



**Annual Report
and Shareholder Letter**

April 30, 2019

Franklin Strategic Income Fund

A SERIES OF FRANKLIN STRATEGIC SERIES



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Franklin Templeton

Successful investing begins with ambition. And achievement only comes when you reach for it. That's why we continually strive to deliver better outcomes for investors. No matter what your goals are, our deep, global investment expertise allows us to offer solutions that can help.

During our more than 70 years of experience, we've managed through all kinds of markets—up, down and those in between. We're always preparing for what may come next. It's because of this, combined with our strength as one of the world's largest asset managers that we've earned the trust of millions of investors around the world.

Dear Shareholder:

During the 12 months ended April 30, 2019, the U.S. economy continued to grow amid positive economic data and corporate earnings, and the unemployment rate declined.

During the period, markets reflected concerns about the U.S. Federal Reserve's (Fed's) interest-rate path, U.S. political uncertainties and U.S.-China trade disputes, but these concerns were mitigated by the Fed's patient monetary policy stance and investor optimism about a trade deal. Within this environment, investment-grade bonds, as measured by the Bloomberg Barclays U.S. Aggregate Bond Index, had a positive total return for the 12-month period.

We are committed to our long-term perspective and disciplined investment approach as we conduct a rigorous, fundamental analysis of securities with a regular emphasis on investment risk management.

We believe active, professional investment management serves investors well. We also recognize the important role of financial advisors in today's markets and encourage investors to continue to seek their advice. Amid changing markets and economic conditions, we are confident investors with a well-diversified portfolio and a patient, long-term outlook should be well positioned for the years ahead.

In addition, Franklin Strategic Income Fund's annual report includes more detail about prevailing conditions and a discussion about investment decisions during the period. Please remember all securities markets fluctuate, as do mutual fund share prices.

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

Sincerely,



Edward Perks, CFA
President and Chief Executive Officer –
Investment Management
Franklin Strategic Series

This letter reflects our analysis and opinions as of April 30, 2019, unless otherwise indicated. 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.

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financial planning tools.

Annual Report

Franklin Strategic Income Fund

This annual report for Franklin Strategic Income Fund covers the fiscal year ended April 30, 2019.

Your Fund's Goal and Main Investments

The 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, variable and floating rate income securities, including bonds, U.S. and foreign government and agency securities, corporate loans (and loan participations), mortgage-backed securities and other asset-backed securities and convertible securities.

Performance Overview

The Fund's Class A shares posted a +4.52% cumulative total return for the 12 months under review. In comparison, the Bloomberg Barclays U.S. Aggregate Bond Index, which represents the U.S. investment-grade fixed rate taxable bond market, posted a +5.29% total return.¹ 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, posted a +3.93% total return.² You can find more of the Fund's performance data in the Performance Summary beginning on page 7.

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

Economic and Market Overview

The U.S. economy grew during the 12-month period. The economy expanded at a faster rate in 2019's first quarter after moderating in the previous two quarters. Growth in consumer spending, inventory investment, exports, state and local government spending and business investment was partly offset by declines in housing investment and federal government spending. The manufacturing and services sectors expanded during the period. The unemployment rate decreased from 3.9% in April 2018 to 3.6% at period-end.³ The annual inflation rate, as measured by the Consumer Price Index, decreased from 2.5% in April 2018 to 2.0% at period-end.³

The U.S. Federal Reserve (Fed) raised its target range for the federal funds rate by 0.25% three times during the period, to 2.25%–2.50%, and continued reducing its balance sheet as part of its plan to normalize monetary policy. At its March 2019 meeting, the Fed held its target range for the federal funds rate unchanged and signaled no rate hike in 2019. The Fed also lowered its forecasts for economic growth in 2019 and 2020. Furthermore, the Fed mentioned it would end its balance sheet normalization by the end of September 2019.

The 10-year Treasury yield, which moves inversely to its price, decreased during the period. The yield rose to multi-year highs several times in 2018 amid investor concerns about higher inflation and the Fed's interest-rate path. Concerns that other central banks might scale back monetary stimulus, several better-than-expected U.S. economic reports and optimism surrounding trade talks between the U.S. and China also pushed the yield higher. However, some factors weighed on the Treasury yield at certain points during the period, including concerns about political turmoil in Italy, political uncertainties in the U.S., tensions between the U.S. and North Korea, U.S. trade disputes with China and other trading partners, slower domestic and global economic growth, and the Fed's indications of a patient approach to its monetary policy

1. Source: Morningstar.

2. Source: Lipper, a Thomson Reuters Company. For the 12-month period ended 4/30/19, this category consisted of 328 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.

The indexes are unmanaged and include reinvestment of any income or distributions. They do not reflect any fees, expenses or sales charges. One cannot invest directly in an index, and an index is not representative of the Fund's portfolio.

3. Source: Bureau of Labor Statistics.

See www.franklintempletondatasources.com for additional data provider information.

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

decisions. Overall, the 10-year Treasury yield declined from 2.95% at the beginning of the period to 2.51% at period-end.

Portfolio Composition*

Based on Consolidated Net Assets

	4/30/19
High-Yield Corporate Bonds	26.2%
Mortgage-Backed Securities	20.9%
Floating-Rate Loans	19.3%
Investment-Grade Corporate Bonds	11.3%
International Government & Agency Bonds	9.8%
Collateralized Loan Obligations	9.4%
Interest-Rate Derivatives	6.4%
U.S. Treasuries	3.3%
Commercial Mortgage-Backed Securities	2.7%
Treasury Inflation-Protected Securities	2.5%
Municipal Bonds	2.3%
Asset-Backed Securities	2.1%
Other	1.2%
Marketplace Loans	0.5%
Covered Bonds	0.1%
Short-Term Investments & Other Net Assets	-3.6%

*Figures reflect certain derivatives held in the portfolio (or their underlying reference assets) and may not total 100% or may be negative due to rounding, use of any derivatives, unsettled trades or other factors. The composition may not match the SOI.

Investment Strategy

We use an active asset allocation strategy to try to achieve the Fund's investment goals. We employ a top-down analysis of macroeconomic trends combined with a bottom-up fundamental analysis of market sectors, industries and issuers to try to take advantage of varying sector reactions to economic events. We regularly enter into various currency-related transactions involving derivative instruments, including currency and cross currency forwards, currency swaps, currency and currency index futures contracts and currency options. We may also enter into interest-rate and credit-related transactions involving derivative instruments, including interest-rate, fixed income total return and credit default swaps and interest rate and/or bond futures contracts.

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 in exchange for another currency at a specific exchange rate on a future date. Currency forward contracts are privately traded in the interbank market, not on a centralized exchange.

What is a futures contract?

A futures contract is an agreement between the Fund and a counterparty made through a U.S. or foreign futures exchange to buy or sell an underlying instrument or asset at a specific price on a future date.

What are swap agreements?

Swap agreements, such as interest-rate, currency and credit default swaps, are contracts between the Fund and another party (the swap counterparty). In a basic swap transaction, the Fund agrees with the swap counterparty to exchange the returns (or differentials in rates of return) earned or realized on a particular "notional amount" of underlying instruments. The notional amount is the set amount selected by the parties as the basis on which to calculate the obligations that they have agreed to exchange. The parties typically do not actually exchange the notional amount. Instead, they agree to exchange the returns that would be earned or realized if the notional amount were invested in given instruments or at given interest rates.

What is an option?

An option is a contract to buy or sell a specific financial product known as the option's underlying instrument at a specific price. The buyer of an option has the right, but not the obligation, to buy or sell the underlying instrument at or until a specified expiration date. Conversely, the seller ("writer") of an option who opens a transaction is obligated to buy or sell the underlying instrument should the option holder exercise that right.

Manager's Discussion

For global fixed income markets, the first half of the 12 months under review were generally characterized by low levels of volatility, strong risk appetite and relatively low interest rates. The Fed raised its rates three times during the period in June, September and December of 2018 citing continued strength in the economy and strong labor conditions. Volatility and a generally pessimistic market tone in the last few months of 2018 gave way to improved market conditions in the first quarter of 2019. Global financial markets responded favorably to a dovish tilt in policy outlook by global central banks. Additionally, anticipation of an eventual U.S. trade deal with China, broad equity market recoveries and further restoration of risk appetite among global financial market participants contributed toward positive market sentiments as spreads across fixed income sectors generally trended lower during the first quarter of 2019. Outside the U.S., many major economies kept their interest rates unchanged.

In this environment, high-yield corporate credit outpaced U.S. Treasuries on a duration-matched basis. Senior secured floating-rate loans, non-agency residential mortgage-backed securities (RMBS), investment-grade corporate credit and commercial mortgage-backed securities (CMBS) also delivered strong performance.

What is duration?

Duration is a measure of a bond's price sensitivity to interest-rate changes. In general, a portfolio of securities with a lower duration can be expected to be less sensitive to interest-rate changes than a portfolio with a higher duration.

Dividend Distributions*

5/1/18–4/30/19

Month	Dividend per Share (cents)				Advisor Class
	Class A	Class C	Class R	Class R6	
May	3.11	2.79	2.92	3.39	3.31
June	3.46	3.12	3.25	3.79	3.67
July	3.61	3.29	3.41	3.92	3.81
August	3.61	3.27	3.40	3.94	3.82
September	3.61	3.31	3.43	3.90	3.79
October	3.62	3.14	3.38	3.97	3.84
November	3.53	3.22	3.33	3.82	3.72
December	3.53	3.23	3.34	3.82	3.72
January	3.54	3.20	3.32	3.86	3.75
February	3.49	3.18	3.30	3.78	3.68
March	3.50	3.20	3.32	3.79	3.67
April	3.50	3.19	3.32	3.80	3.69
Total	42.11	38.14	39.72	45.78	44.47

*The distribution amount is the sum of all net investment income distributions for the period shown. All Fund distributions will vary depending upon current market conditions, and past distributions are not indicative of future trends.

During the period, the Fund's U.S. duration exposure was a significant boost to performance. Additionally, our exposure to high-yield corporate credit also added to results. Senior secured floating rate loans, tax-exempt municipal bonds and investment-grade corporate credit also benefited returns. In contrast, our exposure to foreign currencies, fixed-rate agency mortgage-backed securities (MBS) and sovereign emerging markets securities detracted from performance.

What is the yield curve?

A yield curve is a line that plots the yield to maturity of bonds having equal credit quality against their maturity dates.

Our largest allocation is in corporate credit inclusive of high-yield and investment-grade corporate credit, senior

secured floating rate bank loans and collateralized loan obligations (CLOs), with most of the exposure in below investment-grade corporate securities. We pared our investment-grade and high-yield corporate credit exposures over the period, while increasing our allocation to CLOs and senior secured floating-rate loans. We increased our RMBS allocation as we prefer to remain allocated to the seasoned credit risk transfer where fundamental and technical forces remain positive.

Our foreign currency exposure was held through a basket of developed-market shorts with major positions in the Australian dollar, Canadian dollar and South Korean won versus a basket of emerging market long positions with major positions in Indonesian rupiah, Brazilian Real and Mexican peso.

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



Sonal Desai

Sonal Desai, Ph.D.



Roger A. Bayston

Roger A. Bayston, CFA

Patricia O'Connor, CFA

Portfolio Management Team

The foregoing information reflects our analysis, opinions and portfolio holdings as of April 30, 2019, the end of the reporting period. The way we implement our main investment strategies and the resulting portfolio holdings may change depending on factors such as market and economic conditions. These opinions may not be relied upon as investment advice or an offer for a particular security. The information is not a complete analysis of every aspect of any market, country, industry, security or the Fund. Statements of fact are from sources considered reliable, but the investment manager makes no representation or warranty as to their completeness or accuracy. Although historical performance is no guarantee of future results, these insights may help you understand our investment management philosophy.

Performance Summary as of April 30, 2019

The performance tables 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. 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.

Performance as of 4/30/19¹

*Cumulative total return excludes sales charges. Average annual total return includes maximum sales charges. Sales charges will vary depending on the size of the investment and the class of share purchased. The maximum is 3.75% and the minimum is 0%. **Class A:** 3.75% maximum initial sales charge; **Advisor Class:** no sales charges. For other share classes, visit franklintempleton.com.*

Share Class	Cumulative Total Return ²	Average Annual Total Return ³
A⁴		
1-Year	+4.52%	+0.65%
5-Year	+10.80%	+1.30%
10-Year	+74.56%	+5.33%
Advisor		
1-Year	+4.88%	+4.88%
5-Year	+12.18%	+2.33%
10-Year	+78.89%	+5.99%

Share Class	Distribution Rate ⁵	30-Day Standardized Yield ⁶	
		(with fee waiver)	(without fee waiver)
A	4.22%	4.33%	4.31%
Advisor	4.62%	4.76%	4.72%

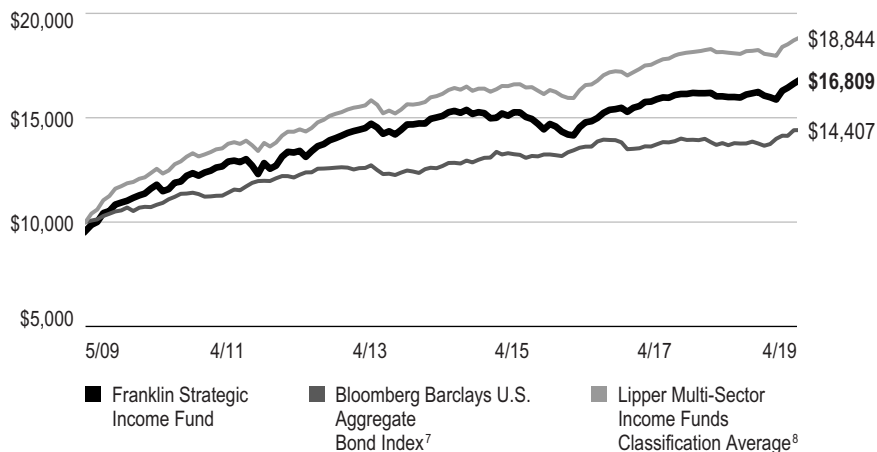
Performance data represent past performance, which does not guarantee future results. Investment return and principal value will fluctuate, and you may have a gain or loss when you sell your shares. Current performance may differ from figures shown. For most recent month-end performance, go to franklintempleton.com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

See page 9 for Performance Summary footnotes.

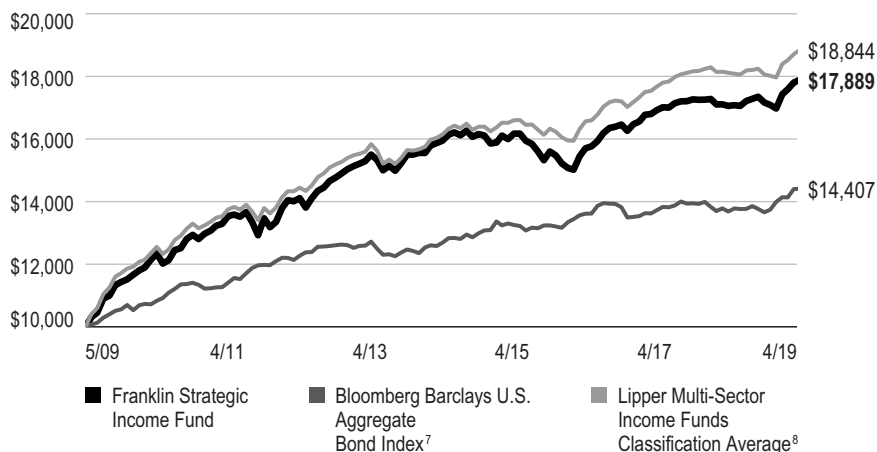
Total Return Index Comparison for a Hypothetical \$10,000 Investment¹

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 (5/1/09–4/30/19)



Advisor Class (5/1/09–4/30/19)



See page 9 for Performance Summary footnotes.

Distributions (5/1/18–4/30/19)

Share Class	Net Investment Income
A	\$0.4211
C	\$0.3814
R	\$0.3972
R6	\$0.4578
Advisor	\$0.4447

Total Annual Operating Expenses⁹

Share Class	With Fee Waiver	Without Fee Waiver
A	0.88%	0.93%
Advisor	0.63%	0.68%

Each class of shares is available to certain eligible investors and has different annual fees and expenses, as described in the prospectus.

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.

1. The Fund has a fee waiver associated with any investment it makes in a Franklin Templeton money fund and/or other Franklin Templeton fund, contractually guaranteed through 8/31/19. Fund investment results reflect the fee waiver; without this waiver, 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. Return for less than one year, if any, has not been annualized.
4. Prior to 3/1/19, these shares were offered at a higher initial sales charge of 4.25%, thus actual returns would have differed. Total returns with sales charges have been restated to reflect the current maximum initial sales charge of 3.75%.
5. 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 Advisor Class) per share on 4/30/19.
6. The Fund's 30-day standardized yield is calculated over a trailing 30-day period using the yield to maturity on bonds and/or the dividends accrued on stocks. It may not equal the Fund's actual income distribution rate, which reflects the Fund's past dividends paid to shareholders.
7. Source: Morningstar. The Bloomberg Barclays U.S. Aggregate Bond 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.
8. 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 4/30/19, there were 328 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.
9. Figures are as stated in the Fund's current prospectus and may differ from the expense ratios disclosed in the Your Fund's Expenses and Consolidated Financial Highlights sections in this report. In periods of market volatility, assets may decline significantly, causing total annual Fund operating expenses to become higher than the figures shown. See www.franklintempletondatasources.com for additional data provider information.

Your Fund's Expenses

As a Fund shareholder, you can incur two types of costs: (1) transaction costs, including sales charges (loads) on Fund purchases and redemptions; and (2) 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 table below 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 table below provides information about actual account values and actual expenses in the columns under the heading "Actual." In these columns the Fund's actual return, which includes the effect of Fund expenses, is used to calculate the "Ending Account Value" for each class of shares. 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*): Divide your account value by \$1,000 (*if your account had an \$8,600 value, then $\$8,600 \div \$1,000 = 8.6$*). Then multiply the result by the number in the row for your class of shares under the headings "Actual" and "Expenses Paid During Period" (*if Actual Expenses Paid During Period were \$7.50, then $8.6 \times \$7.50 = \64.50*). In this illustration, the actual expenses paid this period are \$64.50.

Hypothetical Example for Comparison with Other Funds

Under the heading "Hypothetical" in the table, information is provided about hypothetical account values and hypothetical expenses based on the Fund's actual expense ratio and an assumed rate of return of 5% per year before expenses, which is not the Fund's actual return. This information may not be used to estimate the actual ending account balance or expenses you paid for the period, but it can help you compare ongoing costs of investing in the Fund with those of other funds. To do so, compare this 5% hypothetical example for the class of shares you hold with the 5% hypothetical examples that appear in the shareholder reports of other funds.

Please note that expenses shown in the table are meant to highlight ongoing costs and do not reflect any transactional costs. Therefore, information under the heading "Hypothetical" is useful in comparing ongoing costs only, and will not help you compare total costs of owning different funds. In addition, if transactional costs were included, your total costs would have been higher.

Share Class	Beginning Account Value 11/1/18	Actual (actual return after expenses)		Hypothetical (5% annual return before expenses)		Net Annualized Expense Ratio ²
		Ending Account Value 4/30/19	Expenses Paid During Period 11/1/18–4/30/19 ^{1,2}	Ending Account Value 4/30/19	Expenses Paid During Period 11/1/18–4/30/19 ^{1,2}	
A	\$1,000	\$1,040.90	\$4.25	\$1,020.63	\$4.21	0.84%
C	\$1,000	\$1,038.90	\$6.27	\$1,018.65	\$6.21	1.24%
R	\$1,000	\$1,039.80	\$5.51	\$1,019.39	\$5.46	1.09%
R6	\$1,000	\$1,043.90	\$2.28	\$1,022.56	\$2.26	0.45%
Advisor	\$1,000	\$1,042.10	\$2.99	\$1,021.87	\$2.96	0.59%

1. Expenses are equal to the annualized expense ratio for the six-month period as indicated above—in the far right column—multiplied by the simple average account value over the period indicated, and then multiplied by 181/365 to reflect the one-half year period.

2. Reflects expenses after fee waivers and expense reimbursements. Does not include acquired fund fees and expenses.

Consolidated Financial Highlights

Franklin Strategic Income Fund

	Year Ended April 30,				
	2019	2018	2017	2016	2015
Class A					
Per share operating performance					
(for a share outstanding throughout the year)					
Net asset value, beginning of year	\$ 9.61	\$ 9.84	\$ 9.32	\$10.04	\$10.57
Income from investment operations ^a :					
Net investment income ^b	0.42	0.39	0.39	0.42	0.42
Net realized and unrealized gains (losses)	— ^c	(0.32)	0.30	(0.74)	(0.30)
Total from investment operations	0.42	0.07	0.69	(0.32)	0.12
Less distributions from:					
Net investment income and net foreign currency gains	(0.42)	(0.30)	(0.17)	(0.40)	(0.55)
Net realized gains	—	—	—	—	(0.10)
Total distributions	(0.42)	(0.30)	(0.17)	(0.40)	(0.65)
Net asset value, end of year	\$ 9.61	\$ 9.61	\$ 9.84	\$ 9.32	\$10.04
Total return ^d	4.52%	0.64%	7.50%	(3.14)%	1.16%
Ratios to average net assets					
Expenses before waiver and payments by affiliates	0.89%	0.90%	0.88%	0.88%	0.86%
Expenses net of waiver and payments by affiliates ^e	0.84%	0.85%	0.82%	0.84%	0.85%
Net investment income	4.39%	3.93%	4.08%	4.44%	4.03%
Supplemental data					
Net assets, end of year (000's)	\$3,131,799	\$3,291,002	\$3,833,786	\$4,500,752	\$5,242,844
Portfolio turnover rate	116.21% ^f	115.94%	140.83%	88.04%	72.51%
Portfolio turnover rate excluding mortgage dollar rolls ^g	39.01% ^f	47.40%	87.33%	48.33%	49.36%

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

^bBased on average daily shares outstanding.

^cAmount rounds to less than \$0.01 per share.

^dTotal return does not reflect sales commissions or contingent deferred sales charges, if applicable.

^eBenefit of expense reduction rounds to less than 0.01%.

^fExcludes the value of portfolio activity as a result of in-kind transactions. See Note 6.

^gSee Note 1(i) regarding mortgage dollar rolls.

FRANKLIN STRATEGIC SERIES
CONSOLIDATED FINANCIAL HIGHLIGHTS

Franklin Strategic Income Fund (continued)

	Year Ended April 30,				
	2019	2018	2017	2016	2015
Class C					
Per share operating performance					
(for a share outstanding throughout the year)					
Net asset value, beginning of year	\$ 9.60	\$ 9.84	\$ 9.31	\$10.04	\$10.57
Income from investment operations ^a :					
Net investment income ^b	0.38	0.35	0.35	0.38	0.38
Net realized and unrealized gains (losses)	0.01	(0.33)	0.31	(0.75)	(0.30)
Total from investment operations	0.39	0.02	0.66	(0.37)	0.08
Less distributions from:					
Net investment income and net foreign currency gains	(0.38)	(0.26)	(0.13)	(0.36)	(0.51)
Net realized gains	—	—	—	—	(0.10)
Total distributions	(0.38)	(0.26)	(0.13)	(0.36)	(0.61)
Net asset value, end of year.	\$ 9.61	\$ 9.60	\$ 9.84	\$ 9.31	\$10.04
Total return ^c	4.19%	0.14%	7.19%	(3.64)%	0.76%
Ratios to average net assets					
Expenses before waiver and payments by affiliates	1.29%	1.30%	1.28%	1.28%	1.26%
Expenses net of waiver and payments by affiliates ^d	1.24%	1.25%	1.22%	1.24%	1.25%
Net investment income	3.99%	3.53%	3.68%	4.04%	3.63%
Supplemental data					
Net assets, end of year (000's)	\$716,327	\$1,078,890	\$1,385,981	\$1,645,852	\$2,070,739
Portfolio turnover rate	116.21% ^e	115.94%	140.83%	88.04%	72.51%
Portfolio turnover rate excluding mortgage dollar rolls ^f	39.01% ^e	47.40%	87.33%	48.33%	49.36%

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

^bBased on average daily shares outstanding.

