OCTOBER 31, 2013
SEMIANNUAL REPORT
AND SHAREHOLDER LETTER

A series of Franklin Strategic Series

FIXED INCOME

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Franklin Templeton Investments

Gain From Our Perspective®

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

SPECIALIZED EXPERTISE

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

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

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

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

TRUE DIVERSIFICATION

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

RELIABILITY YOU CAN TRUST

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

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

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Shareholder Letter

Dear Shareholder:

During the six-month period ended October 31, 2013, the U.S. economy showed signs of improvement, supported by encouraging personal income, consumer and business spending, manufacturing, housing, employment and export trends. Political gridlock in Washington, federal spending cuts and concerns about possible changes to quantitative easing policy affected the financial markets. Overall, however, investor confidence improved. In this environment, stocks, as measured by the Standard & Poor's® 500 Index, generated strong gains and outperformed investment-grade fixed income markets, as measured by the Barclays U.S. Aggregate Index.¹

We remain encouraged as the U.S. showed signs of continued economic growth during the six-month period. With this economic environment, we believe companies generally could continue to deliver healthy earnings and cash flow, which have historically been favorable for financial markets. Keep in mind in all economic environments we remain committed to our long-term perspective and disciplined investment approach. First and foremost for us, this means conducting diligent, fundamental analysis of securities with a continual emphasis on investment risk management.

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

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

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

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

Sincerely,

Edward B. Jamieson

President and Chief Executive Officer - Investment Management

Edward B. Jamien

Franklin Strategic Series

This letter reflects our analysis and opinions as of October 31, 2013. The information is not a complete analysis of every aspect of any market, country, industry, security or fund. Statements of fact are from sources considered reliable.

Semiannual Report

Franklin Strategic Income Fund

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

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

This semiannual report for Franklin Strategic Income Fund covers the period ended October 31, 2013.

Performance Overview

Franklin Strategic Income Fund – Class A had a -0.25% cumulative total return for the six months under review. In comparison, the Barclays U.S. Aggregate Index, which represents the U.S. investment-grade fixed rate taxable bond market, had a -1.97% total return. 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, had a -1.16% total return.2 You can find the Fund's long-term performance data in the Performance Summary beginning on page 9.

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

The dollar value, number of shares or principal amount, and names of all portfolio holdings are listed in the Fund's Statement of Investments (SOI). The SOI begins on page 19.

^{1.} Source: © 2013 Morningstar. 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

^{2.} Source: Lipper Inc. For the six-month period ended 10/31/13, this category consisted of 239 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.

Economic and Market Overview

The U.S. economy, as measured by gross domestic product, grew moderately during the six-month period ended October 31, 2013. Economic growth reflected strong export levels and positive contributions from spending on consumer goods, residential and commercial real estate, inventory buildup and state and local government needs. These gains were partially offset by federal budget cuts. Accelerating home sales accompanied record-low mortgage rates, low inventories and a multi-year low in U.S. foreclosures. Manufacturing, a mainstay of economic productivity, expanded during the period, and the unemployment rate fell to 7.3% in October 2013 from 7.5% in April.³

The Federal Reserve Board (Fed) continued to put downward pressure on long-term interest rates with its monthly quantitative easing purchases of \$85 billion in mortgage-backed securities and long-term Treasuries. In May, Fed Chairman Ben Bernanke said the Fed could gradually wind down its monthly purchases, assuming continued U.S. economic improvement. The prospect of reduced Fed purchases sparked market declines. In September and October, the Fed reassured investors it would maintain its current pace of purchases as it awaited more evidence of a sustainable economic expansion.

Investors remained concerned during the period about the state of the U.S. budget, particularly about how far-reaching federal spending cuts and federal debt ceiling negotiations could affect the economy. In late September, partisan disagreement about a new health care law led Congress to miss a budgetary deadline authorizing routine federal funding. The federal government partially shut down, suspending non-essential U.S. government services beginning on October 1. Critical functions, however, including the nation's military, air traffic control and social security operations, continued their activities. On October 17, the partial shutdown ended after Congress agreed to fund the government until January 15, 2014, and raise the debt limit through February 7. The Fed noted that although the government's fiscal policy may have restrained growth, the economy maintained its underlying strength.

Investor concerns about the potential for the Fed to begin tapering its quantitative easing program helped push the 10-year U.S. Treasury note yield to 2.57% at period-end from 1.70% on April 30, 2013.

The global economic recovery was mixed during the period under review. The recovery in emerging markets moderated after many economies had previously returned to and exceeded pre-crisis activity levels. Although some developed economies, such as those of Australia and some Scandinavian countries, also

^{3.} Source: Bureau of Labor Statistics.

Dividend Distributions*

5/1/13-10/31/13

		Dividend per Share (cents)						
Month	Class A	Class C	Class R	Class R6	Advisor Class			
May	3.70	3.34	3.46	4.04	3.93			
June	3.65	3.30	3.43	3.97	3.87			
July	3.85	3.49	3.61	4.17	4.07			
August	3.80	3.44	3.58	4.14	4.02			
September	3.90	3.56	3.69	4.22	4.11			
October	3.93	3.57	3.71	4.26	4.16			
Total	22.83	20.70	21.48	24.80	24.16			

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

have enjoyed relatively strong recoveries in the aftermath of the global financial crisis, the G-3 (U.S., eurozone and Japan) continued to experience growth that was slow by the standards of previous recoveries. Policymakers in the largest developed economies continued to increase their already unprecedented efforts to supply liquidity. Actions elsewhere in the world were mixed, with some policymakers less willing to reverse previous tightening efforts in response to the external environment.

Investment Strategy

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

Manager's Discussion

During the six-month period ended October 31, 2013, U.S. economic and political headlines influenced the direction of the fixed income markets. Toward the beginning of the period, comments from the Fed chairman regarding the potential tapering of the Fed's quantitative easing program

later in 2013 led financial volatility to spike. U.S. longer term interest rates moved higher, and the 10-year Treasury yield climbed from 1.70% at the start of the period to a peak of 2.98% before finishing the period at 2.57%. Market attention subsequently turned toward the U.S. budget and debt ceiling. Although action on these issues was essentially delayed until early 2014, uncertainty regarding the budgeting path resulted in periods of market volatility. However, the stock market largely shrugged off these concerns amid earnings growth and stocks' lesser interest rate sensitivity, and the Standard & Poor's 500 Index gained 11.15% during the six-month review period.⁴

The Fund posted a relatively flat total return for the review period, although it performed better than the Barclays U.S. Aggregate Index and the Lipper Multi-Sector Income Funds peer average. The Fund's larger exposure to non-investment-grade corporate credit sectors positively impacted performance compared to the longer duration and more rate-sensitive Barclays index. Compared to the Lipper Multi-Sector Income Funds peer average, the Fund's larger exposure to the floating rate loan market boosted returns.

Corporate credit remained supported by healthy balance sheet liquidity, the ability for issuers to easily access the public debt markets for capital, healthy equity markets and generally increasing earnings. As a result, default rates in the high yield and leveraged bank loan sectors remained below the long-term average. However, shareholder-friendly activity including dividend increases, share repurchases, and merger and acquisition activity continued as the global economic recovery sustained its momentum, which may put upward pressure on future default rates. Overall, spread valuations relative to fundamental credit trends still appeared attractive to us, and the Fund maintained a significant weighting in the high yield, investment grade and leveraged loan credit sectors. Given leveraged loans' outperformance during this period of rising rates, the Fund reduced its loan exposure while adding exposure to high yield and investment-grade corporate bonds.

Concerns regarding a potential slowdown in China's economic growth and investment demand resulted in weakness in global non-U.S. dollar positions during the period. In particular, the rise in U.S. rates strengthened the U.S. dollar, causing pressure on certain Fund non-dollar holdings. Investor redemptions from certain dedicated emerging market debt funds also caused pressure on hard currency- and local currency-denominated emerging market bonds. In particular, certain Asian currency positions, such as the Indian rupee and

4. Source: © 2013 Morningstar.

Portfolio Breakdown

Based on Total Net Assets

	10/31/13	4/30/13
High Yield Corporate Bonds & Preferred Securities	29.4%	26.7%
International Government & Agency Bonds (Non-\$US)	21.1%	23.4%
Floating Rate Loans	13.1%	17.0%
Investment Grade Corporate Bonds	9.3%	8.3%
Mortgage-Backed Securities	5.0%	6.1%
Municipal Bonds	4.0%	1.8%
International Government & Agency Bonds (\$US)	2.9%	1.6%
Commercial Mortgage-Backed Securities	2.4%	2.8%
U.S. Treasury Securities	1.8%	2.0%
Asset-Backed Securities	1.7%	0.8%
Equities	1.2%	0.4%
Convertible Securities	0.0%**	_
Short-Term Investments & Other Net Assets*	8.1%	9.1%

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

Indonesian rupiah, came under pressure against the U.S. dollar, as did the Brazilian real and Chilean peso in Latin America. Some of these currency positions were established through currency forward contracts. On the other hand, weakness in the Japanese yen, which was exacerbated by the country's major quantitative easing program, positively impacted the Fund given its short position in the yen, achieved through the use of currency forward contracts. Although we still found opportunities in select foreign currencies and yield curves, the Fund reduced its exposure to foreign non-dollar global bonds during the period. In the U.S. dollar hard currency emerging market sector, bond prices were negatively impacted by the rise in U.S. rates, but the Fund maintained a fairly modest sector position.

Given the rise in intermediate and longer term U.S. rates, the more rate-sensitive U.S. fixed income sectors such as Treasuries, agencies and mortgage-backed securities had negative total returns during the period. The Fund held a lower exposure to these sectors, considering historically low U.S. interest rates, preferring higher income opportunities in the corporate and global bond markets. In the municipal bond market, the rise in U.S. rates and negative headlines

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 at a specific exchange rate on a future date.

^{**}Amounts to less than 0.1%.

regarding Detroit and Puerto Rico contributed to investor outflows from dedicated municipal bond funds, pressuring bond prices. As valuations cheapened relative to other investment grade-rated bond sectors, the Fund added to its municipal bond exposure during the period.

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



Christopher J. Molumphy, CFA



Eric G. Takaha, CFA

Portfolio Management Team Franklin Strategic Income Fund

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The foregoing information reflects our analysis, opinions and portfolio holdings as of October 31, 2013, the end of the reporting period. The way we implement our main investment strategies and the resulting portfolio holdings may change depending on factors such as market and economic conditions. These opinions may not be relied upon as investment advice or an offer for a particular security. The information is not a complete analysis of every aspect of any market, country, industry, security or the Fund. Statements of fact are from sources considered reliable, but the investment manager makes no representation or warranty as to their completeness or accuracy. Although historical performance is no guarantee of future results, these insights may help you understand our investment management philosophy.

Performance Summary as of 10/31/13

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

Price and Distribution Information

Class A (Symbol: FRSTX)		Change	10/31/13	4/30/13
Net Asset Value (NAV)		-\$0.26	\$10.60	\$10.86
Distributions (5/1/13-10/31/13)				
Dividend Income	\$0.2283			
Class C (Symbol: FSGCX)		Change	10/31/13	4/30/13
Net Asset Value (NAV)		-\$0.25	\$10.60	\$10.85
Distributions (5/1/13-10/31/13)				
Dividend Income	\$0.2070			
Class R (Symbol: FKSRX)		Change	10/31/13	4/30/13
Net Asset Value (NAV)		-\$0.25	\$10.57	\$10.82
Distributions (5/1/13-10/31/13)				
Dividend Income	\$0.2148			
Class R6 (Symbol: n/a)		Change	10/31/13	5/1/13
Net Asset Value (NAV)		-\$0.26	\$10.61	\$10.87
Distributions (5/1/13-10/31/13)				
Dividend Income	\$0.2480			
Advisor Class (Symbol: FKSAX)		Change	10/31/13	4/30/13
Net Asset Value (NAV)		-\$0.25	\$10.61	\$10.86
Distributions (5/1/13-10/31/13)				
Dividend Income	\$0.2416			

Performance Summary (continued)

