refunding, 5.00%, 4/01/38 .....	United States	20,000,000	21,578,200
Various Purpose, Refunding, NATL Insured, 4.50%, 12/01/32 .....	United States	1,815,000	1,878,688
Various Purpose, Refunding, Series 1, AGMC Insured, 4.75%, 9/01/31 .....	United States	1,755,000	1,824,217
Colorado State ISD, GO, Mitchell and Scurry Counties, School Building, PSF Guarantee, 5.00%, 8/15/43 .....	United States	3,105,000	3,401,496
Evansville Local Public Improvement Bond Bank Revenue, Sewage Works Project, Series A, 5.00%, 7/01/36 .....	United States	6,320,000	6,858,654
Florida Hurricane Catastrophe Fund Finance Corp. Revenue, Series A, 2.995%, 7/01/20 .....	United States	30,000,000	30,076,500
Hawaii State GO, Series EH, 5.00%, 8/01/30 .....	United States	6,500,000	7,468,370

# Franklin Strategic Series

## Statement of Investments, April 30, 2014 (continued)

Franklin Strategic Income Fund	Country	Principal Amount*	Value
<b>Municipal Bonds (continued)</b>			
Illinois State GO, 5.877%, 3/01/19	United States	20,000,000	\$ 22,512,800
Build America Bonds, 7.35%, 7/01/35	United States	8,000,000	9,564,960
Kansas State Development Finance Authority Revenue, Wichita State University Union Corp. Student Housing Project, Refunding, Series F-1, 5.25%, 6/01/38	United States	5,725,000	6,161,875
5.25%, 6/01/42	United States	5,800,000	6,220,442
5.00%, 6/01/46	United States	6,800,000	7,087,436
Marco Island Utility System Revenue, Refunding, 4.625%, 10/01/30	United States	2,800,000	3,015,600
10/01/31	United States	2,500,000	2,676,050
Massachusetts State GO, Consolidated Loan of 2014, Series A, 4.50%, 12/01/43	United States	18,300,000	19,074,456
Metropolitan Boston Transit Parking Corp. Systemwide Parking Revenue, senior lien, 5.00%, 7/01/41	United States	4,250,000	4,531,053
Minnesota State GO, Various Purpose, Refunding, Series F, 4.00%, 10/01/24	United States	21,400,000	24,037,122
Mississippi State GO, Series B, 5.00%, 12/01/31	United States	7,300,000	8,375,874
Nassau County GO, General Improvement Bonds, Series B, 5.00%, 4/01/39	United States	12,500,000	13,236,125
4/01/43	United States	13,000,000	13,647,270
New Jersey EDA Revenue, School Facilities Construction, Refunding, Series NN, 5.00%, 3/01/30	United States	5,200,000	5,692,336
New York City HDC Revenue, Series B1, 5.00%, 7/01/33	United States	3,500,000	3,791,060
New York City Municipal Water Finance Authority Water and Sewer System Revenue, Second General Resolution, Fiscal 2014, Refunding, Series BB, 5.00%, 6/15/46	United States	22,685,000	24,384,107
New York GO, Sub. Series G-1, 5.00%, 4/01/27	United States	14,000,000	15,851,920
New York State Urban Development Corp. Revenue, State Personal Income Tax, General Purpose, Series C, 5.00%, 3/15/29	United States	19,500,000	22,124,505
Puerto Rico Electric Power Authority Power Revenue, Series A, 6.75%, 7/01/36	United States	30,900,000	20,249,697
Series XX, 5.25%, 7/01/40	United States	1,300,000	763,750
Puerto Rico Sales Tax FICO Sales Tax Revenue, Capital Appreciation, Refunding, Series A, NATL Insured, zero cpn., 8/01/46	United States	6,000,000	712,440
Capital Appreciation, Series A, zero cpn., 8/01/25	United States	6,480,000	2,697,430
first subordinate, Series A, 5.75%, 8/01/37	United States	7,000,000	5,501,230
first subordinate, Series A, 6.50%, 8/01/44	United States	18,300,000	15,365,595
Refunding, Series A, NATL RE, FGIC Insured, zero cpn., 8/01/45	United States	25,700,000	3,289,600
Refunding, Series B, 6.05%, 8/01/37	United States	9,150,000	7,623,231
Refunding, Series B, 6.05%, 8/01/38	United States	11,230,000	9,279,574
Red River Education Financing Corp. Education Revenue, Higher Education, Texas Christian University, 5.00%, 3/15/43	United States	4,900,000	5,247,214
South Carolina State Public Service Authority Revenue, Refunding, Series B, 5.00%, 12/01/38	United States	7,200,000	7,744,032

# Franklin Strategic Series

Statement of Investments, April 30, 2014 (continued)

Franklin Strategic Income Fund	Country	Principal Amount*	Value
<b>Municipal Bonds (continued)</b>			
University of California Revenues, General, Series AK, 5.00%, 5/15/48 . . . . .	United States	44,325,000	\$ 53,628,817
Washington State GO, Various Purpose, Refunding, Series R-C, 5.00%, 7/01/24 . . . . .	United States	8,385,000	10,083,046
Series D, 5.00%, 2/01/23 . . . . .	United States	7,400,000	8,797,268
<b>Total Municipal Bonds (Cost \$482,165,145)</b> . . . . .			<u>507,790,476</u>
		<b>Shares</b>	
<b>Escrows and Litigation Trusts 0.0%</b>			
<sup>a,l</sup> Comfort Co. Inc., Escrow Account . . . . .	United States	63,156	—
<sup>a,l</sup> NewPage Corp., Litigation Trust . . . . .	United States	14,000,000	—
<b>Total Escrows and Litigation Trusts (Cost \$—)</b> . . . . .			<u>—</u>
<b>Total Investments before Short Term Investments (Cost \$7,597,194,629)</b> . . . . .			<u>7,863,832,906</u>
		<b>Principal Amount*</b>	
<b>Short Term Investments 10.4%</b>			
<sup>f,j</sup> <b>Senior Floating Rate Interests (Cost \$1,538,600) 0.0%†</b>			
<sup>k</sup> Altegrity Inc., Tranche B Term Loan, 5.00%, 2/21/15 . . . . .	United States	1,570,000	1,538,111
<b>Foreign Government and Agency Securities 2.1%</b>			
<sup>q</sup> Bank of Negara Monetary Notes, 5/15/14 - 11/06/14 . . . . .	Malaysia	175,410,000 MYR	53,445,793
Government of Canada, 0.75%, 5/01/14 . . . . .	Canada	9,930,000 CAD	9,060,168
1.00%, 2/01/15 . . . . .	Canada	4,500,000 CAD	4,106,555
<sup>q</sup> Hungary Treasury Bill, 6/25/14 . . . . .	Hungary	148,600,000 HUF	669,629
Korea Monetary Stabilization Bond, senior bond, 2.55%, 5/09/14 . . . . .	South Korea	6,495,900,000 KRW	6,287,762
senior bond, 2.72%, 9/09/14 . . . . .	South Korea	2,944,000,000 KRW	2,850,833
senior note, 2.57%, 6/09/14 . . . . .	South Korea	2,979,000,000 KRW	2,883,554
<sup>q</sup> Malaysia Treasury Bill, 5/30/14 . . . . .	Malaysia	2,600,000 MYR	795,102
<sup>q</sup> Philippine Treasury Bills, 7/02/14 - 11/05/14 . . . . .	Philippines	1,850,405,000 PHP	41,397,684
<sup>q</sup> Singapore Treasury Bills, 5/02/14 - 5/30/14 . . . . .	Singapore	76,883,000 SGD	61,325,239
<sup>q</sup> Uruguay Treasury Bill, 5/16/14 . . . . .	Uruguay	21,500,000 UYU	926,994
<b>Total Foreign Government and Agency Securities (Cost \$186,230,173)</b> . . . . .			<u>183,749,313</u>
<b>Total Investments before Money Market Funds (Cost \$7,784,963,402)</b> . . . . .			<u>8,049,120,330</u>
		<b>Shares</b>	
<b>Money Market Funds (Cost \$725,462,930) 8.3%</b>			
<sup>a,s</sup> Institutional Fiduciary Trust Money Market Portfolio . . . . .	United States	725,462,930	725,462,930
<b>Total Investments (Cost \$8,510,426,332) 100.0%</b> . . . . .			<u>8,774,583,260</u>
<b>Other Assets, less Liabilities 0.0%†</b> . . . . .			<u>2,076,427</u>
<b>Net Assets 100.0%</b> . . . . .			<u>\$8,776,659,687</u>

# Franklin Strategic Series

## Statement of Investments, April 30, 2014 (continued)

### Franklin Strategic Income Fund

<sup>†</sup>Rounds to less than 0.1% of net assets.

<sup>\*</sup>The principal amount is stated in U.S. dollars unless otherwise indicated.

<sup>‡</sup>Non-income producing.

<sup>‡</sup>At April 30, 2014, pursuant to the Fund's policies and the requirements of applicable securities law, the Fund may be restricted from trading these securities for a limited or extended period of time due to ownership limits and/or potential possession of material non-public information.

<sup>‡</sup>See Note 1(f) regarding investment in FT Holdings Corporation II.

<sup>‡</sup>Security was purchased pursuant to Rule 144A under the Securities Act of 1933 and may be sold in transactions exempt from registration only to qualified institutional buyers or in a public offering registered under the Securities Act of 1933. These securities have been deemed liquid under guidelines approved by the Trust's Board of Trustees. At April 30, 2014, the aggregate value of these securities was \$1,652,503,621, representing 18.83% of net assets.

<sup>‡</sup>Perpetual security with no stated maturity date.

<sup>‡</sup>The coupon rate shown represents the rate at period end.

<sup>‡</sup>See Note 1(e) regarding loan participation notes.

<sup>‡</sup>Income may be received in additional securities and/or cash.

<sup>‡</sup>See Note 7 regarding defaulted securities.

<sup>‡</sup>See Note 1(h) regarding senior floating rate interests.

<sup>‡</sup>A portion or all of the security purchased on a delayed delivery basis. See Note 1(c).

<sup>‡</sup>Security has been deemed illiquid because it may not be able to be sold within seven days. At April 30, 2014, the aggregate value of these securities was \$1,160,988, representing 0.01% of net assets.

<sup>‡</sup>Principal amount is stated in 100 Mexican Peso Units.

<sup>‡</sup>Principal amount of security is adjusted for inflation. See Note 1(j).

<sup>‡</sup>Principal amount is stated in 1,000 Brazilian Real Units.

<sup>‡</sup>Redemption price at maturity is adjusted for inflation. See Note 1(j).

<sup>‡</sup>The security is traded on a discount basis with no stated coupon rate.

<sup>‡</sup>Security was purchased pursuant to Regulation S under the Securities Act of 1933, which exempts from registration securities offered and sold outside of the United States. Such a security cannot be sold in the United States without either an effective registration statement filed pursuant to the Securities Act of 1933, or pursuant to an exemption from registration. This security has been deemed liquid under guidelines approved by the Trust's Board of Trustees. At April 30, 2014, the value of this security was \$18,368,550, representing 0.21% of net assets.

<sup>‡</sup>See Note 3(f) regarding investments in the Institutional Fiduciary Trust Money Market Portfolio.

At April 30, 2014, the Fund had the following forward exchange contracts outstanding. See Note 1(d).