^cTotal return does not reflect sales commissions or contingent deferred sales charges, if applicable.

^dBenefit of expense reduction rounds to less than 0.01%.

^eExcludes the value of portfolio activity as a result of in-kind transactions. See Note 6.

^fSee Note 1(i) regarding mortgage dollar rolls.

Franklin Strategic Income Fund (continued)

	Year Ended April 30,				
	2019	2018	2017	2016	2015
Class R					
Per share operating performance					
(for a share outstanding throughout the year)					
Net asset value, beginning of year	\$ 9.57	\$ 9.81	\$ 9.28	\$10.01	\$10.54
Income from investment operations ^a :					
Net investment income ^b	0.39	0.36	0.37	0.39	0.39
Net realized and unrealized gains (losses)	0.01	(0.33)	0.31	(0.74)	(0.29)
Total from investment operations	0.40	0.03	0.68	(0.35)	0.10
Less distributions from:					
Net investment income and net foreign currency gains	(0.40)	(0.27)	(0.15)	(0.38)	(0.53)
Net realized gains	—	—	—	—	(0.10)
Total distributions	(0.40)	(0.27)	(0.15)	(0.38)	(0.63)
Net asset value, end of year.	\$ 9.57	\$ 9.57	\$ 9.81	\$ 9.28	\$10.01
Total return	4.28%	0.29%	7.38%	(3.50)%	0.91%
Ratios to average net assets					
Expenses before waiver and payments by affiliates	1.14%	1.15%	1.13%	1.13%	1.11%
Expenses net of waiver and payments by affiliates ^c	1.09%	1.10%	1.07%	1.09%	1.10%
Net investment income	4.14%	3.68%	3.83%	4.19%	3.78%
Supplemental data					
Net assets, end of year (000's)	\$85,458	\$105,692	\$146,552	\$181,671	\$223,758
Portfolio turnover rate	116.21% ^d	115.94%	140.83%	88.04%	72.51%
Portfolio turnover rate excluding mortgage dollar rolls ^e	39.01% ^d	47.40%	87.33%	48.33%	49.36%

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

^bBased on average daily shares outstanding.

^cBenefit of expense reduction rounds to less than 0.01%.

^dExcludes the value of portfolio activity as a result of in-kind transactions. See Note 6.

^eSee Note 1(i) regarding mortgage dollar rolls.

Franklin Strategic Income Fund (continued)

	Year Ended April 30,				
	2019	2018	2017	2016	2015
Class R6					
Per share operating performance					
(for a share outstanding throughout the year)					
Net asset value, beginning of year	\$ 9.62	\$ 9.86	\$ 9.33	\$10.05	\$10.58
Income from investment operations ^a :					
Net investment income ^b	0.45	0.43	0.43	0.46	0.46
Net realized and unrealized gains (losses)	0.02	(0.34)	0.31	(0.74)	(0.30)
Total from investment operations	0.47	0.09	0.74	(0.28)	0.16
Less distributions from:					
Net investment income and net foreign currency gains	(0.46)	(0.33)	(0.21)	(0.44)	(0.59)
Net realized gains	—	—	—	—	(0.10)
Total distributions	(0.46)	(0.33)	(0.21)	(0.44)	(0.69)
Net asset value, end of year.	\$ 9.63	\$ 9.62	\$ 9.86	\$ 9.33	\$10.05
Total return	5.03%	0.95%	8.03%	(2.76)%	1.54%
Ratios to average net assets					
Expenses before waiver and payments by affiliates	0.51%	0.50%	0.48%	0.49%	0.48%
Expenses net of waiver and payments by affiliates ^c	0.45%	0.45%	0.42%	0.45%	0.47%
Net investment income	4.78%	4.33%	4.48%	4.83%	4.41%
Supplemental data					
Net assets, end of year (000's)	\$307,287	\$433,068	\$369,106	\$286,503	\$253,929
Portfolio turnover rate	116.21% ^d	115.94%	140.83%	88.04%	72.51%
Portfolio turnover rate excluding mortgage dollar rolls ^e	39.01% ^d	47.40%	87.33%	48.33%	49.36%

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

^bBased on average daily shares outstanding.

^cBenefit of expense reduction rounds to less than 0.01%.

^dExcludes the value of portfolio activity as a result of in-kind transactions. See Note 6.

^eSee Note 1(i) regarding mortgage dollar rolls.

Franklin Strategic Income Fund (continued)

	Year Ended April 30,				
	2019	2018	2017	2016	2015
Advisor Class					
Per share operating performance					
(for a share outstanding throughout the year)					
Net asset value, beginning of year	\$ 9.62	\$ 9.85	\$ 9.33	\$10.05	\$10.58
Income from investment operations ^a :					
Net investment income ^b	0.44	0.41	0.42	0.44	0.44
Net realized and unrealized gains (losses)	— ^c	(0.32)	0.30	(0.74)	(0.29)
Total from investment operations	0.44	0.09	0.72	(0.30)	0.15
Less distributions from:					
Net investment income and net foreign currency gains	(0.44)	(0.32)	(0.20)	(0.42)	(0.58)
Net realized gains	—	—	—	—	(0.10)
Total distributions	(0.44)	(0.32)	(0.20)	(0.42)	(0.68)
Net asset value, end of year.	\$ 9.62	\$ 9.62	\$ 9.85	\$ 9.33	\$10.05
Total return	4.88%	0.79%	7.76%	(2.89)%	1.41%
Ratios to average net assets					
Expenses before waiver and payments by affiliates	0.64%	0.65%	0.63%	0.63%	0.61%
Expenses net of waiver and payments by affiliates ^d	0.59%	0.60%	0.57%	0.59%	0.60%
Net investment income	4.64%	4.18%	4.33%	4.69%	4.28%
Supplemental data					
Net assets, end of year (000's)	\$608,317	\$933,747	\$1,070,103	\$904,899	\$1,130,796
Portfolio turnover rate	116.21% ^e	115.94%	140.83%	88.04%	72.51%
Portfolio turnover rate excluding mortgage dollar rolls ^f	39.01% ^e	47.40%	87.33%	48.33%	49.36%

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

^bBased on average daily shares outstanding.

^cAmount rounds to less than \$0.01 per share.

^dBenefit of expense reduction rounds to less than 0.01%.

^eExcludes the value of portfolio activity as a result of in-kind transactions. See Note 6.

^fSee Note 1(i) regarding mortgage dollar rolls.

Consolidated Statement of Investments, April 30, 2019
Franklin Strategic Income Fund

	Country	Shares/ Warrants	Value
Common Stocks and Other Equity Interests			
0.5%			
Commercial & Professional Services 0.1%			
^{a,aa} Remington Outdoor Co. Inc.	United States	1,322,439	\$ 2,909,366
Consumer Services 0.0%†			
^{a,ab,b} Turtle Bay Resort	United States	5,579,940	122,759
Energy 0.3%			
^a Birch Permian Holdings Inc.	United States	831,762	9,565,263
^a Chaparral Energy Inc., A	United States	94,305	656,363
^{a,c} Chaparral Energy Inc., A, 144A	United States	3,418	23,789
^a Halcon Resources Corp.	United States	955,276	1,241,859
^a Halcon Resources Corp., wts., 9/09/20	United States	75,770	591
^a Midstates Petroleum Co. Inc.	United States	5,125	65,446
^{a,b} Midstates Petroleum Co. Inc., wts., 4/21/20	United States	49,552	2
^a Riviera Resources Inc.	United States	88,309	1,324,635
^a Roan Resources Inc.	United States	88,309	500,712
			<u>13,378,660</u>
Materials 0.1%			
^{a,b,d} Appvion Operations Inc.	United States	331,325	4,615,489
^a Verso Corp., A	United States	38,905	868,360
^a Verso Corp., wts., 7/25/23	United States	4,095	17,813
			<u>5,501,662</u>
Retailing 0.0%†			
^{a,b,d} K2016470219 South Africa Ltd., A	South Africa	125,940,079	88,110
^{a,b,d} K2016470219 South Africa Ltd., B	South Africa	12,532,821	8,768
			<u>96,878</u>
Software & Services 0.0%†			
^{a,b} WorkCapital BSD SARL, wts., 2/13/26	Brazil	6,000,000	750,000
Total Common Stocks and Other Equity Interests (Cost \$64,996,831)			
			<u>22,759,325</u>
Management Investment Companies (Cost \$218,117,419) 4.0%			
Diversified Financials 4.0%			
^e Franklin Middle Tier Floating Rate Fund	United States	21,833,687	194,101,482
			<u>194,101,482</u>
		Principal Amount*	
Corporate Bonds 36.2%			
Automobiles & Components 0.2%			
Fiat Chrysler Automobiles NV, senior note, 5.25%, 4/15/23	United Kingdom	10,000,000	10,449,650
Banks 2.0%			
^c Akbank T.A.S., senior note, 144A, 5.125%, 3/31/25	Turkey	6,300,000	5,450,098
Bank of America Corp.,			
senior bond, 3.248%, 10/21/27	United States	5,000,000	4,908,581
senior note, 3.50%, 4/19/26	United States	29,800,000	30,098,426
Citigroup Inc.,			
senior note, 3.20%, 10/21/26	United States	20,000,000	19,641,924
sub. bond, 5.50%, 9/13/25	United States	10,000,000	11,048,024
sub. note, 4.05%, 7/30/22	United States	5,000,000	5,164,961

Franklin Strategic Income Fund (continued)

	Country	Principal Amount*	Value
Corporate Bonds (continued)			
Banks (continued)			
° Intesa Sanpaolo SpA, senior note, 144A, 6.50%, 2/24/21	Italy	1,400,000	\$ 1,467,130
JPMorgan Chase & Co.,			
senior bond, 3.30%, 4/01/26	United States	3,200,000	3,202,411
sub. note, 3.875%, 9/10/24	United States	10,000,000	10,307,768
¶ Turkiye Vakiflar Bankasi TAO, secured note, Reg S, 2.375%, 11/04/22	Turkey	3,900,000	EUR 4,247,022
			<u>95,536,345</u>
Capital Goods 1.1%			
° Beacon Roofing Supply Inc., senior note, 144A, 4.875%, 11/01/25	United States	15,000,000	14,475,000
CNH Industrial NV, senior bond, 3.85%, 11/15/27	United Kingdom	6,600,000	6,331,842
Legrand France SA, senior bond, 8.50%, 2/15/25	France	200,000	247,903
¶ Onsite Rental Group Operations Pty. Ltd., secured note, PIK, 6.10%, 10/26/23	Australia	4,655,177	3,607,762
° Terex Corp., senior note, 144A, 5.625%, 2/01/25	United States	14,600,000	14,800,750
° Vertiv Group Corp., senior note, 144A, 9.25%, 10/15/24	United States	14,000,000	13,755,000
			<u>53,218,257</u>
Commercial & Professional Services 0.7%			
United Rentals North America Inc., senior bond, 5.875%, 9/15/26	United States	18,000,000	18,855,000
° West Corp., senior note, 144A, 8.50%, 10/15/25	United States	19,300,000	17,104,625
			<u>35,959,625</u>
Consumer Durables & Apparel 1.0%			
° Hanesbrands Inc., senior bond, 144A, 4.875%, 5/15/26	United States	19,000,000	19,118,750
KB Home,			
senior bond, 7.50%, 9/15/22	United States	5,000,000	5,512,500
senior note, 7.00%, 12/15/21	United States	10,000,000	10,737,500
PulteGroup Inc., senior bond, 5.00%, 1/15/27	United States	12,000,000	12,210,000
			<u>47,578,750</u>
Consumer Services 1.6%			
° 1011778 BC ULC/New Red Finance Inc.,			
secured note, second lien, 144A, 5.00%, 10/15/25	Canada	11,500,000	11,428,125
senior secured note, first lien, 144A, 4.25%, 5/15/24	Canada	4,000,000	3,952,180
° Golden Nugget Inc., senior note, 144A, 6.75%, 10/15/24	United States	13,200,000	13,530,000
° International Game Technology PLC, senior secured bond, 144A, 6.50%, 2/15/25	United States	11,200,000	11,942,000
° KFC Holding Co./Pizza Hut Holdings LLC/Taco Bell of America LLC,			
senior note, 144A, 5.00%, 6/01/24	United States	7,000,000	7,175,000
senior note, 144A, 5.25%, 6/01/26	United States	9,100,000	9,407,125
° Stars Group Holdings BV/Stars Group U.S. Co-Borrower LLC, senior note, 144A, 7.00%, 7/15/26	Canada	6,600,000	6,938,250
° Wynn Las Vegas LLC/Wynn Las Vegas Capital Corp., senior bond, 144A, 5.50%, 3/01/25	United States	13,700,000	13,867,003
			<u>78,239,683</u>

FRANKLIN STRATEGIC SERIES
CONSOLIDATED STATEMENT OF INVESTMENTS

Franklin Strategic Income Fund (continued)

	Country	Principal Amount*	Value
Corporate Bonds (continued)			
Diversified Financials 2.1%			
Capital One Financial Corp., senior note, 3.20%, 2/05/25	United States	11,900,000	\$ 11,779,744
The Goldman Sachs Group Inc., senior note, 3.50%, 1/23/25	United States	23,000,000	23,125,714
senior note, 3.75%, 2/25/26	United States	15,000,000	15,125,686
Morgan Stanley, senior bond, 3.591% to 7/22/27, FRN thereafter, 7/22/28 . . .	United States	10,000,000	10,003,784
senior note, 3.875%, 1/27/26	United States	32,300,000	33,121,711
Navient Corp., senior note, 6.125%, 3/25/24	United States	8,000,000	8,240,000
			<u>101,396,639</u>
Energy 4.4%			
^c California Resources Corp., secured note, second lien, 144A, 8.00%, 12/15/22	United States	7,852,000	6,036,225
Cheniere Corpus Christi Holdings LLC, senior secured note, first lien, 7.00%, 6/30/24	United States	8,800,000	9,889,000
senior secured note, first lien, 5.875%, 3/31/25	United States	8,200,000	8,856,000
Cheniere Energy Partners LP, senior secured note, first lien, 5.25%, 10/01/25	United States	11,900,000	12,182,625
CONSOL Energy Inc., senior note, 5.875%, 4/15/22	United States	11,076,000	11,089,845
Energy Transfer Operating LP, senior bond, 5.20%, 2/01/22	United States	8,000,000	8,418,527
senior bond, 4.05%, 3/15/25	United States	1,300,000	1,321,475
senior note, 7.50%, 10/15/20	United States	11,000,000	11,704,316
Energy Transfer Partners LP/Regency Energy Finance Corp., senior note, 5.00%, 10/01/22	United States	10,000,000	10,531,277
^{c,g} EnQuest PLC, senior note, 144A, PIK, 7.00%, 4/15/22	United Kingdom	12,855,122	10,744,697
Exxon Mobil Corp., senior note, 2.222%, 3/01/21	United States	3,000,000	2,990,233
^{c,h} Gaz Capital SA, (OJSC Gazprom), loan participation, senior note, 144A, 3.85%, 2/06/20	Russia	20,000,000	20,146,300
Kinder Morgan Inc., senior bond, 4.30%, 6/01/25	United States	17,000,000	17,820,473
senior note, 3.15%, 1/15/23	United States	9,000,000	9,021,965
Martin Midstream Partners LP/Martin Midstream Finance Corp., senior note, 7.25%, 2/15/21	United States	19,000,000	18,715,000
Oceaneering International Inc., senior note, 4.65%, 11/15/24 . . .	United States	2,100,000	2,004,870
Sabine Pass Liquefaction LLC, senior secured note, first lien, 5.625%, 2/01/21	United States	20,000,000	20,757,146
senior secured note, first lien, 5.625%, 3/01/25	United States	5,000,000	5,485,713
Sanchez Energy Corp., senior note, 6.125%, 1/15/23	United States	6,000,000	832,500
Sunoco LP/Sunoco Finance Corp., senior note, 4.875%, 1/15/23 .	United States	5,900,000	6,010,625
Weatherford International Ltd., senior note, 7.75%, 6/15/21	United States	9,000,000	7,965,000
senior note, 8.25%, 6/15/23	United States	7,000,000	4,865,000
^c Woodside Finance Ltd., senior note, 144A, 3.70%, 9/15/26	Australia	5,400,000	5,316,945
			<u>212,705,757</u>
Food & Staples Retailing 0.6%			
^c Aramark Services Inc., senior bond, 144A, 5.00%, 2/01/28	United States	7,600,000	7,754,280
Walgreens Boots Alliance Inc., senior note, 3.80%, 11/18/24	United States	21,900,000	22,145,663
			<u>29,899,943</u>

Franklin Strategic Income Fund (continued)

	Country	Principal Amount*	Value
Corporate Bonds (continued)			
Food, Beverage & Tobacco 1.2%			
Bunge Ltd. Finance Corp., senior note, 3.25%, 8/15/26	United States	2,000,000	\$ 1,847,198
◦Imperial Brands Finance PLC, senior note, 144A, 3.50%, 2/11/23.	United Kingdom	20,400,000	20,458,528
◦Lamb Weston Holdings Inc., senior note, 144A, 4.875%, 11/01/26	United States	16,500,000	16,830,000
◦Post Holdings Inc., senior bond, 144A, 5.625%, 1/15/28	United States	10,000,000	10,155,600
senior note, 144A, 5.50%, 3/01/25	United States	8,000,000	8,220,000
Reynolds American Inc., senior note, 4.45%, 6/12/25	United Kingdom	1,900,000	1,961,699
			<u>59,473,025</u>
Health Care Equipment & Services 1.6%			
◦Avantor Inc., senior secured note, first lien, 144A, 6.00%, 10/01/24	United States	15,000,000	15,689,063
Centene Corp., senior note, 4.75%, 5/15/22	United States	10,000,000	10,229,100
◦senior note, 144A, 5.375%, 6/01/26	United States	8,600,000	8,997,750
CHS/Community Health Systems Inc., senior note, 6.875%, 2/01/22	United States	7,223,000	4,762,666
senior secured note, first lien, 6.25%, 3/31/23	United States	3,900,000	3,812,250
CVS Health Corp., senior bond, 4.30%, 3/25/28	United States	5,800,000	5,847,761
DaVita Inc., senior bond, 5.125%, 7/15/24	United States	10,000,000	10,025,000
senior bond, 5.00%, 5/01/25	United States	6,000,000	5,893,140
Edwards Lifesciences Corp., senior note, 4.30%, 6/15/28	United States	2,700,000	2,817,940
HCA Inc., senior bond, 5.875%, 2/15/26	United States	3,000,000	3,231,570
◦MEDNAX Inc., senior note, 144A, 6.25%, 1/15/27	United States	6,300,000	6,441,750
			<u>77,747,990</u>
Materials 5.1%			
ArcelorMittal, senior note, 5.50%, 3/01/21	France	17,600,000	18,404,408
senior note, 6.125%, 6/01/25	France	2,700,000	3,016,406
◦ARD Finance SA, secured note, PIK, 7.125%, 9/15/23	Luxembourg	1,300,000	1,306,500
◦Ardagh Packaging Finance PLC/Ardagh MP Holdings USA Inc., senior note, 144A, 6.00%, 2/15/25	Luxembourg	11,500,000	11,643,750
◦BWAY Holding Co., senior note, 144A, 7.25%, 4/15/25	United States	15,000,000	14,662,500
◦Cemex SAB de CV, senior secured bond, first lien, 144A, 5.70%, 1/11/25	Mexico	15,000,000	15,444,075
senior secured bond, first lien, 144A, 6.125%, 5/05/25	Mexico	4,000,000	4,168,220
The Chemours Co., senior note, 6.625%, 5/15/23	United States	10,860,000	11,291,142
Crown Americas LLC/Crown Americas Capital Corp. VI, senior note, 4.75%, 2/01/26	United States	7,100,000	7,233,125
◦First Quantum Minerals Ltd., senior note, 144A, 7.00%, 2/15/21	Zambia	2,144,000	2,188,220
senior note, 144A, 7.25%, 4/01/23	Zambia	7,200,000	7,137,000
◦FMG Resources (August 2006) Pty. Ltd., senior note, 144A, 5.125%, 3/15/23	Australia	3,600,000	3,690,000
senior note, 144A, 5.125%, 5/15/24	Australia	7,700,000	7,837,060
Freeport-McMoRan Inc., senior note, 4.55%, 11/14/24	United States	15,000,000	14,943,750
◦Glencore Funding LLC, senior note, 144A, 4.125%, 5/30/23	Switzerland	5,000,000	5,110,597
senior note, 144A, 4.625%, 4/29/24	Switzerland	2,500,000	2,593,130

FRANKLIN STRATEGIC SERIES
CONSOLIDATED STATEMENT OF INVESTMENTS

Franklin Strategic Income Fund (continued)

	Country	Principal Amount*	Value
Corporate Bonds (continued)			
Materials (continued)			
◦INVISTA Finance LLC, senior secured note, 144A, 4.25%, 10/15/19	United States	10,000,000	\$ 10,082,000
◦New Gold Inc., senior note, 144A, 6.375%, 5/15/25	Canada	6,900,000	5,554,500
◦Northwest Acquisitions ULC/Dominion Finco Inc., secured note, second lien, 144A, 7.125%, 11/01/22	Canada	3,800,000	3,201,500
◦Novelis Corp., senior bond, 144A, 5.875%, 9/30/26	United States	14,000,000	14,262,500
◦Owens-Brockway Glass Container Inc., senior note, 144A, 5.00%, 1/15/22	United States	7,800,000	8,014,500
◦Owens-Brockway Glass Container Inc., senior note, 144A, 5.875%, 8/15/23	United States	10,000,000	10,500,000
Reynolds Group Issuer Inc./Reynolds Group Issuer LLC/ Reynolds Group Issuer Luxembourg SA, senior secured note, first lien, 5.75%, 10/15/20	United States	5,427,003	5,450,068
◦senior secured note, first lien, 144A, 5.125%, 7/15/23	United States	5,900,000	5,992,984
◦i senior secured note, first lien, 144A, FRN, 6.097%, (3-month USD LIBOR + 3.50%), 7/15/21	United States	6,500,000	6,540,625
◦Sealed Air Corp., senior bond, 144A, 5.125%, 12/01/24	United States	11,300,000	11,780,250
◦Sealed Air Corp., senior note, 144A, 4.875%, 12/01/22	United States	5,000,000	5,181,250
◦Sociedad Quimica y Minera de Chile SA, senior note, 144A, 3.625%, 4/03/23	Chile	1,500,000	1,518,420
Steel Dynamics Inc., senior bond, 5.50%, 10/01/24	United States	9,700,000	10,039,500
◦Steel Dynamics Inc., senior note, 5.125%, 10/01/21	United States	5,000,000	5,037,500
◦SunCoke Energy Partners LP/SunCoke Energy Partners Finance Corp., senior note, 144A, 7.50%, 6/15/25	United States	12,000,000	12,150,000
			245,975,480
Media & Entertainment 4.1%			
◦Altice Financing SA, secured bond, 144A, 7.50%, 5/15/26	Luxembourg	3,000,000	3,041,250
CCO Holdings LLC/CCO Holdings Capital Corp., senior bond, 5.25%, 9/30/22	United States	8,500,000	8,654,062
◦senior bond, 144A, 5.375%, 5/01/25	United States	13,000,000	13,487,500
Clear Channel Worldwide Holdings Inc., senior note, 6.50%, 11/15/22	United States	3,000,000	3,075,000
◦Clear Channel Worldwide Holdings Inc., senior note, 6.50%, 11/15/22	United States	5,000,000	5,137,500
◦senior sub. note, 144A, 9.25%, 2/15/24	United States	1,600,000	1,726,000
◦CSC Holdings LLC, senior secured note, first lien, 144A, 5.50%, 5/15/26	United States	16,000,000	16,470,000
DISH DBS Corp., senior bond, 5.00%, 3/15/23	United States	8,000,000	7,360,000
◦DISH DBS Corp., senior note, 5.875%, 11/15/24	United States	8,000,000	6,930,000
iiHeartCommunications Inc., senior secured bond, first lien, 9.00%, 3/01/21	United States	8,000,000	5,960,000
◦iiHeartCommunications Inc., senior secured note, first lien, 9.00%, 9/15/22	United States	3,100,000	2,325,000
Netflix Inc., senior bond, 5.875%, 2/15/25	United States	5,000,000	5,403,125
◦Netflix Inc., senior bond, 4.375%, 11/15/26	United States	11,800,000	11,711,500
◦Nexstar Broadcasting Inc., senior note, 144A, 5.625%, 8/01/24	United States	17,000,000	17,300,900
◦Tegna Inc., senior note, 5.125%, 7/15/20	United States	4,000,000	4,025,000
◦Time Warner Inc., senior bond, 2.95%, 7/15/26	United States	25,400,000	24,382,757
◦Unitymedia KabelBW GmbH, senior bond, 144A, 6.125%, 1/15/25	Germany	16,000,000	16,640,000