Performance¹

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

Cumulative Total Return ² -0.25% +4.65% +70.27% +95.96% Average Annual Total Return ³ -4.47% +0.17% +10.28% +6.50% Avg. Ann. Total Return (9/30/13) ⁴ -0.82% +7.92% +6.38% Distribution Rate ⁵ 5.13%	Class A	6-Month	1-Year	5-Year	10-Year
Avg. Ann. Total Return (9/30/13)¹ Distribution Rate⁵ 5.13% 30-Day Standardized Yield⁶ 3.5.7% (with waiver) Total Annual Operating expenses² 0.88% (with waiver) Class C 6-Month 1-Year Cumulative Total Return² -0.36% 4-4.21% +66.91% +88.33% Average Annual Total Return³ -1.34% +3.22% +10.79% +6.54% Avg. Ann. Total Return (9/30/13)⁴ -2.18% (with waiver) Distribution Rate⁵ 3.0-Day Standardized Yield⁶ 3.33% (with waiver) Total Annual Operating expenses² 3.0-Day Standardized Yield⁶ 3.33% (with waiver) Total Annual Operating expenses² 1.28% (with waiver) Total Annual Operating expenses² 1.28% (with waiver) Total Return² -0.29% +4.38% +10.96% +6.69% Avg. Ann. Total Return (9/30/13)⁴ -0.29% +4.38% +10.96% +6.69% Avg. Ann. Total Return (9/30/13)⁴ -0.29% +4.38% +10.96% +6.69% Avg. Ann. Total Return (9/30/13)⁴ -0.29% +4.38% +10.96% +6.69% Avg. Ann. Total Return (9/30/13)⁴ -0.29% +4.38% (with waiver) Total Annual Operating expenses² 5.10% -30-Day Standardized Yield⁶ 3.49% (with waiver)	Cumulative Total Return ²	-0.25%	+4.65%	+70.27%	+95.96%
Distribution Rates	Average Annual Total Return ³	-4.47%	+0.17%	+10.28%	+6.50%
30-Day Standardized Yield6 3.57% (with waiver) 0.89% (without waiver)	Avg. Ann. Total Return (9/30/13) ⁴		-0.82%	+7.92%	+6.38%
Total Annual Operating expenses? 0.88% (with waiver) 0.89% (without waiver) Class C 6-Month 1-Year 5-Year 10-Year Cumulative Total Return² -0.36% +4.21% +66.91% +88.33% Average Annual Total Return³ -1.34% +3.22% +10.79% +6.54% Average Annual Total Return (9/30/13)⁴ +2.18% +8.43% +6.41% Distribution Rate⁵ 4.93% 33.33% (with waiver) 3.33% (without waiver) Total Annual Operating expenses? 1.28% (with waiver) 1.29% (without waiver) Total Annual Operating expenses? 1.28% (with waiver) 1.29% (without waiver) Class R 6-Month 1-Year 5-Year 10-Year Cumulative Total Return² -0.29% +4.38% +68.21% +91.10% Average Annual Total Return (9/30/13)⁴ +3.32% +8.59% +6.58% Distribution Rate⁵ 5.10% 1.14% (without waiver) 30-Day Standardized Yield³ 3.49% (with waiver) 3.48% (without waiver) Class R6 1.006% 4.65% 4.20% 4.20%	Distribution Rate ⁵	5.13%			
Class C 6-Month 1-Year 5-Year 10-Year Cumulative Total Return² -0.36% +4.21% +66.91% +88.33% Average Annual Total Return (9/30/13)⁴ +2.18% +8.43% +6.41% Avg. Ann. Total Return (9/30/13)⁴ +2.18% +8.43% +6.41% Distribution Rate⁵ 4.93% 3.33% (with waiver) 3.33% (without waiver) Total Annual Operating expenses² 1.28% (with waiver) 1.29% (without waiver) Class R 6-Month 1-Year 5-Year 10-Year Cumulative Total Return² -0.29% +4.38% +68.21% +91.10% Average Annual Total Returns³ -0.29% +4.38% +68.21% +91.10% Average Annual Total Returns (9/30/13)⁴ +3.32% +8.59% +6.58% Distribution Rate⁵ 5.10% 3.48% (with waiver) 3.48% (without waiver) Total Annual Operating expenses² 1.13% (with waiver) 3.48% (without waiver) Class R6 Inception (5/1/13) Cumulative Total Returns³ 5.69% -0.06% Aggregate Total Returns (9/	30-Day Standardized Yield ⁶	3.57%	(with waiver)	3.57%	(without waiver)
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Average Annual Total Return³ -1.34% +3.22% +10.79% +6.54% Avg. Ann. Total Return (9/30/13)⁴ +2.18% +8.43% +6.41% Distribution Rate⁵ 4.93% -3.33% (with waiver) 3.33% (without waiver) Total Annual Operating expenses⁻ 1.28% (with waiver) 1.29% (without waiver) 1.29% (without waiver) 1.28% (with waiver) 1.29% (without waiver) 1.29% (without waiver) 1.28% (with waiver) 1.29% (without waiver) 1.29% (without waiver) 1.28% (with waiver) 1.29% (without waiver) 1.2	Class C	6-Month	1-Year	5-Year	10-Year
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Distribution Rate⁵ 4.93% 30-Day Standardized Yield⁵ 3.33% (with waiver) 3.33% (without waiver) Total Annual Operating expenses² 1.28% (with waiver) 1.29% (without waiver) Class R 6-Month 1-Year 5-Year 10-Year Cumulative Total Return² -0.29% +4.38% +68.21% +91.10% Average Annual Total Return (9/30/13)⁴ +3.32% +8.59% +6.58% Avg. Ann. Total Return (9/30/13)⁴ +3.32% +8.59% +6.58% Distribution Rate⁵ 5.10% 3.49% (with waiver) 3.48% (without waiver) Total Annual Operating expenses² 1.13% (with waiver) 1.14% (without waiver) Cumulative Total Return² -0.06% -0.06% Aggregate Total Return (9/30/13)⁴.8 -0.05% (with waiver) 4.10% (without waiver) Total Annual Operating expenses² 0.50% (with waiver) 0.51% (without waiver) Ad	Average Annual Total Return ³	-1.34%	+3.22%	+10.79%	+6.54%
30-Day Standardized Yield6 3.33% (with waiver) 3.33% (without waiver) Total Annual Operating expenses7 1.28% (with waiver) 1.29% (without waiver)	Avg. Ann. Total Return (9/30/13) ⁴		+2.18%	+8.43%	+6.41%
Total Annual Operating expenses7 1.28% (with waiver) 1.29% (without waiver) Class R 6-Month 1-Year 5-Year 10-Year Cumulative Total Return² -0.29% +4.38% +68.21% +91.10% Average Annual Total Return (9/30/13)⁴ -0.29% +4.38% +10.96% +6.69% Avg. Ann. Total Return (9/30/13)⁴ +3.32% +8.59% +6.58% Distribution Rate⁵ 5.10% 3.48% (with waiver) 3.48% (without waiver) Total Annual Operating expenses7 1.13% (with waiver) 1.14% (without waiver) Class R6 Inception (5/1/13) Cumulative Total Return² -0.06% Aggregate Total Return (9/30/13)⁴.8 -0.06% Aggregate Total Return (9/30/13)⁴.8 -1.87% Distribution Rate⁵ 5.69% 30-Day Standardized Yield⁶ 4.11% (with waiver) 4.10% (without waiver) Total Annual Operating expenses7 0.50% (with waiver) 0.51% (without waiver) Advisor Class 6-Month 1-Year 5-Year 10-Year Cumulative Total Return² -0.03% +4.94%	Distribution Rate ⁵	4.93%			
Class R 6-Month 1-Year 5-Year 10-Year Cumulative Total Return² -0.29% +4.38% +68.21% +91.10% Average Annual Total Return (9/30/13)4 +3.32% +10.96% +6.69% Avg. Ann. Total Return (9/30/13)4 +3.32% +8.59% +6.58% Distribution Rate5 5.10% 3.48% (without waiver) 30-Day Standardized Yield6 3.49% (with waiver) 3.48% (without waiver) Class R6 Inception (5/1/13) Cumulative Total Return2 -0.06% Aggregate Total Return8 -0.06% Aggregate Total Return (9/30/13)4.8 -1.87% Distribution Rate5 5.69% 30-Day Standardized Yield6 4.11% (with waiver) 4.10% (without waiver) Total Annual Operating expenses7 0.50% (with waiver) 0.51% (without waiver) Advisor Class 6-Month 1-Year 5-Year 10-Year Cumulative Total Return2 -0.03% +4.94% +72.34% +10.101% Average Annual Total Return3 -0.03% +4.94% +72.34% +7.11%	30-Day Standardized Yield ⁶	3.33%	(with waiver)	3.33%	(without waiver)
Cumulative Total Return² -0.29% +4.38% +68.21% +91.10% Average Annual Total Return³ -0.29% +4.38% +10.96% +6.69% Avg. Ann. Total Return (9/30/13)⁴ +3.32% +8.59% +6.58% Distribution Rate⁵ 5.10%	Total Annual Operating expenses ⁷	1.28%	(with waiver)	1.29%	(without waiver)
Average Annual Total Return³ -0.29% +4.38% +10.96% +6.69% Avg. Ann. Total Return (9/30/13)⁴ +3.32% +8.59% +6.58% Distribution Rate⁵ 5.10%	Class R	6-Month	1-Year	5-Year	10-Year
Avg. Ann. Total Return (9/30/13) ⁴ +3.32% +8.59% +6.58% Distribution Rate ⁵ 5.10% 30-Day Standardized Yield ⁶ 3.49% (with waiver) 3.48% (without waiver) Total Annual Operating expenses ⁷ 1.13% (with waiver) 1.14% (without waiver) Class R6 Inception (5/1/13) Cumulative Total Return ² -0.06% Aggregate Total Return ⁸ -0.06% Aggregate Total Return (9/30/13) ^{4,8} -1.87% Distribution Rate ⁵ 5.69% 30-Day Standardized Yield ⁶ 4.11% (with waiver) 4.10% (without waiver) Total Annual Operating expenses ⁷ 0.50% (with waiver) 0.51% (without waiver) Advisor Class 6-Month 1-Year 5-Year 10-Year Cumulative Total Return ² -0.03% +4.94% +72.34% +101.01% Average Annual Total Return ³ -0.03% +4.94% +11.50% +7.23% Avg. Ann. Total Return (9/30/13) ⁴ +3.82% +9.13% +7.11% Distribution Rate ⁵ 5.63% 30-Day Standardized Yield ⁶ 3.99% (with waiver) 3.98% (without waiver)	Cumulative Total Return ²	-0.29%	+4.38%	+68.21%	+91.10%
Distribution Rate⁵ 5.10% 30-Day Standardized Yield⁶ 3.49% (with waiver) 3.48% (without waiver) Total Annual Operating expenses⁻ 1.13% (with waiver) 1.14% (without waiver) Class R6 Inception (5/1/13) Cumulative Total Return² -0.06% Aggregate Total Return (9/30/13)⁴.² -0.06% Aggregate Total Return (9/30/13)⁴.² -1.87% Distribution Rate⁵ 5.69% 30-Day Standardized Yield⁶ 4.11% (with waiver) 4.10% (without waiver) Total Annual Operating expenses⁻ 0.50% (with waiver) 0.51% (without waiver) Advisor Class 6-Month 1-Year 5-Year 10-Year Cumulative Total Return² -0.03% +4.94% +72.34% +101.01% Average Annual Total Return³ -0.03% +4.94% +11.50% +7.23% Avg. Ann. Total Return (9/30/13)⁴ +3.82% +9.13% +7.11% Distribution Rate⁵ 5.63% 30-Day Standardized Yield⁶ 3.99% (with waiver) 3.98% (without waiver)	Average Annual Total Return ³	-0.29%	+4.38%	+10.96%	+6.69%
30-Day Standardized Yield ⁶ 3.49% (with waiver) 3.48% (without waiver) Total Annual Operating expenses ⁷ 1.13% (with waiver) 1.14% (without waiver) Class R6 Cumulative Total Return ² -0.06% Aggregate Total Return ⁸ -0.06% Aggregate Total Return (9/30/13) ^{4,8} -1.87% Distribution Rate ⁵ 30-Day Standardized Yield ⁶ 4.11% (with waiver) Total Annual Operating expenses ⁷ 0.50% (with waiver) Advisor Class 6-Month 1-Year 5-Year 10-Year Cumulative Total Return ² -0.03% 4-4.94% 4-72.34% +101.01% Average Annual Total Return ³ -0.03% 4-4.94% 4-11.50% 4-7.23% Avg. Ann. Total Return (9/30/13) ⁴ +3.82% 4-9.13% 4-7.11% Distribution Rate ⁵ 5.63% 30-Day Standardized Yield ⁶ 3.99% (with waiver) 3.98% (without waiver)	Avg. Ann. Total Return (9/30/13) ⁴		+3.32%	+8.59%	+6.58%
Class R6 Inception (5/1/13) Cumulative Total Return² -0.06% Aggregate Total Return (9/30/13)⁴, 8 -0.06% Distribution Rate⁵ 5.69% 30-Day Standardized Yield⁶ 4.11% (with waiver) 4.10% (without waiver) Total Annual Operating expenses² 0.50% (with waiver) 0.51% (without waiver) Advisor Class 6-Month 1-Year 5-Year 10-Year Cumulative Total Return² -0.03% +4.94% +72.34% +101.01% Average Annual Total Return³ -0.03% +4.94% +11.50% +7.23% Avg. Ann. Total Return (9/30/13)⁴ +3.82% +9.13% +7.11% Distribution Rate⁵ 5.63% 30-Day Standardized Yield⁶ 3.99% (with waiver) 3.98% (without waiver)	Distribution Rate ⁵	5.10%))		
Class R6 Inception (5/1/13) Cumulative Total Return² -0.06% Aggregate Total Return8 -0.06% Aggregate Total Return (9/30/13)4,8 -1.87% Distribution Rate5 5.69% 30-Day Standardized Yield6 4.11% (with waiver) 4.10% (without waiver) Total Annual Operating expenses7 0.50% (with waiver) 0.51% (without waiver) Advisor Class 6-Month 1-Year 5-Year 10-Year Cumulative Total Return² -0.03% +4.94% +72.34% +101.01% Average Annual Total Return3 -0.03% +4.94% +11.50% +7.23% Avg. Ann. Total Return (9/30/13)4 +3.82% +9.13% +7.11% Distribution Rate5 5.63% 30-Day Standardized Yield6 3.99% (with waiver) 3.98% (without waiver)	30-Day Standardized Yield ⁶	3.49%	(with waiver)	3.48%	(without waiver)
Cumulative Total Return² -0.06% Aggregate Total Return8 -0.06% Aggregate Total Return (9/30/13)4.8 -1.87% Distribution Rate5 5.69% 30-Day Standardized Yield6 4.11% (with waiver) 4.10% (without waiver) Total Annual Operating expenses7 0.50% (with waiver) 0.51% (without waiver) Advisor Class 6-Month 1-Year 5-Year 10-Year Cumulative Total Return² -0.03% +4.94% +72.34% +101.01% Average Annual Total Return3 -0.03% +4.94% +11.50% +7.23% Avg. Ann. Total Return (9/30/13)4 +3.82% +9.13% +7.11% Distribution Rate5 5.63% 30-Day Standardized Yield6 3.99% (with waiver) 3.98% (without waiver)	Total Annual Operating expenses ⁷	1.13%	(with waiver)	1.14%	(without waiver)
Aggregate Total Return8 -0.06% Aggregate Total Return (9/30/13) ^{4, 8} -1.87% Distribution Rate5 5.69% 30-Day Standardized Yield6 4.11% (with waiver) 4.10% (without waiver) Total Annual Operating expenses7 0.50% (with waiver) 0.51% (without waiver) Advisor Class 6-Month 1-Year 5-Year 10-Year Cumulative Total Return2 -0.03% +4.94% +72.34% +101.01% Average Annual Total Return3 -0.03% +4.94% +11.50% +7.23% Avg. Ann. Total Return (9/30/13) ⁴ +3.82% +9.13% +7.11% Distribution Rate5 5.63% 30-Day Standardized Yield6 3.99% (with waiver) 3.98% (without waiver)	Class R6				Inception (5/1/13)
Aggregate Total Return (9/30/13) ^{4, 8} Distribution Rate ⁵ 30-Day Standardized Yield ⁶ 4.11% (with waiver) Total Annual Operating expenses ⁷ 0.50% (with waiver) 4.10% (without waiver) Advisor Class 6-Month 1-Year 5-Year 10-Year Cumulative Total Return ² -0.03% 44.94% +72.34% +101.01% Average Annual Total Return ³ -0.03% 44.94% +11.50% +7.23% Avg. Ann. Total Return (9/30/13) ⁴ +3.82% 49.13% +7.11% Distribution Rate ⁵ 5.63% 30-Day Standardized Yield ⁶ 3.99% (with waiver) 3.98% (without waiver)	Cumulative Total Return ²				-0.06%
Distribution Rate ⁵ 5.69% 30-Day Standardized Yield ⁶ 4.11% (with waiver) 4.10% (without waiver) Total Annual Operating expenses ⁷ 0.50% (with waiver) 0.51% (without waiver) Advisor Class 6-Month 1-Year 5-Year 10-Year Cumulative Total Return ² -0.03% +4.94% +72.34% +101.01% Average Annual Total Return ³ -0.03% +4.94% +11.50% +7.23% Avg. Ann. Total Return (9/30/13) ⁴ +3.82% +9.13% +7.11% Distribution Rate ⁵ 5.63% 30-Day Standardized Yield ⁶ 3.99% (with waiver) 3.98% (without waiver)	Aggregate Total Return ⁸				-0.06%
30-Day Standardized Yield ⁶ 4.11% (with waiver) 4.10% (without waiver) Total Annual Operating expenses ⁷ 0.50% (with waiver) Advisor Class 6-Month 1-Year 5-Year 10-Year Cumulative Total Return ² -0.03% +4.94% +72.34% +101.01% Average Annual Total Return ³ -0.03% +4.94% +11.50% +7.23% Avg. Ann. Total Return (9/30/13) ⁴ +3.82% +9.13% +7.11% Distribution Rate ⁵ 5.63% 30-Day Standardized Yield ⁶ 3.99% (with waiver) 3.98% (without waiver)	Aggregate Total Return (9/30/13)4,8				-1.87%
Total Annual Operating expenses7 0.50% (with waiver) 0.51% (without waiver) Advisor Class 6-Month 1-Year 5-Year 10-Year Cumulative Total Return2 -0.03% +4.94% +72.34% +101.01% Average Annual Total Return3 -0.03% +4.94% +11.50% +7.23% Avg. Ann. Total Return (9/30/13)4 +3.82% +9.13% +7.11% Distribution Rate5 5.63% 30-Day Standardized Yield6 3.99% (with waiver) 3.98% (without waiver)	Distribution Rate ⁵	5.69%))		
Advisor Class 6-Month 1-Year 5-Year 10-Year Cumulative Total Return² -0.03% +4.94% +72.34% +101.01% Average Annual Total Return³ -0.03% +4.94% +11.50% +7.23% Avg. Ann. Total Return (9/30/13)⁴ +3.82% +9.13% +7.11% Distribution Rate⁵ 5.63% 30-Day Standardized Yield⁶ 3.99% (with waiver) 3.98% (without waiver)	30-Day Standardized Yield ⁶	4.11%	(with waiver)	4.10%	(without waiver)
Cumulative Total Return² -0.03% +4.94% +72.34% +101.01% Average Annual Total Return³ -0.03% +4.94% +11.50% +7.23% Avg. Ann. Total Return (9/30/13)⁴ +3.82% +9.13% +7.11% Distribution Rate⁵ 5.63% 30-Day Standardized Yield⁶ 3.99% (with waiver) 3.98% (without waiver)	Total Annual Operating expenses ⁷	0.50%	(with waiver)	0.51%	(without waiver)
Average Annual Total Return³ -0.03% +4.94% +11.50% +7.23% Avg. Ann. Total Return (9/30/13)⁴ +3.82% +9.13% +7.11% Distribution Rate⁵ 5.63% 30-Day Standardized Yield⁶ 3.99% (with waiver) 3.98% (without waiver)	Advisor Class	6-Month	1-Year	5-Year	10-Year
Avg. Ann. Total Return (9/30/13) ⁴ +3.82% +9.13% +7.11% Distribution Rate ⁵ 5.63% 30-Day Standardized Yield ⁶ 3.99% (with waiver) 3.98% (without waiver)	Cumulative Total Return ²	-0.03%	+4.94%	+72.34%	+101.01%
Distribution Rate ⁵ 5.63% 30-Day Standardized Yield ⁶ 3.99% (with waiver) 3.98% (without waiver)	Average Annual Total Return ³	-0.03%	+4.94%	+11.50%	+7.23%
30-Day Standardized Yield ⁶ 3.99% (with waiver) 3.98% (without waiver)	Avg. Ann. Total Return (9/30/13) ⁴		+3.82%	+9.13%	+7.11%
	Distribution Rate ⁵	5.63%			
Total Annual Operating expenses ⁷ 0.63% (with waiver) 0.64% (without waiver)	30-Day Standardized Yield ⁶	3.99% (with waiver) 3.98% (w		(without waiver)	
	Total Annual Operating expenses ⁷	0.63%	(with waiver)	0.64%	(without waiver)

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

Performance Summary (continued)

Endnotes

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. The Fund is actively managed but there is no guarantee that the manager's investment decisions will produce the desired results. The Fund's prospectus also includes a description of the main investment risks.

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

have higher annual fees and expenses than Class A shares.

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

than Class A shares.

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

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

1. The Fund has a fee waiver associated with its investments in a Franklin Templeton money fund, contractually guaranteed through at least its current fiscal year end. Fund investment results reflect the fee waiver, to the extent applicable; without this reduction, the results would have been lower

- 2. Cumulative total return represents the change in value of an investment over the periods indicated.
- 3. Average annual total return represents the average annual change in value of an investment over the periods indicated. Six-month return has not
- 4. In accordance with SEC rules, we provide standardized average annual total return information through the latest calendar quarter.
- 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 Classes C, R, R6 and Advisor) per share on 10/31/13.
- 6. The 30-day standardized yield for the 30 days ended 10/31/13 reflects an estimated yield to maturity (assuming all portfolio securities are held to maturity). It should be regarded as an estimate of the Fund's rate of investment income, and it may not equal the Fund's actual income distribution rate (which reflects the Fund's past dividends paid to shareholders) or the income reported in the Fund's financial statements.
- 7. Figures are as stated in the Fund's current prospectus. In periods of market volatility, assets may decline significantly, causing total annual Fund operating expenses to become higher than the figures shown.
- 8. Aggregate total return represents the change in value of an investment for the period indicated. Since Class R6 shares have existed for less than one year, average annual total return is not available.

Your Fund's Expenses

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

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

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

Actual Fund Expenses

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

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

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

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

Hypothetical Example for Comparison with Other Funds

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

Your Fund's Expenses (continued)

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

Class A	Beginning Account Value 5/1/13	Ending Account Value 10/31/13	Expenses Paid During Period* 5/1/13–10/31/13
Actual	\$1,000	\$ 997.50	\$4.33
Hypothetical (5% return before expenses)	\$1,000	\$1,020.87	\$4.38
Class C			
Actual	\$1,000	\$ 996.40	\$6.34
Hypothetical (5% return before expenses)	\$1,000	\$1,018.85	\$6.41
Class R			
Actual	\$1,000	\$ 997.10	\$5.59
Hypothetical (5% return before expenses)	\$1,000	\$1,019.61	\$5.65
Class R6			
Actual	\$1,000	\$ 999.40	\$2.42
Hypothetical (5% return before expenses)	\$1,000	\$1,022.79	\$2.45
Advisor Class			
Actual	\$1,000	\$ 999.70	\$3.07
Hypothetical (5% return before expenses)	\$1,000	\$1,022.13	\$3.11

^{*}Expenses are calculated using the most recent six-month expense ratio, net of expense waivers, annualized for each class (A: 0.86%; C: 1.26%; R: 1.11%; R6: 0.48%; and Advisor: 0.61%), multiplied by the average account value over the period, multiplied by 184/365 to reflect the one-half year period.

Financial Highlights

Class A	Six Months Ende October 31, 201 (unaudited)		2012	Year Ended Ap	ril 30, 2010	2009
Per share operating performance (for a share outstanding throughout the period)	(unaudited)					
Net asset value, beginning of period	\$10.86	\$10.48	\$10.68	\$10.30	\$ 8.83	\$10.28
Income from investment operations ^a :						
Net investment income ^b	0.22	0.45	0.50	0.55	0.55	0.51
Net realized and unrealized gains (losses)	(0.25)	0.54	(0.10)	0.39	1.45	(1.20)
Total from investment operations	(0.03)	0.99	0.40	0.94	2.00	(0.69)
Less distributions from:						
Net investment income and net foreign currency gains	(0.23)	(0.57)	(0.60)	(0.56)	(0.53)	(0.76)
Net realized gains		(0.04)	_	_	_	
Total distributions	(0.23)	(0.61)	(0.60)	(0.56)	(0.53)	(0.76)
Redemption fees ^c		_	_	_	_	d
Net asset value, end of period	\$10.60	\$10.86	\$10.48	\$10.68	\$10.30	\$ 8.83
Total returne	(0.25)%	9.70%	3.97%	9.41%	23.15%	(6.32)%
Ratios to average net assets ^f						
Expenses ^g	0.86%	0.87%	0.89%	0.88%	0.88%	0.89%
Net investment income	4.06%	4.21%	4.81%	5.26%	5.70%	5.67%
Supplemental data						
Net assets, end of period (000's)	\$4,956,738	\$4,966,834	\$3,757,100	\$3,288,814	\$2,809,864	\$2,060,179
Portfolio turnover rate	30.59%	47.27%	36.11%	66.78%	55.79%	49.48%
Portfolio turnover rate excluding mortgage dollar rollsh	30.59%	44.33%	36.11%	66.78%	55.79%	49.48%

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

^bBased on average daily shares outstanding.

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

dAmount rounds to less than \$0.01 per share.

eTotal return does not reflect sales commissions or contingent deferred sales charges, if applicable, and is not annualized for periods less than one year.

fRatios are annualized for periods less than one year.

 $^{{\}ensuremath{\tt g}} Benefit$ of expense reduction rounds to less than 0.01%.

^hSee Note 1(h) regarding mortgage dollar rolls.

Financial Highlights (continued)

	Six Months Ende			Year Ended Ap	ril 30,	
Class C	(unaudited)	2013	2012	2011	2010	2009
Per share operating performance (for a share outstanding throughout the period)						
Net asset value, beginning of period	\$10.85	\$10.48	\$10.68	\$10.30	\$ 8.83	\$10.27
Income from investment operations ^a :						
Net investment income ^b	0.19	0.41	0.46	0.50	0.52	0.48
Net realized and unrealized gains (losses)	(0.23)	0.53	(0.10)	0.40	1.44	(1.19)
Total from investment operations	(0.04)	0.94	0.36	0.90	1.96	(0.71)
Less distributions from:						
Net investment income and net foreign currency gains	(0.21)	(0.53)	(0.56)	(0.52)	(0.49)	(0.73)
Net realized gains		(0.04)	_	_	_	
Total distributions	(0.21)	(0.57)	(0.56)	(0.52)	(0.49)	(0.73)
Redemption fees ^c						d
Net asset value, end of period	\$10.60	\$10.85	\$10.48	\$10.68	\$10.30	\$ 8.83
Total return ^e	(0.36)%	9.17%	3.56%	8.98%	22.64%	(6.60)%
Ratios to average net assets ^f						
Expenses ^g	1.26%	1.27%	1.29%	1.28%	1.28%	1.29%
Net investment income	3.66%	3.81%	4.41%	4.86%	5.30%	5.27%
Supplemental data						
Net assets, end of period (000's)	\$2,088,717	\$2,108,962	\$1,569,746	\$1,358,857	\$1,107,436	\$773,337
Portfolio turnover rate	30.59%	47.27%	36.11%	66.78%	55.79%	49.48%
Portfolio turnover rate excluding mortgage dollar rollsh	30.59%	44.33%	36.11%	66.78%	55.79%	49.48%

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

^bBased on average daily shares outstanding.

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

dAmount rounds to less than \$0.01 per share.

eTotal return does not reflect sales commissions or contingent deferred sales charges, if applicable, and is not annualized for periods less than one year.

fRatios are annualized for periods less than one year.

 $^{{\}ensuremath{\sf gBenefit}}$ of expense reduction rounds to less than 0.01%.

^hSee Note 1(h) regarding mortgage dollar rolls.

Financial Highlights (continued)

	Six Months End October 31, 20		Ye	ar Ended Apri	I 30,	
Class R	(unaudited)	2013	2012	2011	2010	2009
Per share operating performance (for a share outstanding throughout the period)						
Net asset value, beginning of period	\$10.82	\$10.45	\$10.65	\$10.27	\$ 8.81	\$10.25
Income from investment operations ^a :						
Net investment income ^b	0.20	0.42	0.47	0.52	0.53	0.49
Net realized and unrealized gains (losses)	(0.24)	0.53	(0.10)	0.39	1.43	(1.19)
Total from investment operations	(0.04)	0.95	0.37	0.91	1.96	(0.70)
Less distributions from:						
Net investment income	(0.21)	(0.54)	(0.57)	(0.53)	(0.50)	(0.74)
Net realized gains		(0.04)	_	_		
Total distributions	(0.21)	(0.58)	(0.57)	(0.53)	(0.50)	(0.74)
Redemption fees ^c		_	_	_	_	d
Net asset value, end of period	\$10.57	\$10.82	\$10.45	\$10.65	\$10.27	\$ 8.81
Total return ^e	(0.29)%	9.36%	3.72%	9.17%	22.77%	(6.47)%
Ratios to average net assets ^f						
Expenses ^g	1.11%	1.12%	1.14%	1.13%	1.13%	1.14%
Net investment income	3.81%	3.96%	4.56%	5.01%	5.45%	5.42%
Supplemental data						
Net assets, end of period (000's)	\$232,004	\$260,647	\$249,662	\$234,775	\$194,901	\$115,811
Portfolio turnover rate	30.59%	47.27%	36.11%	66.78%	55.79%	49.48%
Portfolio turnover rate excluding mortgage dollar rollsh	30.59%	44.33%	36.11%	66.78%	55.79%	49.48%

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

^bBased on average daily shares outstanding.