### Forward Exchange Contracts

Currency	Counter-party <sup>a</sup>	Type	Quantity	Contract Amount	Settlement Date	Unrealized Appreciation	Unrealized Depreciation
Euro	DBAB	Buy	968,556	\$ 1,339,222	5/05/14	\$ 4,342	\$ —
Euro	DBAB	Sell	968,556	1,281,883	5/05/14	—	(61,681)
Euro	DBAB	Buy	3,815,920	5,276,273	5/06/14	17,094	—
Euro	DBAB	Sell	3,815,920	5,000,000	5/06/14	—	(293,367)
Euro	DBAB	Buy	2,526,241	3,493,034	5/07/14	11,308	—
Euro	DBAB	Sell	2,526,241	3,322,490	5/07/14	—	(181,852)
Japanese Yen	DBAB	Buy	2,136,365,000	20,873,131	5/07/14	29,509	—
Japanese Yen	DBAB	Sell	2,136,365,000	22,000,000	5/07/14	1,097,359	—
British Pound	DBAB	Buy	9,100,000	15,054,082	5/09/14	306,530	—
British Pound	DBAB	Sell	9,100,000	14,071,330	5/09/14	—	(1,289,282)
Chilean Peso	DBAB	Buy	6,734,000,000	13,702,309	5/09/14	—	(1,778,703)
Chilean Peso	DBAB	Sell	6,734,000,000	11,975,814	5/09/14	52,207	—

# Franklin Strategic Series

## Statement of Investments, April 30, 2014 (continued)

### Franklin Strategic Income Fund

#### Forward Exchange Contracts (continued)

Currency	Counter-party <sup>a</sup>	Type	Quantity	Contract Amount	Settlement Date	Unrealized Appreciation	Unrealized Depreciation
Euro	DBAB	Buy	6,100,000	\$ 8,432,893	5/09/14	\$ 28,842	\$ —
Euro	DBAB	Sell	6,100,000	8,007,775	5/09/14	—	(453,960)
Euro	DBAB	Sell	3,090,000	4,086,834	5/12/14	—	(199,489)
Singapore Dollar	DBAB	Buy	17,302,320	14,062,582	5/12/14	—	(260,498)
British Pound	DBAB	Buy	2,062,985	3,180,505	5/15/14	301,606	—
British Pound	DBAB	Sell	2,184,041	3,333,938	5/15/14	—	(352,502)
Euro	DBAB	Sell	2,050,692	2,647,854	5/19/14	—	(196,735)
Euro	JPHQ	Sell	855,033	1,105,481	5/23/14	—	(80,555)
Japanese Yen	DBAB	Sell	1,008,700,000	10,000,000	5/28/14	129,368	—
Euro	GSCO	Sell	800,000	1,031,480	5/30/14	—	(78,199)
Euro	DBAB	Sell	3,488,331	4,539,365	6/05/14	—	(299,217)
Singapore Dollar	JPHQ	Buy	18,544,500	14,751,810	6/05/14	41,168	—
Japanese Yen	BZWS	Sell	527,610,000	5,421,605	6/10/14	258,285	—
Japanese Yen	HSBC	Sell	561,900,000	5,808,833	6/10/14	309,943	—
Japanese Yen	JPHQ	Sell	381,050,000	3,872,599	6/10/14	143,552	—
Japanese Yen	DBAB	Sell	186,100,000	1,936,605	6/11/14	115,375	—
Japanese Yen	JPHQ	Sell	520,600,000	5,421,584	6/11/14	326,836	—
Japanese Yen	JPHQ	Sell	219,500,000	2,323,120	6/17/14	174,953	—
Singapore Dollar	DBAB	Buy	3,982,600	3,173,386	6/18/14	3,559	—
Chilean Peso	DBAB	Buy	2,426,750,000	4,721,304	6/19/14	—	(444,188)
Singapore Dollar	HSBC	Buy	3,182,000	2,527,403	6/20/14	10,901	—
Euro	DBAB	Sell	1,175,900	1,541,664	6/27/14	—	(89,304)
Euro	UBSW	Sell	9,972,000	13,021,737	6/30/14	—	(809,289)
Japanese Yen	BZWS	Sell	1,772,250,000	18,214,286	6/30/14	868,604	—
Japanese Yen	DBAB	Sell	1,175,148,000	12,000,000	7/01/14	498,309	—
British Pound	DBAB	Sell	825,578	1,230,359	7/07/14	—	(162,547)
British Pound	DBAB	Sell	992,188	1,480,741	7/09/14	—	(193,238)
Euro	DBAB	Sell	4,572,237	5,899,557	7/09/14	—	(442,012)
Chilean Peso	DBAB	Buy	432,000,000	816,249	7/10/14	—	(56,508)
Euro	DBAB	Sell	1,877,906	2,424,565	7/10/14	—	(180,038)
Euro	DBAB	Sell	4,880,504	6,294,386	7/11/14	—	(474,727)
Euro	DBAB	Sell	2,202,128	2,893,641	7/23/14	—	(160,607)
Euro	DBAB	Sell	4,253,562	5,632,142	7/25/14	—	(267,335)
Euro	BZWS	Sell	5,986,000	7,927,858	7/28/14	—	(374,396)
Euro	CITI	Sell	2,785,851	3,689,372	7/28/14	—	(174,451)
Euro	DBAB	Sell	11,104,766	14,717,702	7/29/14	—	(683,986)
British Pound	DBAB	Sell	846,924	1,289,526	7/30/14	—	(139,113)
Euro	DBAB	Sell	16,505,750	21,903,608	8/01/14	—	(988,884)
Euro	JPHQ	Sell	3,379,556	4,470,148	8/06/14	—	(217,074)
Euro	CITI	Sell	1,324,074	1,762,740	8/08/14	—	(73,661)
Chilean Peso	BZWS	Buy	2,082,200,000	3,869,901	8/11/14	—	(219,861)
Chilean Peso	JPHQ	Buy	1,352,200,000	2,536,723	8/11/14	—	(166,353)

# Franklin Strategic Series

## Statement of Investments, April 30, 2014 (continued)

### Franklin Strategic Income Fund

#### Forward Exchange Contracts (continued)

Currency	Counter-party <sup>a</sup>	Type	Quantity	Contract Amount	Settlement Date	Unrealized Appreciation	Unrealized Depreciation
Euro	CITI	Sell	384,312	\$ 512,090	8/11/14	\$ —	\$ (20,923)
Japanese Yen	DBAB	Sell	112,187,000	1,142,934	8/19/14	44,563	—
Chilean Peso	JPHQ	Buy	5,646,370,800	10,627,462	8/20/14	—	(738,405)
Japanese Yen	HSBC	Sell	208,867,000	2,153,268	8/20/14	108,334	—
Japanese Yen	JPHQ	Sell	151,946,000	1,563,029	8/20/14	75,386	—
Euro	JPHQ	Sell	9,800,000	13,100,591	8/21/14	—	(491,199)
Japanese Yen	BZWS	Sell	50,333,000	519,111	8/22/14	26,314	—
Euro	BZWS	Sell	2,935,231	3,934,941	8/25/14	—	(135,968)
Japanese Yen	CITI	Sell	100,563,000	1,035,222	8/25/14	50,617	—
Japanese Yen	DBAB	Sell	49,740,000	511,802	8/25/14	24,801	—
Japanese Yen	HSBC	Sell	99,826,000	1,025,002	8/25/14	47,613	—
Euro	DBAB	Sell	2,214,428	2,958,476	8/26/14	—	(112,740)
Japanese Yen	BZWS	Sell	139,815,000	1,422,330	8/26/14	53,402	—
Japanese Yen	JPHQ	Sell	100,349,000	1,020,829	8/26/14	38,313	—
Euro	DBAB	Sell	3,473,733	4,655,845	8/27/14	—	(161,912)
Euro	JPHQ	Sell	1,161,245	1,549,693	8/27/14	—	(60,850)
Japanese Yen	DBAB	Sell	1,803,257,000	18,270,081	8/27/14	614,290	—
Japanese Yen	HSBC	Sell	158,794,000	1,609,067	8/27/14	54,306	—
Japanese Yen	JPHQ	Sell	50,640,000	513,786	8/27/14	17,967	—
Singapore Dollar	DBAB	Buy	3,355,500	2,624,971	8/27/14	51,881	—
Euro	DBAB	Sell	14,050,998	18,789,304	8/28/14	—	(698,156)
Euro	DBAB	Sell	10,420,622	13,915,698	8/29/14	—	(536,747)
Japanese Yen	JPHQ	Sell	49,853,000	513,078	8/29/14	24,958	—
Euro	BZWS	Sell	742,104	991,451	9/19/14	—	(37,761)
Euro	UBSW	Sell	10,201,937	13,635,909	9/22/14	—	(512,958)
Japanese Yen	DBAB	Sell	2,094,875,000	21,220,371	9/22/14	705,798	—
Euro	DBAB	Sell	8,820,523	11,967,862	9/23/14	—	(265,138)
Euro	BZWS	Sell	1,894,260	2,564,373	9/24/14	—	(62,734)
Euro	DBAB	Sell	9,302,000	12,561,142	9/30/14	—	(339,534)
Japanese Yen	JPHQ	Sell	387,212,500	3,927,005	9/30/14	134,931	—
Euro	JPHQ	Sell	8,180,000	11,155,598	10/07/14	—	(188,943)
Euro	DBAB	Sell	835,443	1,133,613	10/08/14	—	(25,032)
Euro	BZWS	Sell	8,197,000	11,088,246	10/14/14	—	(279,805)
Euro	DBAB	Sell	7,975,252	10,783,977	10/15/14	—	(276,533)
Euro	DBAB	Sell	3,327,609	4,504,418	10/17/14	—	(110,482)
Malaysian Ringgit	JPHQ	Buy	2,290,000	707,861	10/20/14	—	(13,319)
Euro	DBAB	Sell	444,306	608,668	10/22/14	—	(7,516)
Japanese Yen	DBAB	Sell	767,340,000	7,872,843	10/22/14	356,985	—
Chilean Peso	CITI	Buy	1,510,671,000	2,899,560	10/24/14	—	(270,795)
Japanese Yen	JPHQ	Sell	993,630,000	10,133,033	10/24/14	400,606	—
Malaysian Ringgit	DBAB	Buy	30,637,000	9,513,119	10/24/14	—	(223,315)
Malaysian Ringgit	HSBC	Buy	20,429,388	6,309,261	10/24/14	—	(114,627)