Franklin Strategic Income Fund (continued)

	Country	Principal Amount*	Value
Corporate Bonds (continued)			
Media & Entertainment (continued)			
◦Univision Communications Inc., senior secured note, first lien, 144A, 5.125%, 2/15/25	United States	18,000,000	\$ 16,942,500
◦Virgin Media Finance PLC, senior bond, 144A, 6.375%, 10/15/24.	United Kingdom	9,600,000	GBP 13,198,216
◦Virgin Media Secured Finance PLC, senior secured bond, first lien, 144A, 5.50%, 1/15/25	United Kingdom	14,000,000	14,332,500
			<u>198,102,810</u>
Pharmaceuticals, Biotechnology & Life Sciences 1.8%			
Allergan Funding SCS, senior bond, 3.80%, 3/15/25	United States	25,000,000	25,271,562
◦Bausch Health Cos. Inc., senior bond, 144A, 6.125%, 4/15/25	United States	3,100,000	3,146,500
senior note, 144A, 4.50%, 5/15/23	United States	8,000,000	EUR 9,076,347
senior note, 144A, 8.50%, 1/31/27	United States	5,000,000	5,459,375
senior note, first lien, 144A, 7.00%, 3/15/24	United States	2,100,000	2,218,125
◦Bayer U.S. Finance II LLC, senior bond, 144A, 4.375%, 12/15/28 .	Germany	11,700,000	11,752,698
◦Eagle Holdings Co. II LLC, senior note, 144A, PIK, 7.625%, 5/15/22	United States	3,300,000	3,320,625
◦Endo DAC/Endo Finance LLC/Endo Finco Inc., senior bond, 144A, 6.00%, 2/01/25	United States	11,000,000	8,442,500
senior note, 144A, 6.00%, 7/15/23	United States	1,637,000	1,342,340
◦Jaguar Holding Co. II/Pharmaceutical Product Development LLC, senior note, 144A, 6.375%, 8/01/23	United States	10,000,000	10,225,000
◦SABIC Capital II BV, senior note, 144A, 4.50%, 10/10/28	Saudi Arabia	5,500,000	5,816,883
			<u>86,071,955</u>
Real Estate 1.2%			
American Tower Corp., senior bond, 3.375%, 10/15/26	United States	28,900,000	28,475,238
Equinix Inc., senior bond, 5.375%, 4/01/23	United States	17,000,000	17,419,900
MPT Operating Partnership LP/MPT Finance Corp., senior bond, 5.25%, 8/01/26	United States	4,200,000	4,294,500
senior bond, 5.00%, 10/15/27	United States	5,700,000	5,728,500
			<u>55,918,138</u>
Retailing 0.3%			
^{b,d,g} K2016470219 South Africa Ltd., senior secured note, 144A, PIK, 3.00%, 12/31/22	South Africa	9,834,030	12,171
^{b,d,g} K2016470260 South Africa Ltd., senior secured note, 144A, PIK, 25.00%, 12/31/22	South Africa	2,108,028	77,835
◦Party City Holdings Inc., senior note, 144A, 6.625%, 8/01/26	United States	5,300,000	5,266,981
◦PetSmart Inc., senior note, 144A, 7.125%, 3/15/23	United States	12,500,000	11,125,000
			<u>16,481,987</u>
Semiconductors & Semiconductor Equipment 0.2%			
Maxim Integrated Products Inc., senior note, 3.375%, 3/15/23 . . .	United States	1,800,000	1,808,728
◦Qorvo Inc., senior note, 144A, 5.50%, 7/15/26	United States	5,600,000	5,852,000
			<u>7,660,728</u>
Software & Services 0.4%			
Fiserv Inc., senior bond, 3.85%, 6/01/25	United States	8,400,000	8,656,826
◦Symantec Corp., senior note, 144A, 5.00%, 4/15/25	United States	9,500,000	9,695,054
			<u>18,351,880</u>

FRANKLIN STRATEGIC SERIES
CONSOLIDATED STATEMENT OF INVESTMENTS

Franklin Strategic Income Fund (continued)

	Country	Principal Amount*	Value
Corporate Bonds (continued)			
Technology Hardware & Equipment 0.7%			
°CommScope Technologies LLC, senior bond, 144A, 6.00%, 6/15/25	United States	16,600,000	\$ 16,932,000
°Dell International LLC/EMC Corp., senior note, 144A, 5.875%, 6/15/21	United States	2,500,000	2,546,806
senior note, 144A, 7.125%, 6/15/24	United States	12,600,000	13,330,246
Juniper Networks Inc., senior bond, 5.95%, 3/15/41	United States	1,200,000	1,266,505
Tech Data Corp., senior bond, 4.95%, 2/15/27	United States	1,900,000	1,928,434
			<u>36,003,991</u>
Telecommunication Services 1.8%			
°Digicel Group Two Ltd., senior note, 144A, 8.25%, 9/30/22	Bermuda	2,427,000	961,881
°senior note, 144A, PIK, 9.125%, 4/01/24	Bermuda	3,012,833	949,660
°Digicel Ltd., senior note, 144A, 6.00%, 4/15/21	Bermuda	10,000,000	8,815,500
Hughes Satellite Systems Corp., senior bond, 6.625%, 8/01/26 . .	United States	13,000,000	13,178,750
Sprint Communications Inc., senior note, 6.00%, 11/15/22	United States	10,000,000	10,087,500
°senior note, 144A, 7.00%, 3/01/20	United States	5,000,000	5,150,000
T-Mobile USA Inc., senior bond, 6.50%, 1/15/24	United States	5,000,000	5,187,500
senior bond, 6.375%, 3/01/25	United States	13,000,000	13,548,730
senior note, 5.125%, 4/15/25	United States	6,000,000	6,202,500
Verizon Communications Inc., senior note, 5.15%, 9/15/23	United States	22,000,000	24,097,715
			<u>88,179,736</u>
Transportation 0.5%			
°DAE Funding LLC, senior note, 144A, 4.50%, 8/01/22	United Arab Emirates	4,000,000	4,060,000
senior note, 144A, 5.00%, 8/01/24	United Arab Emirates	14,000,000	14,525,000
°Kazakhstan Temir Zholy Finance BV, senior bond, 144A, 6.95%, 7/10/42	Kazakhstan	3,900,000	4,624,581
^{fh} RZD Capital PLC, (Russian Railways), loan participation, senior bond, Reg S, 5.70%, 4/05/22	Russia	3,300,000	3,451,255
			<u>26,660,836</u>
Utilities 3.6%			
Calpine Corp., senior bond, 5.75%, 1/15/25	United States	9,000,000	8,932,500
senior note, 5.375%, 1/15/23	United States	6,000,000	6,060,000
°Clearway Energy Operating LLC, senior note, 144A, 5.75%, 10/15/25	United States	12,800,000	13,136,000
Dominion Energy Inc., senior bond, 2.85%, 8/15/26	United States	11,400,000	10,931,418
^{c,k} EDF SA, junior sub. bond, 144A, 5.625% to 1/22/24, FRN thereafter, Perpetual	France	5,000,000	5,056,625
junior sub. note, 144A, 5.25% to 1/29/23, FRN thereafter, Perpetual	France	25,000,000	25,490,750
Exelon Corp., senior bond, 3.95%, 6/15/25	United States	18,500,000	19,250,607
°InterGen NV, secured bond, 144A, 7.00%, 6/30/23	Netherlands	4,800,000	4,434,000
°Israel Electric Corp. Ltd., secured bond, 144A, 4.25%, 8/14/28 . .	Israel	9,200,000	9,323,234
The Southern Co., senior bond, 3.25%, 7/01/26	United States	24,200,000	23,905,678
°State Grid Overseas Investment 2016 Ltd., senior note, 144A, 3.50%, 5/04/27	China	12,800,000	12,772,672

Franklin Strategic Income Fund (continued)

	Country	Principal Amount*	Value
Corporate Bonds (continued)			
Utilities (continued)			
°Talen Energy Supply LLC, senior note, 144A, 9.50%, 7/15/22	United States	15,900,000	\$ 17,410,500
senior note, 144A, 10.50%, 1/15/26	United States	3,000,000	3,142,500
°Three Gorges Finance I Cayman Islands Ltd., senior note, 144A, 3.15%, 6/02/26	China	12,800,000	12,498,304
Virginia Electric & Power Co., senior bond, 6.35%, 11/30/37	United States	820,000	1,057,823
			<u>173,402,611</u>
Total Corporate Bonds (Cost \$1,773,816,259)			<u>1,755,015,816</u>
Senior Floating Rate Interests 11.9%			
Automobiles & Components 0.1%			
Allison Transmission Inc., Initial Term Loans, 4.479%, (1-month USD LIBOR + 2.00%), 3/29/26	United States	1,423,206	1,436,675
Thor Industries Inc., Initial USD Term Loans, 6.313%, (1-month USD LIBOR + 3.75%), 2/01/26	United States	2,590,592	2,550,114
			<u>3,986,789</u>
Capital Goods 0.3%			
Altra Industrial Motion Corp., Term Loan, 4.483%, (1-month USD LIBOR + 2.00%), 10/01/25	United States	733,182	733,176
Doncasters U.S. Finance LLC, Second Lien Term Loan, 10.851%, (3-month USD LIBOR + 8.25%), 10/09/20	United States	12,543,188	3,867,441
Harsco Corp., Term Loan B-2, 4.75%, (1-month USD LIBOR + 2.25%), 12/10/24	United States	4,259,330	4,277,965
Onsite Rental Group Operations Pty. Ltd., Term Loan, 6.983%, (1-month USD LIBOR + 4.50%), 10/25/22	Australia	3,404,855	3,353,782
			<u>12,232,364</u>
Commercial & Professional Services 0.2%			
KAR Auction Services Inc., Tranche B-5 Term Loans, 5.125%, (3-month USD LIBOR + 2.50%), 3/09/23	United States	7,269,575	7,284,660
United Rentals North America Inc., Initial Term Loans, 4.233%, (1-month USD LIBOR + 1.75%), 10/30/25	United States	3,583,762	3,594,065
Ventia Pty. Ltd., Term B Loans (USD), 6.101%, (3-month USD LIBOR + 3.50%), 5/21/22	Australia	832,033	832,033
			<u>11,710,758</u>
Consumer Services 0.2%			
Aristocrat Technologies Inc., Term B-3 Loans, 4.342%, (3-month USD LIBOR + 1.75%), 10/19/24	United States	1,556,965	1,556,271
Avis Budget Car Rental LLC, Tranche B Term Loans, 4.49%, (1-month USD LIBOR + 2.00%), 2/13/25	United States	6,327,748	6,272,412
Eldorado Resorts Inc., Initial Term Loan, 4.75%, (1-month USD LIBOR + 2.25%), 4/17/24	United States	3,508,477	3,512,132
			<u>11,340,815</u>

Franklin Strategic Income Fund (continued)

	Country	Principal Amount*	Value
ii Senior Floating Rate Interests (continued)			
Diversified Financials 0.2%			
Asurion LLC, Second Lien Replacement B-2 Term Loans, 8.983%, (1-month USD LIBOR + 6.50%), 8/04/25	United States	636,940	\$ 651,204
First Eagle Holdings Inc., Initial Term Loans, 5.351%, (3-month USD LIBOR + 2.75%), 12/01/24	United States	5,164,853	5,186,375
Trans Union LLC, 2017 Replacement Term A-2 Loans, 4.233%, (1-month USD LIBOR + 1.75%), 8/09/22	United States	3,408,400	<u>3,408,400</u>
			<u>9,245,979</u>
Energy 2.8%			
Fieldwood Energy LLC, Closing Date Loans, 7.749%, (1-month USD LIBOR + 5.25%), 4/11/22	United States	74,097,871	71,844,035
Foresight Energy LLC, Term Loans, 8.379%, (3-month USD LIBOR + 5.75%), 3/28/22	United States	15,900,922	15,026,371
Utex Industries Inc., First Lien Initial Term Loan, 6.483%, (1-month USD LIBOR + 4.00%), 5/21/21	United States	9,216,822	8,963,360
Second Lien Initial Term Loan, 9.733%, (1-month USD LIBOR + 7.25%), 5/20/22	United States	955,410	907,640
Wolverine Fuels Holding LLC, First Lien Initial Term Loan, 8.379%, (3-month USD LIBOR + 5.75%), 8/14/20	United States	19,455,394	19,127,084
Second Lien Initial Term Loan, 13.379%, (3-month USD LIBOR + 10.75%), 2/16/21	United States	22,488,412	<u>21,307,770</u>
			<u>137,176,260</u>
Food & Staples Retailing 0.5%			
Aramark Corp., U.S. Term B-3 Loan, 4.233%, (1-month USD LIBOR + 1.75%), 3/11/25	United States	3,656,382	3,657,907
Smart & Final Stores LLC, First Lien Term Loan, 6.129%, (3-month USD LIBOR + 3.50%), 11/15/22	United States	18,228,779	<u>18,268,663</u>
			<u>21,926,570</u>
Food, Beverage & Tobacco 1.1%			
CSM Bakery Supplies LLC, Second Lien Term Loan, 10.34%, (3-month USD LIBOR + 7.75%), 7/03/21	United States	16,940,234	15,225,035
Term Loans, 6.59%, (3-month USD LIBOR + 4.00%), 7/03/20	United States	1,830,000	1,746,126
JBS USA Lux SA, New Initial Term Loans, 4.98%, (1-month USD LIBOR + 2.50%), 10/30/22	United States	22,313,354	22,351,197
^{m,n} Term Loan, TBD, 5/01/26	United States	14,729,802	<u>14,779,780</u>
			<u>54,102,138</u>
Health Care Equipment & Services 0.0%†			
IQVIA Inc., Term B-3 Dollar Loans, 4.233%, (1-month USD LIBOR + 1.75%), 6/11/25	United States	1,451,686	1,448,446
U.S. Renal Care Inc., Initial Term Loan, 6.851%, (3-month USD LIBOR + 4.25%), 12/31/22	United States	978,473	<u>980,552</u>
			<u>2,428,998</u>

Franklin Strategic Income Fund (continued)

	Country	Principal Amount*	Value
^{i,l}Senior Floating Rate Interests (continued)			
Household & Personal Products 0.9%			
^b FGI Operating Co. LLC (Freedom Group),			
DDTL FILO, 10.129%, (3-month USD LIBOR + 7.50%),			
5/15/21	United States	2,605,664	\$ 2,598,419
^g Term Loan, PIK, 12.684%, (3-month USD LIBOR + 10.00%),			
5/15/22	United States	13,951,317	13,526,354
Term Loan FILO, 10.184%, (3-month USD LIBOR + 7.50%),			
5/15/21	United States	26,056,641	25,984,191
			<u>42,108,964</u>
Materials 1.1%			
Appvion Operations Inc., Term Loan, 8.60%, (3-month USD			
LIBOR + 6.00%), 6/15/26	United States	7,533,445	7,561,696
Ashland LLC, Term B Loan, 4.227% - 4.233%, (1-month USD			
LIBOR + 1.75%), 5/17/24	United States	3,998,772	4,001,272
Axalta Coating Systems U.S. Holdings Inc., Term B-3 Dollar			
Loan, 4.351%, (3-month USD LIBOR + 1.75%), 6/01/24	United States	4,800,670	4,781,539
Chemours Co., Tranche B-2 US\$ Term Loan, 4.24%, (1-month			
USD LIBOR + 1.75%), 4/03/25	United States	11,443,554	11,413,457
Crown Americas LLC, Dollar Term B Loan, 4.482%, (1-month			
USD LIBOR + 2.00%), 4/03/25	United States	530,376	534,810
Oxbow Carbon LLC,			
Second Lien Term Loan, 9.983%, (1-month USD LIBOR +			
7.50%), 1/04/24	United States	6,631,974	6,681,713
Tranche A Term Loan, 4.733%, (1-month USD LIBOR +			
2.25%), 1/04/22	United States	11,921,875	11,862,265
Tranche B Term Loan, 5.983%, (1-month USD LIBOR +			
3.50%), 1/04/23	United States	7,340,625	7,395,680
			<u>54,232,432</u>
Media & Entertainment 0.5%			
Charter Communications Operating LLC, Term A-2 Loan, 3.99%,			
(1-month USD LIBOR + 1.50%), 3/31/23	United States	8,732,121	8,721,206
CSC Holdings LLC, March 2017 Incremental Term Loans,			
4.723%, (1-month USD LIBOR + 2.25%), 7/17/25	United States	12,699,430	12,683,556
Gray Television Inc., Term C Loan, 4.977%, (1-month USD			
LIBOR + 2.50%), 1/02/26	United States	398,804	400,100
Lions Gate Capital Holdings LLC, Term A Loan, 4.483%,			
(1-month USD LIBOR + 2.00%), 3/22/23	Canada	2,541,660	2,506,712
			<u>24,311,574</u>
Pharmaceuticals, Biotechnology & Life Sciences 0.7%			
Endo Luxembourg Finance Co. I S.A.R.L. and Endo LLC, Initial			
Term Loans, 6.75%, (1-month USD LIBOR + 4.25%), 4/29/24 . .	United States	9,661,003	9,600,507
Grifols Worldwide Operations USA Inc., Tranche B Term Loan,			
4.674%, (1-week USD LIBOR + 2.25%), 1/31/25	United States	12,791,599	12,825,752
Syneos Health Inc., Initial Term B Loans, 4.483%, (1-month USD			
LIBOR + 2.00%), 8/01/24	United States	7,058,773	7,058,279
Valeant Pharmaceuticals International, Initial Term Loans,			
5.474%, (1-month USD LIBOR + 3.00%), 6/02/25	United States	2,980,641	2,992,984
			<u>32,477,522</u>

Franklin Strategic Income Fund (continued)

	Country	Principal Amount*	Value
ii Senior Floating Rate Interests (continued)			
Retailing 1.2%			
999 Cents Only Stores,			
First Lien Term Loan, PIK, 9.129%, (3-month USD LIBOR + 6.50%), 1/13/22	United States	3,766,144	\$ 3,253,007
First Lien Term Loan, PIK, 9.151%, (6-month USD LIBOR + 6.50%), 1/13/22	United States	4,594,050	3,968,111
First Lien Term Loan, PIK, 11.00%, (Prime + 7.00%), 1/13/22	United States	1,774	1,532
Ascena Retail Group Inc., Tranche B Term Loan, 7.00%, (1-month USD LIBOR + 4.50%), 8/21/22	United States	34,153,335	29,554,930
General Nutrition Centers Inc.,			
FILo Term Loan (ABL), 9.49%, (1-month USD LIBOR + 7.00%), 12/31/22	United States	2,706,793	2,739,275
Tranche B-2 Term Loans, 11.24%, (1-month USD LIBOR + 8.75%), 3/04/21	United States	10,168,853	9,700,628
Jo-Ann Stores Inc., Initial Loans, 7.592%, (3-month USD LIBOR + 5.00%), 10/23/23	United States	7,080,483	7,076,058
PETCO Animal Supplies Stores Inc., Second Amendment Term Loans, 5.833%, (3-month USD LIBOR + 3.25%), 1/26/23	United States	1,896,122	1,548,657
m PetSmart Inc., Amended Loan, 6.73%, (1-month USD LIBOR + 3.00%), 3/11/22	United States	630,374	609,449
			<u>58,451,647</u>
Semiconductors & Semiconductor Equipment 0.3%			
MKS Instruments Inc.,			
Tranche B-4 Term Loan, 4.483%, (1-month USD LIBOR + 2.00%), 4/29/23	United States	2,722,325	2,727,429
Tranche B-5 Term Loans, 4.733%, (1-month USD LIBOR + 2.25%), 2/01/26	United States	1,428,456	1,432,473
ON Semiconductor Corp., 2018 New Replacement Term B-3 Loans, 4.233%, (1-month USD LIBOR + 1.75%), 3/31/23	United States	11,425,542	11,395,196
			<u>15,555,098</u>
Software & Services 0.5%			
LegalZoom.com Inc., 2018 Term Loans, 6.977%, (1-month USD LIBOR + 4.50%), 11/21/24	United States	1,094,702	1,101,517
Wex Inc., Term B-2 Loan, 4.733%, (1-month USD LIBOR + 2.25%), 7/01/23	United States	1,853,348	1,860,298
b WorkCapital BSD SARL, Loan, 18.688%, (3-month USD LIBOR + 16.00%), 11/29/21	Luxembourg	20,000,000	19,883,394
			<u>22,845,209</u>
Technology Hardware & Equipment 0.0%†			
CommScope Inc., Initial Term Loans, 5.733%, (1-month USD LIBOR + 3.25%), 4/04/26	United States	380,922	384,779
Telecommunication Services 0.3%			
Global Tel*Link Corp., Second Lien Term Loan, 10.733%, (1-month USD LIBOR + 8.25%), 11/29/26	United States	3,245,755	3,193,687
Securus Technologies Holdings Inc., Second Lien Initial Loan, 10.733%, (1-month USD LIBOR + 8.25%), 11/01/25	United States	10,588,688	10,359,263
			<u>13,552,950</u>

Franklin Strategic Income Fund (continued)