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

dAmount rounds to less than \$0.01 per share.

eTotal return is not annualized for periods less than one year.

fRatios are annualized for periods less than one year.

gBenefit of expense reduction rounds to less than 0.01%.

 $[\]ensuremath{^{\text{h}}\text{See}}$ Note 1(h) regarding mortgage dollar rolls.

Financial Highlights (continued)

Class R6	Six Months Ended October 31, 2013 ^a (unaudited)
Per share operating performance (for a share outstanding throughout the period)	
Net asset value, beginning of period	\$10.87
Income from investment operations ^b :	
Net investment income ^c	0.24
Net realized and unrealized gains (losses)	(0.25)
Total from investment operations	(0.01)
Less distributions from net investment income	(0.25)
Net asset value, end of period	\$10.61
Total return ^d	(0.06)%
Ratios to average net assets ^e	
Expenses ^f	0.48%
Net investment income	4.44%
Supplemental data	
Net assets, end of period (000's)	\$231,447
Portfolio turnover rate	30.59%

^aFor the period May 1, 2013 (effective date) to October 31, 2013.

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

^cBased on average daily shares outstanding.

^dTotal return is not annualized for periods less than one year.

eRatios are annualized for periods less than one year.

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

Financial Highlights (continued)

	Six Months End October 31, 20		Ye	ar Ended Apri	I 30,	
Advisor Class	(unaudited)	2013	2012	2011	2010	2009
Per share operating performance (for a share outstanding throughout the period)						
Net asset value, beginning of period	\$10.86	\$10.49	\$10.69	\$10.31	\$ 8.84	\$10.28
Income from investment operations ^a :						
Net investment income ^b	0.23	0.48	0.53	0.57	0.58	0.53
Net realized and unrealized gains (losses)	(0.24)	0.53	(0.10)	0.39	1.44	(1.18)
Total from investment operations	(0.01)	1.01	0.43	0.96	2.02	(0.65)
Less distributions from:						
Net investment income and net foreign currency gains	(0.24)	(0.60)	(0.63)	(0.58)	(0.55)	(0.79)
Net realized gains		(0.04)	_	_	_	
Total distributions	(0.24)	(0.64)	(0.63)	(0.58)	(0.55)	(0.79)
Redemption feesc		_	_	_	_	d
Net asset value, end of period	\$10.61	\$10.86	\$10.49	\$10.69	\$10.31	\$ 8.84
Total return ^e	(0.03)%	9.87%	4.22%	9.67%	23.45%	(5.98)%
Ratios to average net assets ^f						
Expenses ^g	0.61%	0.62%	0.64%	0.63%	0.63%	0.64%
Net investment income	4.31%	4.46%	5.06%	5.51%	5.95%	5.92%
Supplemental data						
Net assets, end of period (000's)	\$979,873	\$956,001	\$713,659	\$589,220	\$346,585	\$166,821
Portfolio turnover rate	30.59%	47.27%	36.11%	66.78%	55.79%	49.48%
Portfolio turnover rate excluding mortgage dollar rollsh	30.59%	44.33%	36.11%	66.78%	55.79%	49.48%

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

^bBased on average daily shares outstanding.

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

dAmount rounds to less than \$0.01 per share.

eTotal return is not annualized for periods less than one year.

^fRatios are annualized for periods less than one year.

gBenefit of expense reduction rounds to less than 0.01%.

^hSee Note 1(h) regarding mortgage dollar rolls.

Statement of Investments, October 31, 2013 (unaudited)

Franklin Strategic Income Fund	Country	Shares/Units	Value
Common Stocks and Other Equity Interests 1.2%			
Consumer Durables & Apparel 0.0%			
^{a,b} Comfort Co. Inc., Escrow Account	United States	63,156	<u>\$</u>
Consumer Services 0.1%			
^{a,c,d} Turtle Bay Resort	United States	5,579,939	5,133,544
Diversified Financials 1.0%			
iShares iBoxx High Yield Corporate Bond ETF	United States	1,000,000	93,400,000
Materials 0.1%			
a,b NewPage Corp., Litigation Trust	United States	14,000,000	_
^a NewPage Holdings Inc	United States	56,000	4,956,000
			4,956,000
Transportation 0.0% [↑]			, ,
a CEVA Holdings LLC	United Kingdom	1,570	1,452,222
Total Common Stocks and Other Equity Interests	<u> </u>		
(Cost \$112,405,280)			104,941,766
			104,541,700
Convertible Preferred Stocks 0.0%			
Transportation 0.0%†	United Kingalone	C 2	E9 000
^a CEVA Holdings LLC, cvt. pfd., A-1	United Kingdom United Kingdom	62 3,399	58,900 3,143,668
	Officed Killgdom	3,399	3,143,000
Total Convertible Preferred Stocks			
(Cost \$5,149,789)			3,202,568
Preferred Stocks (Cost \$3,845,000) 0.1%			
Diversified Financials 0.1%			
GMAC Capital Trust I, 8.125%, pfd	United States	153,800	4,131,068
		D.:	
		Principal Amount*	
Corporate Bonds 38.6%			
Automobiles & Components 0.9% eAvis Budget Finance PLC, senior note, 144A, 6.00%,			
3/01/21	United States	8,600,000 EUR	12,203,897
Ford Motor Credit Co. LLC, senior note,	Officed States	8,000,000 LON	12,203,697
6.625%, 8/15/17	United States	3,000,000	3,503,208
5.00%, 5/15/18	United States	4,000,000	4,435,948
8.125%, 1/15/20	United States	4,000,000	5,077,152
5.75%, 2/01/21	United States	8,000,000	9,129,560
5.875%, 8/02/21	United States	3,000,000	3,441,273
^e General Motors Co., senior bond, 144A, 4.875%, 10/02/23	United States	20,000,000	20,350,000
The Goodyear Tire & Rubber Co., senior note, 6.50%,			
3/01/21	United States	15,000,000	15,937,500
			74,078,538
Banks 1.5%			
e Banco do Brasil SA, sub. note, 144A, 5.875%, 1/26/22	Brazil	28,000,000	28,308,000
CIT Group Inc., senior note,			
5.375%, 5/15/20	United States	6,900,000	7,426,125
5.00%, 8/15/22	United States	18,000,000	18,304,578
e 144A, 6.625%, 4/01/18	United States	7,000,000	7,971,250

Name	Franklin Strategic Income Fund	Country	Principal Amount*	Value
Bank (continued)				
Regions Bank, sub. note, 7.50%, 51518	•			
Regions Financial Corp., senior note,	HSBC USA Inc., sub. note, 5.00%, 9/27/20	United States	22,600,000	\$ 24,553,498
3,175%, 615/15	Regions Bank, sub. note, 7.50%, 5/15/18	United States	8,000,000	9,537,920
S.75%, 6/15/15 United States 1,200,000 1,283,327	Regions Financial Corp., senior note,			
Royal Bank of Scotland Group PLC, sub. note, 6.125%, 12/15/22	•		, ,	
12/15/22		United States	1,200,000	1,283,327
The Royal Bank of Scotland PLC, sub. note, 6.934%, 4/09/18. United Kingdom 13,000,000 EUR 19,893,120 130,960,078 130,960,078 130,960,078 130,960,078 130,960,078 130,960,078 130,960,078 130,960,078 130,960,078 130,960,078 130,960,078 110/117. Spain 18,000,000 19,035,000 19,035,000 10,035,000 13,035,000		United Kingdom	10 000 000	10 275 000
Capital Goods 1.2% *Abergoa Finance SAU, senior note, 144A, 8.875%, 11/01/17 Spain 18,000,000 19,035,000 19,035,000 Case New Holland Inc., senior note, 7.875%, 12/01/17 United States 6,000,000 7,132,500		Officea Killgaoffi	10,000,000	10,373,000
Capital Goods 1.2% «Abengoa Finance SAU, senior note, 144A, 8.875%, 11/01/17 Spain 18,000,000 19,035,000 Case New Holland Inc., senior note, 7.875%, 12/01/17 United States 6,000,000 7,132,500 «KM Germany Holdings GmbH, secured note, 144A, 8.75%, 12/15/20 Germany 10,000,000 EUR 15,132,656 *Loxam SAS, senior sub. note, 144A, 7.375%, 1/24/20 France 8,000,000 EUR 11,639,914 Meritor Inc., senior note, 10.625%, 3/15/18 United States 15,000,000 16,275,000 6.75%, 6/15/21 United States 15,000,000 12,520,250 Terex Corp., senior note, 6.00%, 5/15/21 United States 15,000,000 12,520,250 Terex Corp., senior note, 6.00%, 5/15/21 United States 15,000,000 12,520,250 First lien, 144A, 9.00%, 10/15/18 United Kingdom 2,000,000 EUR 2,929,777 senior secured note, first lien, 144A, 8.50%, 10/15/18 United Kingdom 15,000,000 16,096,875 Consumer Durables & Apparel 0.6% KB Home, senior note, 7.00%, 12/15/21 United States 13,300,000 13,732,250 Mil Homes Inc., senior note, 8.625%, 11/		United Kingdom	13 000 000 FUR	19 893 120
*Abengoa Finance SAU, senior note, 144A, 8.875%, 11/01/17. Spain 18,000,000 19,035,000 Case New Holland Inc., senior note, 7.875%, 12/01/17 United States 6,000,000 7,132,500 *KM Germany Holdings GmbH, secured note, 144A, 8.75%, 12/15/20. Germany 10,000,000 EUR 15,132,656 *CLoxam SAS, senior sub. note, 144A, 7.375%, 1/24/20 France 8,000,000 EUR 11,639,914 Meritor Inc., senior note, 144A, 7.375%, 1/24/20 France 8,000,000 EUR 11,639,914 Meritor Inc., senior note, 144A, 7.375%, 1/24/20 France 8,000,000 EUR 11,639,914 Meritor Inc., senior note, 144A, 7.375%, 1/24/20 United States 15,000,000 16,275,000 6,75%, 6/15/21 United States 4,000,000 4,060,000 Navistar International Corp., senior note, 8.25%, 11/01/21 United States 12,200,000 12,520,250 Terex Corp., senior note, 6.00%, 5/15/21 United States 15,000,000 15,750,000 10,545,320 Commercial & Professional Services 0.2% *Algeco Scotsman Global Finance PLC, first lien, 144A, 9.00%, 10/15/18 United Kingdom 2,000,000 EUR 2,292,777 senior secured note, first lien, 144A, 8.50%, 10/15/18 United Kingdom 15,000,000 16,096,875 19,026,652 Consumer Durables & Apparel 0.6% KB Home, senior note, 7.00%, 12/15/21 United States 13,300,000 13,732,250 M/H Homes Inc., senior note, 8.625%, 11/15/18 United States 12,000,000 13,080,000 Shea Homes LP/Funding Corp., senior secured note, 8.625%, 5/15/19 United States 8,000,000 13,875,000 49,587,250 Consumer Services 1.0% Caesars Entertainment Operating Co. Inc., first lien, 9.00%, 2/15/20 United States 1,900,000 1,885,000 49,587,250 Consumer Services 1.0% Caesars Entertainment Operating Co. Inc., first lien, 9.00%, 2/15/20 United States 2,000,000 1,885,000 ClubCorp Club Operations Inc., senior note, 1.0.00%, 11,25%,	,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,	0guo	10,000,000 20	
*Abengoa Finance SAU, senior note, 144A, 8.875%, 11/01/17. Spain 18,000,000 19,035,000 Case New Holland Inc., senior note, 7.875%, 12/01/17 United States 6,000,000 7,132,500 *KM Germany Holdings GmbH, secured note, 144A, 8.75%, 12/15/20. Germany 10,000,000 EUR 15,132,656 *Loxam SAS, senior sub. note, 144A, 7.375%, 1/24/20 France 8,000,000 EUR 11,639,914 Meritor Inc., senior note, 144A, 7.375%, 1/24/20 France 8,000,000 EUR 16,275,000 *G.75%, 6/15/21 United States 15,000,000 *Lox 16,275,000 *G.75%, 6/15/21 United States 12,200,000 12,250,250 *Loxam Global Finance PLC, first lien, 144A, 9.00%, 10/15/18 United States 15,000,000 *I.5,750,000 *I.5,750,0				130,960,078
11/01/17	•			
Case New Holland Inc., senior note, 7.875%, 12/01/17 United States 6,000,000 7,132,500 eKM Germany Holdings GmbH, secured note, 144A, 8.75%, 12/15/20		0 :	10,000,000	10.005.000
*KM Germany Holdings GmbH, secured note, 144A, 8.75%, 12/15/20		•	, ,	
12/15/20		United States	6,000,000	7,132,500
*Loxam SAS, senior sub. note, 144A, 7.375%, 1/24/20 France 8,000,000 EUR 11,639,914 Meritor Inc., senior note, 10.625%, 3/15/18 United States 4,000,000 4,060,000 Avistar International Corp., senior note, 8.25%, 11/01/21 United States 12,200,000 12,520,250 Terex Corp., senior note, 6.00%, 5/15/21 United States 15,000,000 15,750,000 *Algeco Scotsman Global Finance PLC, first lien, 144A, 9.00%, 10/15/18 United Kingdom 2,000,000 EUR 2,929,777 senior secured note, first lien, 144A, 8.50%, 10/15/18 United Kingdom 15,000,000 EUR 2,929,777 senior secured note, first lien, 144A, 8.50%, 10/15/18 United Kingdom 15,000,000 EUR 2,929,777 Senior secured note, first lien, 144A, 8.50%, 10/15/18 United Kingdom 15,000,000 EUR 2,929,777 senior secured note, first lien, 144A, 8.50%, 10/15/18 United Kingdom 15,000,000 EUR 2,929,777 MI Homes Inc., senior note, 8.625%, 11/15/18 United States 13,300,000 13,732,250 MI Homes Inc., senior note, 8.625%, 11/15/18 United States 12,000,000 13,080,000 Shea Homes LP/Funding Corp., senior secured note, 8.625%, 5/15/19 United States 8,000,000 8,900,000 d'Visant Corp., senior note, 10.00%, 10/01/17 United States 15,000,000 13,875,000 Consumer Services 1.0% Caesars Entertainment Operating Co. Inc., first lien, 9.00%, 2/15/20 United States 1,900,000 1,790,750 senior secured note, first lien, 9.00%, 2/15/20 United States 2,000,000 1,885,000 ClubCorp Club Operations Inc., senior note, 10.00%, 12/01/18 United States 9,144,000 10,195,560 Harrah's Operating Co. Inc., senior secured note, 11.25%,		Germany	10 000 000 FUR	15 132 656
Meritor Inc., senior note, 10.625%, 3/15/18		•	, ,	, ,
Commercial & Professional Services 0.2%			-,,	,,
Navistar International Corp., senior note, 8.25%, 11/01/21 United States 12,200,000 12,520,250 Terex Corp., senior note, 6.00%, 5/15/21 United States 15,000,000 15,750,000 101,545,320	10.625%, 3/15/18	United States	15,000,000	16,275,000
Terex Corp., senior note, 6.00%, 5/15/21	6.75%, 6/15/21	United States	4,000,000	4,060,000
Commercial & Professional Services 0.2% Independent of the professional Services 0.2% Independent o	Navistar International Corp., senior note, 8.25%, 11/01/21		12,200,000	12,520,250
Commercial & Professional Services 0.2% **Algeco Scotsman Global Finance PLC, first lien, 144A, 9.00%, 10/15/18	Terex Corp., senior note, 6.00%, 5/15/21	United States	15,000,000	15,750,000
Palgeco Scotsman Global Finance PLC, first lien, 144A, 9.00%, 10/15/18 United Kingdom 2,000,000 EUR 2,929,777 senior secured note, first lien, 144A, 8.50%, 10/15/18 United Kingdom 15,000,000 EUR 19,026,652 **Consumer Durables & Apparel 0.6% KB Home, senior note, 7.00%, 12/15/21 United States 13,300,000 13,732,250 M// Homes Inc., senior note, 8.625%, 11/15/18 United States 12,000,000 13,080,000 Shea Homes LP/Funding Corp., senior secured note, 8.625%, 5/15/19 United States 8,000,000 8,900,000 dVisant Corp., senior note, 10.00%, 10/01/17 United States 15,000,000 13,875,000 49,587,250 **Consumer Services 1.0%** Caesars Entertainment Operating Co. Inc., first lien, 9.00%, 2/15/20 United States 1,900,000 1,790,750 senior secured note, first lien, 9.00%, 2/15/20 United States 2,000,000 1,885,000 ClubCorp Club Operations Inc., senior note, 10.00%, 12/01/18 United States 9,144,000 10,195,560 Harrah's Operating Co. Inc., senior secured note, 11.25%,				101,545,320
Palgeco Scotsman Global Finance PLC, first lien, 144A, 9.00%, 10/15/18 United Kingdom 2,000,000 EUR 2,929,777 senior secured note, first lien, 144A, 8.50%, 10/15/18 United Kingdom 15,000,000 EUR 19,026,652 **Consumer Durables & Apparel 0.6% KB Home, senior note, 7.00%, 12/15/21 United States 13,300,000 13,732,250 M// Homes Inc., senior note, 8.625%, 11/15/18 United States 12,000,000 13,080,000 Shea Homes LP/Funding Corp., senior secured note, 8.625%, 5/15/19 United States 8,000,000 8,900,000 dVisant Corp., senior note, 10.00%, 10/01/17 United States 15,000,000 13,875,000 49,587,250 **Consumer Services 1.0%** Caesars Entertainment Operating Co. Inc., first lien, 9.00%, 2/15/20 United States 1,900,000 1,790,750 senior secured note, first lien, 9.00%, 2/15/20 United States 2,000,000 1,885,000 ClubCorp Club Operations Inc., senior note, 10.00%, 12/01/18 United States 9,144,000 10,195,560 Harrah's Operating Co. Inc., senior secured note, 11.25%,	Commercial & Professional Services 0.2%			
first lien, 144A, 9.00%, 10/15/18 . United Kingdom 2,000,000 EUR 2,929,777 senior secured note, first lien, 144A, 8.50%, 10/15/18 . United Kingdom 15,000,000 16,096,875 19,026,652 Consumer Durables & Apparel 0.6% KB Home, senior note, 7.00%, 12/15/21 . United States 13,300,000 13,732,250 M/I Homes Inc., senior note, 8.625%, 11/15/18 . United States 12,000,000 13,080,000 Shea Homes LP/Funding Corp., senior secured note, 8.625%, 5/15/19 . United States 8,000,000 8,900,000 dVisant Corp., senior note, 10.00%, 10/01/17 United States 15,000,000 13,875,000 49,587,250 Consumer Services 1.0% Caesars Entertainment Operating Co. Inc., first lien, 9.00%, 2/15/20 United States 1,900,000 1,790,750 senior secured note, first lien, 9.00%, 2/15/20 United States 2,000,000 1,885,000 ClubCorp Club Operations Inc., senior note, 10.00%, 12/01/18 United States 9,144,000 10,195,560 Harrah's Operating Co. Inc., senior secured note, 11.25%,				
19,026,652	first lien, 144A, 9.00%, 10/15/18	United Kingdom	2,000,000 EUR	2,929,777
Consumer Durables & Apparel 0.6% KB Home, senior note, 7.00%, 12/15/21 United States 13,300,000 13,732,250 M/I Homes Inc., senior note, 8.625%, 11/15/18 United States 12,000,000 13,080,000 Shea Homes LP/Funding Corp., senior secured note, 8.625%, 5/15/19 United States 8,000,000 8,900,000 d Visant Corp., senior note, 10.00%, 10/01/17 United States 15,000,000 13,875,000 Consumer Services 1.0% Caesars Entertainment Operating Co. Inc., first lien, 9.00%, 2/15/20 United States 1,900,000 1,790,750 senior secured note, first lien, 9.00%, 2/15/20 United States 2,000,000 1,885,000 ClubCorp Club Operations Inc., senior note, 10.00%, 12/01/18 United States 9,144,000 10,195,560 Harrah's Operating Co. Inc., senior secured note, 11.25%,	senior secured note, first lien, 144A, 8.50%, 10/15/18	United Kingdom	15,000,000	16,096,875
Consumer Durables & Apparel 0.6% KB Home, senior note, 7.00%, 12/15/21 United States 13,300,000 13,732,250 M/I Homes Inc., senior note, 8.625%, 11/15/18 United States 12,000,000 13,080,000 Shea Homes LP/Funding Corp., senior secured note, 8.625%, 5/15/19 United States 8,000,000 8,900,000 d Visant Corp., senior note, 10.00%, 10/01/17 United States 15,000,000 13,875,000 Consumer Services 1.0% Caesars Entertainment Operating Co. Inc., first lien, 9.00%, 2/15/20 United States 1,900,000 1,790,750 senior secured note, first lien, 9.00%, 2/15/20 United States 2,000,000 1,885,000 ClubCorp Club Operations Inc., senior note, 10.00%, 12/01/18 United States 9,144,000 10,195,560 Harrah's Operating Co. Inc., senior secured note, 11.25%,				19,026,652
KB Home, senior note, 7.00%, 12/15/21 United States 13,300,000 13,732,250 M/I Homes Inc., senior note, 8.625%, 11/15/18 United States 12,000,000 13,080,000 Shea Homes LP/Funding Corp., senior secured note, 8.625%, 5/15/19 United States 8,000,000 8,900,000 d Visant Corp., senior note, 10.00%, 10/01/17 United States 15,000,000 13,875,000 Consumer Services 1.0% Caesars Entertainment Operating Co. Inc., first lien, 9.00%, 2/15/20 United States 1,900,000 1,790,750 senior secured note, first lien, 9.00%, 2/15/20 United States 2,000,000 1,885,000 ClubCorp Club Operations Inc., senior note, 10.00%, 12/01/18 United States 9,144,000 10,195,560 Harrah's Operating Co. Inc., senior secured note, 11.25%,	Consumer Durables & Apparel 0.6%			
M/I Homes Inc., senior note, 8.625%, 11/15/18 United States 12,000,000 13,080,000 Shea Homes LP/Funding Corp., senior secured note, 8.625%, 5/15/19 United States 8,000,000 8,900,000 d Visant Corp., senior note, 10.00%, 10/01/17 United States 15,000,000 13,875,000 d Visant Services 1.0% 49,587,250 Caesars Entertainment Operating Co. Inc., first lien, 9.00%, 2/15/20 United States 1,900,000 1,790,750 senior secured note, first lien, 9.00%, 2/15/20 United States 2,000,000 1,885,000 ClubCorp Club Operations Inc., senior note, 10.00%, 12/01/18 United States 9,144,000 10,195,560 Harrah's Operating Co. Inc., senior secured note, 11.25%,		United States	13 300 000	13 732 250
Shea Homes LP/Funding Corp., senior secured note, 8.625%, 5/15/19 United States 8,000,000 8,900,000 d Visant Corp., senior note, 10.00%, 10/01/17 United States 15,000,000 13,875,000 49,587,250 Consumer Services 1.0% Caesars Entertainment Operating Co. Inc., first lien, 9.00%, 2/15/20 United States 1,900,000 1,790,750 senior secured note, first lien, 9.00%, 2/15/20 United States 2,000,000 1,885,000 ClubCorp Club Operations Inc., senior note, 10.00%, United States 9,144,000 10,195,560 Harrah's Operating Co. Inc., senior secured note, 11.25%,			, ,	
5/15/19 United States 8,000,000 8,900,000 d Visant Corp., senior note, 10.00%, 10/01/17 United States 15,000,000 13,875,000 49,587,250 Consumer Services 1.0% Caesars Entertainment Operating Co. Inc., first lien, 9.00%, 2/15/20 United States 1,900,000 1,790,750 senior secured note, first lien, 9.00%, 2/15/20 United States 2,000,000 1,885,000 ClubCorp Club Operations Inc., senior note, 10.00%, 12/01/18 United States 9,144,000 10,195,560 Harrah's Operating Co. Inc., senior secured note, 11.25%,			, ,	.,,
Visant Corp., senior note, 10.00%, 10/01/17		United States	8,000,000	8,900,000
Consumer Services 1.0% Caesars Entertainment Operating Co. Inc., first lien, 9.00%, 2/15/20	d Visant Corp., senior note, 10.00%, 10/01/17	United States	15,000,000	13,875,000
Consumer Services 1.0% Caesars Entertainment Operating Co. Inc., first lien, 9.00%, 2/15/20				49,587,250
Caesars Entertainment Operating Co. Inc., United States 1,900,000 1,790,750 senior secured note, first lien, 9.00%, 2/15/20 United States 2,000,000 1,885,000 ClubCorp Club Operations Inc., senior note, 10.00%, United States 9,144,000 10,195,560 Harrah's Operating Co. Inc., senior secured note, 11.25%, United States 9,144,000 10,195,560	Consumer Services 1.0%			
first lien, 9.00%, 2/15/20				
senior secured note, first lien, 9.00%, 2/15/20		United States	1,900,000	1,790,750
12/01/18			, ,	, ,
Harrah's Operating Co. Inc., senior secured note, 11.25%,	ClubCorp Club Operations Inc., senior note, 10.00%,			
	12/01/18	United States	9,144,000	10,195,560
6/01/17				
	6/01/17	United States	22,000,000	22,000,000

