

# Franklin Strategic Income Fund

AS OF 12/31/13 FIXED INCOME

### **FUND DESCRIPTION**

The fund seeks to provide a high level of current income. Its secondary goal is capital appreciation over the long term. The fund is a multi-sector income fund that invests primarily in U.S. and foreign debt securities.

### FUND DATA<sup>1</sup>

Total Net Assets-All Share Classes: \$8.4 billion

Number of Holdings: 1,083

Inception: 5/24/94

**Dividends:** Monthly on the second business day

Average Duration<sup>2</sup>: 3.3 years

Average Weighted Maturity: 4.6 years

CUSIP/Symbol by Class:

Α	С	R	R6	Advisor
FRSTX	FSGCX	FKSRX	354 713 323	FKSAX

# MAXIMUM SALES CHARGES

Class A: 4.25% initial sales charge

Class C: 1% contingent deferred sales charge

(CDSC) in the first year only

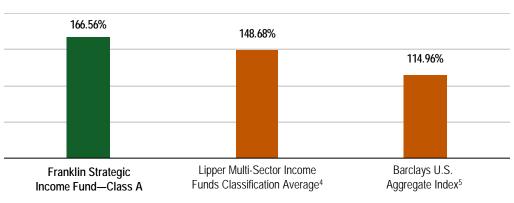
# TOTAL ANNUAL OPERATING EXPENSES<sup>3</sup>

Without Waiver: Class A: 0.89%; Class C: 1.29% With Waiver: Class A: 0.88%; Class C: 1.28%

Performance data represents past performance, which does not guarantee future results. Current performance may differ from figures shown. The fund's investment return and principal value will change with market conditions, and you may have a gain or a loss when you sell your shares. Please call Franklin Templeton Investments at (800) DIAL BEN/342-5236 or visit franklintempleton.com for the most recent month-end performance.

#### A HISTORY OF SOLID PERFORMANCE

15-Year Period Ended December 31, 2013



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

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

With Maximum Sales Charges<sup>6</sup>

Class	Inception Date	1 Yr	5 Yrs	10 Yrs	Since Inception
Α	5/24/94	-1.15%	9.67%	6.08%	7.50%
С	5/1/98	1.71%	10.16%	6.11%	6.07%
YIELDS (	As of December	er 31, 201.	3)		

Class	30-Day Standardized Yield <sup>7</sup>
Α	3.28%
С	3.03%

# Without Sales Charges

1 Yr	5 Yrs	10 Yrs	Since Inception
3.20%	10.62%	6.54%	7.74%
2.69%	10.16%	6.11%	6.07%

# PORTFOLIO BREAKDOWN<sup>1,8</sup> (As of December 31, 2013)



- 1. As of 12/31/13. Holdings are subject to change. For updated information, please call Franklin Templeton Investments at (800) DIAL BEN/342-5236 or visit franklintempleton.com.
- Duration shown is the option-adjusted duration. Duration is an indication of a fund's sensitivity to changes in interest rates. The option-adjusted duration formula takes into account embedded call options and redemption features that impact a bond's expected cash flows, and thus its interest rate sensitivity.
- 3. The fund has a fee waiver associated with its investments in a Franklin Templeton money fund, contractually guaranteed through at least its current fiscal year end. Fund investment results reflect the fee waiver; without this reduction, the results would have been lower
- 4. Source: Lipper, Inc., 12/31/13. The Lipper Multi-Sector Income Funds Classification Average for this period included 52 funds and does not include sales charges.
- 5. Source: Morningstar® (Barclays U.S. Aggregate Index).
- 6. Class C: Prior to 1/1/04, these shares were offered with an initial sales charge; thus actual returns would have differed. The fund offers other share classes, subject to different fees and expenses that will affect their performance.
- 7. The 30-Day Standardized Yield reflects an estimated yield to maturity. It should be regarded as an estimate of the fund's rate of investment income, and it may not equal the fund's actual income distribution rate, which reflects the fund's past dividends paid to shareholders.
- 8. Due to rounding, the sum of portfolio holdings may not equal 100%.