# Franklin Strategic Series

## Statement of Investments, April 30, 2014 (continued)

### Franklin Strategic Income Fund

#### Forward Exchange Contracts (continued)

Currency	Counter-party <sup>a</sup>	Type	Quantity	Contract Amount	Settlement Date	Unrealized Appreciation	Unrealized Depreciation
Euro	BZWS	Sell	935,270	\$ 1,287,698	10/27/14	\$ —	\$ (9,371)
Euro	GSCO	Sell	9,398,000	12,967,360	10/29/14	—	(66,164)
Euro	DBAB	Sell	1,081,381	1,460,027	10/30/14	—	(39,676)
Euro	DBAB	Sell	5,905,773	8,155,932	10/31/14	—	(34,433)
Euro	BZWS	Sell	2,275,342	3,077,173	11/05/14	—	(78,365)
Japanese Yen	BZWS	Sell	386,912,500	3,945,671	11/05/14	155,562	—
Japanese Yen	JPHQ	Sell	1,081,080,000	11,036,085	11/05/14	446,064	—
Japanese Yen	DBAB	Sell	1,474,215,000	15,000,000	11/07/14	558,665	—
Euro	DBAB	Sell	5,072,000	6,866,727	11/10/14	—	(167,333)
Euro	JPHQ	Sell	1,674,559	2,232,924	11/12/14	—	(89,424)
Euro	DBAB	Sell	5,500,000	7,402,560	11/14/14	—	(225,071)
Japanese Yen	MSCO	Sell	39,600,000	398,535	11/14/14	10,592	—
Euro	DBAB	Sell	980,583	1,318,119	11/17/14	—	(41,795)
Malaysian Ringgit	DBAB	Buy	1,869,600	573,726	11/19/14	—	(7,602)
Euro	JPHQ	Sell	4,953,561	6,705,176	11/20/14	—	(164,634)
Malaysian Ringgit	HSBC	Buy	1,130,000	347,052	11/20/14	—	(4,900)
Chilean Peso	DBAB	Buy	2,000,000,000	3,694,809	11/28/14	—	(224,830)
Euro	DBAB	Sell	5,317,857	7,205,696	11/28/14	—	(169,340)
Euro	DBAB	Sell	5,240,000	7,098,418	12/04/14	—	(168,645)
Euro	DBAB	Sell	12,746,000	17,413,713	12/09/14	—	(263,011)
Euro	DBAB	Sell	7,400,000	10,154,650	12/11/14	—	(108,003)
Euro	JPHQ	Sell	774,000	1,066,205	12/12/14	—	(7,213)
Japanese Yen	JPHQ	Sell	1,055,280,000	10,306,425	12/12/14	—	(34,182)
Euro	CITI	Sell	10,316,000	14,161,495	12/17/14	—	(145,205)
Euro	DBAB	Sell	1,947,500	2,671,970	12/17/14	—	(28,912)
Euro	DBAB	Sell	2,275,872	3,129,526	12/18/14	—	(26,758)
Japanese Yen	DBAB	Sell	825,400,000	8,018,653	12/22/14	—	(70,079)
Malaysian Ringgit	DBAB	Buy	2,856,400	852,657	1/07/15	10,069	—
British Pound	DBAB	Sell	1,072,503	1,752,256	1/09/15	—	(53,987)
Chilean Peso	BZWS	Buy	2,082,200,000	3,590,000	1/09/15	10,032	—
Chilean Peso	DBAB	Buy	5,456,000,000	9,505,862	1/09/15	9,177	(81,856)
Euro	BZWS	Sell	23,056,204	31,626,148	1/09/15	—	(349,308)
Euro	DBAB	Sell	100,002,003	136,334,059	1/09/15	—	(2,353,543)
Euro	JPHQ	Sell	20,335,222	27,707,837	1/09/15	—	(494,030)
Euro	MSCO	Sell	2,920,000	3,989,508	1/09/15	—	(60,088)
Indian Rupee	DBAB	Buy	2,529,734,000	37,757,723	1/09/15	2,098,356	—
Indian Rupee	HSBC	Buy	1,380,831,000	20,481,408	1/09/15	1,273,650	—
Indian Rupee	JPHQ	Buy	273,412,000	4,114,641	1/09/15	192,978	—
Japanese Yen	BZWS	Sell	1,046,497,000	10,246,763	1/09/15	—	(10,270)
Japanese Yen	CITI	Sell	1,022,550,000	10,002,819	1/09/15	—	(19,503)
Japanese Yen	DBAB	Sell	8,402,595,000	81,674,200	1/09/15	156,060	(838,232)
Japanese Yen	GSCO	Sell	755,750,000	7,381,452	1/09/15	—	(25,882)



# Franklin Strategic Series

## Statement of Investments, April 30, 2014 (continued)

### Franklin Strategic Income Fund

#### Forward Exchange Contracts (continued)

Currency	Counter-party <sup>a</sup>	Type	Quantity	Contract Amount	Settlement Date	Unrealized Appreciation	Unrealized Depreciation
Japanese Yen	HSBC	Sell	1,157,280,000	\$ 11,257,997	1/09/15	\$ 51,473	\$ (136,327)
Japanese Yen	JPHQ	Sell	1,197,711,000	11,780,155	1/09/15	53,061	(12,033)
Singapore Dollar	DBAB	Buy	5,936,500	4,711,264	1/09/15	25,689	—
Euro	DBAB	Sell	124,438,243	171,641,657	2/09/15	18,863	(958,843)
Euro	JPHQ	Sell	20,514,800	28,412,734	2/09/15	46,787	(85,739)
Indian Rupee	CITI	Buy	116,369,000	1,747,282	2/09/15	75,621	—
Japanese Yen	DBAB	Sell	2,240,500,000	21,947,561	2/09/15	35,903	(54,764)
Japanese Yen	HSBC	Sell	286,000,000	2,790,162	2/09/15	—	(13,853)
Japanese Yen	JPHQ	Sell	605,200,000	5,907,594	2/09/15	—	(25,938)
Singapore Dollar	DBAB	Buy	3,699,000	2,920,647	2/09/15	31,114	—
Singapore Dollar	HSBC	Buy	4,228,000	3,338,690	2/09/15	35,208	—
Singapore Dollar	JPHQ	Buy	2,638,000	2,083,366	2/09/15	21,729	—
British Pound	DBAB	Sell	7,211,069	12,094,405	3/09/15	—	(40,123)
Chilean Peso	DBAB	Buy	6,734,000,000	11,658,587	3/09/15	—	(71,827)
Chilean Peso	JPHQ	Buy	937,202,000	1,634,180	3/09/15	—	(21,596)
Chilean Peso	MSCO	Buy	881,530,000	1,559,459	3/09/15	—	(42,668)
Euro	BZWS	Sell	667,313	921,079	3/09/15	—	(4,453)
Euro	DBAB	Sell	94,273,966	130,095,738	3/09/15	38,014	(695,806)
Euro	HSBC	Sell	711,759	979,736	3/09/15	—	(7,440)
Euro	JPHQ	Sell	8,430,351	11,652,334	3/09/15	—	(40,163)
Japanese Yen	DBAB	Sell	2,951,165,000	28,899,103	3/09/15	—	(43,606)
Singapore Dollar	DBAB	Buy	20,972,900	16,702,158	3/09/15	34,983	—
Unrealized appreciation (depreciation)						12,950,365	(26,245,828)
Net unrealized appreciation (depreciation)						<u>\$(13,295,463)</u>	

<sup>a</sup>May be comprised of multiple contracts using the same currency and settlement date.



# Franklin Strategic Series

## Statement of Investments, April 30, 2014 (continued)

### Franklin Strategic Income Fund

At April 30, 2014, the Fund had the following credit default swap contracts outstanding. See Note 1(d).

#### Credit Default Swap Contracts

Description	Counterparty/ Exchange	Notional Amount <sup>a</sup>	Periodic Payment Rate	Expiration Date	Upfront Premiums Paid (Received)	Unrealized Appreciation	Unrealized Depreciation	Market Value	Rating <sup>b</sup>
<b>OTC Swaps</b>									
<b>Contracts to Sell Protection<sup>c</sup></b>									
<b>Single Name</b>									
People's Republic of China .....	BZWS	12,750,000	1.00%	3/20/19	\$ 23,604	\$ 80,337	\$ —	\$ 103,941	AA-
People's Republic of China .....	JPHQ	72,250,000	1.00%	3/20/19	197,625	391,374	—	588,999	AA-
Republic of Brazil .....	FBCO	30,000,000	1.00%	3/20/19	(1,427,708)	914,307	—	(513,401)	BBB-
<b>Traded Index</b>									
CMBX.NA.AJ.2 .....	FBCO	25,510,000	1.09%	3/15/49	(3,595,500)	1,590,450	—	(2,005,050)	Non Investment Grade
MCDX.NA.21 .....	CITI	150,000,000	1.00%	12/20/18	(2,525,554)	2,513,222	—	(12,332)	Non Investment Grade
Net unrealized appreciation (depreciation) .....						<u>\$5,489,690</u>			

<sup>a</sup>In U.S. dollars unless otherwise indicated. For contracts to sell protection, the notional amount is equal to the maximum potential amount of the future payments and no recourse provisions have been entered into in association with the contracts.

<sup>b</sup>Based on Standard and Poor's (S&P) Rating for single name swaps and internal ratings for index swaps. Internal ratings based on mapping into equivalent ratings from external vendors.

<sup>c</sup>The fund enters contracts to sell protection to create a long credit position. Performance triggers include default, bankruptcy or restructuring for single name swaps and failure to pay or bankruptcy of the underlying securities for traded index swaps.

See Note 9 regarding other derivative information.

See Abbreviations on page 76.

# Franklin Strategic Series

## Financial Statements

### Statement of Assets and Liabilities

April 30, 2014

	Franklin Strategic Income Fund
Assets:	
Investments in securities:	
Cost - Unaffiliated issuers . . . . .	\$7,784,963,402
Cost - Sweep Money Fund (Note 3f) . . . . .	725,462,930
Total cost of investments . . . . .	<u>\$8,510,426,332</u>
Value - Unaffiliated issuers . . . . .	\$8,049,120,330
Value - Sweep Money Fund (Note 3f) . . . . .	725,462,930
Total value of investments . . . . .	<u>8,774,583,260</u>
Cash . . . . .	1,116,286
Foreign currency, at value (cost \$136,781,399) . . . . .	137,054,538
Receivables:	
Investment securities sold . . . . .	147,182,239
Capital shares sold . . . . .	19,659,829
Dividends and interest . . . . .	100,625,520
Due from brokers . . . . .	16,230,000
OTC swaps (premiums paid \$232,260) . . . . .	221,229
Unrealized appreciation on forward exchange contracts . . . . .	12,950,365
Unrealized appreciation on OTC swap contracts . . . . .	5,489,690
Other assets . . . . .	9,023
Total assets . . . . .	<u>9,215,121,979</u>
Liabilities:	
Payables:	
Investment securities purchased . . . . .	375,531,194
Capital shares redeemed . . . . .	18,567,083
Management fees . . . . .	3,189,056
Distribution fees . . . . .	2,276,333
Transfer agent fees . . . . .	1,569,751
Distributions to shareholders . . . . .	2,246,692
OTC Swaps (premiums received \$7,973,395) . . . . .	7,548,762
Unrealized depreciation on forward exchange contracts . . . . .	26,245,828
Unrealized depreciation on unfunded loan commitments (Note 8) . . . . .	233,543
Deferred tax . . . . .	266,956
Accrued expenses and other liabilities . . . . .	787,094
Total liabilities . . . . .	<u>438,462,292</u>
Net assets, at value . . . . .	<u>\$8,776,659,687</u>
Net assets consist of:	
Paid-in capital . . . . .	\$8,524,146,672
Distributions in excess of net investment income . . . . .	(38,578,004)
Net unrealized appreciation (depreciation) . . . . .	256,420,345
Accumulated net realized gain (loss) . . . . .	34,670,674
Net assets, at value . . . . .	<u>\$8,776,659,687</u>

# Franklin Strategic Series

## Financial Statements *(continued)*

### Statement of Assets and Liabilities *(continued)*

April 30, 2014

	Franklin Strategic Income Fund
<b>Class A:</b>	
Net assets, at value .....	\$5,182,489,605
Shares outstanding .....	490,294,035
Net asset value per share <sup>a</sup> .....	\$10.57
Maximum offering price per share (net asset value per share ÷ 95.75%) .....	\$11.04
<b>Class C:</b>	
Net assets, at value .....	\$2,109,049,017
Shares outstanding .....	199,579,819
Net asset value and maximum offering price per share <sup>a</sup> .....	\$10.57
<b>Class R:</b>	
Net assets, at value .....	\$ 227,359,006
Shares outstanding .....	21,579,434
Net asset value and maximum offering price per share .....	\$10.54
<b>Class R6:</b>	
Net assets, at value .....	\$ 247,007,389
Shares outstanding .....	23,343,513
Net asset value and maximum offering price per share .....	\$10.58
<b>Advisor Class:</b>	
Net assets, at value .....	\$1,010,754,670
Shares outstanding .....	95,540,726
Net asset value and maximum offering price per share .....	\$10.58