	Country	Principal Amount*	Value
ii Senior Floating Rate Interests (continued)			
Transportation 0.7%			
Air Canada, Term Loan, 4.479%, (1-month USD LIBOR + 2.00%), 10/06/23	Canada	410,166	\$ 411,274
Allegiant Travel Co., Class B Term Loans, 7.233%, (3-month USD LIBOR + 4.50%), 2/05/24	United States	2,916,146	2,919,791
Hertz Corp., Tranche B-1 Term Loan, 5.24%, (1-month USD LIBOR + 2.75%), 6/30/23	United States	8,905,975	8,904,861
International Seaways Operating Corp., Initial Term Loans, 8.49%, (1-month USD LIBOR + 6.00%), 6/22/22	United States	7,758,516	7,826,403
Navios Maritime Midstream Partners LP, Initial Term Loan, 7.14%, (3-month USD LIBOR + 4.50%), 6/18/20	Marshall Islands	13,027,190	12,620,091
			<u>32,682,420</u>
Utilities 0.3%			
EFS Cogen Holdings I LLC (Linden), Term B Advance, 5.86%, (3-month USD LIBOR + 3.25%), 6/28/23	United States	6,084,502	6,058,515
NRG Energy Inc., Term Loan B, 4.233%, (1-month USD LIBOR + 1.75%), 6/30/23	United States	8,392,675	8,402,159
			<u>14,460,674</u>
Total Senior Floating Rate Interests (Cost \$582,626,074)			<u>575,213,940</u>
Foreign Government and Agency Securities 5.7%			
^c Angolan Government International Bond, senior note, 144A, 8.25%, 5/09/28	Angola	16,800,000	17,616,564
^f Banque Centrale de Tunisie International Bond, senior note, Reg S, 5.625%, 2/17/24	Tunisia	6,300,000 EUR	6,896,353
Brazil Notas do Tesouro Nacional, 10.00%, 1/01/21	Brazil	97,200 ^o	25,872,242 BRL
10.00%, 1/01/23	Brazil	34,402 ^o	9,275,594 BRL
^p Index Linked, 6.00%, 5/15/23	Brazil	19,500 ^o	17,269,542 BRL
^c Dominican Republic, senior note, 144A, 8.90%, 2/15/23	Dominican Republic	40,700,000 DOP	805,402
^c The Export-Import Bank of India, senior note, 144A, 3.875%, 2/01/28	India	16,000,000	15,838,888
Government of Colombia, senior bond, 9.85%, 6/28/27	Colombia	42,750,000,000 COP	16,377,615
^c Government of Gabon, 144A, 6.375%, 12/12/24	Gabon	10,750,000	10,390,198
Government of Indonesia, senior bond, FR34, 12.80%, 6/15/21	Indonesia	169,210,000,000 IDR	13,267,248
senior bond, FR36, 11.50%, 9/15/19	Indonesia	35,400,000,000 IDR	2,536,378
senior bond, FR39, 11.75%, 8/15/23	Indonesia	29,150,000,000 IDR	2,379,765
senior bond, FR44, 10.00%, 9/15/24	Indonesia	8,340,000,000 IDR	649,174
senior bond, FR56, 8.375%, 9/15/26	Indonesia	363,988,000,000 IDR	26,398,703
^c Government of Iraq, 144A, 5.80%, 1/15/28	Iraq	17,000,000	16,558,340
^c Government of Kazakhstan, senior bond, 144A, 4.875%, 10/14/44	Kazakhstan	7,600,000	8,182,616
Government of Mexico, senior bond, M, 6.50%, 6/10/21	Mexico	3,990,000 ^q	20,465,981 MXN
Government of South Africa, senior bond, 7.00%, 2/28/31	South Africa	260,000,000 ZAR	15,297,007
^c Government of Ukraine, 144A, 7.75%, 9/01/22	Ukraine	2,200,000	2,164,910
144A, 7.75%, 9/01/23	Ukraine	4,355,000	4,214,442
144A, 7.75%, 9/01/24	Ukraine	4,355,000	4,169,455
^{a,r} 144A, VRI, GDP Linked Security, 5/31/40	Ukraine	9,990,000	6,406,038

Franklin Strategic Income Fund (continued)

	Country	Principal Amount*	Value
Foreign Government and Agency Securities			
(continued)			
°Government of Ukraine, (continued)			
senior bond, 144A, 7.375%, 9/25/32	Ukraine	6,000,000	\$ 5,293,800
§Government of Uruguay, senior bond, Index Linked, 3.70%, 6/26/37			
	Uruguay	471,212,345	UYU 13,920,174
Republic of Colombia, senior bond, 5.00%, 6/15/45	Colombia	13,500,000	<u>14,129,572</u>
Total Foreign Government and Agency Securities			
(Cost \$295,397,045)			
			<u>276,376,001</u>
U.S. Government and Agency Securities 5.8%			
U.S. Treasury Bond,			
7.125%, 2/15/23	United States	3,000,000	3,526,875
6.25%, 8/15/23	United States	4,000,000	4,646,250
6.875%, 8/15/25	United States	1,000,000	1,261,426
5.25%, 2/15/29	United States	1,750,000	2,165,317
3.00%, 11/15/45	United States	26,900,000	27,328,719
U.S. Treasury Note,			
2.375%, 8/15/24	United States	5,000,000	5,018,360
3.125%, 11/15/28	United States	111,000,000	116,870,859
§ Index Linked, 0.625%, 1/15/24	United States	24,859,130	25,136,291
§ Index Linked, 0.125%, 7/15/24	United States	96,371,948	<u>95,402,855</u>
Total U.S. Government and Agency Securities			
(Cost \$281,613,782)			
			<u>281,356,952</u>
Asset-Backed Securities and Commercial Mortgage-Backed Securities 26.2%			
Banks 0.5%			
Citigroup Commercial Mortgage Trust, 2006-C5, AJ, 5.482%, 10/15/49			
	United States	2,706,225	2,621,620
† Commercial Mortgage Trust, 2006-GG7, AJ, FRN, 5.855%, 7/10/38			
	United States	7,193,000	6,550,068
CSAIL Commercial Mortgage Trust, 2015-C1, A4, 3.505%, 4/15/50			
	United States	10,050,000	10,353,006
† CWABS Asset-Backed Certificates Trust, 2005-11, AF4, FRN, 5.21%, 3/25/34			
	United States	2,200,739	2,215,780
° Merrill Lynch Mortgage Investors Trust, 2005-A6, 2A3, FRN, 2.857%, (1-month USD LIBOR + 0.38%), 8/25/35			
	United States	1,178,678	<u>1,185,971</u>
			<u>22,926,445</u>
Diversified Financials 25.7%			
° American Express Credit Account Master Trust, 2017-2, A, FRN, 2.923%, (1-month USD LIBOR + 0.45%), 9/16/24			
	United States	9,170,000	9,233,152
° AMMC CLO XI Ltd.,			
2012-11A, BR2, 144A, FRN, 4.183%, (3-month USD LIBOR + 1.60%), 4/30/31	United States	3,000,000	2,958,930
2012-11A, CR2, 144A, FRN, 4.483%, (3-month USD LIBOR + 1.90%), 4/30/31	United States	1,000,000	961,740
2012-11A, DR2, 144A, FRN, 5.433%, (3-month USD LIBOR + 2.85%), 4/30/31	United States	1,450,000	1,381,981

Franklin Strategic Income Fund (continued)

	Country	Principal Amount*	Value
Asset-Backed Securities and Commercial Mortgage-Backed Securities (continued)			
Diversified Financials (continued)			
^{c,u} Antares CLO Ltd., 2018-1A, B, 144A, FRN, 4.242%, (3-month USD LIBOR + 1.65%), 4/20/31	United States	17,500,000	\$ 17,078,775
^{c,u} Ares CLO Ltd., 2018-48A, D, 144A, FRN, 5.292%, (3-month USD LIBOR + 2.70%), 7/20/30	United States	3,550,000	3,398,415
^{c,t} ARES L CLO Ltd., 2018-50A, B, 144A, FRN, 4.478%, 1/15/32	United States	15,700,000	15,659,023
^{c,t} ARES LII CLO Ltd.,			
2019-52A, A2, 144A, FRN, 4.259%, 4/22/31	United States	2,522,358	2,513,605
2019-52A, B, 144A, FRN, 4.459%, 4/22/31	United States	3,500,000	3,487,155
2019-52A, C, 144A, FRN, 5.289%, 4/22/31	United States	1,000,000	998,350
2019-52A, D, 144A, FRN, 6.559%, 4/22/31	United States	1,703,704	1,697,111
^{c,u} Ares XLIII CLO Ltd., 2017-43A, A, 144A, FRN, 3.817%, (3-month USD LIBOR + 1.22%), 10/15/29	United States	3,870,000	3,867,214
^{c,t} Atrium XIV LLC, 14A, D, 144A, FRN, 5.551%, 8/23/30	United States	3,750,000	3,580,988
Banc of America Commercial Mortgage Trust,			
2015-UBS7, A3, 3.441%, 9/15/48	United States	10,920,000	11,165,466
2015-UBS7, A4, 3.705%, 9/15/48	United States	12,450,000	12,908,914
^t 2015-UBS7, B, FRN, 4.507%, 9/15/48	United States	6,740,000	7,148,572
^{c,t} BBC Middle Market CLO LLC, 2018-1A, A2, 144A, FRN, 4.742%, 10/20/30	United States	6,300,000	6,092,919
^{c,t} BCAP LLC Trust, 2009-RR1, 2A2, 144A, FRN, 4.831%, 5/26/35	United States	6,191,781	6,043,097
^c Betony CLO 2 Ltd.,			
^t 2018-1A, A1, 144A, FRN, 3.663%, 4/30/31	United States	15,300,000	15,185,250
^u 2018-1A, C, 144A, FRN, 5.483%, (3-month USD LIBOR + 2.90%), 4/30/31	United States	4,000,000	3,831,320
^{c,t} BlueMountain CLO Ltd.,			
2012-2A, BR2, 144A, FRN, 4.094%, 11/20/28	United States	6,710,000	6,691,682
2012-2A, CR2, 144A, FRN, 4.644%, 11/20/28	United States	2,730,000	2,715,176
2014-2A, CR2, 144A, FRN, 4.792%, 10/20/30	United States	3,800,000	3,759,758
2018-1A, D, 144A, FRN, 5.633%, 7/30/30	United States	5,000,000	4,883,700
^{c,u} BlueMountain Fuji U.S. CLO II Ltd., 2017-2A, A1A, 144A, FRN, 3.792%, (3-month USD LIBOR + 1.20%), 10/20/30	United States	4,200,000	4,203,192
^{c,u} BlueMountain Fuji U.S. CLO III Ltd., 2017-3A, A2, 144A, FRN, 3.747%, (3-month USD LIBOR + 1.15%), 1/15/30	United States	4,600,000	4,504,412
^c BRAVO Residential Funding Trust, 2019-1, A1C, 144A, 3.50%, 3/25/58	United States	12,000,000	12,006,120
^c Burnham Park CLO Ltd.,			
^u 2016-1A, A, 144A, FRN, 4.022%, (3-month USD LIBOR + 1.43%), 10/20/29	United States	4,590,000	4,607,442
^t 2016-1A, BR, 144A, FRN, 4.092%, 10/20/29	United States	3,500,000	3,453,135
^t 2016-1A, CR, 144A, FRN, 4.742%, 10/20/29	United States	4,000,000	3,936,120
^{c,t} Buttermilk Park CLO Ltd., 2018-1A, C, 144A, FRN, 4.697%, 10/15/31	United States	9,730,950	9,455,856
^u Capital One Multi-Asset Execution Trust,			
2016-A2, A2, FRN, 3.103%, (1-month USD LIBOR + 0.63%), 2/15/24	United States	44,033,000	44,408,553
2016-A7, A7, FRN, 2.983%, (1-month USD LIBOR + 0.51%), 9/16/24	United States	4,400,000	4,436,176

Franklin Strategic Income Fund (continued)

	Country	Principal Amount*	Value
Asset-Backed Securities and Commercial Mortgage-Backed Securities (continued)			
Diversified Financials (continued)			
^{c,u} Carlyle Global Market Strategies CLO Ltd., 2014-4RA, C, 144A, FRN, 5.497%, (3-month USD LIBOR + 2.90%), 7/15/30	United States	3,000,000	\$ 2,853,750
^{c,t} Carlyle GMS Finance MM CLO LLC, 2015-1A, A2R, 144A, FRN, 4.797%, 10/15/31	United States	12,000,000	11,547,480
^{c,u} Carlyle U.S. CLO Ltd., 2017-2A, A1B, 144A, FRN, 3.812%, (3-month USD LIBOR + 1.22%), 7/20/31	United States	8,500,000	8,483,850
^{c,u} Catamaran CLO Ltd., 2014-2A, BR, 144A, FRN, 5.551%, (3-month USD LIBOR + 2.95%), 10/18/26	United States	11,770,000	11,773,884
^{c,t} CGRBS Commercial Mortgage Trust, 2013-VN05, C, 144A, FRN, 3.703%, 3/13/35	United States	7,700,000	7,811,122
^{c,t} CIM Trust, 2019-INV1, A1, 144A, FRN, 4.00%, 2/25/49	United States	17,904,129	18,237,503
^t Citibank Credit Card Issuance Trust, 2016-A3, A3, FRN, 2.964%, 12/07/23	United States	4,800,000	4,835,859
2017-A7, A7, FRN, 2.844%, 8/08/24	United States	36,060,000	36,162,627
^{c,t} Cole Park CLO Ltd., 2015-1A, BR, 144A, FRN, 4.192%, 10/20/28	United States	3,530,000	3,513,833
^t COMM Mortgage Trust, 2014-CR19, B, FRN, 4.703%, 8/10/47	United States	7,700,000	8,094,148
^{c,t} Consumer Loan Underlying Bond CLUB Certificate Issuer Trust I, 2018-29, PT, 144A, FRN, 23.67%, 12/15/43	United States	3,230,233	2,713,086
2019-S1, PT, 144A, FRN, 17.91%, 4/15/44	United States	9,354,058	8,753,905
2019-S2, PT, 144A, FRN, 13.852%, 5/16/44	United States	6,394,719	6,081,243
2018-14, PT, 144A, FRN, 9.61%, 9/16/41	United States	7,861,776	7,873,607
^c Core Industrial Trust, 2015-CALW, A, 144A, 3.04%, 2/10/34	United States	14,291,733	14,473,393
^t Discover Card Execution Note Trust, 2017-A7, A7, FRN, 2.833%, 4/15/25	United States	5,360,000	5,367,314
^{c,t} Dryden 38 Senior Loan Fund, 2015-38A, CR, 144A, FRN, 4.597%, 7/15/30	United States	7,186,000	7,054,568
2015-38A, DR, 144A, FRN, 5.597%, 7/15/30	United States	4,556,000	4,446,519
^{c,u} Dryden 42 Senior Loan Fund, 2016-42A, DR, 144A, FRN, 5.527%, (3-month USD LIBOR + 2.93%), 7/15/30	United States	8,400,000	8,125,068
^{c,u} Dryden 55 CLO Ltd., 2018-55A, A1, 144A, FRN, 3.617%, (3-month USD LIBOR + 1.02%), 4/15/31	United States	6,000,000	5,934,840
2018-55A, D, 144A, FRN, 5.447%, (3-month USD LIBOR + 2.85%), 4/15/31	United States	3,000,000	2,880,270
^{c,u} Dryden 64 CLO Ltd., 2018-64A, A, 144A, FRN, 3.571%, (3-month USD LIBOR + 0.97%), 4/18/31	United States	5,070,000	4,997,702
2018-64A, D, 144A, FRN, 5.251%, (3-month USD LIBOR + 2.65%), 4/18/31	United States	2,200,000	2,128,500
^{c,t} Eaton Vance CLO Ltd., 2014-1RA, C, 144A, FRN, 4.697%, 7/15/30	United States	1,972,575	1,905,823
2014-1RA, D, 144A, FRN, 5.647%, 7/15/30	United States	3,653,850	3,557,461

Franklin Strategic Income Fund (continued)

	Country	Principal Amount*	Value
Asset-Backed Securities and Commercial Mortgage-Backed Securities (continued)			
Diversified Financials (continued)			
c,t Eleven Madison Trust Mortgage Trust, 2015-11MD, A, 144A, FRN, 3.673%, 9/10/35			
	United States	14,920,000	\$ 15,379,794
FHLMC Structured Agency Credit Risk Debt Notes,			
u 2013-DN2, M2, FRN, 6.727%, (1-month USD LIBOR + 4.25%), 11/25/23	United States	13,084,231	14,289,648
u 2014-DN1, M2, FRN, 4.677%, (1-month USD LIBOR + 2.20%), 2/25/24	United States	7,444,438	7,571,085
u 2014-DN2, M3, FRN, 6.077%, (1-month USD LIBOR + 3.60%), 4/25/24	United States	21,379,000	23,031,620
u 2014-DN3, M3, FRN, 6.477%, (1-month USD LIBOR + 4.00%), 8/25/24	United States	1,181,806	1,277,522
u 2014-DN4, M3, FRN, 7.027%, (1-month USD LIBOR + 4.55%), 10/25/24	United States	15,408,935	16,891,774
u 2014-HQ1, M3, FRN, 6.577%, (1-month USD LIBOR + 4.10%), 8/25/24	United States	3,564,368	3,867,324
u 2014-HQ2, M2, FRN, 4.677%, (1-month USD LIBOR + 2.20%), 9/25/24	United States	9,044,165	9,218,402
u 2014-HQ3, M3, FRN, 7.227%, (1-month USD LIBOR + 4.75%), 10/25/24	United States	7,038,601	7,741,379
u 2015-DNA1, M3, FRN, 5.777%, (1-month USD LIBOR + 3.30%), 10/25/27	United States	2,830,000	3,066,956
u 2015-DNA3, M3, FRN, 7.177%, (1-month USD LIBOR + 4.70%), 4/25/28	United States	18,411,581	21,152,925
u 2015-HQ1, M3, FRN, 6.277%, (1-month USD LIBOR + 3.80%), 3/25/25	United States	9,211,480	9,717,630
u 2015-HQA1, M3, FRN, 7.177%, (1-month USD LIBOR + 4.70%), 3/25/28	United States	18,830,000	21,133,521
u 2016-DNA2, M3, FRN, 7.127%, (1-month USD LIBOR + 4.65%), 10/25/28	United States	17,820,000	19,850,559
t 2017-DNA1, M2, FRN, 5.727%, 7/25/29	United States	7,300,000	7,820,056
t 2017-DNA2, M2, FRN, 5.927%, 10/25/29	United States	5,868,312	6,362,107
u 2017-DNA3, M2, FRN, 4.977%, (1-month USD LIBOR + 2.50%), 3/25/30	United States	26,312,269	27,154,193
t 2017-HQA1, M2, FRN, 6.027%, 8/25/29	United States	28,226,000	30,320,191
c,u Flagship CLO VIII Ltd.,			
2014-8A, ARR, 144A, FRN, 3.451%, (3-month USD LIBOR + 0.85%), 1/16/26	United States	6,392,792	6,382,308
2014-8A, DR, 144A, FRN, 5.651%, (3-month USD LIBOR + 3.05%), 1/16/26	United States	3,000,000	2,982,690
FNMA Connecticut Avenue Securities,			
u 2013-C01, M2, FRN, 7.727%, (1-month USD LIBOR + 5.25%), 10/25/23	United States	16,098,592	18,152,176
u 2014-C01, M2, FRN, 6.877%, (1-month USD LIBOR + 4.40%), 1/25/24	United States	17,420,000	19,432,210
u 2014-C02, 1M2, FRN, 5.077%, (1-month USD LIBOR + 2.60%), 5/25/24	United States	14,572,000	15,291,309
u 2014-C03, 1M2, FRN, 5.477%, (1-month USD LIBOR + 3.00%), 7/25/24	United States	32,953,958	35,243,388
u 2014-C03, 2M2, FRN, 5.377%, (1-month USD LIBOR + 2.90%), 7/25/24	United States	4,386,698	4,614,349

Franklin Strategic Income Fund (continued)

	Country	Principal Amount*	Value
Asset-Backed Securities and Commercial			
Mortgage-Backed Securities (continued)			
Diversified Financials (continued)			
FNMA Connecticut Avenue Securities, (continued)			
^u 2015-C01, 1M2, FRN, 6.777%, (1-month USD LIBOR + 4.30%), 2/25/25	United States	8,812,977	\$ 9,579,582
^u 2015-C01, 2M2, FRN, 7.027%, (1-month USD LIBOR + 4.55%), 2/25/25	United States	11,589,457	12,467,952
^u 2015-C02, 1M2, FRN, 6.477%, (1-month USD LIBOR + 4.00%), 5/25/25	United States	25,268,655	27,229,907
^u 2015-C02, 2M2, FRN, 6.477%, (1-month USD LIBOR + 4.00%), 5/25/25	United States	13,181,668	14,048,092
^u 2015-C03, 1M2, FRN, 7.477%, (1-month USD LIBOR + 5.00%), 7/25/25	United States	30,408,863	33,811,372
^u 2015-C03, 2M2, FRN, 7.477%, (1-month USD LIBOR + 5.00%), 7/25/25	United States	16,336,499	17,986,243
^t 2016-C04, 1M2, FRN, 6.727%, 1/25/29	United States	9,910,000	10,914,757
^u 2017-C01, 1M2, FRN, 6.027%, (1-month USD LIBOR + 3.55%), 7/25/29	United States	22,910,000	24,619,269
^t 2017-C03, 1M2, FRN, 5.477%, 10/25/29	United States	9,290,000	9,877,213
^t 2017-C03, 2M2, FRN, 5.327%, 11/25/29	United States	5,225,499	5,441,379
^c Galaxy XVIII CLO Ltd.,			
^t 2018-28A, A2, 144A, FRN, 3.667%, 7/15/31	United States	9,500,000	9,453,260
^u 2018-28A, C, 144A, FRN, 4.547%, (3-month USD LIBOR + 1.95%), 7/15/31	United States	3,070,000	2,965,313
^{c,t} Galaxy XXV CLO Ltd., 2018-25A, D, 144A, FRN, 5.68%, 10/25/31	United States	4,734,850	4,591,952
^{c,t} Galaxy XXVI CLO Ltd., 2018-26A, A, 144A, FRN, 3.852%, 11/22/31	United States	7,600,000	7,550,524
^{c,u} Galaxy XXVII CLO Ltd., 2018-27A, C, 144A, FRN, 5.433%, (3-month USD LIBOR + 2.75%), 5/16/31	United States	5,750,000	5,505,855
GS Mortgage Securities Trust,			
^t 2016-GS3, B, FRN, 3.395%, 10/10/49	United States	8,037,000	8,003,085
2017-GS6, B, 3.869%, 5/10/50	United States	7,700,000	7,865,060
^{c,t} HPS Loan Management Ltd., 2013A-18, C, 144A, FRN, 4.747%, 10/15/30	United States	4,950,000	4,808,381
^{c,t} J.P. Morgan Chase Commercial Mortgage Securities Trust, 2016-NINE, B, 144A, FRN, 2.949%, 10/06/38	United States	9,600,000	9,058,669
JPMCC Commercial Mortgage Securities Trust, 2017-JP6, B, 3.946%, 7/15/50	United States	9,250,000	9,454,194
^{c,t} LCM XVI LP,			
2016A, A2R, 144A, FRN, 3.777%, 10/15/31	United States	7,655,557	7,610,236
2016A, BR2, 144A, FRN, 4.347%, 10/15/31	United States	13,525,832	13,514,200
^{c,t} LCM XVII LP,			
2017A, BRR, 144A, FRN, 4.197%, 10/15/31	United States	4,590,000	4,540,933
2017A, CRR, 144A, FRN, 4.697%, 10/15/31	United States	4,240,000	4,159,737

Franklin Strategic Income Fund (continued)