Franklin Strategic Income Fund	Country	Principal Amount*		Value
Corporate Bonds (continued)				
Consumer Services (continued)				
MGM Resorts International, senior note,				
6.625%, 7/15/15	United States	15,000,000	\$	16,237,500
7.50%, 6/01/16	United States	1,000,000	Ψ	1,127,500
10.00%, 11/01/16	United States	1,000,000		1,215,000
8.625%, 2/01/19	United States	700,000		825,125
6.75%, 10/01/20	United States	1,800,000		1,966,500
6.625%, 12/15/21	United States	10,000,000		10,700,000
7.75%, 3/15/22	United States	2,000,000		2,275,000
e Paris Las Vegas Holding LLC, senior secured note, first lien,	Omitod Otdtoo	2,000,000		2,270,000
144A, 8.00%, 10/01/20	United States	7,000,000		7,035,000
Pinnacle Entertainment Inc., senior sub. note, 7.75%,	Office States	, ,		, ,
4/01/22	United States	2,200,000		2,417,250
ePNK Finance Corp., senior note, 144A, 6.375%, 8/01/21	United States	4,900,000		5,169,500
				84,839,685
Diversified Financials 4.6%				
Ally Financial Inc., senior note, 7.50%, 9/15/20	United States	28,000,000		32,865,000
Bank of America Corp.,				
fpfd., sub. bond, M, 8.125% to 5/15/18, FRN thereafter,				
Perpetual	United States	22,000,000		24,698,146
senior note, 5.65%, 5/01/18	United States	10,000,000		11,415,230
Citigroup Inc.,		, ,		, ,
senior note, 5.375%, 8/09/20	United States	15,000,000		17,072,475
sub. bond, 5.50%, 9/13/25	United States	15,000,000		15,934,665
sub. note, 4.05%, 7/30/22	United States	5,000,000		4,954,830
Deutsche Bank AG, sub. bond, 4.296% to 5/24/23,		, ,		, ,
FRN thereafter, 5/24/28	Germany	32,000,000		29,315,200
E*TRADE Financial Corp., senior note, 6.375%, 11/15/19	United States	10,000,000		10,750,000
General Electric Capital Corp.,		, ,		, ,
senior note, A, 8.50%, 4/06/18	United States	94,000,000 MXN		8,152,257
sub. note, 5.30%, 2/11/21	United States	15,000,000		16,724,700
e General Motors Financial Co. Inc.,		.,,		, ,
senior bond, 144A, 4.25%, 5/15/23	United States	3,700,000		3,561,250
senior note, 144A, 3.25%, 5/15/18	United States	2,100,000		2,097,375
GMAC Inc., sub. note, 8.00%, 12/31/18	United States	4,000,000		4,680,000
The Goldman Sachs Group Inc., senior note, 2.375%,		.,,		.,,
1/22/18	United States	20,000,000		20,129,740
International Lease Finance Corp.,		,		
senior note, 8.25%, 12/15/20	United States	8,100,000		9,588,375
esenior secured note, 144A, 6.75%, 9/01/16	United States	10,000,000		11,162,500
JPMorgan Chase & Co.,	Omitod Otdtoo	10,000,000		11,102,000
f junior sub. bond, 6.00% to 8/01/23, FRN thereafter,				
Perpetual	United States	10,000,000		9,725,000
senior note, 4.25%, 10/15/20	United States	15,000,000		16,018,125
senior note, 4.25%, 10/13/20senior note, 3.25%, 9/23/22	United States	5,000,000		4,836,825
sub. note, 3.375%, 5/01/23	United States	10,000,000		9,386,870
3d5. Hoto, 3.37 370, 370 1723	Jintou Jiates	10,000,000		3,300,070

Franklin Strategic Income Fund	Country	Principal Amount*	Value
Corporate Bonds (continued)			
Diversified Financials (continued)			
^e KKR Group Finance Co., senior note, 144A, 6.375%,			
9/29/20	United States	20,000,000	\$ 22,807,800
Merrill Lynch & Co. Inc., senior note, 6.40%, 8/28/17	United States	10,000,000	11,628,050
Morgan Stanley, senior note,		,	,,
6.00%, 4/28/15	United States	12,000,000	12,860,736
5.50%, 7/24/20	United States	10,000,000	11,300,350
5.50%, 7/28/21	United States	5,000,000	5,634,465
^e Neuberger Berman Group LLC/Finance Corp., senior note,	omica otatos	0,000,000	0,001,100
144A,			
5.625%, 3/15/20	United States	4,000,000	4,170,000
5.875%, 3/15/22	United States	10,000,000	10,275,000
^e Nuveen Investments Inc., senior note, 144A,	Office Otales	10,000,000	10,273,000
9.125%, 10/15/17	United States	3,000,000	2,925,000
9.50%, 10/15/20	United States	12,000,000	11,490,000
SLM Corp.,	Officed States	12,000,000	11,430,000
5.50%, 1/15/19	United States	14,400,000	14,970,399
senior note, 8.45%, 6/15/18	United States		, ,
Selliof flote, 8.45 %, 0/15/16	United States	14,100,000	16,514,625
			387,644,988
Energy 8.5%			
Access Midstream Partner LP/ACMP Finance Corp., senior note,			
5.875%, 4/15/21	United States	8,900,000	9,589,750
6.125%, 7/15/22	United States	7,300,000	7,865,750
e,g Antero Resources Corp., senior note, 144A, 5.375%,	omica ciatos	,,000,000	,,000,,00
11/01/21	United States	5,300,000	5,389,437
Antero Resources Finance Corp., senior note,	omica ciatos	5,555,555	0,000,107
9.375%, 12/01/17	United States	5,000,000	5,268,750
7.25%, 8/01/19	United States	1,000,000	1,077,500
Apache Corp., senior bond, 2.625%, 1/15/23	United States	25,000,000	23,341,450
CGG, senior note,	Officed States	23,000,000	25,541,450
9.50%, 5/15/16	France	500,000	528,125
7.75%, 5/15/17	France	10,000,000	10,337,500
•			
6.50%, 6/01/21	France	7,000,000	7,315,000
Chaparral Energy Inc., senior note,	United Ctates	0.000.000	0.160.000
9.875%, 10/01/20	United States	8,000,000	9,160,000
8.25%, 9/01/21	United States	8,000,000	8,800,000
7.625%, 11/15/22	United States	1,400,000	1,519,000
CHC Helicopter SA,	0 1	0.000.000	0.056.000
senior note, 9.375%, 6/01/21	Canada	3,200,000	3,256,000
senior secured note, first lien, 9.25%, 10/15/20	Canada	18,000,000	19,473,750
Chesapeake Energy Corp., senior note,			
9.50%, 2/15/15	United States	1,000,000	1,103,750
7.25%, 12/15/18	United States	1,000,000	1,155,000
6.625%, 8/15/20	United States	16,000,000	18,120,000
6.125%, 2/15/21	United States	6,000,000	6,585,000
5.75%, 3/15/23	United States	14,000,000	14,910,000
^e Clayton Williams Energy Inc., senior note, 144A, 7.75%,			
4/01/19	United States	15,000,000	15,412,500

Franklin Strategic Income Fund	Country	Principal Amount*	Value
Corporate Bonds (continued)			
Energy (continued)			
CONSOL Energy Inc., senior note,			
8.00%, 4/01/17	United States	7,700,000	\$ 8,190,875
8.25%, 4/01/20	United States	8,000,000	8,790,000
6.375%, 3/01/21	United States	1,000,000	1,052,500
Crosstex Energy LP/Crosstex Energy Finance Corp., senior note,			
8.875%, 2/15/18	United States	15,000,000	15,993,750
7.125%, 6/01/22	United States	2,800,000	3,227,000
El Paso Corp.,		, ,	
senior bond, 6.50%, 9/15/20	United States	9,000,000	9,659,394
senior note, 7.00%, 6/15/17	United States	3,500,000	3,967,824
Energy Transfer Equity LP, senior note, 7.50%, 10/15/20	United States	30,000,000	34,800,000
Energy Transfer Partners LP, senior note, 5.20%, 2/01/22	United States	10,000,000	10,775,430
Energy XXI Gulf Coast Inc., senior note, 9.25%, 12/15/17	United States	15,000,000	16,800,000
Enterprise Products Operating LLC, junior sub. note, 7.034%		.,,	.,,
to 1/15/18, FRN thereafter, 1/15/68	United States	10,000,000	11,060,110
^e Expro Finance Luxembourg, senior secured note, 144A, 8.50%,		,	,_,
12/15/16	United Kingdom	20,000,000	21,050,000
e,h Gaz Capital SA (OJSC Gazprom), loan participation,		,,	,_,
senior bond, 144A, 6.51%, 3/07/22	Russia	8,000,000	8,820,000
senior note, 144A, 5.092%, 11/29/15	Russia	12,000,000	12,754,440
senior note, 144A, 3.85%, 2/06/20	Russia	10,000,000	9,819,350
Halcon Resources Corp., senior note,	1140014	10,000,000	3,013,000
9.75%, 7/15/20	United States	4,000,000	4,370,000
8.875%, 5/15/21	United States	12,000,000	12,555,000
°144A, 9.25%, 2/15/22	United States	5,300,000	5,644,500
^e Kinder Morgan Finance Co. LLC, senior secured note, 144A,		2,222,222	-,,
6.00%, 1/15/18	United States	17,000,000	18,591,846
Linn Energy LLC/Finance Corp., senior note,		17,000,000	10,001,010
6.50%, 5/15/19	United States	2,000,000	2,005,000
8.625%, 4/15/20	United States	10,000,000	10,700,000
7.75%, 2/01/21	United States	10,000,000	10,375,000
e144A, 6.25%, 11/01/19	United States	8,000,000	8,020,000
^e LUKOIL International Finance BV, senior note, 144A, 4.563%,	Omica Glatos	0,000,000	0,020,000
4/24/23	Russia	30,000,000	28,839,300
Martin Midstream Partners LP/Martin Midstream Finance Corp.,	Russia	30,000,000	20,003,000
senior note,			
8.875%, 4/01/18	United States	7,816,000	8,343,580
7.25%, 2/15/21	United States	8,000,000	8,200,000
Midstates Petroleum Co. Inc./LLC, senior note, 9.25%,	Office States	0,000,000	0,200,000
6/01/21	United States	10,000,000	10,350,000
Oasis Petroleum Inc., senior note, 144A, 6.875%, 3/15/22	United States	10,400,000	11,284,000
Offshore Group Investment Ltd.,	Office States	10,400,000	11,204,000
senior bond, first lien, 7.125%, 4/01/23	United States	10,000,000	10,225,000
senior secured note, first lien, 7.123%, 4/01/23	United States	10,800,000	11,772,000
PBF Holding Co. LLC, first lien, 8.25%, 2/15/20	United States	18,000,000	18,900,000
i bi Holding ou. LLo, ilist liell, 0.23/0, 2/13/20	Omicu States	10,000,000	10,500,000

Franklin Strategic Income Fund	Country	Principal Amount*	Value
Corporate Bonds (continued)			
Energy (continued)			
Peabody Energy Corp., senior note,			
7.375%, 11/01/16	United States	2,000,000	\$ 2,260,000
6.00%, 11/15/18	United States	5,000,000	5,300,000
6.50%, 9/15/20	United States	8,300,000	8,798,000
6.25%, 11/15/21	United States	20,000,000	20,750,000
Penn Virginia Corp., senior note, 8.50%, 5/01/20	United States	10,000,000	10,662,500
Penn Virginia Resource Partners LP/Finance Corp. II,			
senior note,			
8.375%, 6/01/20	United States	10,000,000	11,150,000
e 144A, 6.50%, 5/15/21	United States	5,000,000	5,175,000
Plains Exploration & Production Co., senior note,			
6.125%, 6/15/19	United States	1,700,000	1,859,154
8.625%, 10/15/19	United States	1,000,000	1,106,807
6.625%, 5/01/21	United States	4,000,000	4,364,080
6.75%, 2/01/22	United States	2,000,000	2,200,554
6.875%, 2/15/23	United States	6,000,000	6,675,000
QR Energy LP/QRE Finance, senior note, 9.25%, 8/01/20	United States	15,000,000	15,787,500
Quicksilver Resources Inc.,			
e,i secured note, second lien, 144A, FRN, 7.00%, 6/21/19	United States	12,000,000	11,700,000
senior note, 9.125%, 8/15/19	United States	5,000,000	4,900,000
Sabine Pass Liquefaction LLC,			
secured note, 144A, 5.625%, 2/01/21	United States	20,000,000	20,300,000
senior secured note, 144A, 5.625%, 4/15/23	United States	6,200,000	6,107,000
Samson Investment Co., senior note, 144A, 9.75%,			
2/15/20	United States	20,000,000	21,700,000
Sanchez Energy Corp., senior note, 144A, 7.75%, 6/15/21	United States	12,200,000	12,505,000
W&T Offshore Inc., senior note, 8.50%, 6/15/19	United States	18,000,000	19,485,000
			719,929,756
Food & Staples Retailing 0.6%			
² Cencosud SA, senior note, 144A, 4.875%, 1/20/23	Chile	20,000,000	19,276,000
Rite Aid Corp., senior secured note, 8.00%, 8/15/20	United States	6,200,000	6,982,750
Safeway Inc., senior bond, 3.95%, 8/15/20	United States	22,000,000	21,647,120
Saleway file., 3emor bond, 3.3376, 0/13/20	Office States	22,000,000	
			47,905,870
Food, Beverage & Tobacco 1.2%			
Barry Callebaut Services SA, senior note, 144A, 5.50%,			
6/15/23	Belgium	5,300,000	5,410,505
Boparan Finance PLC, senior note, 144A, 9.75%, 4/30/18	United Kingdom	12,000,000 EUR	17,996,233
Constellation Brands Inc., senior note, 4.25%, 5/01/23	United States	10,000,000	9,612,500
Del Monte Corp., senior note, 7.625%, 2/15/19	United States	22,000,000	23,017,500
JBS USA LLC/Finance Inc., senior note, 144A,			
8.25%, 2/01/20	United States	15,600,000	16,809,000
7.25%, 6/01/21	United States	4,500,000	4,635,000
Kraft Foods Group Inc., senior bond, 3.50%, 6/06/22	United States	20,000,000	19,920,600
Sun Merger Sub Inc., senior note, 144A,			
5.25%, 8/01/18	United States	2,500,000	2,625,000
5.875%, 8/01/21	United States	2,000,000	2,095,000
			102,121,338

Franklin Strategic Income Fund	Country	Principal Amount*		Value
Corporate Bonds (continued)				
Health Care Equipment & Services 1.3%				
Alere Inc., senior sub. note, 6.50%, 6/15/20	United States	4,900,000	\$	5,071,500
^e Cegedim SA, senior note, 144A, 6.75%, 4/01/20	France	10,000,000 EUR		13,715,296
CHS/Community Health Systems Inc.,				
senior note, 8.00%, 11/15/19	United States	10,200,000		11,105,250
senior note, 7.125%, 7/15/20	United States	6,000,000		6,322,500
senior secured note, 5.125%, 8/15/18	United States	6,000,000		6,255,000
DaVita HealthCare Partners Inc., senior note, 5.75%,				
8/15/22	United States	10,000,000		10,312,500
HCA Inc.,				
senior note, 6.50%, 2/15/16	United States	3,000,000		3,292,500
senior note, 7.50%, 2/15/22	United States	8,100,000		9,122,625
senior note, 5.875%, 5/01/23	United States	15,000,000		15,150,000
senior secured bond, 7.25%, 9/15/20	United States	1,700,000		1,867,875
senior secured note, 5.875%, 3/15/22	United States	10,000,000		10,550,000
Hologic Inc., senior note, 6.25%, 8/01/20	United States	4,700,000		5,017,250
eTenet Healthcare Corp., senior note, 144A,		.,,		-,,
6.00%, 10/01/20	United States	2,700,000		2,860,312
8.125%, 4/01/22	United States	8,400,000		9,219,000
,		2, 122, 222	_	
				109,861,608
Insurance 0.5%				
eMetLife Capital Trust X, secured bond, 144A, 9.25% to				
4/08/38, FRN thereafter, 4/08/68	United States	1,900,000		2,465,250
MetLife Inc., junior sub. note, 6.40% to 12/15/36,				
FRN thereafter, 12/15/66	United States	20,000,000		20,925,000
^e Mitsui Sumitomo Insurance Co. Ltd., junior sub. note, 144A,				
7.00% to 3/15/22, FRN thereafter, 3/15/72	Japan	20,000,000		22,495,100
				45,885,350
			-	10,000,000
Materials 4.2%				
ArcelorMittal, senior note,				
6.00%, 3/01/21	Luxembourg	20,000,000		20,994,300
6.75%, 2/25/22	Luxembourg	15,000,000		16,361,250
^e Ardagh Packaging Finance PLC, senior note, 144A, 9.125%,				
10/15/20	Luxembourg	5,000,000		5,362,500
e Ardagh Packaging Finance PLC/Ardagh MP Holdings USA Inc.,				
secured note, 144A, 4.875%, 11/15/22	Luxembourg	1,500,000		1,479,375
senior note, 144A, 7.00%, 11/15/20	Luxembourg	5,000,000		4,956,250
senior secured note, first lien, 144A, 7.375%, 10/15/17	Luxembourg	3,100,000		3,336,375
Ashland Inc., senior note, 4.75%, 8/15/22	United States	7,000,000		6,755,000
e Barminco Finance Pty. Ltd., senior note, 144A, 9.00%,				
6/01/18	Australia	9,900,000		9,284,992
e Cemex Finance LLC, senior secured note, 144A, 9.375%,				
10/12/22	Mexico	1,400,000		1,578,500
eCemex SAB de CV,				
secured note, 144A, 5.875%, 3/25/19	Mexico	10,000,000		9,831,250
senior secured note, 144A, 9.00%, 1/11/18	Mexico	20,000,000		21,837,500
Euramax International Inc., senior secured note, 9.50%,				
4/01/16	United States	6,400,000		6,368,000