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

# Franklin Strategic Series

## Financial Statements *(continued)*

### Statement of Operations

for the year ended April 30, 2014

	Franklin Strategic Income Fund
Investment income:	
Dividends . . . . .	\$ 6,210,637
Interest . . . . .	416,365,901
Total investment income . . . . .	<u>422,576,538</u>
Expenses:	
Management fees (Note 3a) . . . . .	38,040,543
Distribution fees: (Note 3c)	
Class A . . . . .	12,455,288
Class C . . . . .	13,569,447
Class R . . . . .	1,167,594
Transfer agent fees: (Note 3e)	
Class A . . . . .	6,543,380
Class C . . . . .	2,741,854
Class R . . . . .	306,691
Class R6 . . . . .	210
Advisor Class . . . . .	1,256,398
Custodian fees (Note 4) . . . . .	968,491
Reports to shareholders . . . . .	766,794
Registration and filing fees . . . . .	397,843
Professional fees . . . . .	156,775
Trustees' fees and expenses . . . . .	93,594
Other . . . . .	245,168
Total expenses . . . . .	<u>78,710,070</u>
Expense reductions (Note 4) . . . . .	(6,585)
Expenses waived/paid by affiliates (Note 3f) . . . . .	<u>(500,006)</u>
Net expenses . . . . .	78,203,479
Net investment income . . . . .	<u>344,373,059</u>
Realized and unrealized gains (losses):	
Net realized gain (loss) from:	
Investments . . . . .	60,444,926
Foreign currency transactions . . . . .	(10,866,459)
Swap contracts . . . . .	10,928,084
Net realized gain (loss) . . . . .	<u>60,506,551</u>
Net change in unrealized appreciation (depreciation) on:	
Investments . . . . .	(155,335,168)
Translation of other assets and liabilities denominated in foreign currencies . . . . .	(35,819,711)
Change in deferred taxes on unrealized appreciation . . . . .	987,882
Net change in unrealized appreciation (depreciation) . . . . .	<u>(190,166,997)</u>
Net realized and unrealized gain (loss) . . . . .	<u>(129,660,446)</u>
Net increase (decrease) in net assets resulting from operations . . . . .	<u>\$ 214,712,613</u>

# Franklin Strategic Series

## Financial Statements *(continued)*

### Statements of Changes in Net Assets

	Franklin Strategic Income Fund	
	Year Ended April 30,	
	2014	2013
Increase (decrease) in net assets:		
Operations:		
Net investment income	\$ 344,373,059	\$ 296,054,912
Net realized gain (loss) from investments, foreign currency transactions and swap contracts	60,506,551	141,916,424
Net change in unrealized appreciation (depreciation) on investments, translation of other assets and liabilities denominated in foreign currencies and deferred taxes	(190,166,997)	224,490,205
Net increase (decrease) in net assets resulting from operations	214,712,613	662,461,541
Distributions to shareholders from:		
Net investment income:		
Class A	(213,087,467)	(230,894,978)
Class B	—	(357,139)
Class C	(80,821,962)	(89,867,899)
Class R	(9,384,072)	(12,937,849)
Class R6	(8,216,596)	—
Advisor Class	(43,278,074)	(46,009,914)
Net realized gains:		
Class A	(45,182,760)	(15,257,744)
Class B	—	(13,391)
Class C	(18,883,836)	(6,432,291)
Class R	(2,123,917)	(875,855)
Class R6	(2,119,812)	—
Advisor Class	(8,346,053)	(2,883,125)
Total distributions to shareholders	(431,444,549)	(405,530,185)
Capital share transactions: (Note 2)		
Class A	347,835,138	1,055,895,095
Class B	—	(18,389,250)
Class C	57,022,268	474,619,339
Class R	(26,386,053)	2,168,874
Class R6	243,042,693	—
Advisor Class	79,433,172	212,884,187
Total capital share transactions	700,947,218	1,727,178,245
Net increase (decrease) in net assets	484,215,282	1,984,109,601
Net assets:		
Beginning of year	8,292,444,405	6,308,334,804
End of year	\$8,776,659,687	\$8,292,444,405
Distributions in excess of net investment income included in net assets:		
End of year	\$ (38,578,004)	\$ (28,829,927)

# Franklin Strategic Series

## Notes to Financial Statements

### Franklin Strategic Income Fund

#### 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Franklin Strategic Series (Trust) is registered under the Investment Company Act of 1940, as amended, (1940 Act) as an open-end management investment company, consisting of nine separate funds. The Franklin Strategic Income Fund (Fund) is included in this report. The financial statements of the remaining funds in the Trust are presented separately. The Fund offers five classes of shares: Class A, Class C, Class R, Class R6, and Advisor class. Effective May 1, 2013, the Fund began offering a new class of shares, Class R6. 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. The Fund calculates the net asset value per share at the close of the New York Stock Exchange (NYSE), generally at 4 p.m. Eastern time (NYSE close) on each day the NYSE is open for trading. Under procedures approved by the Trust'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. Foreign equity securities are valued as of the close of trading on the foreign stock exchange on which the security is primarily traded or as of the NYSE close, whichever is earlier. The value is then converted into its U.S. dollar equivalent at the foreign exchange rate in effect at the NYSE close on the day that the value of the security is determined. 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.

# Franklin Strategic Series

## Notes to Financial Statements *(continued)*

### Franklin Strategic Income Fund

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

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

Debt securities generally trade in the OTC market rather than on a securities exchange. The Fund's pricing services use multiple valuation techniques to determine fair value. In instances where sufficient market activity exists, the pricing services may utilize a market-based approach through which quotes from market makers are used to determine fair value. In instances where sufficient market activity may not exist or is limited, the pricing services also utilize proprietary valuation models which may consider market characteristics such as benchmark yield curves, credit spreads, estimated default rates, anticipated market interest rate volatility, coupon rates, anticipated timing of principal repayments, underlying collateral, and other unique security features in order to estimate the relevant cash flows, which are then discounted to calculate the fair value. Securities denominated in a foreign currency are converted into their U.S. dollar equivalent at the foreign exchange rate in effect at the NYSE close on the date that the values of the foreign debt securities are determined.

Certain derivative financial instruments (derivatives) trade in the OTC market. The Fund's pricing services use various techniques including industry standard option pricing models and proprietary discounted cash flow models to determine the fair value of those instruments. The Fund's net benefit or obligation under the derivative contract, as measured by the fair value of the contract, is included in net assets.

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 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.

Trading in securities on foreign securities stock exchanges and OTC markets may be completed before the daily NYSE close. In addition, trading in certain foreign markets may not take place on every NYSE business day. Occasionally, events occur between the time at which trading in a

# Franklin Strategic Series

## Notes to Financial Statements *(continued)*

### Franklin Strategic Income Fund

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

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

foreign security is completed and the close of the NYSE that might call into question the reliability of the value of a portfolio security held by the Fund. As a result, differences may arise between the value of the Fund's portfolio securities as determined at the foreign market close and the latest indications of value at the close of the NYSE. In order to minimize the potential for these differences, the VLOC monitors price movements following the close of trading in foreign stock markets through a series of country specific market proxies (such as baskets of American Depositary Receipts, futures contracts and exchange traded funds). These price movements are measured against established trigger thresholds for each specific market proxy to assist in determining if an event has occurred that may call into question the reliability of the values of the foreign securities held by the Fund. If such an event occurs, the securities may be valued using fair value procedures, which may include the use of independent pricing services.

Also, when the last day of the reporting period is a non-business day, certain foreign markets may be open on those days that the NYSE is closed, which could result in differences between the value of the Fund's portfolio securities on the last business day and the last calendar day of the reporting period. Any significant security valuation changes due to an open foreign market are adjusted and reflected by the Fund for financial reporting purposes.

##### b. Foreign Currency Translation

Portfolio securities and other assets and liabilities denominated in foreign currencies are translated into U.S. dollars based on the exchange rate of such currencies against U.S. dollars on the date of valuation. The Fund may enter into foreign currency exchange contracts to facilitate transactions denominated in a foreign currency. Purchases and sales of securities, income and expense items denominated in foreign currencies are translated into U.S. dollars at the exchange rate in effect on the transaction date. Portfolio securities and assets and liabilities denominated in foreign currencies contain risks that those currencies will decline in value relative to the U.S. dollar. Occasionally, events may impact the availability or reliability of foreign exchange rates used to convert the U.S. dollar equivalent value. If such an event occurs, the foreign exchange rate will be valued at fair value using procedures established and approved by the Board.

The Fund does not separately report the effect of changes in foreign exchange rates from changes in market prices on securities held. Such changes are included in net realized and unrealized gain or loss from investments on the Statement of Operations.



# Franklin Strategic Series

## Notes to Financial Statements *(continued)*

### Franklin Strategic Income Fund

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

##### b. Foreign Currency Translation *(continued)*

Realized foreign exchange gains or losses arise from sales of foreign currencies, currency gains or losses realized between the trade and settlement dates on securities transactions and the difference between the recorded amounts of dividends, interest, and foreign withholding taxes and the U.S. dollar equivalent of the amounts actually received or paid. Net unrealized foreign exchange gains and losses arise from changes in foreign exchange rates on foreign denominated assets and liabilities other than investments in securities held at the end of the reporting period.

##### c. Securities Purchased on a Delayed Delivery Basis

The Fund purchases securities on a delayed delivery basis, with payment and delivery scheduled for a future date. These transactions are subject to market fluctuations and are subject to the risk that the value at delivery may be more or less than the trade date purchase price. Although the Fund will generally purchase these securities with the intention of holding the securities, it may sell the securities before the settlement date. Sufficient assets have been segregated for these securities.

##### d. Derivative Financial Instruments

The Fund invested in derivatives in order to manage risk or gain exposure to various other investments or markets. Derivatives are financial contracts based on an underlying or notional amount, require no initial investment or an initial net investment that is smaller than would normally be required to have a similar response to changes in market factors, and require or permit net settlement. Derivatives contain various risks including the potential inability of the counterparty to fulfill their obligations under the terms of the contract, the potential for an illiquid secondary market, and/or the potential for market movements which expose the Fund to gains or losses in excess of the amounts shown on the Statement of Assets and Liabilities. Realized gain and loss and unrealized appreciation and depreciation on these contracts for the period are included in the Statement of Operations.

Derivative counterparty credit risk is managed through a formal evaluation of the creditworthiness of all potential counterparties. The Fund attempts to reduce its exposure to counterparty credit risk on OTC derivatives, whenever possible, by entering into International Swaps and Derivatives Association (ISDA) master agreements with certain counterparties. These agreements contain various provisions, including but not limited to collateral requirements, events of default, or early termination. Termination events applicable to the counterparty include certain deteriorations in the credit quality of the counterparty. Termination events applicable to the Fund include failure of the Fund to maintain certain net asset levels and/or limit the decline in net assets over various periods of time. In the event of default or early termination, the ISDA master agreement gives the non-defaulting party the right to net and close-out all transactions

# Franklin Strategic Series

## Notes to Financial Statements *(continued)*

### Franklin Strategic Income Fund

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

##### d. Derivative Financial Instruments *(continued)*

traded, whether or not arising under the ISDA agreement, to one net amount payable by one counterparty to the other. However, absent an event of default or early termination, OTC derivative assets and liabilities are presented gross and not offset in the Statement of Assets and Liabilities. Early termination by the counterparty may result in an immediate payment by the Fund of any net liability owed to that counterparty under the ISDA agreement.