	Country	Principal Amount*	Value
Asset-Backed Securities and Commercial			
Mortgage-Backed Securities (continued)			
Diversified Financials (continued)			
^{c,u} LCM XVIII LP, 2018A, DR, 144A, FRN, 5.392%, (3-month USD LIBOR + 2.80%), 4/20/31	United States	6,860,000	\$ 6,587,384
^{c,u} LCM XXIV Ltd., 24A, A, 144A, FRN, 3.902%, (3-month USD LIBOR + 1.31%), 3/20/30	United States	4,300,000	4,310,793
^{c,u} Madison Park Funding XXIII Ltd., 2017-23A, B, 144A, FRN, 4.282%, (3-month USD LIBOR + 1.70%), 7/27/30	United States	2,400,000	2,397,288
2017-23A, C, 144A, FRN, 4.932%, (3-month USD LIBOR + 2.35%), 7/27/30	United States	5,000,000	5,006,850
^{c,t} Magnetite Ltd., 2015-14RA, A1, 144A, FRN, 3.721%, 10/18/31	United States	2,000,000	1,982,880
^{c,t} Mill City Mortgage Loan Trust, 2018-4, A1B, 144A, FRN, 3.50%, 4/25/66	United States	16,720,000	16,852,256
^u MortgageIT Trust, 2004-1, A2, FRN, 3.377%, (1-month USD LIBOR + 0.90%), 11/25/34	United States	1,888,004	1,892,722
2005-5, A1, FRN, 2.997%, (1-month USD LIBOR + 0.26%), 12/25/35	United States	1,734,780	1,725,400
^{c,t} Mountain View Funding CLO XIV Ltd., 2019-1A, A1, 144A, FRN, 4.058%, 4/15/29	United States	5,000,000	5,007,600
2019-1A, C, 144A, FRN, 5.518%, 4/15/29	United States	4,500,000	4,468,770
^{c,t} Neuberger Berman CLO Ltd., 2016-22A, CR, 144A, FRN, 4.788%, 10/17/30	United States	2,129,630	2,095,705
^{c,u} NZCG Funding Ltd., 2015-1A, A2R, 144A, FRN, 4.196%, (3-month USD LIBOR + 1.55%), 2/26/31	United States	15,500,000	15,033,760
^{c,t} Octagon Investment Partners 24 Ltd., 2015-1A, BS, 144A, FRN, 4.529%, 4/21/31	United States	4,485,000	4,477,151
^{c,t} Octagon Investment Partners 28 Ltd., 2016-1A, A2R, 144A, FRN, 4.031%, 10/24/30	United States	10,000,000	10,020,600
2016-1A, BR, 144A, FRN, 4.381%, 10/24/30	United States	3,914,730	3,923,264
^{c,u} Octagon Investment Partners 30 Ltd., 144A, FRN, 3.912%, (3-month USD LIBOR + 1.32%), 3/17/30	United States	4,300,000	4,293,550
^{c,u} Octagon Investment Partners 37 Ltd., 2018-2A, C, 144A, FRN, 5.43%, (3-month USD LIBOR + 2.85%), 7/25/30	United States	4,000,000	3,847,880
^{c,t} Octagon Investment Partners 38 Ltd., 2018-1A, C, 144A, FRN, 5.542%, 7/20/30	United States	5,000,000	4,844,400
^{c,u} Octagon Investment Partners XVI Ltd., 2013-1A, DR, 144A, FRN, 5.588%, (3-month USD LIBOR + 3.00%), 7/17/30	United States	6,000,000	5,833,260
^{c,u} Octagon Investment Partners XX Ltd., 2014-1A, AR, 144A, FRN, 3.828%, (3-month USD LIBOR + 1.13%), 8/12/26	United States	4,524,140	4,529,931
^{c,u} Octagon Investment Partners XXIII Ltd., 2015-1A, BR, 144A, FRN, 3.797%, (3-month USD LIBOR + 1.20%), 7/15/27	United States	4,590,000	4,565,398
2015-1A, DR, 144A, FRN, 5.147%, (3-month USD LIBOR + 2.55%), 7/15/27	United States	6,400,000	6,316,800
^u Opteum Mortgage Acceptance Corp. Trust, 2005-4, 1APT, FRN, 2.787%, (1-month USD LIBOR + 0.31%), 11/25/35	United States	2,060,638	2,055,612
^{c,t} Strata CLO I Ltd., 2018-1A, B, 144A, FRN, 5.016%, 1/15/31	United States	14,100,000	14,209,275
^u Structured Asset Securities Corp., 2005-2XS, 2A2, FRN, 4.002%, (1-month USD LIBOR + 1.50%), 2/25/35	United States	1,942,657	1,941,992
^t Thornburg Mortgage Securities Trust, 2005-1, A3, FRN, 4.576%, 4/25/45	United States	2,521,594	2,562,688

Franklin Strategic Income Fund (continued)

	Country	Principal Amount*	Value
Asset-Backed Securities and Commercial Mortgage-Backed Securities (continued)			
Diversified Financials (continued)			
°Voya CLO Ltd.,			
†2013-2A, A2AR, 144A, FRN, 3.98%, 4/25/31	United States	2,200,000	\$ 2,147,354
°2013-2A, BR, 144A, FRN, 4.43%, (3-month USD LIBOR + 1.85%), 4/25/31	United States	5,770,000	5,567,819
°2014-1A, CR2, 144A, FRN, 5.401%, (3-month USD LIBOR + 2.80%), 4/18/31	United States	8,000,000	7,674,640
†2015-2A, BR, 144A, FRN, 4.092%, 7/23/27	United States	9,290,000	9,239,927
†2016-3A, A1R, 144A, FRN, 3.791%, 10/18/31	United States	10,000,000	9,955,300
°2017-2A, B, 144A, FRN, 4.947%, (3-month USD LIBOR + 2.35%), 6/07/30	United States	19,200,000	19,206,144
°2018-2A, D, 144A, FRN, 5.347%, (3-month USD LIBOR + 2.75%), 7/15/31	United States	2,900,000	2,773,270
Wells Fargo Mortgage Backed Securities Trust,			
†2004-W, A9, FRN, 4.845%, 11/25/34	United States	990,234	1,025,930
2007-3, 3A1, 5.50%, 4/25/22	United States	163,357	166,199
			<u>1,249,402,727</u>
Total Asset-Backed Securities and Commercial Mortgage-Backed Securities (Cost \$1,282,799,916)			<u>1,272,329,172</u>
Mortgage-Backed Securities 9.4%			
√ Federal Home Loan Mortgage Corp. (FHLMC) Adjustable Rate 0.0%†			
FHLMC, 4.929%, (US 1 Year CMT T-Note +/- MBS Margin), 1/01/33	United States	17,487	18,066
Federal Home Loan Mortgage Corp. (FHLMC) Fixed Rate 4.6%			
FHLMC Gold 15 Year, 4.50%, 6/01/19 - 9/01/19	United States	6,143	6,273
FHLMC Gold 15 Year, 5.00%, 6/01/19 - 7/01/22	United States	49,166	50,593
FHLMC Gold 30 Year, 3.50%, 12/01/47	United States	13,898,119	14,073,340
° FHLMC Gold 30 Year, 3.50%, 4/01/49	United States	59,600,000	60,186,233
° FHLMC Gold 30 Year, 4.00%, 4/01/49	United States	117,450,000	120,647,468
FHLMC Gold 30 Year, 4.50%, 10/01/40	United States	146,926	156,330
° FHLMC Gold 30 Year, 4.50%, 4/01/49	United States	23,000,000	23,973,906
FHLMC Gold 30 Year, 5.00%, 5/01/27 - 2/01/38	United States	1,141,747	1,219,618
FHLMC Gold 30 Year, 5.50%, 6/01/33 - 6/01/36	United States	799,234	869,588
FHLMC Gold 30 Year, 6.00%, 6/01/33 - 6/01/37	United States	269,796	295,547
FHLMC Gold 30 Year, 6.50%, 10/01/21 - 6/01/36	United States	126,003	139,796
FHLMC Gold 30 Year, 7.00%, 9/01/21 - 8/01/32	United States	22,951	23,837
FHLMC Gold 30 Year, 7.50%, 1/01/26 - 1/01/31	United States	5,534	6,398
FHLMC Gold 30 Year, 8.00%, 11/01/25 - 1/01/26	United States	72	72
FHLMC Gold 30 Year, 9.00%, 12/01/24	United States	64	70
			<u>221,649,069</u>
√ Federal National Mortgage Association (FNMA) Adjustable Rate 0.0%†			
FNMA, 4.622%, (US 1 Year CMT T-Note +/- MBS Margin), 12/01/34	United States	119,260	125,344

Franklin Strategic Income Fund (continued)

	Country	Principal Amount*	Value
Mortgage-Backed Securities (continued)			
Federal National Mortgage Association (FNMA) Fixed Rate 3.3%			
FNMA 15 Year, 2.50%, 7/01/27	United States	268,938	\$ 267,724
FNMA 15 Year, 4.50%, 3/01/20	United States	7,054	7,182
FNMA 15 Year, 5.50%, 3/01/21 - 4/01/22	United States	29,812	30,051
FNMA 30 Year, 3.00%, 9/01/48	United States	41,532,980	41,128,192
FNMA 30 Year, 3.50%, 11/01/47	United States	14,556,136	14,711,880
^w FNMA 30 Year, 3.50%, 4/01/49	United States	62,320,000	62,895,053
FNMA 30 Year, 4.50%, 3/01/28 - 2/01/41	United States	455,864	481,876
^w FNMA 30 Year, 4.50%, 4/01/49	United States	36,000,000	37,462,108
FNMA 30 Year, 5.00%, 9/01/23 - 10/01/35	United States	1,226,499	1,308,092
FNMA 30 Year, 5.50%, 9/01/33 - 12/01/35	United States	1,096,223	1,200,557
FNMA 30 Year, 6.00%, 6/01/34 - 5/01/38	United States	2,302,292	2,546,608
FNMA 30 Year, 6.50%, 3/01/28 - 10/01/37	United States	320,753	362,080
FNMA 30 Year, 7.50%, 10/01/29	United States	5,229	6,092
FNMA 30 Year, 8.00%, 1/01/25 - 5/01/26	United States	2,792	3,091
			162,410,586
Government National Mortgage Association (GNMA) Fixed Rate 1.5%			
GNMA I SF 30 Year, 4.50%, 9/20/48	United States	29,010,876	30,182,729
GNMA I SF 30 Year, 5.00%, 6/15/34 - 7/15/34	United States	151,466	162,555
GNMA I SF 30 Year, 5.50%, 2/15/33 - 6/15/36	United States	363,608	392,855
GNMA I SF 30 Year, 6.00%, 8/15/36	United States	22,978	25,484
GNMA I SF 30 Year, 6.50%, 2/15/29 - 3/15/32	United States	39,310	42,841
GNMA I SF 30 Year, 7.00%, 11/15/27 - 5/15/28	United States	10,194	10,411
GNMA I SF 30 Year, 7.50%, 9/15/23 - 5/15/27	United States	707	728
GNMA I SF 30 Year, 8.00%, 2/15/25 - 9/15/27	United States	3,646	3,911
GNMA I SF 30 Year, 8.50%, 8/15/24	United States	47	49
GNMA I SF 30 Year, 9.00%, 1/15/25	United States	203	203
GNMA I SF 30 Year, 9.50%, 6/15/25	United States	405	406
^w GNMA II SF 30 Year, 4.50%, 4/01/49	United States	19,000,000	19,703,387
GNMA II SF 30 Year, 5.00%, 9/20/33 - 11/20/33	United States	204,845	218,980
^w GNMA II SF 30 Year, 5.00%, 4/01/49	United States	22,500,000	23,472,510
GNMA II SF 30 Year, 5.50%, 6/20/34	United States	104,028	113,966
GNMA II SF 30 Year, 6.00%, 11/20/34	United States	99,252	112,524
GNMA II SF 30 Year, 6.50%, 7/20/28 - 12/20/31	United States	56,187	63,232
GNMA II SF 30 Year, 7.50%, 4/20/32	United States	16,398	18,195
			74,524,966
Total Mortgage-Backed Securities (Cost \$457,522,279)			458,728,031
Municipal Bonds 1.8%			
California State GO, Various Purpose, Refunding, 5.00%, 9/01/29	United States	17,200,000	20,839,004
New York City HDC Capital Fund Grant Program Revenue, New York City Housing Authority Program, Series B1, 5.00%, 7/01/33	United States	3,500,000	3,817,205
Orlando Health Obligated Group, 3.777%, 10/01/28	United States	3,870,000	3,924,358
Port Authority of New York and New Jersey Revenue, Consolidated, One Hundred Ninety-First Series, 4.823%, 6/01/45	United States	14,165,000	15,195,788

FRANKLIN STRATEGIC SERIES
CONSOLIDATED STATEMENT OF INVESTMENTS

Franklin Strategic Income Fund (continued)

	Country	Principal Amount*	Value
Municipal Bonds (continued)			
^j Puerto Rico Electric Power Authority Power Revenue, Series A, 6.75%, 7/01/36	United States	30,900,000	\$ 25,338,000
Series XX, 5.25%, 7/01/40	United States	15,000,000	12,187,500
San Jose RDA Successor Agency Tax Allocation, Senior, Refunding, Series A-T, 3.25%, 8/01/29	United States	5,675,000	5,678,575
Total Municipal Bonds (Cost \$84,331,665)			<u>86,980,430</u>
		<u>Shares/ Units</u>	
Escrows and Litigation Trusts 0.0%†			
^{a,b} Midstates Petroleum Co. Inc./Midstates Petroleum Co. LLC, Escrow Account	United States	15,000,000	—
^{a,b} NewPage Corp., Litigation Trust	United States	14,000,000	—
^{a,aa,b,d} Remington Outdoor Co. Inc., Litigation Units	United States	124,500	—
^{a,b} T-Mobile USA Inc., Escrow Account	United States	29,900,000	—
^a Vistra Energy Corp., Escrow Account	United States	30,000,000	75,000
Total Escrows and Litigation Trusts (Cost \$878,370)			<u>75,000</u>
Total Investments before Short Term Investments (Cost \$5,042,099,640)			<u>4,922,936,149</u>
		<u>Shares</u>	
Short Term Investments 3.3%			
Money Market Funds (Cost \$63,183,777) 1.3%			
^{e,x} Institutional Fiduciary Trust Money Market Portfolio, 2.10%	United States	63,183,777	63,183,777
		<u>Principal Amount*</u>	
Repurchase Agreements (Cost \$97,392,171) 2.0%			
^y Joint Repurchase Agreement, 2.702%, 5/01/19 (Maturity Value \$97,399,481) BNP Paribas Securities Corp. (Maturity Value \$73,729,459) Deutsche Bank Securities Inc. (Maturity Value \$19,456,520) HSBC Securities (USA) Inc. (Maturity Value \$4,213,502) Collateralized by U.S. Government Agency Securities, 2.50% - 4.50%, 9/08/31 - 3/20/49; ^z U.S. Treasury Bills, 7/05/19; U.S. Treasury Notes, 1.375% - 3.375%, 5/15/19 - 5/15/21; and U.S. Treasury Strips, 2/15/35 - 5/15/47 (valued at 99,428,023)	United States	97,392,171	97,392,171
Total Investments (Cost \$5,202,675,588) 104.8%			5,083,512,097
Other Assets, less Liabilities (4.8)%			(234,323,304)
Net Assets 100.0%			<u>\$4,849,188,793</u>

Franklin Strategic Income Fund (continued)

[†]Rounds to less than 0.1% of net assets.

^{*}The principal amount is stated in U.S. dollars unless otherwise indicated.

^aNon-income producing.

^{aa}See Note 10 regarding holdings of 5% voting securities.

^{ab}The security is owned by FT Holdings Corporation II, a wholly-owned subsidiary of the Fund. See Note 1(h).

^bFair valued using significant unobservable inputs. See Note 12 regarding fair value measurements.

^cSecurity 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, 2019, the aggregate value of these securities was \$1,522,931,224, representing 31.4% of net assets.

^dSee Note 8 regarding restricted securities.

^eSee Note 3(f) regarding investments in affiliated management investment companies.

^fSecurity 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. These securities have been deemed liquid under guidelines approved by the Trust's Board of Trustees. At April 30, 2019, the aggregate value of these securities was \$14,594,630, representing 0.3% of net assets.

^gIncome may be received in additional securities and/or cash.

^hSee Note 1(g) regarding loan participation notes.

ⁱThe coupon rate shown represents the rate at period end.

^jSee Note 7 regarding defaulted securities.

^kPerpetual security with no stated maturity date.

^lSee Note 1(j) regarding senior floating rate interests.

^mSecurity purchased on a delayed delivery basis. See Note 1(d).

ⁿA portion or all of the security represents an unsettled loan commitment. The coupon rate is to-be determined (TBD) at the time of settlement and will be based upon a reference index/floor plus a spread.

^oPrincipal amount is stated in 1,000 Brazilian Real Units.

^pRedemption price at maturity and coupon payment is adjusted for inflation. See Note 1(l).

^qPrincipal amount is stated in 100 Mexican Peso Units.

^rThe principal represents the notional amount. See Note 1(e) regarding value recovery instruments.

^sPrincipal amount of security is adjusted for inflation. See Note 1(l).

^tAdjustable rate security with an interest rate that is not based on a published reference index and spread. The rate is based on the structure of the agreement and current market conditions. The coupon rate shown represents the rate at period end.

^uThe coupon rate shown represents the rate inclusive of any caps or floors, if applicable, in effect at period end.

^vAdjustable Rate Mortgage-Backed Security (ARM); the rate shown is the effective rate at period end. ARM rates are not based on a published reference rate and spread, but instead pass-through weighted average interest income inclusive of any caps or floors, if applicable, from the underlying mortgage loans in which the majority of mortgages pay interest based on the index shown at their designated reset dates plus a spread, less the applicable servicing and guaranty fee (MBS margin).

^wSecurity purchased on a to-be-announced (TBA) basis. See Note 1(d).

^xThe rate shown is the annualized seven-day effective yield at period end.

^ySee Note 1(c) regarding joint repurchase agreement.

^zThe security was issued on a discount basis with no stated coupon rate.

Franklin Strategic Income Fund (continued)

At April 30, 2019, the Fund had the following futures contracts outstanding. See Note 1(e).

Futures Contracts

Description	Type	Number of Contracts	Notional Amount*	Expiration Date	Value/Unrealized Appreciation (Depreciation)
Interest Rate Contracts					
U.S. Treasury 30 Yr. Bond	Long	310	\$ 45,715,312	6/19/19	\$ 492,352
Ultra 10 Yr. U.S. Treasury Note	Long	2,027	267,120,594	6/19/19	3,353,208
Total Futures Contracts.					<u>\$3,845,560</u>

*As of period end.

At April 30, 2019, the Fund had the following forward exchange contracts outstanding. See Note 1(e).

Forward Exchange Contracts

Currency	Counterparty ^a	Type	Quantity	Contract Amount	Settlement Date	Unrealized Appreciation	Unrealized Depreciation
OTC Forward Exchange Contracts							
Australian Dollar	JPHQ	Buy	6,900,000	\$ 4,894,860	5/10/19	\$ —	\$ (27,380)
Australian Dollar	JPHQ	Sell	19,500,000	13,949,266	5/10/19	193,344	—
Norwegian Krone	JPHQ	Buy	137,300,000	15,944,907	5/20/19	—	(17,807)
Norwegian Krone	JPHQ	Sell	137,300,000	16,187,659	5/20/19	260,559	—
Indonesian Rupiah	JPHQ	Buy	40,000,000,000	2,772,003	6/20/19	19,490	—
Indonesian Rupiah	JPHQ	Sell	246,000,000,000	17,030,114	6/20/19	—	(137,567)
Indian Rupee	DBAB	Buy	1,326,000,000	18,317,447	6/21/19	586,342	—
Indian Rupee	DBAB	Sell	417,000,000	5,962,253	6/21/19	17,397	—
Indian Rupee	DBAB	Sell	909,000,000	12,937,660	6/21/19	—	(21,272)
Indian Rupee	JPHQ	Buy	442,000,000	6,090,671	6/21/19	210,592	—
Indian Rupee	JPHQ	Sell	442,000,000	6,325,581	6/21/19	24,318	—
Mexican Peso	JPHQ	Buy	273,200,000	14,079,208	6/21/19	213,731	—
Mexican Peso	JPHQ	Sell	75,000,000	3,939,076	6/21/19	15,319	—
Mexican Peso	JPHQ	Sell	198,200,000	10,340,798	6/21/19	—	(28,384)
South Korean Won	JPHQ	Sell	18,600,000,000	16,696,589	6/21/19	694,799	—
Brazilian Real	JPHQ	Sell	30,400,000	8,105,370	6/24/19	379,830	—
Australian Dollar	DBAB	Sell	3,000,000	2,149,200	7/26/19	28,876	—
Canadian Dollar	JPHQ	Sell	15,200,000	11,492,428	7/26/19	119,298	—
British Pound	JPHQ	Sell	10,000,000	13,144,300	9/18/19	10,288	—
Canadian Dollar	JPHQ	Buy	6,500,000	4,855,812	9/18/19	13,422	—
Canadian Dollar	JPHQ	Sell	16,900,000	12,708,764	9/18/19	48,754	—
Canadian Dollar	JPHQ	Sell	27,000,000	20,192,653	9/18/19	—	(33,399)
Euro	JPHQ	Buy	31,213,600	35,689,419	9/18/19	—	(245,931)
Euro	JPHQ	Sell	6,400,000	7,211,040	9/18/19	—	(56,251)
Euro	JPHQ	Sell	40,125,400	45,825,213	9/18/19	262,250	—
Swedish Krona	JPHQ	Buy	143,700,000	15,448,872	9/18/19	—	(143,553)
Swedish Krona	JPHQ	Sell	143,700,000	15,691,199	9/18/19	385,880	—
Swiss Franc	JPHQ	Sell	1,600,000	1,616,145	9/18/19	23,830	—
Chinese Yuan Renminbi	JPHQ	Buy	78,000,000	11,622,207	9/27/19	—	(48,505)
Chinese Yuan Renminbi	JPHQ	Sell	143,000,000	21,284,830	9/27/19	66,376	—
Brazilian Real	JPHQ	Sell	95,000,000	24,209,990	10/10/19	294,006	—

Franklin Strategic Income Fund (continued)

Forward Exchange Contracts (continued)

Currency	Counterparty ^a	Type	Quantity	Contract Amount	Settlement Date	Unrealized Appreciation	Unrealized Depreciation
OTC Forward Exchange Contracts (continued)							
Australian Dollar	JPHQ	Sell	55,850,000	\$39,994,958	10/11/19	\$ 440,930	\$ —
Turkish Lira	JPHQ	Buy	62,000,000	9,537,728	10/18/19	—	(231,015)
Total Forward Exchange Contracts						\$ 4,309,631	\$ (991,064)
Net unrealized appreciation (depreciation)						\$ 3,318,567	

^aMay be comprised of multiple contracts with the same counterparty, currency and settlement date.

At April 30, 2019, the Fund had the following credit default swap contracts outstanding. See Note 1(e).