Corporate Bonds (continued) Materials (continued) Materials (continued) Faenza Gmb4, senior note, 144A, 8.25%, 8/15/21 Germany 6,700,000 EUR \$9,644,161 FMG Resources (August 2006) Pty, 1td., senior note, 144A, 7.00%, 11/01/15 Australia 3,900,000 2,105,000 6,1875%, 20/118 Australia 12,000,000 12,765,000 8,25%, 11/01/19 Australia 15,000,000 12,765,000 8,25%, 11/01/19 Australia 15,000,000 12,765,000 8,25%, 11/01/19 Australia 15,000,000 7,140,578 Fineos Finance PLC, senior socured note, 144A, 4.125%, 5/30/23 United States 7,500,000 784,000 7,50%, 501/20 United Kingdom 700,000 784,000 7,50%, 501/20 United Kingdom 700,000 2,200,000 1 meos Group Holdings SA, secured note, 144A, 7.875%, 2/15/16 Switzerland 6,800,000 6,910,500 1 senior note, 144A, 6.125%, 8/15/18 Switzerland 6,100,000 EUR 8,294,347 1 senior note, 144A, 6.125%, 8/15/18 Switzerland 6,100,000 EUR 8,294,347 1 senior note, 144A, 6.125%, 8/15/18 Switzerland 6,100,000 EUR 8,294,347 1 senior note, 144A, 6.125%, 8/15/18 Switzerland 6,100,000 EUR 8,294,347 1 senior note, 1544, 6.125%, 8/15/18 Switzerland 6,100,000 EUR 8,294,347 2 senior note, 1644, 6.00%, 8/15/18 Switzerland 6,100,000 EUR 8,294,347 3 senior note, 1644, 6.00%, 8/15/18 Switzerland 6,100,000 EUR 2,0261,484 3 75%, 6/01/20 Canada 2,000,000 2,3,865,000 3 7,55%, 6/01/20 Canada 2,000,000 3,652,500 3 7,55%, 6/01/20 Canada 8,000,000 8,625,500 3 7,55%, 6/01/21 Canada 8,000,000 8,625,500 3 7,55%, 6/01/21 United States 1,000,000 1,076,478 3 1000 1,075,000 1,075,000 1,075,000 3 1,075,000 1,075,000 1,075,000 1,075,000 3 1,075,000 1,075,000 1,075,000 1,075,000 3 1,075,000 1,075,000 1,075,000 1,075,000 3 1,075,000 1,075,000 1,075,000 1,075,000 3 1,075,000 1,075,000 1,075,000 1,075,000 3 1,075,000 1,075,000 1,075,000 3 1,075,000 1,075,000 1,075,000 1,075,000 3 1,075,000	Franklin Strategic Income Fund	Country	Principal Amount*	Value
Search Continued	Corporate Bonds (continued)			
FMR Resources (August 2006) Pty. Ltd., senior note, 144A, 7, 0.0%, 11/01/15 6.00%, 4/01/17 Australia 3,900,000 4,041/76 6.00%, 4/01/17 Australia 12,000,000 12,765,000 6.875%, 2/01/18 Australia 12,000,000 16,725,000 6.825%, 11/01/19 Australia 12,000,000 17,2765,000 6.825%, 11/01/19 Australia 12,000,000 17,2765,000 6.825%, 11/01/19 Australia 12,000,000 16,725,000 6.815%, 2/01/18 S.730/23 United States 7,500,000 7,140,578 6.730/23 United States 7,500,000 7,140,578 6.730/23 United Kingdom 700,000 784,000 7.50%, 5/01/20 United Kingdom 2,000,000 2,200,000 6.750%, 5/01/20 United Kingdom 2,000,000 2,200,000 6.750%, 5/01/20 United Kingdom 3,368,285 EUR 4,640,971 6.750%, 5/01/20 United Kingdom 3,368,285 EUR 4,640,971 6.750%, 6/01/21 Senior note, 144A, 6.725%, 8/15/18 Switzerland 6,800,000 6,910,500 6.910,	Materials (continued)			
FMR Resources (August 2006) Pty. Ltd., senior note, 144A, 7.00%, 110715 Australia 3,900,000	^e Faenza GmbH, senior note, 144A, 8.25%, 8/15/21	Germany	6,700,000 EUR	\$ 9,644,161
6.00%, 4/01/17		•		
8.25%, 1101/19	7.00%, 11/01/15	Australia	3,900,000	4,041,765
**Referencer Funding LLC, senior note, 144A, 4.125%, 5/30/23 United States 7,500,000 7,140,578 **Ineos Finance PLC, senior secured note, 144A, 8.375%, 2/15/19 United Kingdom 700,000 784,000 7,50%, 5/01/20 United Kingdom 700,000 784,000 7,50%, 5/01/20 United Kingdom 700,000 2,200,000 **Ineos Group Holdings SA, secured note, 144A, 6.125%, 8/15/18 Switzerland 6,800,000 6,910,500 senior note, 144A, 6.125%, 8/15/18 Switzerland 6,800,000 6,910,500 senior note, 144A, 6.125%, 8/15/18 Switzerland 6,100,000 EUR 8,294,347 **Inmet Mining Corp., senior note, 144A, 6.125%, 8/15/18 Switzerland 6,100,000 EUR 8,294,347 **Inmet Mining Corp., senior note, 144A, 6.125%, 2/15/17 Canada 21,500,000 2,3,865,000 7,50%, 6/01/21 Canada 2,000,000 2,130,000 **Kerling PLC, senior secured note, 144A, 10,625%, 2/01/17 United Kingdom 14,000,000 EUR 20,261,484 Novelis Inc., senior note, 144A, 10,625%, 2/01/17 Canada 9,000,000 9,652,500 8,75%, 12/15/20 Canada 8,000,000 8,940,000 8,940,000 8/15/18 Canada 8,000,000 Supplemented Carbons Bondco GmbH, senior secured bond, 144A, 10,00%, 6/15/18 Germany 11,700,000 EUR 17,764,788 **Orion Engineered Carbons Finance & Co. SCA, senior note, 144A, PIK, 9,25%, 8/01/19 Germany 3,000,000 11,750,000 senior note, 8,50%, 5/15/18 United States 14,000,000 14,910,000 senior note, 8,50%, 5/15/18 United States 1,000,000 14,910,000 senior note, 9,00%, 4/15/19 United States 1,000,000 1,075,000 senior note, 9,00%, 4/15/19 United States 1,000,000 1,075,000 senior note, 8,25%, 2/15/21 United States 1,000,000 4,550,000 8/56,500 8	6.00%, 4/01/17	Australia	2,000,000	2,105,000
*Glencore Funding LLC, senior note, 144A, 4.125%, 5/30/23. United States 7,500,000 7,140,578 * Inneos Finance PLC, senior secured note, 144A, 8.375%, 2/15/19. United Kingdom 2,000,000 784,000 7,50%, 5/01/20. United Kingdom 2,000,000 2,200,000 * Inneos Group Holdings SA, secured note, second lien, 144A, 7.875%, 2/15/16. Switzerland 3,368,285 EUR 4,640,971 senior note, 144A, 6.125%, 8/15/18 Switzerland 6,800,000 6,910,500 senior note, 144A, 6.125%, 8/15/18 Switzerland 6,800,000 6,910,500 senior note, 144A, 6.50%, 8/15/18 Switzerland 6,100,000 EUR 8,294,347 * Innet Mining Corp., senior note, 144A, 8.75%, 6/01/20 Canada 2,000,000 2,130,000 7,50%, 6/01/21 Canada 2,000,000 EUR 20,261,848 * Novelis Inc., senior note, 144A, 10.625%, 2/01/17 United Kingdom 14,000,000 EUR 20,261,848 * Novelis Inc., senior note, 144A, 10.625%, 2/01/17 United Kingdom 14,000,000 EUR 20,261,848 * Novelis Inc., senior note, 144A, 10.625%, 2/01/17 Canada 9,000,000 8,75%, 1/21/5/17 Canada 9,000,000 8,75%, 1/21/5/20 Canada 8,000,000 8,940,000 * Orion Engineered Carbons Bondoc GmbH, senior secured bond, 144A, 10.00%, 6/15/18 Germany 11,700,000 EUR 17,764,788 * Orion Engineered Carbons Finance & Co. SCA, senior note, 144A, PIK, 9,25%, 8/01/19 Germany 11,700,000 EUR 17,764,788 * Orion Engineered Carbons Finance & Co. SCA, senior note, 144A, PIK, 9,25%, 8/01/19 Germany 11,700,000 EUR 17,764,788 * Orion Engineered Carbons Finance & Co. SCA, senior note, 144A, PIK, 9,25%, 8/01/19 United States 14,000,000 14,500,000 senior note, 9,00%, 4/15/19 United States 14,000,000 14,500,000 senior note, 9,00%, 4/15/19 United States 1,000,000 10,075,000 senior note, 9,87%, 8/15/19 United States 1,000,000 10,450,000 senior note, 8,25%, 2/15/21 United States 1,000,000 10,450,000 senior note, 8,25%, 2/15/21 United States 1,000,000 4,536,000 5,362,500 Senior note, 8,25%, 2/15/21 United States 1,000,000 10,450,000 senior note, 8,25%, 2/15/21 United States 1,000,000 5,362,500 10,365,000 5,362,500 United States 1,000,000 5,362,500 10,365,000 5,362,500 10,360,000 5,362,500	6.875%, 2/01/18	Australia	12,000,000	12,765,000
#Ineos Finance PLC, senior secured note, 144A, 8.375%, 2715/19	8.25%, 11/01/19	Australia	15,000,000	16,725,000
Secured note, 144A, 8.375%, 2/15/19	^e Glencore Funding LLC, senior note, 144A, 4.125%,			
8.375%, 2/15/19	5/30/23	United States	7,500,000	7,140,578
Since Stroup Holdings SA, secured note, second lien, 144A, 7.875%, 2/15/16. Switzerland 3,368,285 EUR 4,640,971 senior note, 144A, 6.125%, 8/15/18 Switzerland 6,800,000 6,910,500 senior note, 144A, 6.50%, 8/15/18 Switzerland 6,800,000 EUR 8,294,347 d.Immet Mining Corp., senior note, 144A, 6.50%, 8/15/18 Switzerland 6,100,000 EUR 8,294,347 d.**Immet Mining Corp., senior note, 144A, 8.75%, 6/01/20 Canada 21,500,000 23,865,000 7,50%, 6/01/21 Canada 2,000,000 2,130,000 8,601/21 Canada 2,000,000 EUR 20,261,484 Novelis Inc., senior note, 144A, 10.625%, 2/01/17 United Kingdom 14,000,000 EUR 20,261,484 Novelis Inc., senior note, 144A, 10.625%, 2/01/17 Canada 9,000,000 9,652,500 8,75%, 12/15/20 Canada 9,000,000 8,940,000 80/16/16/16/16/16/16/16/16/16/16/16/16/16/	e Ineos Finance PLC, senior secured note, 144A,			
*Ineos Group Holdings SA, secured note, second lien, 144A, 7.875%, 2/15/16	8.375%, 2/15/19	United Kingdom	700,000	784,000
secured note, second lien, 144A, 7.875%, 2/15/16 Switzerland senior note, 144A, 6.125%, 8/15/18 3,368,285 EUR (5,900,000 6,910,50	7.50%, 5/01/20	United Kingdom	2,000,000	2,200,000
senior note, 144A, 6.125%, 8/15/18 Switzerland 6,800,000 6,910,500 senior note, 144A, 6.50%, 8/15/18 Switzerland 6,100,000 EUR 8,294,347 de Immet Mining Corp., senior note, 144A, Canada 21,500,000 23,865,000 8,75%, 6/01/20 Canada 2,000,000 2,3865,000 *Kerling PLC, senior secured note, 144A, 10.625%, 2/01/17 United Kingdom 14,000,000 EUR 20,261,484 Novelis Inc., senior note, 8.375%, 12/15/17 Canada 9,000,000 9,652,500 8.75%, 12/15/17 Canada 9,000,000 8,940,000 eOrion Engineered Carbons Bondco GmbH, senior secured bond, 144A, 10.00%, 6/15/18 Germany 11,700,000 EUR 17,764,788 *ViOrion Engineered Carbons Finance & Co. SCA, senior note, 144A, PIK, 9.25%, 8/01/19 Germany 3,000,000 3,142,500 Reynolds Group Issuer Inc./LLC/SA, first lien, 5.75%, 10/15/20 United States 6,600,000 6,847,500 senior note, 8.50%, 5/15/18 United States 14,000,000 14,910,000 senior note, 9.00%, 4/15/19 United States 10,000,000 10,450,000 senior note, 9.875%, 8/15/19 <	^e Ineos Group Holdings SA,			
senior note, 144A, 6.50%, 8/15/18 Switzerland 6,100,000 EUR 8,294,347 de Inmet Mining Corp., senior note, 144A, 8,75%, 9/11/20 Canada 21,500,000 23,865,000 7.50%, 6/01/21 Canada 2,000,000 2,130,000 *Novelis Inc., senior secured note, 144A, 10.625%, 2/01/17 United Kingdom 14,000,000 EUR 20,261,484 Novelis Inc., senior note, 8.375%, 12/15/20 Canada 9,000,000 9,652,500 8.75%, 12/15/20 Canada 8,000,000 8,940,000 *Orion Engineered Carbons Bondco GmbH, senior secured bond, 144A, 10.00%, 6/15/18 Germany 11,700,000 EUR 17,764,788 *IOrion Engineered Carbons Finance & Co. SCA, senior note, 144A, PIK, 9.25%, 8/01/19 Germany 3,000,000 3,142,500 Reynolds Group Issuer Inc./LLC/SA, first lien, 5.75%, 10/15/20 United States 14,000,000 14,910,000 senior note, 9.80%, 5/15/18 United States 14,000,000 14,910,000 senior note, 9.90%, 4/15/19 United States 14,000,000 10,450,000 senior note, 9.875%, 8/15/19 United States 10,000,000 10,450,000 senior note, 9.144A, United S	secured note, second lien, 144A, 7.875%, 2/15/16	Switzerland	3,368,285 EUR	4,640,971
## Inmet Mining Corp., senior note, 144A, 8.75%, 6/01/20 Canada 21,500,000 23,865,000 7,50%, 6/01/21 Canada 2,000,000 2,130,000 \$1,300,000 \$1,300,000 \$1,300,000 \$1,300,000 \$1,0	senior note, 144A, 6.125%, 8/15/18	Switzerland	6,800,000	6,910,500
8.75%, 6/01/20	senior note, 144A, 6.50%, 8/15/18	Switzerland	6,100,000 EUR	8,294,347
**Novelis Inc., senior secured note, 144A, 10.625%, 2/01/17	^{d,e} Inmet Mining Corp., senior note, 144A,			
*Kerling PLC, senior secured note, 144A, 10.625%, 2/01/17. United Kingdom 14,000,000 EUR 20,261,484 Novelis Inc., senior note, 8.375%, 12/15/17. Canada 9,000,000 9,652,500 8.75%, 12/15/20. Canada 8,000,000 8,940,000 *Orion Engineered Carbons Bondco GmbH, senior secured bond, 144A, 10.00%, 6/15/18. Germany 11,700,000 EUR 17,764,788 *Orion Engineered Carbons Finance & Co. SCA, senior note, 144A, PIK, 9.25%, 8/01/19 Germany 3,000,000 3,142,500 *Reynolds Group Issuer Inc./LLC/SA, first lien, 5.75%, 10/15/20. United States 14,000,000 14,910,000 senior note, 9.00%, 4/15/19 United States 14,000,000 14,910,000 senior note, 9.00%, 4/15/19 United States 14,000,000 14,910,000 senior note, 9.00%, 4/15/19 United States 10,000,000 10,450,000 senior secured note, 7.125%, 4/15/19 United States 10,000,000 10,450,000 senior secured note, 7.125%, 4/15/19 United States 5,000,000 5,362,500 *Sealed Air Corp., senior note, 144A, 8.125%, 9/15/21 United States 4,000,000 4,530,000 6.50%, 12/01/20 United States 4,000,000 4,530,000 6.50%, 12/01/20 United States 4,000,000 4,650,000 \$8.375%, 9/15/21 United States 4,000,000 5,362,500 *United States 4,000,000 5,362,500 *United States 4,000,000 5,362,500 *Sealed Air Corp., senior note, 144A, 4.95%, 2/01/21 United States 4,000,000 4,650,000 \$8.375%, 9/15/21 United States 4,000,000 5,362,500 *United States 4,000,000 5,362,500 *United States 4,000,000 5,362,500 *Sealed Air Corp., senior note, 144A, 4.95%, 2/01/21 United States 4,000,000 5,362,500 *Sealed Air Corp., senior note, 144A, 4.95%, 2/01/21 United States 4,000,000 5,362,500 *Sealed Air Corp., senior note, 144A, 4.95%, 2/01/21 United States 4,000,000 5,362,500 *Sealed Air Corp., senior note, 144A, 4.95%, 2/01/21 United States 4,000,000 5,362,500 *Sealed Air Corp., senior note, 144A, 4.95%, 2/01/21 United States 4,000,000 5,362,500 *Sealed Air Corp., senior note, 144A, 4.95%, 2/01/21 United States 4,000,000 5,362,500 *Sealed Air Corp., senior note, 144A, 4.95%, 2/01/21 United States 5,000,000 5,360,000 5,350,000 5,350,000 5,350,000 5,350,00	8.75%, 6/01/20	Canada	21,500,000	23,865,000
Novelis Inc., senior note, 8.375%, 12/15/17 Canada 9,000,000 9,652,500 8.75%, 12/15/20 Canada 8,000,000 8,940,000 8,940,000 8,940,000 8,940,000 8,940,000 8,940,000 8,940,000 8,940,000 8,940,000 8,940,000 8,940,000 1,7564,788 1,760,676 1,764,788 1,7	7.50%, 6/01/21	Canada	2,000,000	2,130,000
8.375%, 12/15/17	^e Kerling PLC, senior secured note, 144A, 10.625%, 2/01/17	United Kingdom	14,000,000 EUR	20,261,484
**S75%, 12/15/20 **Canada **S,000,000 **S,940,000 **Orion Engineered Carbons Bondco GmbH, senior secured bond, 144A, 10.00%, 6/15/18 **Canada **S,000,000 EUR **17,764,788 **I) Crion Engineered Carbons Finance & Co. SCA, senior note, 144A, PIK, 9.25%, 8/01/19 **Germany **3,000,000 **3,142,500 **Reynolds Group Issuer Inc./LLC/SA, first lien, 5.75%, 10/15/20 **United States **6,600,000 **6,847,500 **senior note, 8.50%, 5/15/18 **United States **14,000,000 **14,910,000 **senior note, 9.00%, 4/15/19 **United States **1,000,000 **1,075,000 **senior note, 9.875%, 8/15/19 **United States **10,000,000 **10,450,000 **senior note, 8.25%, 2/15/21 **United States **10,000,000 **10,450,000 **senior secured note, 7.125%, 4/15/19 **United States **10,000,000 **10,450,000 **senior secured note, 7.125%, 4/15/19 **United States **10,000,000 **10,450,000 **Sealed Air Corp., senior note, 144A, **8.125%, 9/15/19 **United States **4,000,000 **4,530,000 **5,362,500 **Sealed Air Corp., senior note, 144A, **8.125%, 9/15/19 **United States **4,000,000 **4,530,000 **5,300,000 **0,500,0	Novelis Inc., senior note,			
*Orion Engineered Carbons Bondco GmbH, senior secured bond, 144A, 10.00%, 6/15/18. **Orion Engineered Carbons Finance & Co. SCA, senior note, 144A, PIK, 9.25%, 8/01/19 Reynolds Group Issuer Inc./LLC/SA, first lien, 5.75%, 10/15/20 senior note, 8.50%, 5/15/18 United States United States 6,600,000 6,847,500 senior note, 9.85%, 8/05/19 United States 1,000,000 14,910,000 senior note, 9.00%, 4/15/19 United States 1,000,000 1,075,000 senior note, 9.875%, 8/15/19 United States 1,000,000 1,075,000 senior note, 9.875%, 8/15/19 United States 10,000,000 10,450,000 senior secured note, 7.125%, 4/15/19 United States 10,000,000 10,450,000 senior secured note, 7.125%, 4/15/19 United States 4,000,000 4,530,000 6.50%, 12/01/20 United States 4,000,000 4,530,000 8.375%, 9/15/21 United States 4,000,000 4,530,000 8.375%, 9/15/21 United States 4,000,000 4,530,000 *U.S. Coatings Acquisition Inc./Flash Dutch 2 BV, 144A, 5.75%, 2/01/21 United States 4,000,000 *U.S. Coatings Acquisition Inc./Flash Dutch 2 BV, 144A, 5.75%, 2/01/21 United States 4,000,000 *U.S. Coatings Acquisition Inc./Flash Dutch 2 BV, 144A, 4.95%, 11/15/21 Canada 25,000,000 5,3575,125 358,468,071 Media 3.1% AMC Networks Inc., senior note, 7.75%, 7/15/21 United States 4,700,000 5,311,000 Cablevision Systems Corp., senior note, 8.625%, 9/15/17 United States 5,000,000 5,500,000 5,500,000 5,500,000	8.375%, 12/15/17	Canada	9,000,000	9,652,500
11,700,000 EUR 17,764,788	8.75%, 12/15/20	Canada	8,000,000	8,940,000
Germany 3,000,000 3,142,500 3,142,500 3,000,000 3,142,500 3,142,500 3,000,000 3,142,500 3,000,000 3,142,500 3,000,000 3,142,500 3,000,000 3,142,500 3,000,000 3,142,500 3,000,000 3,142,500 3,000,000 3,000,	^e Orion Engineered Carbons Bondco GmbH, senior secured bond,			
Reynolds Group Issuer Inc./LLC/SA, First lien, 5.75%, 10/15/20	144A, 10.00%, 6/15/18	Germany	11,700,000 EUR	17,764,788
Reynolds Group Issuer Inc./LLC/SA, first lien, 5.75%, 10/15/20	e,i Orion Engineered Carbons Finance & Co. SCA, senior note,			
first lien, 5.75%, 10/15/20 United States 6,600,000 6,847,500 senior note, 8.50%, 5/15/18 United States 14,000,000 14,910,000 senior note, 9.00%, 4/15/19 United States 1,000,000 1,075,000 senior note, 9.875%, 8/15/19 United States 400,000 444,500 senior secured note, 7.125%, 4/15/19 United States 10,000,000 10,450,000 senior secured note, 7.125%, 4/15/19 United States 5,000,000 5,362,500 *Sealed Air Corp., senior note, 144A, 8.125%, 9/15/19 United States 4,000,000 4,530,000 6.50%, 12/01/20 United States 4,000,000 4,365,000 8.375%, 9/15/21 United States 4,000,000 4,600,000 *U.S. Coatings Acquisition Inc./Flash Dutch 2 BV, 144A, 5.75%, 2/01/21 United States 8,000,000 EUR 11,155,560 *Xstrata Finance Canada Ltd., senior note, 144A, 4.95%, 11/15/21 Canada 25,000,000 25,575,125 358,468,071 *Media 3.1%* Media 3.1%* Media 3.1%* AMC Networks Inc., senior note, 7.75%, 7/15/21 United States 4,700,000 5,311,000 Cablevision Systems Corp., senior note, 8.625%, 9/15/17 United States 3,000,000 5,500,000 CCO Holdings LLC/CCO Holdings Capital Corp., senior note, 8.625%, 9/15/17 United States 5,000,000 5,500,000 S,500,000	144A, PIK, 9.25%, 8/01/19	Germany	3,000,000	3,142,500
senior note, 8.50%, 5/15/18 United States 14,000,000 14,910,000 senior note, 9.00%, 4/15/19 United States 1,000,000 1,075,000 senior note, 9.875%, 8/15/19 United States 400,000 444,500 senior note, 8.25%, 2/15/21 United States 10,000,000 10,450,000 senior secured note, 7.125%, 4/15/19 United States 5,000,000 5,362,500 **Sealed Air Corp., senior note, 144A, ** 4,000,000 4,530,000 6.50%, 12/01/20 United States 4,000,000 4,530,000 6.50%, 12/01/20 United States 4,000,000 4,365,000 **U.S. Coatings Acquisition Inc./Flash Dutch 2 BV, 144A, 5.75%, United States 8,000,000 EUR 11,155,560 **Xstrata Finance Canada Ltd., senior note, 144A, 4.95%, Canada 25,000,000 25,575,125 358,468,071 Media 3.1% **Mc Networks Inc., senior note, 7.75%, 7/15/21 United States 4,700,000 5,311,000 Cablevision Systems Corp., senior note, 8.625%, 9/15/17 United States 3,000,000 3,502,500 COO Holdings LLC/CCO Holdings Capital Corp., senior note, 8.125%, 4/30/20	Reynolds Group Issuer Inc./LLC/SA,			
senior note, 9.00%, 4/15/19 United States 1,000,000 1,075,000 senior note, 9.875%, 8/15/19 United States 400,000 444,500 senior note, 8.25%, 2/15/21 United States 10,000,000 10,450,000 senior secured note, 7.125%, 4/15/19 United States 5,000,000 5,362,500 *Sealed Air Corp., senior note, 144A, ** 4,000,000 4,530,000 6.50%, 12/01/20 United States 4,000,000 4,530,000 6.50%, 12/01/20 United States 4,000,000 4,365,000 8.375%, 9/15/21 United States 4,000,000 4,600,000 *U.S. Coatings Acquisition Inc./Flash Dutch 2 BV, 144A, 5.75%, United States 8,000,000 EUR 11,155,560 *Xstrata Finance Canada Ltd., senior note, 144A, 4.95%, Canada 25,000,000 25,575,125 *Xstrata Finance Canada Ltd., senior note, 7.75%, 7/15/21 United States 4,700,000 5,311,000 *Cablevision Systems Corp., senior note, 8.625%, 9/15/17 United States 4,700,000 3,502,500 *CO Holdings LLC/CCO Holdings Capital Corp., senior note, 8.125%, 4/30/20 United States 5,000,000	first lien, 5.75%, 10/15/20	United States	6,600,000	6,847,500
senior note, 9.875%, 8/15/19 United States 400,000 444,500 senior note, 8.25%, 2/15/21 United States 10,000,000 10,450,000 senior secured note, 7.125%, 4/15/19 United States 5,000,000 5,362,500 *Sealed Air Corp., senior note, 144A, 8.125%, 9/15/19 United States 4,000,000 4,530,000 6.50%, 12/01/20 United States 4,000,000 4,365,000 8.375%, 9/15/21 United States 4,000,000 4,600,000 *U.S. Coatings Acquisition Inc./Flash Dutch 2 BV, 144A, 5.75%, 2/01/21 United States 8,000,000 EUR 11,155,560 *Xstrata Finance Canada Ltd., senior note, 144A, 4.95%, 11/15/21 Canada 25,000,000 25,575,125 Media 3.1% Canada 25,000,000 5,311,000 Cablevision Systems Corp., senior note, 8.625%, 9/15/17 United States 4,700,000 5,311,000 Cablevision Systems Corp., senior note, 8.625%, 9/15/17 United States 3,000,000 5,500,000 CCO Holdings LLC/CCO Holdings Capital Corp., senior note, 8.125%, 4/30/20 United States 5,000,000 5,500,000		United States	14,000,000	14,910,000
senior note, 8.25%, 2/15/21 United States 10,000,000 10,450,000 senior secured note, 7.125%, 4/15/19 United States 5,000,000 5,362,500 *Sealed Air Corp., senior note, 144A, *** *** 4,000,000 4,530,000 6.50%, 12/01/20 United States 4,000,000 4,365,000 8.375%, 9/15/21 United States 4,000,000 4,600,000 **U.S. Coatings Acquisition Inc./Flash Dutch 2 BV, 144A, 5.75%, 2/01/21 United States 8,000,000 EUR 11,155,560 **Xstrata Finance Canada Ltd., senior note, 144A, 4.95%, 11/15/21 Canada 25,000,000 25,575,125 358,468,071 Media 3.1% AMC Networks Inc., senior note, 7.75%, 7/15/21 United States 4,700,000 5,311,000 Cablevision Systems Corp., senior note, 8.625%, 9/15/17 United States 3,000,000 3,502,500 CCO Holdings LLC/CCO Holdings Capital Corp., senior note, 8.125%, 4/30/20 United States 5,000,000 5,500,000		United States	1,000,000	1,075,000
senior secured note, 7.125%, 4/15/19 United States 5,000,000 5,362,500 e Sealed Air Corp., senior note, 144A, 8.125%, 9/15/19 United States 4,000,000 4,530,000 6.50%, 12/01/20 United States 4,000,000 4,365,000 8.375%, 9/15/21 United States 4,000,000 4,600,000 eU.S. Coatings Acquisition Inc./Flash Dutch 2 BV, 144A, 5.75%, 2/01/21 United States 8,000,000 EUR 11,155,560 eXstrata Finance Canada Ltd., senior note, 144A, 4.95%, 11/15/21 Canada 25,000,000 25,575,125 Media 3.1% AMC Networks Inc., senior note, 7.75%, 7/15/21 United States 4,700,000 5,311,000 Cablevision Systems Corp., senior note, 8.625%, 9/15/17 United States 3,000,000 3,502,500 CCO Holdings LLC/CCO Holdings Capital Corp., senior note, 8.125%, 4/30/20 United States 5,000,000 5,500,000		United States		
**Sealed Air Corp., senior note, 144A,	senior note, 8.25%, 2/15/21		10,000,000	10,450,000
8.125%, 9/15/19 United States 4,000,000 4,530,000 6.50%, 12/01/20 United States 4,000,000 4,365,000 8.375%, 9/15/21 United States 4,000,000 4,600,000 eU.S. Coatings Acquisition Inc./Flash Dutch 2 BV, 144A, 5.75%, 2/01/21 United States 8,000,000 EUR 11,155,560 eXstrata Finance Canada Ltd., senior note, 144A, 4.95%, 11/15/21 Canada 25,000,000 25,575,125 Media 3.1% AMC Networks Inc., senior note, 7.75%, 7/15/21 United States 4,700,000 5,311,000 Cablevision Systems Corp., senior note, 8.625%, 9/15/17 United States 3,000,000 3,502,500 CCO Holdings LLC/CCO Holdings Capital Corp., senior note, 8.125%, 4/30/20 United States 5,000,000 5,500,000		United States	5,000,000	5,362,500
6.50%, 12/01/20				
8.375%, 9/15/21 United States 4,000,000 4,600,000 eU.S. Coatings Acquisition Inc./Flash Dutch 2 BV, 144A, 5.75%, 2/01/21 United States 8,000,000 EUR 11,155,560 eXstrata Finance Canada Ltd., senior note, 144A, 4.95%, 11/15/21 Canada 25,000,000 25,575,125 358,468,071 Media 3.1% AMC Networks Inc., senior note, 7.75%, 7/15/21 United States 4,700,000 5,311,000 Cablevision Systems Corp., senior note, 8.625%, 9/15/17 United States 3,000,000 3,502,500 CCO Holdings LLC/CCO Holdings Capital Corp., senior note, 8.125%, 4/30/20 United States 5,000,000 5,500,000			4,000,000	, ,
e U.S. Coatings Acquisition Inc./Flash Dutch 2 BV, 144A, 5.75%, 2/01/21 United States 8,000,000 EUR 11,155,560 eXstrata Finance Canada Ltd., senior note, 144A, 4.95%, 11/15/21 Canada 25,000,000 25,575,125 Media 3.1% AMC Networks Inc., senior note, 7.75%, 7/15/21 United States 4,700,000 5,311,000 Cablevision Systems Corp., senior note, 8.625%, 9/15/17 United States 3,000,000 3,502,500 CCO Holdings LLC/CCO Holdings Capital Corp., senior note, 8.125%, 4/30/20 United States 5,000,000 5,500,000	6.50%, 12/01/20	United States	, ,	
2/01/21 United States 8,000,000 EUR 11,155,560 eXstrata Finance Canada Ltd., senior note, 144A, 4.95%, Canada 25,000,000 25,575,125 11/15/21 Canada 25,000,000 25,575,125 358,468,071 Media 3.1% AMC Networks Inc., senior note, 7.75%, 7/15/21 United States 4,700,000 5,311,000 Cablevision Systems Corp., senior note, 8.625%, 9/15/17 United States 3,000,000 3,502,500 CCO Holdings LLC/CCO Holdings Capital Corp., senior note, 8.125%, 4/30/20 United States 5,000,000 5,500,000	,	United States	4,000,000	4,600,000
**Exstrata Finance Canada Ltd., senior note, 144A, 4.95%, 11/15/21	eU.S. Coatings Acquisition Inc./Flash Dutch 2 BV, 144A, 5.75%,			
11/15/21 Canada 25,000,000 25,575,125 358,468,071 Media 3.1% AMC Networks Inc., senior note, 7.75%, 7/15/21 United States 4,700,000 5,311,000 Cablevision Systems Corp., senior note, 8.625%, 9/15/17 United States 3,000,000 3,502,500 CCO Holdings LLC/CCO Holdings Capital Corp., senior note, 8.125%, 4/30/20 United States 5,000,000 5,500,000		United States	8,000,000 EUR	11,155,560
Media 3.1% AMC Networks Inc., senior note, 7.75%, 7/15/21 United States 4,700,000 5,311,000 Cablevision Systems Corp., senior note, 8.625%, 9/15/17 United States 3,000,000 3,502,500 CCO Holdings LLC/CCO Holdings Capital Corp., senior note, 8.125%, 4/30/20 United States 5,000,000 5,500,000	eXstrata Finance Canada Ltd., senior note, 144A, 4.95%,			
Media 3.1% AMC Networks Inc., senior note, 7.75%, 7/15/21 United States 4,700,000 5,311,000 Cablevision Systems Corp., senior note, 8.625%, 9/15/17 United States 3,000,000 3,502,500 CCO Holdings LLC/CCO Holdings Capital Corp., senior note, 8.125%, 4/30/20 United States 5,000,000 5,500,000	11/15/21	Canada	25,000,000	25,575,125
AMC Networks Inc., senior note, 7.75%, 7/15/21 United States 4,700,000 5,311,000 Cablevision Systems Corp., senior note, 8.625%, 9/15/17 United States 3,000,000 3,502,500 CCO Holdings LLC/CCO Holdings Capital Corp., senior note, 8.125%, 4/30/20 United States 5,000,000 5,500,000				358,468,071
AMC Networks Inc., senior note, 7.75%, 7/15/21 United States 4,700,000 5,311,000 Cablevision Systems Corp., senior note, 8.625%, 9/15/17 United States 3,000,000 3,502,500 CCO Holdings LLC/CCO Holdings Capital Corp., senior note, 8.125%, 4/30/20 United States 5,000,000 5,500,000	Media 3 1%			· · · · · · · · · · · · · · · · · · ·
Cablevision Systems Corp., senior note, 8.625%, 9/15/17 United States 3,000,000 3,502,500 CCO Holdings LLC/CCO Holdings Capital Corp., senior note, 8.125%, 4/30/20 United States 5,000,000 5,500,000		United States	4 700 000	5 211 000
CCO Holdings LLC/CCO Holdings Capital Corp., senior note, 8.125%, 4/30/20 United States 5,000,000 5,500,000				
8.125%, 4/30/20 United States 5,000,000 5,500,000		omicu States	5,000,000	3,302,300
		United States	5 000 000	5 500 000
5.55 /s, 4.55/21 6.100,000 6,500,000	•			
	3.3370, 1730/21	Omica otates	5,555,555	3,300,000