Collateral requirements differ by type of derivative. Collateral terms are contract specific for OTC derivatives. For OTC derivatives traded under an ISDA master agreement, posting of collateral is required by either the fund or the applicable counterparty if the total net exposure of all OTC derivatives with the applicable counterparty exceeds the minimum transfer amount, which typically ranges from \$100,000 to \$250,000, and can vary depending on the counterparty and the type of the agreement. Generally, collateral is determined at the close of fund business each day and any additional collateral required due to changes in derivative values may be delivered by the fund or the counterparty within a few business days. Collateral pledged and/or received by the fund, if any, is held in segregated accounts with the fund's custodian/ counterparty broker and can be in the form of cash and/or securities. Unrestricted cash may be invested according to the Fund's investment objectives.

The Fund entered into OTC forward exchange contracts primarily to manage and/or gain exposure to certain foreign currencies. A forward exchange contract is an agreement between the Fund and a counterparty to buy or sell a foreign currency at a specific exchange rate on a future date.

The Fund entered into credit default swap contracts primarily to manage exposure to credit risk. A credit default swap is an agreement between the Fund and a counterparty whereby the buyer of the contract receives credit protection and the seller of the contract guarantees the credit worthiness of a referenced debt obligation. These agreements may be privately negotiated in the over-the-counter market ("OTC credit default swaps") or may be executed in a multilateral trade facility platform, such as a registered exchange ("centrally cleared credit default swaps"). The underlying referenced debt obligation may be a single issuer of corporate or sovereign debt, a credit index, or a tranche of a credit index. In the event of a default of the underlying referenced debt obligation, the buyer is entitled to receive the notional amount of the credit default swap contract from the seller in exchange for the referenced debt obligation, a net settlement amount equal to the notional amount of the credit default swap less the recovery value of the referenced debt obligation, or other agreed upon amount. For centrally cleared credit default swaps, required initial margins are pledged by the Fund, and the daily change in fair value is accounted for as a variation margin payable or receivable on the Statement of Assets and Liabilities. Over the term of the contract, the buyer pays the seller a periodic stream of payments, provided that no event of default has occurred. Such periodic payments are accrued daily

# Franklin Strategic Series

## Notes to Financial Statements *(continued)*

### Franklin Strategic Income Fund

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

##### d. Derivative Financial Instruments *(continued)*

as an unrealized appreciation or depreciation until the payments are made, at which time they are realized. Payments received or paid to initiate a credit default swap contract are reflected on the Statement of Assets and Liabilities and represent compensating factors between stated terms of the credit default swap agreement and prevailing market conditions (credit spreads and other relevant factors). These upfront payments are amortized over the term of the contract as a realized gain or loss on the Statement of Operations.

See Note 9 regarding other derivative information.

##### e. Loan Participation Notes

The Fund invests in loan participation notes (“Participations”). Participations are loans originally issued to a borrower by one or more financial institutions (the “Lender”) and subsequently sold to other investors, such as the Fund. Participations typically result in the Fund having a contractual relationship only with the Lender and not with the borrower. The Fund has the right to receive from the Lender any payments of principal, interest and fees which the Lender received from the borrower. The Fund generally has no rights to either enforce compliance by the borrower with the terms of the loan agreement or to any collateral relating to the original loan. As a result, the Fund assumes the credit risk of both the borrower and the Lender that is selling the Participation. The Participations may also involve interest rate risk and liquidity risk, including the potential default or insolvency of the borrower and/or the Lender.

##### f. FT Holdings Corporation II (FT Subsidiary)

The Fund invests in certain financial instruments through its investment in the FT Subsidiary. The FT Subsidiary is a Delaware Corporation, is a wholly-owned subsidiary of the Fund, and is able to invest in certain financial instruments consistent with the investment objective of the Fund. At April 30, 2014, the FT Subsidiary’s investment, Turtle Bay Resort, as well as any other assets and liabilities of the FT Subsidiary are reflected in the Fund’s Statement of Investments and Statement of Assets and Liabilities. The financial statements have been consolidated and include the accounts of the Fund and the FT Subsidiary. All intercompany transactions and balances have been eliminated.

##### g. Mortgage Dollar Rolls

The Fund enters into mortgage dollar rolls, typically on a to-be-announced basis. Mortgage dollar rolls are agreements between the Fund and a financial institution to simultaneously sell and repurchase mortgage-backed securities at a future date. Gains or losses are realized on the initial sale, and the difference between the repurchase price and the sale price is recorded as an unrealized gain or loss to the Fund upon entering into the mortgage dollar roll. In addition, the Fund

# Franklin Strategic Series

## Notes to Financial Statements *(continued)*

### Franklin Strategic Income Fund

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

##### g. Mortgage Dollar Rolls *(continued)*

may invest the cash proceeds that are received from the initial sale. During the period between the sale and repurchase, the Fund is not entitled to principal and interest paid on the mortgage backed securities. The risks of mortgage dollar roll transactions include the potential inability of the counterparty to fulfill its obligations.

##### h. Senior Floating Rate Interests

The Fund invests in senior secured corporate loans that pay interest at rates which are periodically reset by reference to a base lending rate plus a spread. These base lending rates are generally the prime rate offered by a designated U.S. bank or the London InterBank Offered Rate (LIBOR). Senior secured corporate loans often require prepayment of principal from excess cash flows or at the discretion of the borrower. As a result, actual maturity may be substantially less than the stated maturity.

Senior secured corporate loans in which the Fund invests are generally readily marketable, but may be subject to certain restrictions on resale.

##### i. Income and Deferred 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 may be subject to foreign taxation related to income received, capital gains on the sale of securities and certain foreign currency transactions in the foreign jurisdictions in which it invests. Foreign taxes, if any, are recorded based on the tax regulations and rates that exist in the foreign markets in which the Fund invests. When a capital gain tax is determined to apply the Fund records an estimated deferred tax liability in an amount that would be payable if the securities were disposed of on the valuation date.

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, 2014, 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.

# Franklin Strategic Series

## Notes to Financial Statements *(continued)*

### Franklin Strategic Income Fund

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

##### j. 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. Interest income and estimated expenses are accrued daily. Amortization of premium and accretion of discount on debt securities are included in interest income. Paydown gains and losses are recorded as an adjustment to interest income. Facility fees are recognized as income over the expected term of the loan. 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.

Common expenses incurred by the Trust are allocated among the funds based on the ratio of net assets of each fund to the combined net assets of the Trust. Fund specific expenses are charged directly to the fund that incurred the expense.

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.

Inflation-indexed bonds are adjusted for inflation through periodic increases or decreases in the security's interest accruals, face amount, or principal redemption value, by amounts corresponding to the rate of inflation as measured by an index. Any increase or decrease in the face amount or principal redemption value will be included as interest income on the Statement of Operations.

##### k. 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.

# Franklin Strategic Series

## Notes to Financial Statements *(continued)*

### Franklin Strategic Income Fund

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

##### 1. 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, 2014, there were an unlimited number of shares authorized (without par value). Transactions in the Fund's shares were as follows:

	Year Ended April 30,			
	2014		2013 <sup>a</sup>	
	Shares	Amount	Shares	Amount
<b>Class A Shares:</b>				
Shares sold . . . . .	149,694,277	\$ 1,580,320,735	156,328,438	\$ 1,664,710,609
Shares issued in reinvestment of distributions . . . . .	22,409,597	235,187,078	20,262,991	215,348,775
Shares redeemed . . . . .	(139,329,102)	(1,467,672,675)	(77,471,999)	(824,164,289)
Net increase (decrease) . . . . .	32,774,772	\$ 347,835,138	99,119,430	\$ 1,055,895,095
<b>Class B Shares:</b>				
Shares sold . . . . .			54,707	\$ 584,097
Shares issued in reinvestment of distributions . . . . .			29,976	317,252
Shares redeemed . . . . .			(1,806,955)	(19,290,599)
Net increase (decrease) . . . . .			(1,722,272)	\$ (18,389,250)
<b>Class C Shares:</b>				
Shares sold . . . . .	52,213,238	\$ 551,561,530	66,115,522	\$ 704,117,353
Shares issued in reinvestment of distributions . . . . .	8,492,709	89,117,411	7,858,286	83,483,367
Shares redeemed . . . . .	(55,445,492)	(583,656,673)	(29,427,899)	(312,981,381)
Net increase (decrease) . . . . .	5,260,455	\$ 57,022,268	44,545,909	\$ 474,619,339
<b>Class R Shares:</b>				
Shares sold . . . . .	5,437,437	\$ 57,142,615	6,457,399	\$ 68,442,116
Shares issued in reinvestment of distributions . . . . .	1,059,135	11,083,038	1,258,648	13,320,129
Shares redeemed . . . . .	(9,001,828)	(94,611,706)	(7,517,732)	(79,593,371)
Net increase (decrease) . . . . .	(2,505,256)	\$ (26,386,053)	198,315	\$ 2,168,874

# Franklin Strategic Series

## Notes to Financial Statements *(continued)*

### Franklin Strategic Income Fund

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

	Year Ended April 30,			
	2014		2013 <sup>a</sup>	
	Shares	Amount	Shares	Amount
<b>Class R6 Shares<sup>b</sup>:</b>				
Shares sold <sup>c</sup> . . . . .	22,906,764	\$ 238,472,675		
Shares issued in reinvestment of distributions . . . . .	984,342	10,336,351		
Shares redeemed . . . . .	(547,593)	(5,766,333)		
Net increase (decrease) . . . . .	23,343,513	\$ 243,042,693		
<b>Advisor Class Shares:</b>				
Shares sold . . . . .	43,658,699	\$ 460,708,567	33,927,651	\$ 361,582,495
Shares issued in reinvestment of distributions . . . . .	4,404,969	46,277,451	4,139,838	44,017,295
Shares redeemed <sup>c</sup> . . . . .	(40,514,204)	(427,552,846)	(18,102,184)	(192,715,603)
Net increase (decrease) . . . . .	7,549,464	\$ 79,433,172	19,965,305	\$ 212,884,187

<sup>a</sup>Effective March 21, 2013, all Class B shares were converted to Class A.

<sup>b</sup>For the year May 1, 2013 (effective date) to April 30, 2014.

<sup>c</sup>Effective May 1, 2013, a portion of Advisor Class shares were exchanged into Class R6.

#### 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 Advisers, Inc. (Advisers)	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

# Franklin Strategic Series

## Notes to Financial Statements *(continued)*

### Franklin Strategic Income Fund

#### 3. TRANSACTIONS WITH AFFILIATES *(continued)*

##### a. Management Fees

The Fund pays an investment management fee to Advisers based on the average daily 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%	Over \$15 billion, up to and including \$17.5 billion
0.380%	Over \$17.5 billion, up to and including \$20 billion
0.360%	Over \$20 billion, up to and including \$35 billion
0.355%	Over \$35 billion, up to and including \$50 billion
0.350%	In excess of \$50 billion

##### b. Administrative Fees

Under an agreement with Advisers, FT Services provides administrative services to the Fund. The fee is paid by Advisers based on the Fund's 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 C and R 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 plan year, for purposes of monitoring compliance with the maximum annual plan rates, is February 1 through January 31.

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

Class A	0.25%
Class C	0.65%
Class R	0.50%



# Franklin Strategic Series

## Notes to Financial Statements *(continued)*

### Franklin Strategic Income Fund

#### 3. TRANSACTIONS WITH AFFILIATES *(continued)*

##### 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	\$3,266,680
CDSC retained	\$ 495,993

##### e. Transfer Agent Fees

Each class of shares, except for Class R6, 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 based upon their relative proportion of such classes' aggregate net assets. Class R6 pays Investor Services transfer agent fees specific to that class.

For the year ended April 30, 2014, the Fund paid transfer agent fees of \$10,848,533, of which \$4,825,298 was retained by Investor Services.