Credit Default Swap Contracts

Description	Periodic Payment Rate Received (Paid)	Payment Frequency	Counterparty	Maturity Date	Notional Amount ^a	Value	Unamortized Upfront Payments (Receipts)	Unrealized Appreciation (Depreciation)	Rating ^b
Centrally Cleared Swap Contracts									
Contracts to Sell Protection^{c,d}									
Traded Index									
CDX.EM.30	1.00%	Quarterly		12/20/23	\$43,150,000	\$ (1,562,243)	\$ (1,717,492)	\$ 155,249	Investment Grade
OTC Swap Contracts									
Contracts to Buy Protection^c									
Single Name									
Ally Financial Inc.	(5.00)%	Quarterly	JPHQ	6/20/24	\$19,800,000	\$ (3,710,868)	\$ (3,221,267)	\$ (489,601)	
Government of Italy	(1.00)%	Quarterly	BZWS	6/20/23	14,200,000	(34,492)	128,085	(162,577)	
Government of Turkey	(1.00)%	Quarterly	BZWS	12/20/19	9,100,000	135,584	272,457	(136,873)	
Contracts to Sell Protection^{c,d}									
Single Name									
Government of Argentina	5.00%	Quarterly	MSCO	6/20/23	48,600,000	(9,752,680)	4,019,049	(13,771,729)	B
Government of Indonesia	1.00%	Quarterly	CITI	6/20/24	24,700,000	88,732	(82,782)	171,514	BBB-
Government of Italy	1.00%	Quarterly	BZWS	6/20/23	14,200,000	(350,372)	(561,671)	211,299	NR
Government of Russia	1.00%	Quarterly	BNDP	6/20/24	13,500,000	(142,538)	(180,023)	37,485	BBB-
Traded Index									
^e BNP Paribas Bespoke Bordeaux Index, Mezzanine Tranche									
7-10%	2.10%	Quarterly	BNDP	6/20/20	6,850,000	99,814	—	99,814	Non-Investment Grade
^e BNP Paribas Bespoke Rodez2 Index, Mezzanine Tranche									
5-7%	3.20%	Quarterly	BNDP	12/20/20	3,300,000	99,244	—	99,244	Non-Investment Grade

FRANKLIN STRATEGIC SERIES
CONSOLIDATED STATEMENT OF INVESTMENTS

Franklin Strategic Income Fund (continued)

Credit Default Swap Contracts (continued)

Description	Periodic Payment Rate Received (Paid)	Payment Frequency	Counter- party	Maturity Date	Notional Amount ^a	Value	Unamortized Upfront Payments (Receipts)	Unrealized Appreciation (Depreciation)	Rating ^b
OTC Swap Contracts (continued)									
Contracts to Sell Protection^{c,d} (continued)									
Traded Index (continued)									
^e Citibank Bespoke Bogota Index, Mezzanine									
Tranche 7-10%	1.35%	Quarterly	CITI	6/20/20	\$ 7,000,000	\$ 65,242	\$ —	\$ 65,242	Non-Investment Grade
^e Citibank Bespoke Broker Index, Mezzanine									
Tranche 3-7%	1.30%	Quarterly	CITI	6/20/19	16,200,000	53,129	—	53,129	Non-Investment Grade
^e Citibank Bespoke Broker Index, Mezzanine									
Tranche 3-7%	1.40%	Quarterly	CITI	6/20/19	13,200,000	46,620	—	46,620	Non-Investment Grade
^e Citibank Bespoke Cambridge Index, Equity									
Tranche 0-3%	0.00%	Quarterly	CITI	12/20/19	27,300,000	(3,599,163)	(1,432,615)	(2,166,548)	Non-Investment Grade
^e Citibank Bespoke Lisbon Index, Equity Tranche									
0-3%	0.00%	Quarterly	CITI	6/20/19	5,440,000	(157,050)	(89,926)	(67,124)	Non-Investment Grade
^e Citibank Bespoke Palma Index, Mezzanine									
Tranche 5-7%	2.30%	Quarterly	CITI	6/20/21	6,700,000	48,332	—	48,332	Non-Investment Grade
^e Citibank Bespoke Singapore Index, Equity									
Tranche 0-3%	0.00%	Quarterly	CITI	6/20/20	7,000,000	(788,618)	(1,115,885)	327,267	Non-Investment Grade
^e Citibank Bespoke Sydney Index, Equity									
Tranche 0-3%	0.00%	Quarterly	CITI	6/20/20	5,500,000	(1,029,744)	(1,000,944)	(28,800)	Non-Investment Grade

Franklin Strategic Income Fund (continued)

Credit Default Swap Contracts (continued)

Description	Periodic Payment Rate Received (Paid)	Payment Frequency	Counter- party	Maturity Date	Notional Amount ^a	Value	Unamortized Upfront Payments (Receipts)	Unrealized Appreciation (Depreciation)	Rating ^b
OTC Swap Contracts (continued)									
Contracts to Sell Protection^{c,d} (continued)									
Traded Index (continued)									
^e Citibank Bespoke Verona Index, Equity Tranche 0-3%	0.00%	Quarterly	CITI	12/20/19	\$10,900,000	\$ (1,243,167)	\$ (702,131)	\$ (541,036)	Non- Investment Grade
^e Citibank Bespoke Verona Index, Mezzanine Tranche 7-15%	0.40%	Quarterly	CITI	12/20/19	31,000,000	64,333	—	64,333	Non- Investment Grade
MCDX.NA.31	1.00%	Quarterly	CITI	12/20/23	23,060,000	406,877	216,800	190,077	Investment Grade
Total OTC Swap Contracts						\$ (19,700,785)	\$ (3,750,853)	\$ (15,949,932)	
Total Credit Default Swap Contracts						\$ (21,263,028)	\$ (5,468,345)	\$ (15,794,683)	

^aFor 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.

^bBased 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.

^cPerformance triggers for settlement of contract include default, bankruptcy or restructuring for single name swaps and failure to pay or bankruptcy of the underlying securities for traded index swaps.

^dThe Fund enters contracts to sell protection to create a long credit position.

^eRepresents a custom index comprised of a basket of underlying issuers.

At April 30, 2019, the Fund had the following cross-currency swap contracts outstanding. See Note 1(e).

Cross-Currency Swap Contracts

Description	Payment Frequency	Counter- party	Maturity Date	Notional Amount	Value/ Unrealized Appreciation (Depreciation)
OTC Swap Contracts					
Receive Floating 3-month USD LIBOR + 2.87%	Quarterly			3,834,600 USD	
Pay Fixed 2.50%	Annual	CITI	5/04/21	3,300,000 EUR	\$99,462

Franklin Strategic Income Fund (continued)

At April 30, 2019, the Fund had the following total return swap contracts outstanding. See Note 1(e).

Total Return Swap Contracts

Underlying Instruments	Financing Rate	Payment Frequency	Counterparty	Maturity Date	Notional Value	Value/ Unrealized Appreciation (Depreciation)
OTC Swap Contracts						
Long^a						
iBoxx USD Liquid High Yield Index	3-month USD LIBOR	Quarterly	BOFA	6/20/19	\$ 14,000,000	\$ 970,858
iBoxx USD Liquid High Yield Index	3-month USD LIBOR	Quarterly	CITI	6/20/19	38,000,000	2,546,646
Markit iBoxx USD Liquid Leveraged Loan Index	3-month USD LIBOR	Quarterly	GSCO	6/20/19	170,000,000	6,805,392
Total Total Return Swap Contracts						<u>\$10,322,896</u>

^aThe Fund receives the total return on the underlying instrument and pays a variable financing rate.

See Note 9 regarding other derivative information.

See Abbreviations on page 66.

Consolidated Financial Statements

Consolidated Statement of Assets and Liabilities

April 30, 2019

Franklin Strategic Income Fund

Assets:

Investments in securities:	
Cost - Unaffiliated issuers	\$4,822,296,112
Cost - Controlled affiliates (Note 3f and 10)	218,117,419
Cost - Non-controlled affiliates (Note 3f and 10)	64,869,886
Cost - Unaffiliated repurchase agreements	97,392,171
Value - Unaffiliated issuers	\$4,725,925,301
Value - Controlled affiliates (Note 3f and 10)	194,101,482
Value - Non-controlled affiliates (Note 3f and 10)	66,093,143
Value - Unaffiliated repurchase agreements	97,392,171
Cash	23,688,023
Restricted cash for OTC derivative contracts (Note 1f)	7,650,000
Foreign currency, at value (cost \$1,658,796)	1,660,457
Receivables:	
Investment securities sold	54,198,072
Capital shares sold	7,379,638
Dividends and interest	40,317,595
Deposits with brokers for:	
OTC derivative contracts	13,655,000
Futures contracts	3,628,300
Centrally cleared swap contracts	6,985,197
Variation margin on futures contracts	756,756
OTC swap contracts (upfront payments \$6,063,118)	4,636,391
Unrealized appreciation on OTC forward exchange contracts	4,309,631
Unrealized appreciation on OTC swap contracts	11,836,714
FT Subsidiary deferred tax benefit (Note 1h)	532,014
Other assets	4,534
Total assets	<u>5,264,750,419</u>
Liabilities:	
Payables:	
Investment securities purchased	364,051,986
Capital shares redeemed	11,504,686
Management fees	1,705,390
Distribution fees	1,063,831
Transfer agent fees	1,052,121
Distributions to shareholders	1,300,928
Variation margin on centrally cleared swap contracts	11,468
Deposits from brokers for:	
OTC derivative contracts	7,650,000
OTC swap contracts (upfront receipts \$15,459,060)	8,387,244
Unrealized depreciation on OTC forward exchange contracts	991,064
Unrealized depreciation on OTC swap contracts	17,364,288
Deferred tax	80,365
Accrued expenses and other liabilities	398,255
Total liabilities	<u>415,561,626</u>
Net assets, at value	<u>\$4,849,188,793</u>
Net assets consist of:	
Paid-in capital	\$5,462,247,550
Total distributable earnings (loss)	(613,058,757)

FRANKLIN STRATEGIC SERIES
CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statement of Assets and Liabilities (continued)
April 30, 2019

Franklin Strategic Income Fund

Net assets, at value	\$4,849,188,793
Class A:	
Net assets, at value	\$3,131,799,335
Shares outstanding	325,800,344
Net asset value per share ^a	\$9.61
Maximum offering price per share (net asset value per share ÷ 96.25%)	\$9.98
Class C:	
Net assets, at value	\$ 716,326,834
Shares outstanding	74,525,777
Net asset value and maximum offering price per share ^a	\$9.61
Class R:	
Net assets, at value	\$ 85,457,789
Shares outstanding	8,925,682
Net asset value and maximum offering price per share	\$9.57
Class R6:	
Net assets, at value	\$ 307,287,406
Shares outstanding	31,922,933
Net asset value and maximum offering price per share	\$9.63
Advisor Class:	
Net assets, at value	\$ 608,317,429
Shares outstanding	63,208,451
Net asset value and maximum offering price per share	\$9.62

^aRedemption price is equal to net asset value less contingent deferred sales charges, if applicable.

Consolidated Statement of Operations

for the year ended April 30, 2019

Franklin Strategic Income Fund

Investment income:

Dividends:

Unaffiliated issuers	\$ 890,188
Controlled affiliates (Note 3f and 10)	36,824,034
Non-controlled affiliates (Note 3f and 10)	1,736,770

Interest: (net of foreign taxes)~

Unaffiliated issuers	239,738,955
Other income (Note 1h)	1,070,873

Total investment income 280,260,820

Expenses:

Management fees (Note 3a) 24,390,811

Distribution fees: (Note 3c)

Class A	7,867,315
Class C	5,672,646
Class R	471,129

Transfer agent fees: (Note 3e)

Class A	4,945,053
Class C	1,376,550
Class R	148,468
Class R6	116,356
Advisor Class	1,329,184

Custodian fees (Note 4) 140,938

Reports to shareholders 454,273

Registration and filing fees 177,089

Professional fees 372,464

Trustees' fees and expenses 80,307

Other 231,883

Total expenses 47,774,466

Expense reductions (Note 4) (128,191)

Expenses waived/paid by affiliates (Note 3f and 3g) (2,803,479)

Net expenses 44,842,796

Net investment income 235,418,024

Realized and unrealized gains (losses):

Net realized gain (loss) from:

Investments:#

Unaffiliated issuers	(45,475,779)
Controlled affiliates (Note 3f and 10)	(34,375,561)
Foreign currency transactions	(1,764,067)
Forward exchange contracts	2,758,198
Futures contracts	7,842,483
Swap contracts	9,636,494

Net realized gain (loss) (61,378,232)

Net change in unrealized appreciation (depreciation) on:

Investments:

Unaffiliated issuers	63,832,844
Controlled affiliates (Note 3f and 10)	(12,445,202)
Non-controlled affiliates (Note 3f and 10)	1,223,257

Translation of other assets and liabilities

denominated in foreign currencies (23,059)

Forward exchange contracts 3,007,356

FRANKLIN STRATEGIC SERIES
CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statement of Operations (continued)
for the year ended April 30, 2019

Franklin Strategic Income Fund

Futures contracts	2,810,354
Swap contracts	(4,159,859)
Change in FT Subsidiary deferred tax benefit (Note 1h)	(858,525)
Change in deferred taxes on unrealized appreciation	239,363
Net change in unrealized appreciation (depreciation)	<u>53,626,529</u>
Net realized and unrealized gain (loss)	<u>(7,751,703)</u>
Net increase (decrease) in net assets resulting from operations	<u>\$227,666,321</u>

~Foreign taxes withheld on interest	\$	359,552
#Net of foreign taxes	\$	21,122

Consolidated Statements of Changes in Net Assets

Franklin Strategic Income Fund

	Year Ended April 30,	
	2019	2018
Increase (decrease) in net assets:		
Operations:		
Net investment income	\$ 235,418,024	\$ 249,545,798
Net realized gain (loss)	(61,378,232)	(113,213,321)
Net change in unrealized appreciation (depreciation)	53,626,529	(92,950,330)
Net increase (decrease) in net assets resulting from operations	227,666,321	43,382,147
Distributions to shareholders: (Note 1)		
Class A	(138,743,800)	(106,537,907)
Class C	(34,243,715)	(31,329,580)
Class R	(3,918,092)	(3,355,206)
Class R6	(18,669,569)	(13,824,604)
Advisor Class	(38,939,889)	(32,910,570)
Total distributions to shareholders	(234,515,065)	(187,957,867)
Capital share transactions: (Note 2)		
Class A	(160,333,285)	(461,379,634)
Class C	(360,085,250)	(280,427,839)
Class R	(19,998,642)	(38,252,437)
Class R6	(123,669,688)	75,196,883
Advisor Class	(322,273,887)	(113,689,921)
Total capital share transactions	(986,360,752)	(818,552,948)
Net increase (decrease) in net assets	(993,209,496)	(963,128,668)
Net assets:		
Beginning of year	5,842,398,289	6,805,526,957
End of year (Note 1)	\$4,849,188,793	\$5,842,398,289

Notes to Consolidated 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 (1940 Act) as an open-end management investment company, consisting of eight separate funds and applies the specialized accounting and reporting guidance in U.S. Generally Accepted Accounting Principles (U.S. GAAP). Franklin Strategic Income Fund (Fund) is included in this report. The Fund offers five classes of shares: Class A, Class C, Class R, Class R6, and Advisor Class. Beginning on October 19, 2018, Class C shares automatically convert to Class A shares after they have been held for 10 years. Each class of shares may differ by its initial sales load, contingent deferred sales charges, voting rights on matters affecting a single class, its exchange privilege and fees 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 (NAV) per share each business day as of 4 p.m. Eastern time or the regularly scheduled close of the New York Stock Exchange (NYSE), whichever is earlier. Under compliance policies and procedures approved by the Trust's Board of Trustees (the Board), the Fund's administrator has responsibility for oversight of valuation, including leading the cross-functional Valuation Committee (VC). The Fund may utilize independent pricing services, quotations from securities and financial instrument dealers, and other market sources to determine fair value.

Equity securities and derivative financial instruments 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 4 p.m. Eastern time. The value is then converted into its U.S. dollar equivalent at the foreign exchange rate in effect at 4 p.m. Eastern time 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.

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 4 p.m. Eastern time on the date that the values of the foreign debt securities are determined.

Investments in open-end mutual funds are valued at the closing NAV. Investments in repurchase agreements are valued at cost, which approximates fair value.

Certain derivative financial instruments are centrally cleared or 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 Fund 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

Franklin Strategic Income Fund (continued)

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.

Trading in securities on foreign securities stock exchanges and OTC markets may be completed before 4 p.m. Eastern time. In addition, trading in certain foreign markets may not take place on every Fund's business day. Occasionally, events occur between the time at which trading in a foreign security is completed and 4 p.m. Eastern time 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 4 p.m. Eastern time. In order to minimize the potential for these differences, the VC 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.

When the last day of the reporting period is a non-business day, certain foreign markets may be open on those days that the Fund's NAV is not calculated, 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 in the Consolidated Statement of Operations.

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. Joint Repurchase Agreement

The Fund enters into a joint repurchase agreement whereby its uninvested cash balance is deposited into a joint cash account with other funds managed by the investment manager or an affiliate of the investment manager and is used to invest in one or more repurchase agreements. The value and face amount of the joint repurchase agreement are allocated to the funds based on their pro-rata interest. A repurchase agreement is accounted for as a loan by the Fund to the seller, collateralized by securities which are delivered to the Fund's custodian. The fair value, including accrued interest, of the initial collateralization is required to be at least 102% of the dollar amount invested by the funds, with the value of the underlying securities marked to market daily to maintain coverage of at least 100%. Repurchase agreements are subject to the terms of Master Repurchase Agreements (MRAs) with approved counterparties (sellers). The MRAs contain various provisions, including but not limited to events of default and maintenance of collateral for repurchase agreements. In the event of default by either the seller or the Fund, certain MRAs may permit the non-defaulting party to net and close-out all transactions, if any, traded under such agreements. The Fund may sell securities it holds as collateral and apply the proceeds towards the repurchase price and any

Franklin Strategic Income Fund (continued)

1. Organization and Significant Accounting Policies (continued)

c. Joint Repurchase Agreement (continued)

other amounts owed by the seller to the Fund in the event of default by the seller. This could involve costs or delays in addition to a loss on the securities if their value falls below the repurchase price owed by the seller. The joint repurchase agreement held by the Fund at year end, as indicated in the Consolidated Statement of Investments, had been entered into on April 30, 2019.

d. Securities Purchased on a Delayed Delivery and TBA Basis

The Fund purchases securities on a delayed delivery and to-be-announced (TBA) 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 and collateral has been pledged and/or received for open TBA trades.

e. Derivative Financial Instruments

The Fund invested in derivative financial instruments 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 in the Consolidated Statement of Assets and Liabilities. Realized gain and loss and unrealized appreciation and depreciation on these contracts for the period are included in the Consolidated 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 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 Consolidated 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 or initial margin requirements are set by the broker or exchange clearing house for exchange traded and centrally cleared derivatives. Initial margin deposited is held at the exchange and can be in the form of cash and/or securities. 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 the next business day, or within a few business days. Collateral pledged and/or received by the Fund for OTC derivatives, 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. To the extent that the amounts due to the Fund from its counterparties are not subject to collateralization or are not fully collateralized, the Fund bears the risk of loss from counterparty non-performance.

The Fund entered into exchange traded futures contracts primarily to manage and/or gain exposure to interest rate risk. A futures contract is an agreement between the Fund and a counterparty to buy or sell an asset at a specified price on a

Franklin Strategic Income Fund (continued)

future date. 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 in the Consolidated Statement of Assets and Liabilities.

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 and/or gain 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, a basket of issuers or indices, or a tranche of a credit index or basket of issuers or indices. 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 in the Consolidated 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 as an unrealized appreciation or depreciation until the payments are made, at which time they are realized. Upfront payments and receipts are reflected in the Consolidated 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 and receipts are amortized over the term of the contract as a realized gain or loss in the Consolidated Statement of Operations.

The Fund entered into OTC cross currency swap contracts primarily to manage and/or gain exposure to interest rate risk and certain foreign currencies. A cross currency swap is an agreement between the Fund and a counterparty to exchange cash flows (determined using either a fixed or floating rate) based on the notional amounts of two different currencies. The notional amounts are typically determined based on the spot exchange rates at the opening of the contract. Cross currency swaps may require the exchange of notional amounts at the opening and/or closing of the contract. Over the term of the contract, contractually required payments to be paid and to be received are accrued daily and recorded as unrealized depreciation and appreciation until the payments are made, at which time they are realized. Upfront payments and receipts are reflected in the Consolidated Statement of Assets and Liabilities and represent compensating factors between stated terms of the cross currency swap contract and prevailing market conditions (interest rate spreads and other relevant factors). These upfront payments and receipts are amortized over the term of the contract as a realized gain or loss in the Consolidated Statement of Operations.

The Fund entered into OTC total return swap contracts primarily to manage and/or gain exposure to interest rate risk of an underlying instrument such as a stock, bond, index or basket of securities or indices. A total return swap is an agreement between the Fund and a counterparty to exchange a return linked to an underlying instrument for a floating or fixed rate payment, both based upon a notional amount. Over the term of the contract, contractually required payments to be paid or received are accrued daily and recorded as unrealized appreciation or depreciation until the payments are made, at which time they are recognized as realized gain or loss.

The Fund invests in value recovery instruments (VRI) primarily to gain exposure to economic growth. Periodic payments from VRI are dependent on established benchmarks for underlying variables. VRI has a notional amount, which is used to calculate amounts of payments to holders. Payments are recorded upon receipt as realized gains in the Consolidated Statement of Operations. The risks of investing in VRI include growth risk, liquidity, and the potential loss of investment.

See Note 9 regarding other derivative information.

Franklin Strategic Income Fund (continued)

1. Organization and Significant Accounting Policies (continued)

f. Restricted Cash

At April 30, 2019, the Fund held restricted cash in connection with investments in certain derivative securities. Restricted cash is held in a segregated account with the Fund's custodian and is reflected in the Consolidated Statement of Assets and Liabilities.

g. 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.

h. FT Holdings Corporation II (FT Subsidiary)

The Fund invests in certain financial instruments through its investment in FT Subsidiary. 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, 2019, FT Subsidiary's investment, Turtle Bay Resort, as well as any other assets and liabilities of FT Subsidiary are reflected in the Fund's Consolidated Statement of Investments and Consolidated Statement of Assets and Liabilities.

During the year ended April 30, 2019, Turtle Bay Resort paid a distribution to FT Subsidiary. The distribution received is reflected as other income in the Consolidated Statement of Operations. At April 30, 2019, FT Subsidiary, which is a tax paying entity, recognized an unrealized loss on its Turtle Bay investment. An estimated deferred tax asset based on such unrealized loss is reflected as FT Subsidiary deferred tax benefit in the Consolidated Statement of Assets and Liabilities. The estimated benefit was calculated using a federal rate of 21%.

When the Turtle Bay investment liquidates, the FT Subsidiary will recognize a capital loss which can be carried-back to offset prior year capital gains, resulting in a tax refund which will relieve the deferred tax asset.

The financial statements have been consolidated and include the accounts of the Fund and FT Subsidiary. All intercompany transactions and balances have been eliminated. At April 30, 2019, the net assets of FT Subsidiary were \$18,615,261, representing less than 1% of the Fund's consolidated net assets. The Fund's investment in FT Subsidiary is limited to 25% of consolidated assets.

i. Mortgage Dollar Rolls

The Fund enters into mortgage dollar rolls, typically on a TBA basis. Mortgage dollar rolls are agreements between the Fund and a financial institution where the Fund sells (or buys) mortgage-backed securities for delivery on a specified date and simultaneously contracts to repurchase (or sell) substantially similar (same type, coupon, and maturity) securities at a future date and at a predetermined price. 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 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. Transactions in mortgage dollar rolls are accounted for as purchases and sales and may result in an increase to the Fund's portfolio turnover rate. The risks of mortgage dollar roll transactions include the potential inability of the counterparty to fulfill its obligations.

j. 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.

Franklin Strategic Income Fund (continued)

k. 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 may recognize an income tax liability related to its uncertain tax positions under U.S. GAAP when the uncertain tax position has a less than 50% probability that it will be sustained upon examination by the tax authorities based on its technical merits. As of April 30, 2019, the Fund has determined that no tax liability is required in its financial statements related to uncertain tax positions for any open tax years (or expected to be taken in future tax years). Open tax years are those that remain subject to examination and are based on the statute of limitations in each jurisdiction in which the Fund invests.

l. 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 except for certain dividends from securities where the dividend rate is not available. In such cases, the dividend is recorded as soon as the information is received by the Fund. Distributions to shareholders are recorded on the ex-dividend date. Distributable earnings are determined according to income tax regulations (tax basis) and may differ from earnings recorded in accordance with U.S. GAAP. 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 or based on the ratio of number of shareholders of each Fund to the combined number of shareholders 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, excluding 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 in the Consolidated Statement of Operations.

m. Accounting Estimates

The preparation of financial statements in accordance with U.S. GAAP 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.

n. 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.

Franklin Strategic Income Fund (continued)

1. Organization and Significant Accounting Policies (continued)

*Effective during the current reporting period, it is no longer required to present certain line items in the Statements of Changes in Net Assets. The below prior period amounts affected by this change are shown as they were in the prior year Statements of Changes in Net Assets.

For the year ended April 30, 2018, distributions to shareholders were as follows:

Distributions from net investment income:	
Class A	\$(106,537,907)
Class C	(31,329,580)
Class R	(3,355,206)
Class R6	(13,824,604)
Advisor Class	(32,910,570)

For the year ended April 30, 2018, distributions in excess of net investment income included in net assets was \$(39,100,421).