Franklin Strategic Income Fund	Country	Principal Amount*		Value
Corporate Bonds (continued)				
Media (continued)				
Clear Channel Communications Inc.,				
senior secured bond, first lien, 9.00%, 3/01/21	United States	30,000,000	\$	30,375,000
senior secured note, first lien, 9.00%, 12/15/19	United States	5,000,000		5,100,000
Clear Channel Worldwide Holdings Inc.,		, ,		, ,
senior note, 6.50%, 11/15/22	United States	3,000,000		3,135,000
senior note, 6.50%, 11/15/22	United States	5,000,000		5,275,000
senior sub. note, 7.625%, 3/15/20	United States	900,000		956,250
senior sub. note, 7.625%, 3/15/20	United States	5,100,000		5,469,750
CSC Holdings Inc., senior deb., 7.625%, 7/15/18	United States	6,000,000		6,945,000
CSC Holdings LLC, senior note, 6.75%, 11/15/21	United States	22,000,000		24,090,000
DISH DBS Corp.,		, ,		, ,
senior bond, 5.00%, 3/15/23	United States	10,000,000		9,612,500
senior note, 7.75%, 5/31/15	United States	5,000,000		5,481,250
senior note, 7.125%, 2/01/16	United States	13,000,000		14,397,500
senior note, 6.75%, 6/01/21	United States	4,000,000		4,350,000
senior note, 5.875%, 7/15/22	United States	3,000,000		3,086,250
e Gannett Co. Inc.,		2,222,222		-,,
senior bond, 144A, 6.375%, 10/15/23	United States	16,400,000		17,343,000
senior note, 144A, 5.125%, 7/15/20	United States	5,200,000		5,343,000
Media General Inc., senior secured note, 11.75%, 2/15/17	United States	5,200,000		5,681,000
Radio One Inc., senior sub. note, PIK, 12.50%, 5/24/16	United States	11,000,000		11,192,500
Time Warner Inc.,		,_,		,,
7.625%, 4/15/31	United States	9,000,000		11,416,185
6.10%, 7/15/40	United States	3,000,000		3,319,770
senior bond, 3.40%, 6/15/22	United States	5,000,000		4,946,930
^e Unitymedia Hessen GmbH & Co.KG/Unitymedia NRW GmbH,		2,222,222		.,,
secured bond, 144A, 5.75%, 1/15/23	Germany	3,700,000 EUR		5,190,849
senior secured note, 144A, 9.50%, 3/15/21	Germany	7,000,000 EUR		10,955,262
senior secured note, 144A, 5.625%, 4/15/23	Germany	1,900,000 EUR		2,616,059
^e Univision Communications Inc.,	, ,	, ,		, ,
senior secured bond, 144A, 6.75%, 9/15/22	United States	4,000,000		4,380,000
senior secured note, 144A, 6.875%, 5/15/19	United States	5,000,000		5,412,500
senior secured note, 144A, 7.875%, 11/01/20	United States	11,000,000		12,265,000
senior secured note, 144A, 5.125%, 5/15/23	United States	2,000,000		1,990,000
^e UPC Holding BV, senior note, 144A, 6.375%, 9/15/22	Netherlands	3,000,000 EUR		4,152,781
^e UPCB Finance II Ltd., senior secured note, 144A, 6.375%,		5,555,555 -555		.,,
7/01/20	Netherlands	8,000,000 EUR		11,601,239
eUPCB Finance VI Ltd., senior secured note, 144A, 6.875%,	. rotilorialido	0,000,000 20.1		11,001,200
1/15/22	Netherlands	5,000,000		5,400,000
2/20/22	. rotilorialia	0,000,000	_	
				264,153,075
Pharmaceuticals, Biotechnology & Life Sciences 1.4%				
AbbVie Inc., senior note, 2.90%, 11/06/22	United States	10,000,000		9,559,680
^e Capsugel FinanceCo SCA, senior note, 144A, 9.875%,				
8/01/19	United States	11,000,000 EUR		16,757,953
Gilead Sciences Inc., senior note,				
4.50%, 4/01/21	United States	10,000,000		10,889,570
4.40%, 12/01/21	United States	5,000,000		5,407,425
Grifols Inc., senior note, 8.25%, 2/01/18	Spain	10,000,000		10,787,500
	•			