##### f. Investment in Institutional Fiduciary Trust Money Market Portfolio

The Fund invests in the Institutional Fiduciary Trust Money Market Portfolio (Sweep Money Fund), an affiliated open-end investment company. Management fees paid by the Fund are waived on assets invested in the Sweep Money Fund, in an amount not to exceed the management and administrative fees paid directly or indirectly by the Sweep Money Fund, as noted on the Statement of Operations. Prior to May 1, 2013, the waiver was accounted for as a reduction to management fees.

##### g. Waiver and Expense Reimbursements

Investor Services has contractually agreed in advance to waive or limit its fees so that the Class R6 transfer agent fees for the Fund do not exceed 0.01% until August 31, 2014. There were no Class R6 transfer agent fees waived during the year ended April 30, 2014.

# Franklin Strategic Series

## Notes to Financial Statements *(continued)*

### Franklin Strategic Income Fund

#### 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, 2014, the custodian fees were reduced as noted in the Statement of Operations.

#### 5. INCOME TAXES

The tax character of distributions paid during the years ended April 30, 2014 and 2013 was as follows:

	2014	2013
Distributions from:		
Ordinary income . . . . .	\$359,348,855	\$385,981,179
Long term capital gain . . . . .	72,095,694	19,549,006
	<u>\$431,444,549</u>	<u>\$405,530,185</u>

At April 30, 2014, the cost of investments, net unrealized appreciation (depreciation) and undistributed long term capital gains for income tax purposes were as follows:

Cost of investments . . . . .	<u>\$8,543,931,351</u>
Unrealized appreciation . . . . .	\$ 338,939,867
Unrealized depreciation . . . . .	<u>(108,287,958)</u>
Net unrealized appreciation (depreciation) . . . . .	<u>\$ 230,651,909</u>
Distributable earnings - undistributed long term capital gains . . . . .	<u>\$ 35,368,524</u>

Differences between income and/or capital gains as determined on a book basis and a tax basis are primarily due to differing treatments of foreign currency transactions, bond discounts and premium, swaps and tax straddles.

#### 6. INVESTMENT TRANSACTIONS

Purchases and sales of investments (excluding short term securities) for the year ended April 30, 2014, aggregated \$4,764,305,757 and \$4,029,465,090, respectively.

# Franklin Strategic Series

## Notes to Financial Statements *(continued)*

### Franklin Strategic Income Fund

#### 7. CREDIT RISK AND DEFAULTED SECURITIES

At April 30, 2014, the Fund had 52.43% of its portfolio invested in high yield, senior secured floating rate notes, or other securities rated below investment grade. These securities may be more sensitive to economic conditions causing greater price volatility and are potentially subject to a greater risk of loss due to default than higher rated securities.

The Fund held a defaulted security and/or other securities for which the income has been deemed uncollectible. At April 30, 2014, the value of this security was \$24,150,000, representing 0.28% of the Fund's net assets. The Fund discontinues accruing income on securities for which income has been deemed uncollectible and provides an estimate for losses on interest receivable. The security has been identified on the accompanying Statement of Investments.

#### 8. UNFUNDED LOAN COMMITMENTS

The Fund enters into certain credit agreements, all or a portion of which may be unfunded. The Fund is obligated to fund these loan commitments at the borrowers' discretion. Funded portions of credit agreements are presented on the Statement of Investments.

At April 30, 2014, unfunded commitments were as follows:

Borrower	Unfunded Commitment
Patriot Coal Corp., L/C Facility, 6.50%, 12/18/18 . . . . .	<u>\$2,415,156</u>

Unfunded loan commitments and funded portions of credit agreements are marked to market daily and any unrealized appreciation or depreciation is included in the Statement of Assets and Liabilities and the Statement of Operations.

# Franklin Strategic Series

## Notes to Financial Statements *(continued)*

### Franklin Strategic Income Fund

#### 9. OTHER DERIVATIVE INFORMATION

At April 30, 2014, the Fund's investments in derivative contracts are reflected on the Statement of Assets and Liabilities as follows:

Derivative Contracts Not Accounted for as Hedging Instruments	Asset Derivatives		Liability Derivatives	
	Statement of Assets and Liabilities Location	Fair Value Amount	Statement of Assets and Liabilities Location	Fair Value Amount
Foreign exchange contracts . . . . .	Unrealized appreciation on forward exchange contracts	\$12,950,365	Unrealized depreciation on forward exchange contracts	\$26,245,828
Credit contracts . . . . .	Unrealized appreciation on OTC swap contracts	5,489,690	Unrealized depreciation on OTC swap contracts	—

For the year ended April 30, 2014, the effect of derivative contracts on the Fund's Statement of Operations was as follows:

Derivative Contracts Not Accounted for as Hedging Instruments	Statement of Operations Locations	Realized Gain (Loss) for the Year	Change in Unrealized Appreciation (Depreciation) for the Year
Foreign exchange contracts . . . . .	Net realized gain (loss) from foreign currency transactions / Net change in unrealized appreciation (depreciation) on translation of other assets and liabilities denominated in foreign currencies	\$ (9,612,139)	\$(36,180,213)
Credit contracts . . . . .	Net realized gain (loss) from swap contracts / Net change in unrealized appreciation (depreciation) on investments	10,928,084	(318,352)

# Franklin Strategic Series

## Notes to Financial Statements *(continued)*

### Franklin Strategic Income Fund

#### 9. OTHER DERIVATIVE INFORMATION *(continued)*

At April 30, 2014, the Fund's OTC derivative assets and liabilities are as follows:

	Gross and Net Amounts of Assets and Liabilities Presented in the Statement of Assets and Liabilities	
	Assets <sup>a</sup>	Liabilities <sup>a</sup>
<b>Derivatives</b>		
Forward exchange contracts . . . . .	\$12,950,365	\$26,245,828
Swaps . . . . .	5,710,919	7,548,762
Total . . . . .	<u>\$18,661,284</u>	<u>\$33,794,590</u>

<sup>a</sup>Absent an event of default or early termination, OTC derivative assets and liabilities are presented gross and not offset in the Statement of Assets and Liabilities.

At April 30, 2014, the Fund's OTC derivative assets which may be offset against the Fund's OTC derivative liabilities and collateral received from the counterparty, is as follows:

	Gross and Net Amounts of Assets Presented in the Statement of Assets and Liabilities	Amounts Not Offset in the Statement of Assets and Liabilities			Net Amount (Not less than zero)
		Financial Instruments Available for Offset	Financial Instruments Collateral Received <sup>a</sup>	Cash Collateral Received	
<b>Counterparty</b>					
BZWS . . . . .	\$ 1,476,140	\$ (1,476,140)	\$ —	\$—	\$ —
CITI . . . . .	2,639,460	(2,639,460)	—	—	—
DBAB . . . . .	7,410,619	(7,410,619)	—	—	—
FBCO . . . . .	2,504,757	(2,504,757)	—	—	—
GSCO . . . . .	—	—	—	—	—
HSBC . . . . .	1,891,428	(277,147)	(1,560,477)	—	53,804
JPHQ . . . . .	2,728,288	(2,728,288)	—	—	—
MSCO . . . . .	10,592	(10,592)	—	—	—
UBSW . . . . .	—	—	—	—	—
Total . . . . .	<u>\$18,661,284</u>	<u>\$(17,047,003)</u>	<u>\$(1,560,477)</u>	<u>\$—</u>	<u>\$53,804</u>

<sup>a</sup>At April 30 2014, the Fund received United Kingdom Treasury Bonds and Notes as collateral for derivatives.

# Franklin Strategic Series

## Notes to Financial Statements *(continued)*

### Franklin Strategic Income Fund

#### 9. OTHER DERIVATIVE INFORMATION *(continued)*

At April 30, 2014, the Fund's OTC derivative liabilities which may be offset against the Fund's OTC derivative assets and collateral pledged to the counterparty, is as follows:

Counterparty	Gross and Net Amounts of Liabilities Presented in the Statement of Assets and Liabilities	Amounts Not Offset in the Statement of Assets and Liabilities			Net Amount (Not less than zero)
		Financial Instruments Available for Offset	Financial Instruments Collateral Pledged	Cash Collateral Pledged <sup>a</sup>	
BZWS . . . . .	\$ 1,562,292	\$ (1,476,140)	\$—	\$ —	\$ 86,152
CITI . . . . .	3,230,092	(2,639,460)	—	(590,632)	—
DBAB . . . . .	19,174,953	(7,410,619)	—	(10,810,000)	954,334
FBCO . . . . .	5,023,208	(2,504,757)	—	(2,518,451)	—
GSCO . . . . .	170,245	—	—	(170,245)	—
HSBC . . . . .	277,147	(277,147)	—	—	—
JPHQ . . . . .	2,931,650	(2,728,288)	—	—	203,362
MSCO . . . . .	102,756	(10,592)	—	(92,164)	—
UBSW . . . . .	1,322,247	—	—	(1,322,247)	—
Total . . . . .	\$33,794,590	\$(17,047,003)	\$—	\$(15,503,739)	\$1,243,848

<sup>a</sup>In some instances, the collateral amounts disclosed in the table above were adjusted due to the requirement to limit collateral amounts to avoid the effect of overcollateralization. Actual collateral received and/or pledged may be more than the amount disclosed herein.

For the year ended April 30, 2014, the average month end fair value of derivatives represented 0.69% of average month end net assets. The average month end number of open derivative contracts for the year was 278.

See Note 1(d) regarding derivative financial instruments.

#### 10. 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 February 13, 2015. 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.

# Franklin Strategic Series

## Notes to Financial Statements *(continued)*

### Franklin Strategic Income Fund

#### 10. CREDIT FACILITY *(continued)*

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, 2014, the Fund did not use the Global Credit Facility.

#### 11. 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 input levels are not necessarily an indication of the risk or liquidity associated with financial instruments at that level.

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.

# Franklin Strategic Series

## Notes to Financial Statements *(continued)*

### Franklin Strategic Income Fund

#### 11. FAIR VALUE MEASUREMENTS *(continued)*

A summary of inputs used as of April 30, 2014, in valuing the Fund's assets and liabilities carried at fair value, is as follows:

	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Investments in Securities:				
Equity Investments: <sup>a</sup>				
Consumer Services . . . . .	\$ —	\$ 7,198,122	\$ —	\$ 7,198,122
Materials . . . . .	—	2,520,000	—	2,520,000
Transportation . . . . .	—	6,389,660	—	6,389,660
Other Equity Investments <sup>b</sup> . . . . .	98,567,962	—	—	98,567,962
Corporate Bonds . . . . .	—	3,200,109,698	—	3,200,109,698
Senior Floating Rate Interests . . . . .	—	1,275,860,837	1,160,988	1,277,021,825
Foreign Government and Agency Securities . . . . .	—	1,778,527,172	—	1,778,527,172
U.S. Government and Agency Securities . . . . .	—	153,804,794	—	153,804,794
Asset-Backed Securities and Commercial Mortgage-Backed Securities . . . . .	—	435,264,187	—	435,264,187
Mortgage-Backed Securities . . . . .	—	396,639,010	—	396,639,010
Municipal Bonds . . . . .	—	507,790,476	—	507,790,476
Escrows and Litigation Trusts . . . . .	—	—	— <sup>c</sup>	—
Short Term Investments . . . . .	725,462,930	185,287,424	—	910,750,354
Total Investments in Securities . . . . .	\$824,030,892	\$7,949,391,380	\$1,160,988	\$8,774,583,260
Other Financial Instruments				
Forward Exchange Contracts . . . . .	\$ —	\$ 12,950,365	—	12,950,365
Swaps Contracts . . . . .	—	5,489,690	—	5,489,690
Total Other Financial Instruments . . . . .	\$ —	\$ 18,440,055	\$ —	\$ 18,440,055
<b>Liabilities:</b>				
Other Financial Instruments				
Forward Exchange Contracts . . . . .	\$ —	\$ 26,245,828	\$ —	\$ 26,245,828
Unfunded Loan Commitments . . . . .	—	233,543	—	233,543
Total Other Financial Instruments . . . . .	\$ —	\$ 26,479,371	\$ —	\$ 26,479,371

<sup>a</sup>Includes common, preferred and convertible preferred stocks as well as other equity investments.