2. Shares of Beneficial Interest

At April 30, 2019, there were an unlimited number of shares authorized (without par value). Transactions in the Fund's shares were as follows:

	Year Ended April 30,			
	2019		2018	
	Shares	Amount	Shares	Amount
Class A Shares:				
Shares sold ^a	50,096,209	\$ 476,428,245	43,921,154	\$ 432,817,045
Shares issued in reinvestment of distributions	13,459,738	127,947,689	10,060,731	98,645,567
Shares redeemed	(80,356,291)	(764,709,219)	(100,902,437)	(992,842,246)
Net increase (decrease)	(16,800,344)	\$(160,333,285)	(46,920,552)	\$(461,379,634)
Class C Shares:				
Shares sold	4,597,179	\$ 43,711,512	8,181,686	\$ 80,552,705
Shares issued in reinvestment of distributions	3,342,536	31,796,374	2,971,594	29,122,692
Shares redeemed ^a	(45,752,627)	(435,593,136)	(39,654,519)	(390,103,236)
Net increase (decrease)	(37,812,912)	\$(360,085,250)	(28,501,239)	\$(280,427,839)
Class R Shares:				
Shares sold	1,437,455	\$ 13,630,121	2,109,693	\$ 20,673,849
Shares issued in reinvestment of distributions	405,340	3,838,586	334,005	3,263,282
Shares redeemed	(3,962,132)	(37,467,349)	(6,343,188)	(62,189,568)
Net increase (decrease)	(2,119,337)	\$(19,998,642)	(3,899,490)	\$(38,252,437)
Class R6 Shares:				
Shares sold	10,323,576	\$ 98,464,071	16,787,902	\$ 165,966,032
Shares issued in reinvestment of distributions	1,882,797	17,913,831	1,355,636	13,298,999
Shares redeemed	(25,303,121)	(240,047,590)	(10,569,929)	(104,068,148)
Net increase (decrease)	(13,096,748)	\$(123,669,688)	7,573,609	\$ 75,196,883
Advisor Class Shares:				
Shares sold	18,952,628	\$ 180,567,542	27,736,896	\$ 273,558,768
Shares issued in reinvestment of distributions	3,899,671	37,096,165	3,187,566	31,290,077
Shares redeemed	(56,752,457)	(539,937,594)	(42,428,324)	(418,538,766)
Net increase (decrease)	(33,900,158)	\$(322,273,887)	(11,503,862)	\$(113,689,921)

^aMay include a portion of Class C shares that were automatically converted to Class A.

Franklin Strategic Income Fund (continued)

3. Transactions with Affiliates

Franklin Resources, Inc. is the holding company for various subsidiaries that together are referred to as Franklin Templeton. 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

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

For the year ended April 30, 2019, the gross effective investment management fee rate was 0.455% of the Fund's average daily net assets.

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. 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.

Franklin Strategic Income Fund (continued)

3. Transactions with Affiliates (continued)

c. Distribution Fees (continued)

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%

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 brokers/dealers	\$222,236
CDSC retained	\$ 25,401

Effective March 1, 2019, certain front-end sales charges on Class A and A1 shares, if any, were lowered. Further details are disclosed in the Fund's Prospectus.

e. Transfer Agent Fees

Each class of shares pays transfer agent fees to Investor Services for its performance of shareholder servicing obligations. The fees are based on an annualized asset based fee of 0.02% plus a transaction based fee. In addition, each class reimburses Investor Services for out of pocket expenses incurred and, except for Class R6, reimburses shareholder 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, 2019, the Fund paid transfer agent fees of \$7,915,611, of which \$3,441,566 was retained by Investor Services.

f. Investments in Affiliated Management Investment Companies

The Fund invests in one or more affiliated management investment companies for purposes other than exercising a controlling influence over the management or policies. Management fees paid by the Fund are waived on assets invested in the affiliated management investment companies, as noted in the Consolidated Statement of Operations, in an amount not to exceed the management and administrative fees paid directly or indirectly by each affiliate. During the year ended April 30, 2019, the Fund held investments in affiliated management investment companies as follows:

	Number of Shares Held at Beginning of Year	Gross Additions	Gross Reductions	Number of Shares Held at End of Year	Value at End of Year	Dividend Income	Realized Gain (Loss)	Net Change in Unrealized Appreciation (Depreciation)
Controlled Affiliates								
Franklin Lower Tier Floating Rate Fund	25,361,119	—	(25,361,119) ^a	— \$	—	\$21,162,839	\$ (34,375,561)	—
Franklin Middle Tier Floating Rate Fund	21,833,687	—	—	21,833,687	194,101,482	15,661,195	—	(12,445,202)
Total Controlled Affiliates					\$ 194,101,482	\$36,824,034	\$ (34,375,561)	\$ (12,445,202)

Franklin Strategic Income Fund (continued)

	Number of Shares Held at Beginning of Year	Gross Additions	Gross Reductions	Number of Shares Held at End of Year	Value at End of Year	Dividend Income	Realized Gain (Loss)	Net Change in Unrealized Appreciation (Depreciation)
Non-Controlled Affiliates								
Institutional Fiduciary Trust Money Market Portfolio, 2.10%	200,193,361	284,937,373	(421,946,957)	63,183,777	\$ 63,183,777	\$ 1,736,770	\$ —	\$ —
Total Affiliated Securities					\$ 257,285,259	\$ 38,560,804	\$ (34,375,561)	\$ (12,445,202)

^aThe Fund sold shares of the affiliate through an in-kind transfer of common stocks and other equity interests, corporate bonds and senior floating rate interests securities and cash. See Note 6.

g. Waiver and Expense Reimbursements

Investor Services has voluntarily agreed in advance to waive or limit its fees so that the Class R6 transfer agent fees do not exceed 0.02% based on the average net assets of the class. Investor Services may discontinue this waiver in the future.

h. Interfund Transactions

The Fund engaged in purchases and sales of investments with funds or other accounts that have common investment managers (or affiliated investment managers), directors, trustees or officers. During the year ended April 30, 2019, these purchase and sale transactions (excluding in-kind transactions) aggregated \$589,399 and \$0, respectively. See Note 3(f).

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, 2019, the custodian fees were reduced as noted in the Consolidated Statement of Operations.

5. Income Taxes

For tax purposes, capital losses may be carried over to offset future capital gains, if any. At April 30, 2019, the capital loss carryforwards were as follows:

Capital loss carryforwards not subject to expiration:	
Short term	\$ 33,032,070
Long term	441,662,444
Total capital loss carryforwards	<u>\$474,694,514</u>

The tax character of distributions paid during the years ended April 30, 2019 and 2018, was as follows:

	<u>2019</u>	<u>2018</u>
Distributions paid from ordinary income	\$234,515,065	\$187,957,867

Franklin Strategic Income Fund (continued)

5. Income Taxes (continued)

At April 30, 2019, the cost of investments, net unrealized appreciation (depreciation) and undistributed ordinary income for income tax purposes were as follows:

Cost of investments	<u>\$5,227,364,068</u>
Unrealized appreciation	\$ 79,689,821
Unrealized depreciation	<u>(227,603,542)</u>
Net unrealized appreciation (depreciation)	<u>\$ (147,913,721)</u>
Distributable earnings-undistributed ordinary income.	<u>\$ 2,304,402</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 paydown losses, bond discounts and premiums, swaps and financial futures transactions.

6. Investment Transactions

Purchases and sales of investments (excluding short term securities) for the year ended April 30, 2019, aggregated \$6,423,784,686 and \$7,399,557,434, respectively. Purchases and sales of investments exclude in-kind transactions of \$182,139,208 and \$218,465,749, respectively.

7. Credit Risk and Defaulted Securities

At April 30, 2019, the Fund had 43.5% of its portfolio invested in high yield, senior secured floating rate loans, or other securities rated below investment grade and unrated securities, if any. 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 defaulted securities and/or other securities for which the income has been deemed uncollectible. At April 30, 2019, the aggregate value of these securities was \$45,810,500, representing 0.9% 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 securities have been identified in the accompanying Consolidated Statement of Investments.

8. Restricted Securities

The Fund invests in securities that are restricted under the Securities Act of 1933 (1933 Act). Restricted securities are often purchased in private placement transactions, and cannot be sold without prior registration unless the sale is pursuant to an exemption under the 1933 Act. Disposal of these securities may require greater effort and expense, and prompt sale at an acceptable price may be difficult. The Fund may have registration rights for restricted securities. The issuer generally incurs all registration costs.

At April 30, 2019, investments in restricted securities, excluding securities exempt from registration under the 1933 Act deemed to be liquid, were as follows:

Principal Amount/ Shares/ Units	Issuer	Acquisition Date	Cost	Value
331,325	^a Appvion Operations Inc.	4/12/19	\$4,481,262	\$4,615,489
125,940,079	K2016470219 South Africa Ltd., A	2/08/13 - 2/01/17	977,122	88,110
12,532,821	K2016470219 South Africa Ltd., B	2/01/17	9,305	8,768

Franklin Strategic Income Fund (continued)

Principal Amount/ Shares/ Units	Issuer	Acquisition Date	Cost	Value
9,834,030	K2016470219 South Africa Ltd., senior secured note, 144A, PIK, 3.00%, 12/31/22	2/08/13 - 12/31/18	\$14,330,270	\$ 12,171
2,108,028	K2016470260 South Africa Ltd., senior secured note, 144A, PIK, 25.00%, 12/31/22	2/01/17 - 12/31/18	1,683,618	77,835
124,500	^b Remington Outdoor Co. Inc., Litigation Units	4/12/19	—	—
Total Restricted Securities (Value is 0.1% of Net Assets)			\$21,481,577	\$4,802,373

^aThe Fund also invests in unrestricted securities or other investments in the issuer, valued at \$7,561,696 as of April 30, 2019.

^bThe Fund also invests in unrestricted securities or other investments in the issuer, valued at \$2,909,366 as of April 30, 2019.

9. Other Derivative Information

At April 30, 2019, the investments in derivative contracts are reflected in the Consolidated Statement of Assets and Liabilities as follows:

Derivative Contracts Not Accounted for as Hedging Instruments	Asset Derivatives		Liability Derivatives	
	Consolidated Statement of Assets and Liabilities Location	Fair Value	Consolidated Statement of Assets and Liabilities Location	Fair Value
Interest rate contracts	Variation margin on futures contracts	\$ 3,845,560 ^a	Variation margin on futures contracts	\$ —
	Unrealized appreciation on OTC swap contracts	10,422,358	Unrealized depreciation on OTC swap contracts	—
Foreign exchange contracts	Unrealized appreciation on OTC forward exchange contracts	4,309,631	Unrealized depreciation on OTC forward exchange contracts	991,064
Credit contracts	Variation margin on centrally cleared swap contracts	155,249 ^a	Variation margin on centrally cleared swap contracts	—
	OTC swap contracts (upfront payments)	4,636,391	OTC swap contracts (upfront receipts)	8,387,244
	Unrealized appreciation on OTC swap contracts	1,414,356	Unrealized depreciation on OTC swap contracts	17,364,288
Value recovery instruments	Investments in securities, at value	6,406,038 ^b		
Totals		<u>\$31,189,583</u>		<u>\$26,742,596</u>

^aThis amount reflects the cumulative appreciation (depreciation) of futures contracts and centrally cleared swap contracts as reported in the Consolidated Statement of Investments. Only the variation margin receivable/payable at period end is separately reported within the Consolidated Statement of Assets and Liabilities. Prior variation margin movements were recorded to cash upon receipt or payment.

^bVRI are included in investments in securities, at value in the Consolidated Statement of Assets and Liabilities.

For the year ended April 30, 2019, the effect of derivative contracts in the Consolidated Statement of Operations was as follows:

Derivative Contracts Not Accounted for as Hedging Instruments	Consolidated Statement of Operations Location	Net Realized Gain (Loss) for the Year	Consolidated Statement of Operations Location	Net Change in Unrealized Appreciation (Depreciation) for the Year
	Net realized gain (loss) from:		Net change in unrealized appreciation (depreciation) on:	
Interest rate contracts	Futures contracts	\$ 7,842,483	Futures contracts	\$ 2,810,354
	Swap contracts	(2,928,599)	Swap contracts	10,422,358
Foreign exchange contracts	Forward exchange contracts	2,758,198	Forward exchange contracts	3,007,356

Franklin Strategic Income Fund (continued)

9. Other Derivative Information (continued)

Derivative Contracts Not Accounted for as Hedging Instruments	Consolidated Statement of Operations Location	Net Realized Gain (Loss) for the Year	Consolidated Statement of Operations Location	Net Change in Unrealized Appreciation (Depreciation) for the Year
	Net realized gain (loss) from:		Net change in unrealized appreciation (depreciation) on:	
Credit contracts	Swap contracts	\$12,565,093	Swap contracts	\$(14,582,217)
Value recovery instruments . . .	Investments	2,235,000 ^a	Investments	(3,340,936) ^a
Totals		<u>\$22,472,175</u>		<u>\$ (1,683,085)</u>

^aVRI are included in net realized gain (loss) from investments and net change in unrealized appreciation (depreciation) on investments in the Consolidated Statement of Operations.

For the year ended April 30, 2019, the average month end notional amount of futures contracts and swap contracts, the average month end contract value for forward exchange contracts and average month end fair value of VRI, were as follows:

Futures Contracts	\$266,841,534
Swap contracts	655,848,008
Forward exchange contracts	544,155,048
VRI	10,520,209

At April 30, 2019, the Fund's OTC derivative assets and liabilities are as follows:

	Gross Amounts of Assets and Liabilities Presented in the Consolidated Statement of Assets and Liabilities	
	Assets ^a	Liabilities ^a
Derivatives		
Forward exchange contracts	\$ 4,309,631	\$ 991,064
Swap contracts	16,473,105	25,751,532
Total	<u>\$20,782,736</u>	<u>\$26,742,596</u>

^aAbsent an event of default or early termination, OTC derivative assets and liabilities are presented gross and not offset in the Consolidated Statement of Assets and Liabilities.

Franklin Strategic Income Fund (continued)

At April 30, 2019, the Fund's OTC derivative assets, which may be offset against the Fund's OTC derivative liabilities and collateral received from the counterparty, are as follows:

	Gross Amounts of Assets Presented in the Consolidated Statement of Assets and Liabilities	Amounts Not Offset in the Consolidated Statement of Assets and Liabilities			Net Amount (Not less than zero)
		Financial Instruments Available for Offset	Financial Instruments Collateral Received^{a,b}	Cash Collateral Received	
Counterparty					
BNDP	\$ 236,543	\$ (180,023)	\$ (56,520)	\$ —	\$ —
BOFA	970,858	—	—	(890,000)	80,858
BZWS	611,841	(611,841)	—	—	—
CITI	3,829,422	(3,829,422)	—	—	—
DBAB	632,615	(21,272)	(611,343)	—	—
GSCO	6,805,392	—	—	(6,760,000)	45,392
JPHQ	3,677,016	(3,677,016)	—	—	—
MSCO	4,019,049	(4,019,049)	—	—	—
Total	\$20,782,736	\$(12,338,623)	\$(667,863)	\$(7,650,000)	\$126,250

At April 30, 2019, the Fund's OTC derivative liabilities, which may be offset against the Fund's OTC derivative assets and collateral pledged to the counterparty, are as follows:

	Gross Amounts of Liabilities Presented in the Consolidated Statement of Assets and Liabilities	Amounts Not Offset in the Consolidated Statement of Assets and Liabilities			Net Amount (Not less than zero)
		Financial Instruments Available for Offset	Financial Instruments Collateral Pledged	Cash Collateral Pledged^b	
Counterparty					
BNDP	\$ 180,023	\$ (180,023)	\$ —	\$ —	\$ —
BZWS	861,121	(611,841)	—	(249,280)	—
CITI	7,227,791	(3,829,422)	—	(3,260,000)	138,369
DBAB	21,272	(21,272)	—	—	—
JPHQ	4,680,660	(3,677,016)	—	(325,000)	678,644
MSCO	13,771,729	(4,019,049)	—	(9,752,680)	—
Total	\$26,742,596	\$(12,338,623)	\$ —	\$(13,586,960)	\$817,013

^aAt April 30, 2019, the Fund received U.S. Treasury Bonds and Notes as collateral for derivatives.

^bIn 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 amounts disclosed herein.

See Note 1(e) regarding derivative financial instruments.

See Abbreviations on page 66.

Franklin Strategic Income Fund (continued)

10. Holdings of 5% Voting Securities of Portfolio Companies

The 1940 Act defines "affiliated companies" to include investments in portfolio companies in which a fund owns 5% or more of the outstanding voting securities. During the year ended April 30, 2019, investments in "affiliated companies" were as follows:

Name of Issuer	Number of Shares Held at Beginning of Year	Gross Additions	Gross Reductions	Number of Shares Held at End of Year	Value at End of Year	Dividend Income	Realized Gain (Loss)	Net Change in Unrealized Appreciation (Depreciation)
Non-Controlled Affiliates								
Remington Outdoor Co. Inc.	—	1,322,439 ^a	—	1,322,439	\$2,909,366	\$ —	\$ —	\$1,223,257
Remington Outdoor Co. Inc., Litigation Units . . .	—	124,500 ^a	—	124,500	—	—	—	—
Total Affiliated Securities (Value is 0.1% of Net Assets)					\$2,909,366	\$ —	\$ —	\$1,223,257

^aGross addition was the result of an in-kind transfer of securities.

11. Credit Facility

The Fund, together with other U.S. registered and foreign investment funds (collectively, Borrowers), managed by Franklin Templeton, are borrowers in a joint syndicated senior unsecured credit facility totaling \$2 billion (Global Credit Facility) which matures on February 7, 2020. This Global Credit Facility provides a source of funds to the Borrowers for temporary and emergency purposes, including the ability to meet future unanticipated or unusually large redemption requests.

Under the terms of the Global Credit Facility, the Fund shall, in addition to interest charged on any borrowings made by the Fund and other costs incurred by the Fund, pay its share of fees and expenses incurred in connection with the implementation and maintenance of the Global Credit Facility, based upon its relative share of the aggregate net assets of all of the Borrowers, including an annual commitment fee of 0.15% based upon the unused portion of the Global Credit Facility. These fees are reflected in other expenses in the Consolidated Statement of Operations. During the year ended April 30, 2019, the Fund did not use the Global Credit Facility.

12. 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.

Franklin Strategic Income Fund (continued)

A summary of inputs used as of April 30, 2019, in valuing the Fund's assets and liabilities carried at fair value, is as follows:

	Level 1	Level 2	Level 3	Total
Assets:				
Investments in Securities: ^a				
Equity Investments: ^b				
Commercial & Professional Services	\$ —	\$ 2,909,366	\$ —	\$ 2,909,366
Consumer Services	—	—	122,759	122,759
Energy	3,813,395	9,565,263	2	13,378,660
Materials	886,173	—	4,615,489	5,501,662
Retailing	—	—	96,878	96,878
Software & Services	—	—	750,000	750,000
All Other Equity Investments	194,101,482	—	—	194,101,482
Corporate Bonds:				
Retailing	—	16,391,981	90,006	16,481,987
All Other Corporate Bonds	—	1,738,533,829	—	1,738,533,829
Senior Floating Rate Interests:				
Household & Personal Products	—	—	42,108,964	42,108,964
Software & Services	—	2,961,815	19,883,394	22,845,209
All Other Senior Floating Rate Interests	—	510,259,767	—	510,259,767
Foreign Government and Agency Securities	—	276,376,001	—	276,376,001
U.S. Government and Agency Securities	—	281,356,952	—	281,356,952
Asset-Backed Securities and Commercial				
Mortgage-Backed Securities	—	1,272,329,172	—	1,272,329,172
Mortgage-Backed Securities	—	458,728,031	—	458,728,031
Municipal Bonds	—	86,980,430	—	86,980,430
Escrows and Litigation Trusts	—	75,000	— ^c	75,000
Short Term Investments	63,183,777	97,392,171	—	160,575,948
Total Investments in Securities	\$ 261,984,827	\$ 4,753,859,778	\$ 67,667,492	\$ 5,083,512,097
Other Financial Instruments:				
Futures Contracts	\$ 3,845,560	\$ —	\$ —	\$ 3,845,560
Forward Exchange Contracts	—	4,309,631	—	4,309,631
Swap Contracts	—	11,991,963	—	11,991,963
Total Other Financial Instruments	\$ 3,845,560	\$ 16,301,594	\$ —	\$ 20,147,154
Liabilities:				
Other Financial Instruments:				
Forward Exchange Contracts	\$ —	\$ 991,064	\$ —	\$ 991,064
Swap Contracts	—	17,364,288	—	17,364,288
Total Other Financial Instruments	\$ —	\$ 18,355,352	\$ —	\$ 18,355,352

^aFor detailed categories, see the accompanying Consolidated Statement of Investments.

^bIncludes common stocks and management investment companies as well as other equity interests.

^cIncludes securities determined to have no value at April 30, 2019.

Franklin Strategic Income Fund (continued)

12. 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 beginning and/or end of the year. At April 30, 2019, the reconciliation of assets is as follows:

	Balance at Beginning of Year	Purchases	Sales	Transfer Into Level 3 ^a	Transfer Out of Level 3	Cost Basis Adjustments	Net Realized Gain (Loss)	Net Unrealized Appreciation (Depreciation)	Balance at End of Year	Net Change in Unrealized Appreciation (Depreciation) on Assets Held at Year End
Assets:										
Investments in Securities:										
Equity Investments: ^b										
Consumer Services	\$1,009,115	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ (886,356)	\$ 122,759	\$(886,356)
Energy	1,083	—	—	—	—	—	—	(1,081)	2	(1,081)
Materials	—	4,481,262 ^c	—	—	—	—	—	134,227	4,615,489	134,227
Retailing	111,118	—	—	—	—	—	—	(14,240)	96,878	(14,240)
Software & Services	—	750,000	—	—	—	—	—	—	750,000	—
Transportation	1,895,749	—	(1,512,758)	—	—	—	(5,977,606)	5,594,615	—	—
Corporate Bonds:										
Retailing	230,474	—	—	12,081	—	—	—	(152,549)	90,006	(152,549)
Senior Floating Rate Interests:										
Household & Personal										
Products	—	42,008,717 ^c	—	—	—	—	—	100,247	42,108,964	100,247
Software & Services	—	20,000,000 ^c	—	—	—	—	—	(116,606)	19,883,394	(116,606)
Escrows and Litigation Trusts	— ^d	— ^{c,d}	—	—	—	—	—	—	— ^d	—
Total Investments in Securities	\$3,247,539	\$67,239,979	\$(1,512,758)	\$12,081	\$—	\$—	\$(5,977,606)	\$4,658,257	\$67,667,492	\$(936,358)

^aThe investments were transferred into Level 3 as a result of the unavailability of a quoted market price in an active market for identical securities and other significant observable valuation inputs.

^bIncludes common stocks as well as other equity interests.

^cIncludes securities received as a result of an in-kind transfer.

^dIncludes securities determined to have no value.

Franklin Strategic Income Fund (continued)

Significant unobservable valuation inputs for material Level 3 financial instruments and impact to fair value as a result of changes in unobservable valuation inputs as of April 30, 2019, are as follows:

Description	Fair Value at End of Year	Valuation Technique	Unobservable Input	Amount/ Range (Weighted Average) ^a	Impact to Fair Value if Input Increases ^b
Assets:					
Investments in Securities:					
Senior Floating Rate Interests:					
Household & Personal Products					
\$39,510,545	Discounted cash flow	Free cash flow	\$18.9 - \$32.4 mil	Increase ^c	
		Discount rate	11.4% - 12.3% (11.7%)	Decrease	
Software & Services.					
19,883,394	Discounted cash flow	Free cash flow	\$28.7 mil	Increase ^c	
		Discount rate	20.0%	Decrease ^d	
All other investments ^e					
8,273,553 ^f					
Total.					
\$67,667,492					

^aWeighted based on the relative fair value of the financial instruments.