Franklin Strategic Income Fund	Country	Principal Amount*	Value
Corporate Bonds (continued)			
Pharmaceuticals, Biotechnology & Life Sciences (continued)			
e in Ventiv Health Inc.,			
senior note, 144A, 10.00%, 8/15/18	United States	2,000,000	\$ 1,727,500
senior secured note, 144A, 9.00%, 1/15/18	United States	6,200,000	6,525,500
e,j Jaguar Holding Co. I, senior note, 144A, PIK, 9.375%,			
10/15/17	United States	12,000,000	12,780,000
eVPI Escrow Corp., senior note, 144A, 6.375%, 10/15/20	United States	16,600,000	17,803,500
eVPII Escrow Corp., senior note, 144A, 7.50%, 7/15/21	United States	10,800,000	12,042,000
e Zoetis Inc., senior bond, 144A, 3.25%, 2/01/23	United States	15,000,000	14,391,405
			118,672,033
Retailing 0.7%			
^e Academy Ltd./Finance Corp., senior note, 144A, 9.25%,			
8/01/19	United States	10,000,000	11,137,500
eEdcon Pty. Ltd., secured note, 144A, 9.50%, 3/01/18	South Africa	15,325,000 EUR	21,109,217
^e Matalan Finance Ltd., senior secured note, 144A, 8.875%,			
4/29/16	United Kingdom	5,000,000 GBP	8,241,582
^e New Look Bondco I PLC, 144A, 8.75%, 5/14/18	United Kingdom	9,100,000 GBP	15,468,326
			55,956,625
Comissandustava & Comissandustav Equipment 0.49/			
Semiconductors & Semiconductor Equipment 0.4% Freescale Semiconductor Inc.,			
esecured note, 144A, 5.00%, 5/15/21	United States	10,000,000	9,750,000
senior note, 8.05%, 2/01/20	United States	12,000,000	12,990,000
senior note, 10.75%, 8/01/20	United States	5,018,000	5,733,065
esenior secured note, 144A, 9.25%, 4/15/18	United States	1,964,000	2,133,395
e.g senior secured note, 144A, 6.00%, 1/15/22	United States	1,500,000	1,520,625
, ,		, ,	32,127,085
			32,127,063
Software & Services 1.1%			
^e BMC Software Finance Inc., senior note, 144A, 8.125%,	Haited Ctates	6 200 000	6 602 750
7/15/21	United States United States	6,300,000	6,693,750
eCeridian Corp., secured note, 144A, 8.875%, 7/15/19 Equinix Inc., senior bond, 5.375%, 4/01/23	United States	6,200,000 20,000,000	7,207,500 19,950,000
First Data Corp.,	Officed States	20,000,000	19,950,000
senior bond, 12.625%, 1/15/21	United States	2,000,000	2,317,500
esenior note, 144A, 11.25%, 1/15/21	United States	5,000,000	5,518,750
esenior secured bond, 144A, 8.25%, 1/15/21	United States	28,000,000	29,960,000
^e Sitel LLC/Finance Corp., senior secured note, 144A, 11.00%,		,,	
8/01/17	United States	1,400,000	1,529,500
Sterling International Inc., senior note, 11.00%, 10/01/19	United States	6,300,000	6,630,750
West Corp., senior note, 7.875%, 1/15/19	United States	15,000,000	16,312,500
			96,120,250
Taskuslam Haudusus 9 5 0 40/			50,120,250
Technology Hardware & Equipment 0.4%	United Ctatas	15 000 000	16 (07 500
CDW LLC/Finance Corp., senior note, 8.50%, 4/01/19	United States	15,000,000	16,687,500
e.j CommScope Holdings Co. Inc., senior note, 144A, PIK, 6.625%, 6/01/20	United States	1,800,000	1,849,500
^e CommScope Inc., senior note, 144A, 8.25%, 1/15/19	United States	18,000,000	19,845,000
σοπιποσορό πιο., σοποί ποτο, 144Λ, 0.25 /0, 1/15/17	Office States	10,000,000	
			38,382,000

Franklin Strategic Income Fund	Country	Principal Amount*		Value
Corporate Bonds (continued)				
Telecommunication Services 3.9%				
CC Holdings GS V LLC/Crown Castle GS III Corp.,				
senior secured bond, 3.849%, 4/15/23	United States	10,900,000	\$	10,363,720
CenturyLink Inc., senior note,		, ,	•	, ,
6.00%, 4/01/17	United States	12,000,000		13,200,000
6.45%, 6/15/21	United States	4,100,000		4,284,500
5.80%, 3/15/22	United States	2,000,000		1,990,000
Crown Castle International Corp., senior bond,		, , , , , , , , ,		, ,
7.125%, 11/01/19	United States	400,000		434,000
5.25%, 1/15/23	United States	5,000,000		4,975,000
^e Digicel Group Ltd., senior note, 144A, 8.25%, 9/30/20	Bermuda	12,000,000		12,637,500
Digicel Ltd., senior note, 144A,		, ,		,,
8.25%, 9/01/17	Bermuda	1,000,000		1,046,500
6.00%, 4/15/21	Bermuda	5,700,000		5,545,160
eeAccess Ltd., senior note, 144A,		2,1 22,222		-,- :-,
8.25%, 4/01/18	Japan	5,800,000		6,423,500
8.375%, 4/01/18	Japan	2,200,000 EUR		3,323,583
Frontier Communications Corp.,		_,,		-,,
senior bond, 7.625%, 4/15/24	United States	6,025,000		6,386,500
senior note, 8.50%, 4/15/20	United States	14,000,000		16,065,000
senior note, 8.75%, 4/15/22	United States	6,000,000		6,885,000
senior note, 7.125%, 1/15/23	United States	2,000,000		2,095,000
senior note, 7.875%, 1/15/27	United States	3,975,000		3,955,125
Intelsat Jackson Holdings SA,		2,212,200		0,000,000
6.625%, 12/15/22	Luxembourg	10,000,000		10,200,000
esenior bond, 144A, 5.50%, 8/01/23	Luxembourg	3,000,000		2,917,500
senior note, 7.25%, 10/15/20	Luxembourg	15,000,000		16,350,000
senior note, 7.50%, 4/01/21	Luxembourg	9,000,000		9,855,000
^e Lynx I Corp., first lien, 144A, 5.375%, 4/15/21	United Kingdom	4,300,000		4,364,500
^e Lynx II Corp., senior bond, 144A, 6.375%, 4/15/23	United Kingdom	500,000		515,000
^e Millicom International Cellular SA, senior note, 144A, 6.625%,	g	,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,		,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,
10/15/21	Luxembourg	6,700,000		6,913,562
e.j Mobile Challenger Intermediate Group SA, secured note, 144A,		.,,		.,,.
PIK, 8.75%, 3/15/19	Switzerland	3,650,000 EUR		5,055,648
e Nokia Siemens Networks Finance BV, senior note, 144A,		.,,		.,,.
7.125%, 4/15/20	Netherlands	15,000,000 EUR		23,233,677
^e Sprint Corp., senior note, 144A, 7.875%, 9/15/23	United States	4,700,000		5,111,250
Sprint Nextel Corp., senior note,		,,		, ,
8.375%, 8/15/17	United States	17,000,000		19,762,500
6.00%, 11/15/22	United States	10,000,000		9,900,000
° 144A, 9.00%, 11/15/18	United States	8,000,000		9,720,000
e 144A, 7.00%, 3/01/20	United States	5,000,000		5,575,000
T-Mobile USA Inc., senior note,		.,,		.,,.
6.542%, 4/28/20	United States	5,000,000		5,318,750
6.633%, 4/28/21	United States	3,500,000		3,714,375
6.731%, 4/28/22	United States	3,500,000		3,710,000
Telefonica Emisiones SAU, senior note,	22222	- / , - 00		-,,000
5.462%, 2/16/21	Spain	15,000,000		15,961,275
4.57%, 4/27/23	Spain	11,000,000		10,966,010
,	1.5	, -,		, -,-

Franklin Strategic Income Fund	Country	Principal Amount*	Value
Corporate Bonds (continued)			
Telecommunication Services (continued)			
Verizon Communications Inc., senior note, 5.15%, 9/15/23 eWind Acquisition Finance SA, senior secured note, 144A,	United States	28,800,000	\$ 31,295,290
11.75%, 7/15/17	Italy	22,000,000	23,402,500
144A, PIK, 12.25%, 7/15/17	Italy	3,061,335 EUR	4,069,553
			327,521,478
Transportation 0.4%			
CEVA Group PLC, senior note, first lien, 144A, 4.00%,		0.000.000	7.240.000
5/01/18	United Kingdom	8,800,000	7,348,000
6.25%, 10/15/22	United States	10,000,000	10,525,000
senior note, 5.875%, 10/15/20	United States	1,800,000	1,903,500
Hertz Corp., senior note, 6.75%, 4/15/19	United States	11,900,000	12,896,625
			32,673,125
Utilities 0.9%			
e Calpine Corp.,			
senior secured bond, first lien, 144A, 5.875%, 1/15/24	United States	2,000,000	2,007,500
senior secured note, 144A, 7.875%, 7/31/20	United States	5,000,000	5,487,500
senior secured note, 144A, 7.50%, 2/15/21	United States	7,132,000	7,738,220
senior secured note, 144A, 7.875%, 1/15/23	United States	5,450,000	5,954,125
senior secured, first lien, 144A, 6.00%, 1/15/22 e.f EDF SA, sub. note, 144A, 5.25% to 1/29/23, FRN thereafter,	United States	1,300,000	1,352,000
Perpetual	France	25,000,000	24,619,400
^e InterGen NV, secured bond, 144A, 7.00%, 6/30/23 ^e Texas Competitive Electric Holdings Co. LLC/Texas Competitive Electric Holdings Finance Inc.,, senior secured note, 144A,	Netherlands	10,600,000	10,990,875
11.50%, 10/01/20	United States	32,000,000	22,960,000
,		, , , , , , , , ,	81,109,620
Total Corporate Bonds (Cost \$3,098,294,697)			3,278,569,795
i.k Senior Floating Rate Interests 13.1% Automobiles & Components 0.4%			
August Luxuk Holding Co., Lux Second Lien, 10.50%, 4/27/19	Luxembourg	7,790,227	7,946,031
August U.S. Holding Co. Inc., U.S. Second Lien, 10.50%,	_		
4/27/19	United States	2,550,782	2,601,798
Term Loan, 10.50%, 1/29/18	United States	20,417,561	19,958,166
			30,505,995
Capital Goods 0.7%			
Accudyne Industries LLC (Silver II U.S. Holdings/Hamilton), 2013 Specified Refinancing Term Loan, 4.00%, 12/13/19	United States	13,380,786	13,373,159
Air Distribution Technologies (Tomkins Air Distribution), Second Lien Initial Loan, 9.25%, 5/09/20	United States	6,472,972	6,553,884
^b Erickson Air-Crane Inc., Purchase Price Notes, 6.00%, 11/02/20	United States	1,202,322	1,202,322

Franklin Strategic Income Fund	Country	Principal Amount*	Value
[↓] Senior Floating Rate Interests (continued)			
Capital Goods (continued)			
Quikrete Holdings, Inc., First Lien Initial Loan, 4.00%,			
9/26/20	United States	9,389,400	\$ 9,441,342
Sensus USA Inc., Second Lien Term Loan, 8.50%, 5/09/18	United States	13,947,904	13,866,546
Terex Corp., U.S. Term Loan, 4.50%, 4/28/17	United States	11,871,382	11,938,159
TransDigm Inc., Tranche C Term Loan, 3.75%, 2/28/20 Wesco Distribution Inc., Tranche B-1 Loan, 4.50%,	United States	3,642,515	3,652,241
12/12/19	United States	2,052,236	2,068,141
			62,095,794
Commercial & Professional Services 0.7%			
Altegrity Inc., Tranche D Term Loan, 7.75%, 2/21/15 ARAMARK Corp.,	United States	15,734,703	15,616,692
Extended Synthetic L/C, 3.529%, 7/26/16	United States	811,052	813,743
Synthetic L/C-3, 3.529%, 7/26/16	United States	336,519	337,904
Term Loan B Extended, 3.668% - 3.748%, 7/26/16	United States	10,000,445	10,033,616
U.S. Term C Loan, 3.748%, 7/26/16	United States	453,567	455,433
U.S. Term D Loan, 4.00%, 8/22/19	United States	5,137,305	5,159,755
EnviroSolutions Real Property Holdings, Second Lien Term Loan,			
8.00%, 7/29/14	United States	1,223,360	1,226,418
Interactive Data Corp., Term B Loan, 3.75%, 2/11/18 Pacific Industrial Services US Finco LLC (Spotless),	United States	21,767,772	21,808,587
Second Lien Initial Term Loan, 8.75%, 4/02/19	United States	253,000	256,953
			55,709,101
Canadiman Samilaga 1 09/			
Consumer Services 1.0%			
Caesars Entertainment Operating Co. Inc., Term Loan B-4, 9.50%, 10/31/16	United States	14,625,203	14,650,344
g Hilton Worldwide Finance LLC, Initial Term Loan, 5.25%,	United States	, ,	
10/25/20		12,863,106	12,952,350
3/01/15	United States	25,591,962	23,608,585
Loan, 3.75%, 4/02/20	United States	32,676,632	30,067,599
			81,278,878
Diversified Financials 0.4%			
Asurion LLC, Incremental Tranche B-1 Term Loan, 4.50%,			
5/24/19	United States	18,803,802	18,819,954
Initial Term Loan, 4.25%, 7/22/20	United States	1,710,000	1,720,260
2/10/19	United States	16,954,160	17,065,430
			37,605,644
Energy 0.7%			
Arch Coal Inc., Term Loans, 5.75%, 5/16/18	United States	25,060,598	24,351,860
Additional NM Loans (DIP), PIK, 4.50% - 10.00%,	United Ctatas	EO CO4	40.004
2/28/14	United States	59,624	40,694
Refinancing Loan (DIP), PIK, 4.50% - 10.00%, 2/28/14	United States United States	422,467 902,077	288,333 615,667
Remiancing Loan (DII), 1 IR, 4.30 /0 - 10.00 /0, 2/20/14	Officed States	302,077	013,007

Franklin Strategic Income Fund	Country	Principal Amount*	Value
♣Senior Floating Rate Interests (continued)			
Energy (continued)			
Bennu Oil & Gas LLC, Second Lien Loans, 11.25%, 11/01/18	United States	1,603,200	\$ 1,587,168
gTerm Loan, 12.25%, 10/31/18	United States	444,727	435,832
Pacific Drilling SA, Term Loan, 4.50%, 6/03/18	Luxembourg	7,251,349	7,304,828
Patriot Coal Corp., DIP Term Loan, 9.25%, 12/31/13	United States	28,801,763	28,873,768
			63,498,150
Food & Staples Retailing 0.2%			
AdvancePierre Foods Inc.,			
Loans, 5.75%, 7/10/17	United States	5,381,545	5,419,270
Second Lien Term Loan, 9.50%, 10/10/17	United States	8,931,383	9,076,518
			14,495,788
Food, Beverage & Tobacco 0.5%			
Allflex Holdings III Inc., Second Lien Initial Term Loan, 8.00%,			
7/17/21	United States	5,270,000	5,355,638
Del Monte Foods Co., Initial Term Loans, 4.00%, 3/08/18	United States	40,029,118	40,144,201
			45,499,839
Health Care Equipment & Services 1.2%			
Ardent Medical Services Inc., Second Lien Term Loan, 11.00%, 1/02/19	United States	7,251,658	7,423,885
Carestream Health Inc., Second Lien Loan, 9.50%,	Officed States	7,231,030	7,423,003
12/07/19	United States	15,400,000	15,496,250
Community Health Systems Inc., New Extended Term Loan,			
3.748% - 3.761%, 1/25/17	United States	46,616,478	46,843,080
DaVita HealthCare Partners Inc., Tranche B Term Loan, 4.50%, 10/20/16	United States	13,540,496	13,639,937
Tranche B-2 Term Loan, 4.00%, 8/24/19	United States	20,470,740	20,609,654
Tranche B 2 Term Loan, 4.00%, 0/24/13			104,012,806
Harrachald & Davisanal Draduate O 20/			104,012,000
Household & Personal Products 0.2% FGI Operating Co. LLC (Freedom Group), Term B Loans, 6.50%,			
4/19/19	United States	8,524,074	8,593,332
Otter Products LLC, Loans, 6.50%, 4/29/19	United States	4,148,433	4,171,743
			12,765,075
Materials 2.9%			
American Rock Salt Co. LLC, Initial Loan, 5.50%, 4/25/17	United States	8,190,792	8,243,688
Arysta Lifescience SPC LLC,			
Initial Term Loan, 4.50%, 5/29/20	United States	22,903,619	23,056,111
Second Lien Initial Term Loan, 8.25%, 11/30/20	United States	16,097,566	16,233,188
Axalta Coating Systems U.S. Holdings Inc., Initial Term B Loans, 4.75%, 2/01/20	United States	26,330,911	26,639,483
Exopack Holdings SA, USD Term Loan, 6.50%, 4/08/19	Luxembourg	6,983,634	7,092,753
FMG America Finance Inc. (Fortescue Metals Group), Loans,		, -,	, ,
5.25%, 10/18/17	United States	7,099,642	7,128,282
Ineos U.S. Finance LLC, Dollar Term Loan, 4.00%, 5/04/18	United States	12,896,386	12,954,819
MacDermid Holdings LLC, First Lien Tranche B Term Loan,	United States	2 060 075	2 077 005
4.00%, 6/07/20	United States	3,960,075	3,977,895

Franklin Strategic Income Fund	Country	Principal Amount*	Value
Senior Floating Rate Interests (continued)			
Materials (continued)			
OCI Beaumont LLC, Term B-2 Loans, 6.25%, 8/20/19 Oxbow Carbon LLC, First Lien Tranche B Term Loan, 4.25%,	United States	2,473,085	\$ 2,510,181
7/19/19	United States	5,709,058	5,764,368
OXEA GmbH, Second Lien Term Loan, 8.25%, 7/15/20	Luxembourg	6,458,436	6,537,152
Pact Group (USA) LLC, Term Loans, 3.75%, 5/29/20 Reynolds Group Holdings Inc., U.S. Term Loan, 4.75%,	United States	5,358,113	5,327,973
9/28/18	United States	43,220,509	43,623,021
Term Loan, 10.25%, 9/30/18	United States	34,108,791	34,535,151
3/19/20	Netherlands	20,273,128	20,468,256
Walter Energy Inc., B Term Loan, 6.75%, 4/01/18	United States	22,198,634	21,802,233
		,,	245,894,554
Media 0.6%			
Cumulus Media Holdings Inc., Second Lien Term Loan, 7.50%,			
9/16/19	United States	17,538,831	18,004,487
3.50%, 5/31/20	United States	6,387,500	6,299,672
7/14/17	United States	9,966,928	10,022,992
7/22/20	United States	2,614,845	2,700,918
Radio One Inc., Term Loan, 7.50%, 3/31/16	United States	1,652,555	1,696,967
Facility AF, 4.00%, 1/31/21	Netherlands	3,978,000	4,010,321
7/01/20	United States	5,160,000	5,164,030
			47,899,387
Pharmaceuticals, Biotechnology & Life Sciences 0.3%			
Aptalis Pharma Inc. (Axcan), Term B Loans, 6.00%,			
10/04/20	United States	7,839,600	7,904,927
9/30/19	United States	10,213,519	10,256,876
Term Loan, 4.50%, 9/26/20	Canada	3,632,550	3,685,222
			21,847,025
Retailing 1.6%			
BJ's Wholesale Club Inc.,			
2013 Replacement Loans, 4.25%, 9/26/19	United States	36,325,359	36,397,611
Second Lien Term Loan, 9.75%, 3/26/20	United States	10,358,725	10,602,590
7/09/19	United States	18,738,599	18,820,580
g Harbor Freight Tools USA Inc., Loans, 4.75%, 7/26/19	United States	8,918,983	9,033,815
gHudson's Bay Co., Term Loan B, 6.00%, 11/04/20gThe Neiman Marcus Group Ltd. Inc., Term Loan, 6.25%,	Canada	9,012,900	9,143,587
10/25/20	United States	1,539,600	1,551,467

Franklin Strategic Income Fund	Country	Principal Amount*	Value
k Senior Floating Rate Interests (continued)			
Retailing (continued)			
Party City Holdings Inc., 2013 Replacement Term Loan, 4.25%,			
7/27/19	United States	24,436,616	\$ 24,543,526
g Sears Roebuck Acceptance Corp., Term Loan, 5.50%,			
6/30/18	United States	27,750,070	27,917,736
			138,010,912
Coffee a Comica o 70/			
Software & Services 0.7%			
BMC Software Finance Inc., Initial U.S. Term Loans, 5.00%,	Halta d Otata	04.004.001	05 160 740
9/10/20	United States	24,884,621	25,169,749
MoneyGram International Inc., Term Loan, 4.25%, 3/28/20	United States	24,132,839	24,262,553
Vertafore Inc., Second Lien Term Loan, 9.75%, 10/27/17	United States	8,638,639	8,820,050
			58,252,352
Technology Hardware & Equipment 0.3%			
gDell International LLC, Term B Loan, 5.75%, 4/29/20	United States	27,919,379	27,792,011
		_,,,,,,,,,	
Telecommunication Services 0.4%			
Intelsat Jackson Holdings SA, Tranche B-1 Term Loan, 4.25%,	Luuranahauma	20 152 540	26 200 004
4/02/18	Luxembourg	36,153,546	36,398,884
Transportation 0.3%			
Evergreen International Aviation Inc., First Lien Term Loan,			
5.00%, 6/30/15	United States	1,444,274	1,415,389
Global Tip Finance BV/Finance America LLC, Facility C			
Commitment, 6.50%, 10/16/20	United States	10,040,000	9,789,000
YRC Worldwide Inc., U.S. Tranche Term Loan, 10.00%,			
3/21/15	United States	17,573,464	17,459,816
			28,664,205
Total Senior Floating Rate Interests			
(Cost \$1,104,267,761)			1 110 000 400
(Cost \$1,104,207,701)			1,112,226,400
Foreign Government and Agency Securities 19.3%			
Government of Canada,			
2.25%, 8/01/14	Canada	4,385,000 CAD	4,244,054
1.00%, 11/01/14	Canada	3,697,000 CAD	3,544,916
2.00%, 12/01/14	Canada	8,878,000 CAD	8,603,704
1.00%, 2/01/15	Canada	25,722,000 CAD	24,658,688
1.00%, 5/01/15	Canada	30,483,000 CAD	29,212,351
Government of Hungary,			
5.50%, 2/12/14	Hungary	5,236,400,000 HUF	24,195,372
7.75%, 8/24/15	Hungary	57,900,000 HUF	284,057
5.50%, 2/12/16	Hungary	7,719,020,000 HUF	36,654,441
g5.50%, 12/22/16	Hungary	584,040,000 HUF	2,778,436
4.125%, 2/19/18	Hungary	4,390,000	4,417,438
6.50%, 6/24/19	Hungary	721,600,000 HUF	3,576,052
7.50%, 11/12/20	Hungary	1,107,000,000 HUF	5,796,797
5.375%, 2/21/23	Hungary	16,250,000	16,214,250
A, 8.00%, 2/12/15	Hungary	183,720,000 HUF	889,457
A, 6.75%, 11/24/17	Hungary	55,920,000 HUF	278,533
gA, 5.50%, 12/20/18	Hungary	426,500,000 HUF	2,033,393