# PORTFOLIO MANAGERS<sup>11</sup>

Christopher J. Molumphy, CFA

Since 1994; joined Franklin Templeton in 1988

Eric G. Takaha, CFA

Since 1997; joined Franklin Templeton in 1989

### MORNINGSTAR STYLE BOX™12



### WHAT ARE THE RISKS?

All investments involve risks, including possible loss of principal. Bond prices generally move in the opposite direction of interest rates. Thus, as the 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. These and other risk considerations are discussed in the fund's prospectus.

Investors should carefully consider a fund's investment goals, risks, charges and expenses before investing. To obtain a summary prospectus and/or prospectus, which contains this and other information, talk to your financial advisor, call us at (800) DIAL BEN/342-5236 or visit franklintempleton.com. Please carefully read a prospectus before you invest or send money.

# FRANKLIN TEMPLETON INVESTMENTS

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

#### MANAGER'S PERSPECTIVE

"Franklin Strategic Income Fund provides broad exposure to domestic and international fixed income markets. We strategically allocate investments across the fixed income universe, including foreign and U.S. government bonds, high-yield and investment-grade corporate bonds, corporate loans, convertible securities, mortgage- and asset-backed securities, and municipal securities. This flexible strategy may enhance our ability to capitalize on market shifts as we try to identify bonds with the best prospects for income and capital appreciation."

-Eric G. Takaha, Portfolio Manager

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

2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
3.20%	12.35%	2.65%	10.86%	25.55%	-10.94%	5.87%	8.20%	1.50%	9.86%
2003	2002	2001	2000	1999	1998	1997	1996	1995	1994

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

### GAIN FROM OUR PERSPECTIVE®

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

### Specialized Expertise

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

- Franklin. Founded in 1947, Franklin is a recognized leader in fixed income investing and also brings expertise in growth- and value-style U.S. equity investing.
- Templeton. Founded in 1940, Templeton pioneered international investing and, in 1954, launched what has
  become the industry's oldest global fund. Today, with offices in over 25 countries, Templeton offers investors a
  truly global perspective.
- Mutual Series. Founded in 1949, Mutual Series is dedicated to a unique style of value investing, searching
  aggressively for opportunity among what it believes are undervalued stocks, as well as arbitrage situations and
  distressed securities.
- Represents non-U.S. dollar-denominated foreign government bonds of countries that are not considered "developed" markets, but may be investment grade or noninvestment grade rated.
- 10. Includes unrealized gains/losses on foreign currency forward contracts.
- 11. CFA® and Chartered Financial Analyst® are trademarks owned by CFA Institute.
- 12. Source: Morningstar®, 9/30/13. The style box reveals a fund's investment style. For credit quality of the bonds owned, Morningstar combines credit rating information provided by the fund companies (only using ratings assigned by a Nationally Recognized Statistical Rating Organization "NRSRO") with an average default rate calculation to come up with a weighted-average credit quality. The weighted-average credit quality. The weighted-average credit quality is currently a letter that roughly corresponds to the scale used by a leading NRSRO. Funds with a low credit quality style box placement are those whose weighted-average credit quality is less than BBB-; medium are those less than AA- but greater or equal to BBB-; and high are those of AA- or higher. When classifying a bond portfolio, Morningstar first maps the NRSRO credit ratings of the underlying holdings to their respective default rates (as determined by Morningstar's analysis of actual

foreign historical default rates). Morningstar then averages these default rates to determine the average default rate for the entire bond fund. Finally, Morningstar maps this average default rate to its corresponding credit rating along a convex curve. For interest-rate sensitivity, Morningstar obtains from fund effective duration. Generally, companies the average Morningstar classifies a fixed-income fund's interest-rate sensitivity based on effective duration of the Morningstar Core Bond Index (MCBI), which is currently three years. The classification of Limited will be assigned to those funds whose average effective duration is between 25% to 75% of MCBI's average effective duration; average effective duration between 75% to 125% of the MCBI will be classified as Moderate; and those at 125% or greater of the MCBI will be classified as Extensive. Shaded areas show the past 3 years of quarterly data. Past performance does not guarantee future results. 2014 Morningstar, Inc. All rights reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.