<sup>b</sup>For detailed categories, see the accompanying Statement of Investments.

<sup>c</sup>Includes securities determined to have no value at April 30, 2014.



# Franklin Strategic Series

## Notes to Financial Statements *(continued)*

### Franklin Strategic Income Fund

#### **11. FAIR VALUE MEASUREMENTS** *(continued)*

A reconciliation of assets in which Level 3 inputs are used in determining fair value is presented when there are significant Level 3 financial instruments at the end of the year.

#### **12. NEW ACCOUNTING PRONOUNCEMENTS**

In June 2013, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2013-08, Investment Companies (Topic 946): Amendments to the Scope, Measurement, and Disclosure Requirements. The ASU modifies the criteria used in defining an investment company under U.S. Generally Accepted Accounting Principles and also sets forth certain measurement and disclosure requirements. Under the ASU, an entity that is registered under the 1940 Act automatically qualifies as an investment company. The ASU is effective for interim and annual reporting periods beginning after December 15, 2013. Management has reviewed the requirements and believes the adoption of this ASU will not have a material impact on the financial statements.

#### **13. 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.

# Franklin Strategic Series

## Notes to Financial Statements *(continued)*

### Franklin Strategic Income Fund

#### ABBREVIATIONS

##### Counterparty

<b>BZWS</b>	- Barclays Bank PLC
<b>CITI</b>	- Citigroup, Inc.
<b>DBAB</b>	- Deutsche Bank AG
<b>FBCO</b>	- Credit Suisse Group AG
<b>GSCO</b>	- The Goldman Sachs Group, Inc.
<b>HSBC</b>	- HSBC Bank USA, N.A.
<b>JPHQ</b>	- JP Morgan Chase & Co.
<b>MSCO</b>	- Morgan Stanley
<b>UBSW</b>	- UBS AG

##### Currency

<b>BRL</b>	- Brazilian Real
<b>CAD</b>	- Canadian Dollar
<b>EUR</b>	- Euro
<b>GBP</b>	- British Pound
<b>HUF</b>	- Hungarian Forint
<b>IDR</b>	- Indonesian Rupiah
<b>KRW</b>	- South Korean Won
<b>LKR</b>	- Sri Lankan Rupee
<b>MXN</b>	- Mexican Peso
<b>MYR</b>	- Malaysian Ringgit
<b>PHP</b>	- Philippine Peso
<b>PLN</b>	- Polish Zloty
<b>SEK</b>	- Swedish Krona
<b>SGD</b>	- Singapore Dollar
<b>UYU</b>	- Uruguayan Peso

##### Selected Portfolio

<b>AGMC</b>	- Assured Guaranty Municipal Corp.
<b>CDO</b>	- Collateralized Debt Obligation
<b>CLO</b>	- Collateralized Loan Obligation
<b>EDA</b>	- Economic Development Authority
<b>ETF</b>	- Exchange Traded Fund
<b>FGIC</b>	- Financial Guaranty Insurance Co.
<b>FICO</b>	- Financing Corp.
<b>FRN</b>	- Floating Rate Note
<b>GO</b>	- General Obligation
<b>HDC</b>	- Housing Development Corp.
<b>ISD</b>	- Independent School District
<b>L/C</b>	- Letter of Credit
<b>NATL</b>	- National Public Financial Guarantee Corp.
<b>NATL RE</b>	- National Public Financial Guarantee Corp. Reinsured
<b>PIK</b>	- Payment-In-Kind
<b>PSF</b>	- Permanent School Fund

# Franklin Strategic Series

## Report of Independent Registered Public Accounting Firm

### Franklin Strategic Income Fund

#### To the Board of Franklin Strategic Series and Shareholders of The Franklin Strategic Series

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 the Franklin Strategic Income Fund (one of the funds constituting the Franklin Strategic Series, hereafter referred to as the “Fund”) at April 30, 2014, 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, 2014 by correspondence with the custodian, transfer agent and brokers, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

San Francisco, California  
June 13, 2014

# Franklin Strategic Series

## Tax Information (unaudited)

### Franklin Strategic Income Fund

Under Section 852(b)(3)(C) of the Internal Revenue Code (Code), the Fund hereby reports the maximum amount allowable but no less than \$72,095,694 as a long term capital gain dividend for the fiscal year ended April 30, 2014.

Under Section 871(k)(2)(C) of the Code, the Fund hereby reports the maximum amount allowable but no less than \$6,992,546 as a short term capital gain dividend for purposes of the tax imposed under Section 871(a)(1)(A) of the Code for the fiscal year ended April 30, 2014.

# Franklin Strategic Series

## 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
<b>Harris J. Ashton (1932)</b> One Franklin Parkway San Mateo, CA 94403-1906	Trustee	Since 1991	139	Bar-S Foods (meat packing company) (1981-2010).
<b>Principal Occupation During at Least the Past 5 Years:</b> Director of various companies; and <b>formerly</b> , 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).				
<b>Sam Ginn (1937)</b> One Franklin Parkway San Mateo, CA 94403-1906	Trustee	Since 2007	113	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).
<b>Principal Occupation During at Least the Past 5 Years:</b> Private investor; Chairman, First Responder Network Authority (FirstNet) (interoperable wireless broadband network) (2012); and <b>formerly</b> , 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).				
<b>Edith E. Holiday (1952)</b> One Franklin Parkway San Mateo, CA 94403-1906	Trustee	Since 1998	139	Hess Corporation (exploration and refining of oil and gas), H.J. Heinz Company (processed foods and allied products) (1994-2013), RTI International Metals, Inc. (manufacture and distribution of titanium), Canadian National Railway (railroad) and White Mountains Insurance Group, Ltd. (holding company).
<b>Principal Occupation During at Least the Past 5 Years:</b> Director or Trustee of various companies and trusts; and <b>formerly</b> , 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).				
<b>J. Michael Luttig (1954)</b> One Franklin Parkway San Mateo, CA 94403-1906	Trustee	Since 2009	139	Boeing Capital Corporation (aircraft financing) (2006-2013).
<b>Principal Occupation During at Least the Past 5 Years:</b> Executive Vice President, General Counsel and member of the Executive Council, The Boeing Company (aerospace company); and <b>formerly</b> , Federal Appeals Court Judge, U.S. Court of Appeals for the Fourth Circuit (1991-2006).				

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
<b>Frank A. Olson (1932)</b> One Franklin Parkway San Mateo, CA 94403-1906	Trustee	Since 2007	139	Hess Corporation (exploration and refining of oil and gas) (1998-2013).

**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) (until 1987).

<b>Larry D. Thompson (1945)</b> One Franklin Parkway San Mateo, CA 94403-1906	Trustee	Since 2007	139	Cbeyond, Inc. (business communications provider) (2010-2012), The Southern Company (energy company) (2010-2012) and Graham Holdings Company ( <i>formerly</i> , The Washington Post Company) (education and media organization).
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**Principal Occupation During at Least the Past 5 Years:**

Executive Vice President – Government Affairs, General Counsel and Corporate Secretary, PepsiCo, Inc. (consumer products) (2012-present); 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).

<b>John B. Wilson (1959)</b> One Franklin Parkway San Mateo, CA 94403-1906	Lead Independent Trustee	Trustee since 2006 and Lead Independent Trustee since 2008	113	None
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**Principal Occupation During at Least the Past 5 Years:**

President, Staples Europe (office supplies) (2012-present); 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
<b>**Gregory E. Johnson (1961)</b> One Franklin Parkway San Mateo, CA 94403-1906	Trustee	Since June 2013	149	None

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

Chairman of the Board, Member – Office of the Chairman, 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 44 of the investment companies in Franklin Templeton Investments; and Chairman, Investment Company Institute.

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
<b>**Rupert H. Johnson, Jr. (1940)</b> One Franklin Parkway San Mateo, CA 94403-1906	Chairman of the Board and Trustee	Chairman of the Board since June 2013 and Trustee since 1991	139	None
<b>Principal Occupation During at Least the Past 5 Years:</b> Vice Chairman, Member – Office of the Chairman and Director, Franklin Resources, Inc.; Director, Franklin Advisers, Inc.; Senior Vice President, Franklin Advisory Services, LLC; and officer and/or director or trustee, as the case may be, of some of the other subsidiaries of Franklin Resources, Inc. and of 41 of the investment companies in Franklin Templeton Investments.				
<b>Alison E. Baur (1964)</b> One Franklin Parkway San Mateo, CA 94403-1906	Vice President	Since 2012	Not Applicable	Not Applicable
<b>Principal Occupation During at Least the Past 5 Years:</b> Deputy General Counsel, Franklin Templeton Investments; and officer of some of the other subsidiaries of Franklin Resources, Inc. and of 46 of the investment companies in Franklin Templeton Investments.				
<b>Laura F. Ferguson (1962)</b> One Franklin Parkway San Mateo, CA 94403-1906	Chief Executive Officer – Finance and Administration	Since 2009	Not Applicable	Not Applicable
<b>Principal Occupation During at Least the Past 5 Years:</b> Senior Vice President, Franklin Templeton Services, LLC; and officer of 46 of the investment companies in Franklin Templeton Investments.				
<b>Gaston Gardey (1967)</b> One Franklin Parkway San Mateo, CA 94403-1906	Treasurer, Chief Financial Officer and Chief Accounting Officer	Since 2009	Not Applicable	Not Applicable
<b>Principal Occupation During at Least the Past 5 Years:</b> Director, Fund Accounting, Franklin Templeton Investments; and officer of 27 of the investment companies in Franklin Templeton Investments.				
<b>Aliya S. Gordon (1973)</b> One Franklin Parkway San Mateo, CA 94403-1906	Vice President	Since 2009	Not Applicable	Not Applicable
<b>Principal Occupation During at Least the Past 5 Years:</b> Senior Associate General Counsel, Franklin Templeton Investments; officer of 46 of the investment companies in Franklin Templeton Investments; and <b>formerly</b> , Litigation Associate, Steefel, Levitt & Weiss, LLP (2000-2004).				
<b>Steven J. Gray (1955)</b> One Franklin Parkway San Mateo, CA 94403-1906	Vice President	Since 2009	Not Applicable	Not Applicable
<b>Principal Occupation During at Least the Past 5 Years:</b> Senior Associate General Counsel, Franklin Templeton Investments; Vice President, Franklin Templeton Distributors, Inc. and Franklin Alternative Strategies Advisers, LLC; and officer of 46 of the investment companies in Franklin Templeton Investments.				