^bRepresents the directional change in the fair value of the Level 3 financial instruments that would result from a significant and reasonable increase in the corresponding input. A significant and reasonable decrease in the input would have the opposite effect. Significant impacts, if any, to fair value and/or net assets have been indicated.

^cRepresents a significant impact to fair value and net assets.

^dRepresents a significant impact to fair value but not net assets.

^eIncludes fair value of immaterial financial instruments developed using various valuation techniques and unobservable inputs. May also include financial instruments with values derived using private transaction prices or non-public third party pricing information which is unobservable.

^fIncludes securities determined to have no value at April 30, 2019.

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 Income Fund (continued)

Abbreviations

Counterparty		Currency	Selected Portfolio		
BNDP	BNP Paribas	BRL	Brazilian Real	ARM	Adjustable Rate Mortgage
BOFA	Bank of America Corp.	COP	Colombian Peso	CLO	Collateralized Loan Obligation
BZWS	Barclays Bank PLC	DOP	Dominican Peso	CMT	Constant Maturity Treasury Index
CITI	Citigroup, Inc.	EUR	Euro	FRN	Floating Rate Note
DBAB	Deutsche Bank AG	GBP	British Pound	GDP	Gross Domestic Product
GSCO	The Goldman Sachs Group, Inc.	IDR	Indonesian Rupiah	GO	General Obligation
JPHQ	JP Morgan Chase & Co.	MXN	Mexican Peso	HDC	Housing Development Corp.
MSCO	Morgan Stanley	USD	United States Dollar	LIBOR	London InterBank Offered Rate
		UYU	Uruguayan Peso	MBS	Mortgage-Backed Security
		ZAR	South African Rand	PIK	Payment-In-Kind
				RDA	Redevelopment Agency/Authority
				SF	Single Family
				TBD	To be determined
				T-Note	Treasury Note
				VRI	Value Recovery Instruments

Index

CDX.EM.30	CDX Emerging Markets Index
MCDX.NA.31	MCDX North America Index

Report of Independent Registered Public Accounting Firm

To the Board of Trustees of Franklin Strategic Series and Shareholders of Franklin Strategic Income Fund

Opinion on the Financial Statements

We have audited the accompanying consolidated statement of assets and liabilities, including the consolidated statement of investments, of Franklin Strategic Income Fund and its subsidiary (the "Fund") as of April 30, 2019, the related consolidated statements of operations for the year ended April 30, 2019, the consolidated statement of changes in net assets for each of the two years in the period ended April 30, 2019, including the related notes, and the consolidated financial highlights for each of the five years in the period ended April 30, 2019 (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Fund as of April 30, 2019, the results of their operations for the year then ended, the changes in their net assets for each of the two years in the period ended April 30, 2019 and the consolidated financial highlights for each of the five years in the period ended April 30, 2019 in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on the Fund's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Fund in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits of these consolidated financial statements in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our procedures included confirmation of securities owned as of April 30, 2019 by correspondence with the custodian, transfer agent and brokers; when replies were not received from brokers, we performed other auditing procedures. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

San Francisco, California

June 17, 2019

We have served as the auditor of one or more investment companies in the Franklin Templeton Group of Funds since 1948.

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 U.S. registered portfolios overseen in the Franklin Templeton fund complex, are shown below. Generally, each board member serves until that person's successor is elected and qualified.

Independent Board Members

Name, Year of Birth and Address	Position	Length of Time Served	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years
Harris J. Ashton (1932) One Franklin Parkway San Mateo, CA 94403-1906	Trustee	Since 1991	136	Bar-S Foods (meat packing company) (1981-2010).

Principal Occupation During at Least the Past 5 Years:

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

Terrence J. Checki (1945) One Franklin Parkway San Mateo, CA 94403-1906	Trustee	Since 2017	112	Hess Corporation (exploration of oil and gas) (2014-present).
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Principal Occupation During at Least the Past 5 Years:

Member of the Council on Foreign Relations (1996-present); Member of the National Committee on U.S.-China Relations (1999-present); member of the Board of Trustees of the Economic Club of New York (2013-present); member of the Board of Trustees of the Foreign Policy Association (2005-present) and member of various other boards of trustees and advisory boards; and **formerly**, Executive Vice President of the Federal Reserve Bank of New York and Head of its Emerging Markets and Internal Affairs Group and Member of Management Committee (1995-2014); and Visiting Fellow at the Council on Foreign Relations (2014).

Mary C. Choksi (1950) One Franklin Parkway San Mateo, CA 94403-1906	Trustee	Since 2014	136	Avis Budget Group Inc. (car rental) (2007-present), Omnicom Group Inc. (advertising and marketing communications services) (2011-present) and White Mountains Insurance Group, Ltd. (holding company) (2017-present).
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Principal Occupation During at Least the Past 5 Years:

Director of various companies; and **formerly**, Founder and Senior Advisor, Strategic Investment Group (investment management group) (2015-2017); Founding Partner and Senior Managing Director, Strategic Investment Group (1987-2015); Founding Partner and Managing Director, Emerging Markets Management LLC (investment management firm) (1987-2011); and Loan Officer/Senior Loan Officer/Senior Pension Investment Officer, World Bank Group (international financial institution) (1977-1987).

Edith E. Holiday (1952) One Franklin Parkway San Mateo, CA 94403-1906	Lead Independent Trustee	Trustee since 1998 and Lead Independent Trustee since March 2019	136	Hess Corporation (exploration of oil and gas) (1993-present), Canadian National Railway (railroad) (2001-present), White Mountains Insurance Group, Ltd. (holding company) (2004-present), Santander Consumer USA Holdings, Inc. (consumer finance) (2016-present), RTI International Metals, Inc. (manufacture and distribution of titanium) (1999-2015) and H.J. Heinz Company (processed foods and allied products) (1994-2013).
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Principal Occupation During at Least the Past 5 Years:

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

J. Michael Luttig (1954) One Franklin Parkway San Mateo, CA 94403-1906	Trustee	Since 2009	136	Boeing Capital Corporation (aircraft financing) (2006-2013).
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Principal Occupation During at Least the Past 5 Years:

Executive Vice President, Counselor and Senior Advisor to Boeing Chairman and Board of Directors, The Boeing Company (aerospace company) (May 2019); and **formerly**, General Counsel and member of the Executive Council, The Boeing Company (2006-2019); Federal Appeals Court Judge, U.S. Court of Appeals for the Fourth Circuit (1991-2006).

Independent Board Members (continued)

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
Larry D. Thompson (1945) One Franklin Parkway San Mateo, CA 94403-1906	Trustee	Since 2007	136	The Southern Company (energy company) (2014-present; previously 2010-2012), Graham Holdings Company (education and media organization) (2011-present) and Cbeyond, Inc. (business communications provider) (2010-2012).

Principal Occupation During at Least the Past 5 Years:

Director of various companies; Counsel, Finch McCranie, LLP (law firm) (2015-present); Independent Compliance Monitor and Auditor, Volkswagen AG (manufacturer of automobiles and commercial vehicles) (2017-present); John A. Sibley Professor of Corporate and Business Law, University of Georgia School of Law (2015-present; previously 2011-2012); and **formerly**, Executive Vice President – Government Affairs, General Counsel and Corporate Secretary, PepsiCo, Inc. (consumer products) (2012-2014); 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).

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
**Gregory E. Johnson (1961) One Franklin Parkway San Mateo, CA 94403-1906	Trustee	Since 2013	150	None

Principal Occupation During at Least the Past 5 Years:

Chairman of the Board, Member – Office of the Chairman, Director 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 42 of the investment companies in Franklin Templeton; Vice Chairman, Investment Company Institute; and **formerly**, President, Franklin Resources, Inc. (1994-2015).

**Rupert H. Johnson, Jr. (1940) One Franklin Parkway San Mateo, CA 94403-1906	Chairman of the Board and Trustee	Chairman of the Board since 2013 and Trustee since 1991	136	None
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Principal Occupation During at Least the Past 5 Years:

Vice Chairman, Member – Office of the Chairman and Director, Franklin Resources, Inc.; Director, Franklin Advisers, Inc.; and officer and/or director or trustee, as the case may be, of some of the other subsidiaries of Franklin Resources, Inc. and of 40 of the investment companies in Franklin Templeton.

Alison E. Baur (1964) One Franklin Parkway San Mateo, CA 94403-1906	Vice President	Since 2012	Not Applicable	Not Applicable
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Principal Occupation During at Least the Past 5 Years:

Deputy General Counsel, Franklin Templeton; and officer of some of the other subsidiaries of Franklin Resources, Inc. and of 44 of the investment companies in Franklin Templeton.

Sonal Desai, Ph.D. (1963) One Franklin Parkway San Mateo, CA 94403-1906	Vice President	Since December 2018	Not Applicable	Not Applicable
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Principal Occupation During at Least the Past 5 Years:

Director and Executive Vice President, Franklin Advisers, Inc.; Executive Vice President, Franklin Templeton Institutional, LLC; and officer of 18 of the investment companies in Franklin Templeton.

Interested Board Members and Officers (continued)

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
Gaston Gardey (1967) One Franklin Parkway San Mateo, CA 94403-1906	Treasurer, Chief Financial Officer and, Chief Accounting Officer	Since 2009	Not Applicable	Not Applicable
Principal Occupation During at Least the Past 5 Years: Treasurer, U.S. Fund Administration & Reporting and officer of 28 of the investment companies in Franklin Templeton.				
Aliya S. Gordon (1973) One Franklin Parkway San Mateo, CA 94403-1906	Vice President	Since 2009	Not Applicable	Not Applicable
Principal Occupation During at Least the Past 5 Years: Senior Associate General Counsel and officer of 44 of the investment companies in Franklin Templeton.				
Steven J. Gray (1955) One Franklin Parkway San Mateo, CA 94403-1906	Vice President and Co-Secretary	Vice President since 2009 and Co-Secretary since January 2019	Not Applicable	Not Applicable
Principal Occupation During at Least the Past 5 Years: Senior Associate General Counsel, Franklin Templeton; Vice President, Franklin Templeton Distributors, Inc. and FASA, LLC; and officer of 44 of the investment companies in Franklin Templeton.				
Matthew T. Hinkle (1971) One Franklin Parkway San Mateo, CA 94403-1906	Chief Executive Officer – Finance and Administration	Since 2017	Not Applicable	Not Applicable
Principal Occupation During at Least the Past 5 Years: Senior Vice President, Franklin Templeton Services, LLC; officer of 44 of the investment companies in Franklin Templeton; and formerly , Vice President, Global Tax (2012-April 2017) and Treasurer/Assistant Treasurer, Franklin Templeton (2009-2017).				
Robert Lim (1948) One Franklin Parkway San Mateo, CA 94403-1906	Vice President – AML Compliance	Since 2016	Not Applicable	Not Applicable
Principal Occupation During at Least the Past 5 Years: Vice President, Franklin Templeton Companies, LLC; Chief Compliance Officer, Franklin Templeton Distributors, Inc. and Franklin Templeton Investor Services, LLC; and officer of 44 of the investment companies in Franklin Templeton.				
Kimberly H. Novotny (1972) 300 S.E. 2nd Street Fort Lauderdale, FL 33301-1923	Vice President	Since 2013	Not Applicable	Not Applicable
Principal Occupation During at Least the Past 5 Years: Associate General Counsel, Franklin Templeton; Vice President and Corporate Secretary, Fiduciary Trust International of the South; Vice President, Templeton Investment Counsel, LLC; Assistant Secretary, Franklin Resources, Inc.; and officer of 44 of the investment companies in Franklin Templeton.				
Edward D. Perks (1970) One Franklin Parkway San Mateo, CA 94403-1906	President and Chief Executive Officer – Investment Management	Since December 2018	Not Applicable	Not Applicable
Principal Occupation During at Least the Past 5 Years: President and Director, Franklin Advisers, Inc.; and officer of nine of the investment companies in Franklin Templeton (since December 2018).				

Interested Board Members and Officers (continued)

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
Robert C. Rosselot (1960) 300 S.E. 2nd Street Fort Lauderdale, FL 33301-1923	Chief Compliance Officer	Since 2013	Not Applicable	Not Applicable
Principal Occupation During at Least the Past 5 Years: Director, Global Compliance, Franklin Templeton; Vice President, Franklin Templeton Companies, LLC; officer of 44 of the investment companies in Franklin Templeton; and formerly , Senior Associate General Counsel, Franklin Templeton (2007-2013); and Secretary and Vice President, Templeton Group of Funds (2004-2013).				
Navid J. Tofigh (1972) One Franklin Parkway San Mateo, CA 94403-1906	Vice President	Since 2015	Not Applicable	Not Applicable
Principal Occupation During at Least the Past 5 Years: Associate General Counsel and officer of 44 of the investment companies in Franklin Templeton.				
Craig S. Tyle (1960) 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, Executive Vice President and Secretary, Franklin Resources, Inc.; and officer of some of the other subsidiaries of Franklin Resources, Inc. and of 44 of the investment companies in Franklin Templeton.				
Lori A. Weber (1964) 300 S.E. 2nd Street Fort Lauderdale, FL 33301-1923	Vice President and Co-Secretary	Vice President since 2011 and Co-Secretary since January 2019	Not Applicable	Not Applicable
Principal Occupation During at Least the Past 5 Years: Senior Associate General Counsel, Franklin Templeton; Assistant Secretary, Franklin Resources, Inc.; Vice President and Secretary, Templeton Investment Counsel, LLC; and officer of 44 of the investment companies in Franklin Templeton.				

*We base the number of portfolios on each separate series of the U.S. registered investment companies within the Franklin Templeton 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 an officer and director and major shareholder of Resources.

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

Note 2: Effective March 12, 2019, John B. Wilson ceased to be a trustee of the Trust.

Note 3: Officer information is current as of the date of this report. It is possible that after this date, information about officers may change.

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 effective May 21, 2019, designated Mary C. Choksi as its audit committee financial expert. The Board believes that Ms. Choksi qualifies as such an expert in view of her extensive business background and experience. She currently serves as a director of Avis Budget Group, Inc. (2007-present) and formerly, Founder and Senior Advisor, Strategic Investment Group (1987 to 2017). Ms. Choksi has been a Member of the Fund's Audit Committee since 2014. As a result of such background and experience, the Board believes that Ms. Choksi 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. Ms. Choksi 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.

Shareholder Information

Board Approval of Investment Management Agreements

FRANKLIN STRATEGIC SERIES
Franklin Strategic Income Fund
(Fund)

At an in-person meeting held on April 16, 2019 (Meeting), the Board of Trustees (Board) of Franklin Strategic Series (Trust), including a majority of the trustees who are not “interested persons” as defined in the Investment Company Act of 1940 (Independent Trustees), reviewed and approved the continuance of the investment management agreement between Franklin Advisers, Inc. (Manager) and the Trust, on behalf of the Fund (Management Agreement) for an additional one-year period. The Independent Trustees received advice from and met separately with Independent Trustee counsel in considering whether to approve the continuation of the Management Agreement.

In considering the continuation of the Management Agreement, the Board reviewed and considered information provided by the Manager at the Meeting and throughout the year at meetings of the Board and its committees. The Board also reviewed and considered information provided in response to a detailed set of requests for information submitted to the Manager by Independent Trustee counsel on behalf of the Independent Trustees in connection with the annual contract renewal process. In addition, prior to the Meeting, the Independent Trustees held a telephonic contract renewal meeting at which the Independent Trustees conferred amongst themselves and Independent Trustee counsel about contract renewal matters. The Board reviewed and considered all of the factors it deemed relevant in approving the continuance of the Management Agreement, including, but not limited to: (i) the nature, extent and quality of the services provided by the Manager; (ii) the investment performance of the Fund; (iii) the costs of the services provided and profits realized by the Manager and its affiliates from the relationship with the Fund; (iv) the extent to which economies of scale are realized as the Fund grows; and (v) whether fee levels reflect these economies of scale for the benefit of Fund investors.

In approving the continuance of the Management Agreement, the Board, including a majority of the Independent Trustees, determined that the terms of the Management Agreement are fair and reasonable and that the continuance of such Management Agreement is in the interests of the Fund and its shareholders. While attention was given to all information

furnished, the following discusses some primary factors relevant to the Board’s determination.

Nature, Extent and Quality of Services

The Board reviewed and considered information regarding the nature, extent and quality of investment management services provided by the Manager and its affiliates to the Fund and its shareholders. This information included, among other things, the qualifications, background and experience of the senior management and investment personnel of the Manager; the structure of investment personnel compensation; oversight of third-party service providers; investment performance reports and related financial information for the Fund; reports on expenses, shareholder services, marketing support payments made to financial intermediaries and third party servicing arrangements; legal and compliance matters; risk controls; pricing and other services provided by the Manager and its affiliates; and management fees charged by the Manager and its affiliates to US funds and other accounts, including management’s explanation of differences among accounts where relevant. The Board also reviewed and considered an annual report on payments made by Franklin Templeton Investments (FTI) or the Fund to financial intermediaries, as well as a memorandum relating to third-party servicing arrangements in response to a guidance update in 2016 from the US Securities and Exchange Commission (SEC) relating to mutual fund distribution and sub-accounting fees. The Board noted management’s continuing efforts and expenditures in establishing effective business continuity plans and developing strategies to address areas of heightened concern in the mutual fund industry, such as cybersecurity and liquidity risk management. The Board also recognized management’s commitment to facilitating Board oversight of liquidity through the designation of a liquidity/risk administrator and the development of reports that highlight the amount of illiquid investments for the Fund.

The Board also reviewed and considered the benefits provided to Fund shareholders of investing in a fund that is part of the Franklin Templeton family of funds. The Board noted the financial position of Franklin Resources, Inc. (FRI), the Manager’s parent, and its commitment to the mutual fund business as evidenced by its continued introduction of new funds, reassessment of the fund offerings in response to the market environment and project initiatives and capital investments relating to the services provided to the Fund by the FTI organization.

Following consideration of such information, the Board was satisfied with the nature, extent and quality of services provided by the Manager and its affiliates to the Fund and its shareholders.

Fund Performance

The Board reviewed and considered the performance results of the Fund over various time periods ended January 31, 2019. The Board considered the performance returns for the Fund in comparison to the performance returns of mutual funds deemed comparable to the Fund included in a universe (Performance Universe) selected by Broadridge Financial Solutions, Inc. (Broadridge), an independent provider of investment company data. The Board received a description of the methodology used by Broadridge to select the mutual funds included in a Performance Universe. The Board also reviewed and considered Fund performance reports provided and discussions that occurred with portfolio managers at Board meetings throughout the year. A summary of the Fund's performance results is below.

The Performance Universe for the Fund included the Fund and all retail and institutional multi-sector income funds. The Board noted that the Fund's annualized income return for the three-year period was below the median of its Performance Universe, but for the one-, five- and 10-year periods was above the median of its Performance Universe. The Board also noted that the Fund's annualized total return for the one-, three-, five- and 10-year periods was below the median of its Performance Universe. The Board discussed the performance of the Fund with management and noted that the Fund's annualized total return for the one- and three-year periods was only slightly below the median of its Performance Universe and that such relative underperformance was due to a shorter duration profile of its portfolio holdings. The Board also noted management's continued enhancements to the Fund's investment team and process. Given the Fund's income-oriented investment objective and the considerations noted above, the Board concluded that the Fund's performance was satisfactory.

Comparative Fees and Expenses

The Board reviewed and considered information regarding the Fund's actual total expense ratio and its various components, including, as applicable, management fees; transfer agent expenses; underlying fund expenses; Rule 12b-1 and non-Rule 12b-1 service fees; and other non-management fees. The Board also noted the quarterly and annual reports it receives on all marketing support payments made by FTI to financial intermediaries. The Board considered the actual total

expense ratio and, separately, the contractual management fee rate, without the effect of fee waivers, if any (Management Rate) of the Fund in comparison to the median expense ratio and median Management Rate, respectively, of other mutual funds deemed comparable to and with a similar expense structure to the Fund selected by Broadridge (Expense Group). Broadridge fee and 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 and Management Rates generally increase as assets decline and decrease as assets grow, the Board believed the independent analysis conducted by Broadridge to be an appropriate measure of comparative fees and expenses. The Broadridge Management Rate includes administrative charges, and the actual total expense ratio, for comparative consistency, was shown for Class A shares for the Fund and Class A and Class M shares for the other funds in the Expense Group with multiple classes of shares. The Board received a description of the methodology used by Broadridge to select the mutual funds included in an Expense Group.

The Expense Group for the Fund included the Fund and ten other multi-sector income funds. The Board noted that the Management Rate and actual total expense ratio for the Fund were below the medians of its Expense Group. The Board concluded that the Management Rate charged to the Fund is reasonable.

Profitability

The Board reviewed and considered information regarding the profits realized by the Manager and its affiliates in connection with the operation of the Fund. In this respect, the Board considered the Fund profitability analysis provided by the Manager that addresses the overall profitability of FTI's US fund business, as well as its profits in providing investment management and other services to each of the individual funds during the 12-month period ended September 30, 2018, being the most recent fiscal year-end for FRI. The Board noted that although management continually makes refinements to its methodologies used in calculating profitability in response to organizational and product-related changes, the overall methodology has remained consistent with that used in the Fund's profitability report presentations from prior years. Additionally, PricewaterhouseCoopers LLP, auditor to FRI and certain Franklin Templeton funds, has been engaged by the Manager to periodically review and assess the allocation

methodologies to be used solely by the Fund's Board with respect to the profitability analysis.

The Board noted management's 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 noted management's expenditures in improving shareholder services provided to the Fund, as well as the need to implement systems and meet additional regulatory and compliance requirements resulting from recent SEC and other regulatory requirements.

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, potential benefits resulting from personnel and systems enhancements necessitated by fund growth, as well as increased leverage with service providers and counterparties. Based upon its consideration of all these factors, the Board concluded 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, extent and quality of services provided to the Fund.

Economies of Scale

The Board reviewed and considered the extent to which the Manager may realize economies of scale, if any, as the Fund grows larger and whether the Fund's management fee structure reflects any economies of scale for the benefit of shareholders. With respect to possible economies of scale, the Board noted the existence of management fee breakpoints, which operate generally to share any economies of scale with the Fund's shareholders by reducing the Fund's effective management fees as the Fund grows in size. The Board considered the Manager's view that any analyses of potential economies of scale in managing a particular fund are inherently limited in light of the joint and common costs and investments the Manager incurs across the Franklin Templeton family of funds as a whole. The Board concluded that to the extent economies of scale may be realized by the Manager and its affiliates, the Fund's management fee structure provided a sharing of benefits with the Fund and its shareholders as the Fund grows.

Conclusion

Based on its review, consideration and evaluation of all factors it believed relevant, including the above-described factors and

conclusions, the Board unanimously approved the continuation of the Management Agreement for an additional one-year period.

Proxy Voting Policies and Procedures

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

Quarterly Statement of Investments

The Trust, on behalf of 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 as an exhibit to its report on Form N-PORT. Shareholders may view the filed Form N-PORT by visiting the Commission's website at sec.gov. The filed form may also be viewed and copied at the Commission's Public Reference Room in Washington, DC. Information regarding the operations of the Public Reference Room may be obtained by calling (800) SEC-0330.

Householding of Reports and Prospectuses

You will receive the Fund's financial reports every six months as well as an annual updated summary prospectus (prospectus available upon request). To reduce Fund expenses, we try to identify related shareholders in a household and send only one copy of the financial reports and summary prospectus. This process, called "householding," will continue indefinitely unless you instruct us otherwise. If you prefer not to have these documents 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.

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