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
<b>Selena L. Holmes (1965)</b> 100 Fountain Parkway St. Petersburg, FL 33716-1205	Vice President – AML Compliance	Since 2012	Not Applicable	Not Applicable
<b>Principal Occupation During at Least the Past 5 Years:</b> Director, Global Compliance Monitoring; Deputy Chief Compliance Officer, Franklin Alternative Strategies Advisers, LLC; and officer of 46 of the investment companies in Franklin Templeton Investments.				
<b>Edward B. Jamieson (1948)</b> One Franklin Parkway San Mateo, CA 94403-1906	President and Chief Executive Officer – Investment Management	Since 2010	Not Applicable	Not Applicable
<b>Principal Occupation During at Least the Past 5 Years:</b> 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.				
<b>Christopher J. Molumphy (1962)</b> One Franklin Parkway San Mateo, CA 94403-1906	Vice President	Since 2000	Not Applicable	Not Applicable
<b>Principal Occupation During at Least the Past 5 Years:</b> Director and Executive Vice President, Franklin Advisers, Inc.; Executive Vice President, Franklin Templeton Institutional, LLC; and officer of some of the other subsidiaries of Franklin Resources, Inc. and of 22 of the investment companies in Franklin Templeton Investments.				
<b>Kimberly H. Novotny (1972)</b> 300 S.E. 2nd Street Fort Lauderdale, FL 33301-1923	Vice President	Since 2013	Not Applicable	Not Applicable
<b>Principal Occupation During at Least the Past 5 Years:</b> Associate General Counsel, Franklin Templeton Investments; Vice President and Secretary, Fiduciary Trust International of the South; Vice President, Templeton Investment Counsel, LLC; Assistant Secretary, Franklin Resources, Inc.; and officer of 46 of the investment companies in Franklin Templeton Investments.				
<b>Robert C. Rosselot (1960)</b> 300 S.E. 2nd Street Fort Lauderdale, FL 33301-1923	Chief Compliance Officer	Since 2013	Not Applicable	Not Applicable
<b>Principal Occupation During at Least the Past 5 Years:</b> Director, Global Compliance, Franklin Templeton Investments; Vice President, Franklin Templeton Companies, LLC; officer of 46 of the investment companies in Franklin Templeton Investments; and <b>formerly</b> , Senior Associate General Counsel, Franklin Templeton Investments (2007-2013); and Secretary and Vice President, Templeton Group of Funds (2004-2013).				
<b>Karen L. Skidmore (1952)</b> One Franklin Parkway San Mateo, CA 94403-1906	Vice President and Secretary	Since 2006	Not Applicable	Not Applicable
<b>Principal Occupation During at Least the Past 5 Years:</b> Senior Associate General Counsel, Franklin Templeton Investments; and officer of 46 of the investment companies in Franklin Templeton Investments.				



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
<b>Craig S. Tyle (1960)</b> One Franklin Parkway San Mateo, CA 94403-1906	Vice President	Since 2005	Not Applicable	Not Applicable

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

General Counsel and Executive Vice President, Franklin Resources, Inc.; and officer of some of the other subsidiaries of Franklin Resources, Inc. and of 46 of the investment companies in Franklin Templeton Investments.

<b>Lori A. Weber (1964)</b> 300 S.E. 2nd Street Fort Lauderdale, FL 33301-1923	Vice President	Since 2011	Not Applicable	Not Applicable
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**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; Vice President, Fiduciary Trust International of the South; and officer of 46 of the investment companies in Franklin Templeton Investments.

\*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.

\*\*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 Franklin Resources, Inc. (Resources), which is the parent company of the Fund's investment manager and distributor. Rupert H. Johnson, Jr. 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 Resources.

Note 1: Rupert H. Johnson, Jr. is the uncle 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.

Note 3: Effective June 13, 2013, Charles B. Johnson ceased to be a trustee of the Fund.

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.

# Franklin Strategic Series

## Shareholder Information

### Franklin Strategic Income Fund

#### Board Review of Investment Management Agreement

At a meeting held April 15, 2014, the Board of Trustees (Board), including a majority of non-interested or independent Trustees, approved renewal of the investment management agreement for each of the separate funds within the Trust, including Franklin Strategic Income Fund (Fund(s)). 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 each 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. Information furnished specifically in connection with the renewal process included a report for each 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 each 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 Funds 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. While the investment management agreements for all Funds were considered at the same Board meeting, the Board dealt with each Fund separately. In approving continuance of the investment management agreement for each 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 each 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 SERVICE.** 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

# Franklin Strategic Series

## Shareholder Information *(continued)*

### Franklin Strategic Income Fund

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

management 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 continual efforts and expenditures in establishing back-up systems and recovery procedures to function in the event of a natural disaster, it being noted 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 period of the 2012 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 continual enhancements to the Franklin Templeton website. Particular attention was given to management's conservative approach and diligent risk management procedures, including continual 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 throughout the year, particular attention in assessing performance was given to the Lipper reports furnished for the agreement renewal. The Lipper reports prepared for the Fund showed the investment performance of its Class A shares in comparison to a performance universe selected by Lipper. Comparative performance for the Fund was shown for the one-year period ended January 31, 2014, and previous periods ended that date of up to 10 years. The performance universe for the Fund consisted of

# Franklin Strategic Series

## Shareholder Information *(continued)*

### Franklin Strategic Income Fund

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

the Fund and all retail and institutional multi-sector income funds as selected by Lipper. The Lipper report comparison showed the Fund's income return for the one-year period to be in the second-highest performing quintile of its performance universe, and on an annualized basis to also be in the second-highest performing quintile of such universe during each of the previous three- and 10-year periods, and in the middle performing quintile of such universe during the previous five-year period. The Lipper report showed the Fund's total return for the one-year period to be in the second-highest performing quintile of its performance universe, and on an annualized basis to also be in the second-highest performing quintile of such universe for the previous three- and 10-year periods, and the second-lowest performing quintile of such universe for the previous five-year period. The Board was satisfied with the Fund's investment performance as set forth in the Lipper report and noted its income oriented investment objective.

**COMPARATIVE EXPENSES.** Consideration was given to a comparative analysis of the management fees and total expense ratio of the Fund compared with those of a group of other funds selected by Lipper as 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 the Fund's contractual investment management fee in comparison with the 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 includes administrative charges as being part of the investment management fee, and actual total expenses, for comparative consistency, are shown by Lipper for Fund Class A shares. The results of such expense comparisons showed the contractual investment management fee rate for the Fund was below the median of its Lipper expense group, while its actual total expense ratio was in the least expensive quintile of such expense group. The Board was satisfied with the contractual management fee rate and total expense ratio of the Fund in comparison to its expense group as shown in the Lipper report.

**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, 2013, being the most recent fiscal year-end for Franklin Resources, Inc., the Manager's parent. In reviewing the analysis, the Board recognized that allocation methodologies are inherently subjective and various

# Franklin Strategic Series

## Shareholder Information *(continued)*

### Franklin Strategic Income Fund

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

allocation methodologies may be reasonable while producing different results. In this respect, the Board noted that while management continually makes refinements to its methodologies in response to organizational and product related changes, the overall approach as defined by the primary drivers and activity measurements has remained consistent with that used in the Fund's profitability report presentations from prior years. Additionally, the Fund's independent registered public accounting firm had been engaged by the Manager to periodically review the reasonableness of the allocation methodologies to be used solely by the Fund's Board in reference to the profitability analysis. 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 noted that economies of scale were shared with the 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 investment management agreement for the Fund contains breakpoints that continued to asset levels that exceeded its asset size at December 31, 2013. In view of such fee structure and the favorable expense comparisons of the Fund within its expense group, the Board believed that to the extent economies of scale may be realized by the manager of the Fund and its affiliates, that there was a sharing of benefits with the Fund and its shareholders.

# Franklin Strategic Series

## Shareholder Information *(continued)*

### Franklin Strategic Income Fund

#### 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](http://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](http://franklintempleton.com) and posted on the U.S. Securities and Exchange Commission's website at [sec.gov](http://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](http://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 househanded, 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.

# 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](http://franklintempleton.com) or [etf.franklintempleton.com](http://etf.franklintempleton.com) for Franklin Short Duration U.S. Government ETF. Investors should carefully consider a fund's investment goals, risks, charges and expenses before investing. The prospectus contains this and other information. Please carefully read a prospectus before investing.

## VALUE

Franklin All Cap Value Fund  
Franklin Balance Sheet Investment Fund  
Franklin Large Cap Value Fund  
Franklin MicroCap Value Fund<sup>1</sup>  
Franklin MidCap Value Fund  
Franklin Small Cap Value Fund  
Franklin Mutual Beacon Fund  
Franklin Mutual Quest Fund  
Franklin Mutual Recovery Fund<sup>2</sup>  
Franklin Mutual Shares Fund

## BLEND

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

## GROWTH

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

## SECTOR

Franklin Biotechnology Discovery Fund  
Franklin Global Listed Infrastructure Fund  
Franklin Global Real Estate Fund  
Franklin Gold & Precious Metals Fund  
Franklin Natural Resources Fund  
Franklin Real Estate Securities Fund  
Franklin Utilities Fund  
Franklin Mutual Financial Services Fund

## GLOBAL

Franklin World Perspectives Fund  
Franklin 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>  
Franklin Mutual European Fund  
Franklin Mutual International 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<sup>4</sup>  
Templeton Frontier Markets Fund<sup>5</sup>

## HYBRID

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

## ALTERNATIVE

Franklin K2 Alternative Strategies Fund  
Franklin Pelagos Commodities Strategy Fund

## ASSET ALLOCATION

Franklin Corefolio<sup>®</sup> Allocation Fund  
Franklin Founding Funds Allocation Fund  
Franklin Conservative Allocation Fund  
Franklin Growth Allocation Fund  
Franklin Moderate Allocation Fund  
Franklin LifeSmart<sup>™</sup> Retirement Target Funds (2015-2050)  
Franklin Global Allocation Fund  
Franklin Multi-Asset Real Return Fund

## FIXED INCOME

Franklin Adjustable U.S. Government Securities Fund<sup>6</sup>  
Franklin Floating Rate Daily Access Fund  
Franklin Global Government Bond Fund  
Franklin High Income Fund

Franklin Low Duration Total Return Fund  
Franklin Real Return Fund  
Franklin Short Duration U.S. Government ETF  
Franklin Strategic Income Fund  
Franklin Strategic Mortgage Portfolio  
Franklin Total Return Fund  
Franklin U.S. Government Securities Fund<sup>6</sup>  
Templeton Constrained Bond Fund  
Templeton Emerging Markets Bond Fund  
Templeton Global Bond Fund  
Templeton Global Total Return Fund  
Templeton Hard Currency Fund  
Templeton International Bond Fund

## TAX-FREE INCOME<sup>7</sup>

### National

Double Tax-Free Income Fund<sup>8</sup>  
Federal Tax-Free Income Fund  
High Yield Tax-Free Income Fund  
Insured Tax-Free Income Fund<sup>9,10</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

Alabama	Kentucky	New York
Arizona	Louisiana	(2 funds)
California	Maryland	North Carolina
(4 funds) <sup>10</sup>	Massachusetts	Ohio
Colorado	Michigan	Oregon
Connecticut	Minnesota	Pennsylvania
Florida	Missouri	Tennessee
Georgia	New Jersey	Virginia

## INSURANCE FUNDS

Franklin Templeton Variable Insurance Products Trust<sup>11</sup>

1. The fund is closed to new investors. Existing shareholders and select retirement plans may add 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 12/10/13, the fund closed to new investors, with limited exceptions.

5. Effective 6/28/13, the fund closed to new investors. Existing shareholders and select retirement plans may add to their accounts.

6. An investment in the fund is neither insured nor guaranteed by the U.S. government or by any other entity or institution.

7. For investors subject to the alternative minimum tax, a small portion of fund dividends may be taxable. Distributions of capital gains are generally taxable.

8. The fund is closed to all new investments (other than reinvestment of dividends and capital gains distributions).

9. The fund invests primarily in insured municipal securities.

10. Franklin Insured Tax-Free Income Fund and Franklin California Insured Tax-Free Income Fund are closed to all new investments (other than reinvestment of dividends and capital gains distributions).

11. 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 ALTERNATIVE ASSET ALLOCATION FIXED INCOME TAX-FREE INCOME



FRANKLIN TEMPLETON  
INVESTMENTS

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Annual Report and Shareholder Letter

## FRANKLIN STRATEGIC INCOME FUND

**Investment Manager**

Franklin Advisers, Inc.

**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 help ensure we provide you with quality service, all calls to and from our service areas are monitored and/or recorded.