Franklin Strategic Income Fund	Country	Principal Amount*	Value
Foreign Government and Agency Securities (continued)			
Government of Hungary, (continued)			
A, 7.00%, 6/24/22	Hungary	11,570,000 HUF	\$ 58,700
A, 6.00%, 11/24/23	Hungary	15,870,000 HUF	75,857
D, 6.75%, 8/22/14	Hungary	890,000,000 HUF	4,192,411
senior note, 6.25%, 1/29/20	Hungary	21,690,000	23,614,987
senior note, 6.375%, 3/29/21	Hungary	14,820,000	16,144,538
eGovernment of Iceland, 144A, 5.875%, 5/11/22	Iceland	31,600,000	33,041,750
Government of Indonesia,			
FR20, 14.275%, 12/15/13	Indonesia	43,065,000,000 IDR	3,859,300
FR26, 11.00%, 10/15/14	Indonesia	4,500,000,000 IDR	417,395
FR28, 10.00%, 7/15/17	Indonesia	10,200,000,000 IDR	997,150
FR34, 12.80%, 6/15/21	Indonesia	169,210,000,000 IDR	19,701,408
FR36, 11.50%, 9/15/19	Indonesia	35,400,000,000 IDR	3,793,400
FR39, 11.75%, 8/15/23	Indonesia	29,150,000,000 IDR	3,328,875
FR44, 10.00%, 9/15/24	Indonesia	8,340,000,000 IDR	867,674
Government of Ireland,			
5.90%, 10/18/19	Ireland	9,393,000 EUR	14,834,008
4.50%, 4/18/20	Ireland	8,760,000 EUR	12,852,052
5.00%, 10/18/20	Ireland	26,083,000 EUR	39,335,028
senior bond, 4.40%, 6/18/19	Ireland	17,568,000 EUR	25,948,440
senior bond, 5.40%, 3/13/25	Ireland	15,868,580 EUR	24,455,557
Government of Malaysia,			
3.434%, 8/15/14	Malaysia	77,675,000 MYR	24,606,601
3.741%, 2/27/15	Malaysia	63,555,000 MYR	20,245,836
3.835%, 8/12/15	Malaysia	32,480,000 MYR	10,391,796
4.72%, 9/30/15	Malaysia	3,130,000 MYR	1,018,512
3.197%, 10/15/15	Malaysia	27,690,000 MYR	8,764,030
senior bond, 5.094%, 4/30/14	Malaysia	71,160,000 MYR	22,693,154
senior bond, 4.24%, 2/07/18	Malaysia	64,800,000 MYR	21,145,414
Government of Mexico,	-		
8.00%, 12/19/13	Mexico	6,250,200 ¹ MXN	48,247,006
7.00%, 6/19/14	Mexico	2,187,000 MXN	17,147,403
9.50%, 12/18/14	Mexico	3,566,870 ¹ MXN	29,158,386
6.00%, 6/18/15	Mexico	94,510 ¹ MXN	751,583
8.00%, 12/17/15	Mexico	5,837,850 ¹ MXN	48,563,851
6.25%, 6/16/16	Mexico	768,210 ¹ MXN	6,197,825
7.25%, 12/15/16	Mexico	215,870 ¹ MXN	1,793,905
Government of Poland,		,	, ,
5.75%, 4/25/14	Poland	220,400,000 PLN	72,563,056
5.50%, 4/25/15	Poland	31,255,000 PLN	10,546,306
6.25%, 10/24/15	Poland	70,991,000 PLN	24,527,420
5.00%, 4/25/16	Poland	11,250,000 PLN	3,821,035
5.75%, 9/23/22	Poland	23,880,000 PLN	8,680,660
FRN, 2.71%, 1/25/17	Poland	7,098,000 PLN	2,297,509
FRN, 2.71%, 1/25/21	Poland	7,201,000 PLN	2,288,141
Strip, 1/25/14	Poland	56,460,000 PLN	18,220,232
Strip, 7/25/14	Poland	3,190,000 PLN	1,016,345
Strip, 7/25/15	Poland	38,982,000 PLN	12,062,484
Strip, 1/25/16	Poland	67,525,000 PLN	20,525,834
5p, 2/25/20	. Julia	57,525,555 TEN	20,020,004

Franklin Strategic Income Fund	Country	Principal Amount*	Value	
Foreign Government and Agency Securities (continued)				
eGovernment of Serbia, senior note, 144A,				
4.875%, 2/25/20	Serbia	29,400,000	\$ 27,856,500	
7.25%, 9/28/21	Serbia	12,240,000	12,795,574	
Government of Singapore,		, ,	, ,	
senior bond, 0.25%, 2/01/14	Singapore	19,950,000 SGD	16,059,332	
senior note, 3.625%, 7/01/14	Singapore	5,750,000 SGD	4,731,641	
Government of Sri Lanka,	0 1	, ,	, ,	
A, 7.00%, 3/01/14	Sri Lanka	21,070,000 LKR	159,656	
A, 11.25%, 7/15/14	Sri Lanka	528,200,000 LKR	4,067,543	
A, 11.75%, 3/15/15	Sri Lanka	3,490,000 LKR	27,181	
A, 6.50%, 7/15/15	Sri Lanka	86,940,000 LKR	626,831	
A, 11.00%, 8/01/15	Sri Lanka	601,300,000 LKR	4,643,079	
A, 6.40%, 8/01/16	Sri Lanka	48,100,000 LKR	332,550	
A, 8.00%, 11/15/18	Sri Lanka	198,900,000 LKR	1,353,857	
A, 9.00%, 5/01/21	Sri Lanka	220,720,000 LKR	1,496,714	
B, 11.75%, 4/01/14	Sri Lanka	33,370,000 LKR	257,085	
B, 6.60%, 6/01/14	Sri Lanka	24,400,000 LKR	183,027	
B, 6.40%, 10/01/16	Sri Lanka	45,400,000 LKR	312,745	
B, 8.50%, 7/15/18	Sri Lanka	54,290,000 LKR	376,154	
C, 8.50%, 4/01/18	Sri Lanka	24,240,000 LKR	170,028	
D, 8.50%, 6/01/18	Sri Lanka	162,140,000 LKR	1,137,761	
Government of Sweden, 6.75%, 5/05/14	Sweden	830,860,000 SEK	131,937,681	
Government of the Philippines,				
senior bond, 7.00%, 1/27/16	Philippines	154,290,000 PHP	3,871,971	
senior bond, 9.125%, 9/04/16	Philippines	41,860,000 PHP	1,118,116	
senior note, 6.25%, 1/27/14	Philippines	936,940,000 PHP	21,846,125	
senior note, 1.625%, 4/25/16	Philippines	17,450,000 PHP	399,867	
e Government of Ukraine,				
144A, 9.25%, 7/24/17	Ukraine	720,000	693,000	
144A, 7.75%, 9/23/20	Ukraine	25,000,000	22,853,125	
senior bond, 144A, 7.80%, 11/28/22	Ukraine	26,860,000	23,887,941	
senior note, 144A, 6.75%, 11/14/17	Ukraine	900,000	810,000	
senior note, 144A, 7.95%, 2/23/21	Ukraine	13,970,000	12,826,206	
senior note, 144A, 7.50%, 4/17/23	Ukraine	24,915,000	21,987,487	
^m Government of Uruguay, senior note, Index Linked, 4.375%,				
12/15/28	Uruguay	1,128,365,273 UYU	57,156,830	
eGovernment of Vietnam, 144A, 6.75%, 1/29/20	Vietnam	8,000,000	8,757,520	
Korea Monetary Stabilization Bond,				
senior bond, 3.47%, 2/02/14	South Korea	9,062,470,000 KRW	8,513,786	
senior bond, 3.59%, 4/02/14	South Korea	13,319,080,000 KRW	12,536,889	
senior bond, 2.47%, 4/02/15	South Korea	15,088,400,000 KRW	14,094,802	
senior bond, 2.80%, 8/02/15	South Korea	29,565,730,000 KRW	27,730,984	
senior bond, 2.81%, 10/02/15	South Korea	1,911,000,000 KRW	1,793,203	
senior note, 3.28%, 6/02/14	South Korea	15,790,650,000 KRW	14,859,122	
senior note, 2.57%, 6/09/14	South Korea	2,979,000,000 KRW	2,791,755	
senior note, 2.82%, 8/02/14	South Korea	4,726,000,000 KRW	4,436,389	
senior note, 2.78%, 10/02/14	South Korea	18,849,700,000 KRW	17,689,371	

Franklin Strategic Income Fund	Country	Principal Amount*		Value
Foreign Government and Agency Securities (continued)				
Korea Monetary Stabilization Bond, (continued)				
senior note, 2.84%, 12/02/14	South Korea	9,106,970,000 KRW	\$	8,551,051
senior note, 2.74%, 2/02/15	South Korea	6,249,720,000 KRW		5,861,996
senior note, 2.76%, 6/02/15	South Korea	31,746,600,000 KRW		29,765,031
Korea Treasury Bond,				
senior bond, 3.00%, 12/10/13	South Korea	93,128,850,000 KRW		87,332,399
senior bond, 3.50%, 6/10/14	South Korea	23,735,250,000 KRW		22,365,821
senior note, 3.25%, 12/10/14	South Korea	7,058,110,000 KRW		6,656,290
senior note, 3.25%, 6/10/15	South Korea	7,137,850,000 KRW		6,745,962
senior note, 2.75%, 12/10/15	South Korea	19,650,740,000 KRW		18,413,417
Nota Do Tesouro Nacional,				
10.00%, 1/01/17	Brazil	65,850 ⁿ BRL		28,345,123
oIndex Linked, 6.00%, 5/15/15	Brazil	16,430 ⁿ BRL		17,517,062
°Index Linked, 6.00%, 8/15/16	Brazil	4,799 ⁿ BRL		5,085,16
oIndex Linked, 6.00%, 8/15/18	Brazil	4,550 ⁿ BRL		4,827,780
Russian Foreign Bond, senior bond, 144A, 7.50%, 3/31/30	Russia	16,836,820		20,057,28
Uruguay Notas del Tesoro,				,,
9.00%, 1/27/14	Uruguay	41,660,000 UYU		1,914,86
10.50%, 3/21/15	Uruguay	80,790,000 UYU		3,616,05
10.25%, 8/22/15	Uruguay	395,600,000 UYU		17,454,76
9.50%, 1/27/16	Uruguay	50,700,000 UYU		2,149,11
m Index Linked, 4.00%, 6/14/15	Uruguay	130,146,644 UYU		6,116,23
m Index Linked, 2.25%, 8/23/17	Uruguay	107,613,396 UYU		4,718,43
Uruguay Treasury Bill, Strip,	Oruguay	107,013,330 010		4,710,40
7/02/15	Uruguay	3,560,000 UYU		133,59
8/20/15	Uruguay	445,261,000 UYU		16,480,53
	oragaay	110,201,000 010		10,100,00
Total Foreign Government and Agency Securities				
(Cost \$1,610,289,812)			1,6	35,462,189
U.S. Government and Agency Securities 1.8%				
U.S. Treasury Bond,				
4.50%, 2/15/16	United States	10,000,000		10,942,970
4.50%, 5/15/17	United States	8,000,000		9,029,064
7.125%, 2/15/23	United States	3,000,000		4,189,33
6.25%, 8/15/23	United States	4,000,000		5,319,37
6.875%. 8/15/25	United States	1,000,000		1,416,25
, , , , , , , , , , , , , , , , , , , ,	United States	1,750,000		2,202,94
5.25%, 2/15/29	Utilied States	1,730,000		2,202,94
U.S. Treasury Note,	United Ctates	700,000		700 75
4.25%, 11/15/14	United States	700,000		729,75
2.375%, 3/31/16	United States	24,000,000		25,136,25
4.75%, 8/15/17	United States	7,000,000		8,009,26
3.875%, 5/15/18	United States	22,000,000		24,651,17
3.75%, 11/15/18	United States	39,000,000		43,614,48
mIndex Linked, 0.125%, 4/15/16	United States	9,535,692		9,799,783
^m Index Linked, 0.625%, 7/15/21	United States	10,376,430		10,846,202
Total U.S. Government and Agency Securities				
(Cost \$150,157,732)			1	55,886,85
(+				23,000,001

Franklin Strategic Income Fund	Country	Principal Amount*		Value
Asset-Backed Securities and Commercial				
Mortgage-Backed Securities 4.1%				
Banks 2.4% Rene of America Commercial Martraga Trust 2006 4 A L				
Banc of America Commercial Mortgage Trust, 2006-4, AJ, 5.695%, 7/10/46	United States	16 762 000	ф	17 170 5/1
e,i Banc of America Large Loan, 2010-HLTN, 144A, FRN,	Officed States	16,762,000	\$	17,179,541
2.474%, 11/15/15	United States	13,198,816		13,204,360
Bear Stearns Commercial Mortgage Securities Inc.,	Office States	13,130,010		13,204,300
¹ 2006-PW11, AJ, FRN, 5.452%, 3/11/39	United States	15,000,000		15,488,355
¹ 2006-PW12, AJ, FRN, 5.932%, 9/11/38	United States	7,000,000		7,346,535
2006-PW13, AJ, 5.611%, 9/11/41	United States	21,575,000		22,090,351
Bear Stearns Commercial Mortgage Securities Trust,		, ,		, ,
2007-PW15, A4, 5.331%, 2/11/44	United States	1,540,000		1,693,998
Citigroup Commercial Mortgage Trust,				
2006-C5, AJ, 5.482%, 10/15/49	United States	16,400,000		16,320,157
¹ 2007-C6, AM, FRN, 5.885%, 6/10/17	United States	6,500,000		7,227,779
¹ 2008-C7, A4, FRN, 6.072%, 12/10/49	United States	19,150,000		21,947,576
ⁱ Citigroup/Deutsche Bank Commercial Mortgage Trust,				
2006-CD3, AJ, FRN, 5.688%, 10/15/48	United States	11,300,000		10,631,272
Countrywide Asset-Backed Certificates, 2005-11, AF4,				
5.192%, 3/25/34	United States	2,800,000		2,398,080
Greenwich Capital Commercial Funding Corp.,				
2005-GG5, A5, 5.224%, 4/10/37	United States	8,320,000		8,835,478
¹ 2006-GG7, AJ, FRN, 5.867%, 7/10/38	United States	15,420,000		15,721,533
2007-GG9, A4, 5.444%, 3/10/39	United States	12,365,000		13,717,762
GS Mortgage Securities Corp. II, 2006-GG8, A4, 5.56%, 11/10/39	United States	5,000,000		5,528,000
GS Mortgage Securities Trust, 2007-GG10, A4, FRN, 5.995%,	Officed States	5,000,000		5,526,000
8/10/45	United States	1,095,000		1,216,909
Merrill Lynch Mortgage Trust, 2005-CKI1, AJ, FRN, 5.391%,	Office Otales	1,033,000		1,210,303
11/12/37	United States	2,875,000		3,045,500
Morgan Stanley Capital I Trust,		_,_,_,		2,2 :2,2 : 2
2006-HQ8, AJ, FRN, 5.68%, 3/12/44	United States	2,500,000		2,573,256
2007-IQ16, AM, FRN, 6.111%, 12/12/49	United States	7,122,000		8,128,951
Wells Fargo Mortgage Backed Securities Trust,				
¹ 2004-W, A9, FRN, 2.762%, 11/25/34	United States	4,557,312		4,746,319
2007-3, 3A1, 5.50%, 4/25/37	United States	2,201,877		2,279,932
				201,321,644
Diversified Financials 1.7%				
e.i ARES CLO Funds, 2007-12A, B, 144A, FRN, 1.262%,				
11/25/20	United States	3,840,000		3,840,000
e,i Atrium CDO Corp., 10A, C, 144A, FRN, 2.876%, 7/16/25	United States	13,950,000		13,533,306
e,i Catamaran CLO Ltd., 2013-1A, C, 144A, FRN, 3.071%,				
1/27/25	Cayman Islands	11,250,000		10,778,625
e,i Cent CDO Ltd., 2007-15A, A2B, 144A, FRN, 0.596%,		•		
3/11/21	United States	3,881,000		3,731,426
e,i Cent CLO LP, 2013-17A, D, 144A, FRN, 3.236%, 1/30/25	Cayman Islands	7,450,980		7,428,068
e,i CIFC Funding Ltd., 2007-3A, A1J, 144A, FRN, 0.638%,				
7/26/21	United States	5,130,000		4,969,995

Franklin Strategic Income Fund	Country	Principal Amount*	Value
Asset-Backed Securities and Commercial			
Mortgage-Backed Securities (continued)			
Diversified Financials (continued)			
e,i Columbus Nova CLO Ltd., 2007-2A, A2, 144A, FRN, 1.244%,			
10/15/21	United States	2,680,000	\$ 2,615,560
e,i CT CDO IV Ltd., 2006-4A, A1, 144A, FRN, 0.483%,			
10/20/43	United States	12,329,405	11,622,746
eG-Force LLC, 2005-RRA, C, 144A, 5.20%, 8/22/36	United States	11,144,000	10,361,524
e,i Gleneagles CLO Ltd., 2005-1A, A2, 144A, FRN, 0.665%,			
11/01/17	United States	8,002,000	7,758,267
e,i ING Investment Management CLO Ltd.,			
2013-1A, B, 144A, FRN, 3.144%, 4/15/24	Cayman Islands	2,740,000	2,677,219
2013-1A, C, 144A, FRN, 3.744%, 4/15/24	Cayman Islands	4,440,000	4,330,167
2013-2A, B, 144A, FRN, 2.918%, 4/25/25	United States	10,770,000	10,473,538
JPMorgan Chase Commercial Mortgage Securities Trust,			
2006-CB17, A4, 5.429%, 12/12/43	United States	7,500,000	8,202,761
e,i Newcastle CDO Ltd., 2004-5A, 1, 144A, FRN, 0.59%,		0.404.405	0.4.40.500
12/24/39	United States	8,484,135	8,143,582
Residential Asset Securities Corp., 2004-KS1, AI4, 4.213%,			07.400
4/25/32	United States	87,229	87,192
i.p Talisman 6 Finance, Reg S, FRN, 0.404%, 10/22/16	Ireland	15,336,099 EUR	19,550,085
e,i Westchester CLO Ltd., 2007-1A, A1A, 144A, FRN, 0.49%,		10.500.100	10 100 000
8/01/22	United States	13,563,100	13,190,860
			143,294,921
Total Asset-Backed Securities and Commercial			
Mortgage-Backed Securities			
(Cost \$321,514,172)			344,616,565
			344,010,303
Mortgage-Backed Securities 5.0%			
Federal Home Loan Mortgage Corp. (FHLMC) Adjustable			
Rate 0.0% [†]			
FHLMC, 2.459%, 1/01/33	United States	144,078	152,597
Federal Home Loan Mortgage Corp. (FHLMC) Fixed Rate 0.8%			
FHLMC Gold 15 Year, 4.50%, 10/01/18 - 9/01/19	United States	1,103,644	1,167,433
FHLMC Gold 15 Year, 5.00%, 12/01/17 - 7/01/22	United States	1,427,554	1,525,744
FHLMC Gold 15 Year, 5.50%, 7/01/17 - 2/01/19	United States	176,436	186,500
FHLMC Gold 30 Year, 3.00%, 11/01/42 - 4/01/43	United States	31,579,086	31,109,693
FHLMC Gold 30 Year, 3.50%, 4/01/42 - 5/01/43	United States	4,280,176	4,381,066
FHLMC Gold 30 Year, 4.00%, 9/01/40 - 1/01/41	United States	14,977,743	15,747,048
FHLMC Gold 30 Year, 4.50%, 10/01/40	United States	558,453	596,597
FHLMC Gold 30 Year, 5.00%, 5/01/27 - 2/01/38	United States	4,768,572	5,165,890
FHLMC Gold 30 Year, 5.50%, 6/01/33 - 6/01/36	United States	3,065,092	3,335,444
FHLMC Gold 30 Year, 6.00%, 6/01/33 - 6/01/37	United States	1,410,028	1,554,833
FHLMC Gold 30 Year, 6.50%, 10/01/21 - 6/01/36	United States	724,248	801,906
FHLMC Gold 30 Year, 7.00%, 9/01/21 - 8/01/32	United States	73,647	81,403
FHLMC Gold 30 Year, 7.50%, 1/01/26 - 1/01/31	United States	15,439	18,571
FHLMC Gold 30 Year, 8.00%, 11/01/25 - 1/01/26	United States	325	345
FHLMC Gold 30 Year, 9.00%, 12/01/24	United States	175	207
			65,672,680

Franklin Strategic Income Fund	Country	Principal Amount*	Value
Mortgage-Backed Securities (continued)			
Federal National Mortgage Association (FNMA) Adjustable			
Rate 0.0% [†]		457.005	
FNMA, 2.31% - 2.334%, 4/01/20 - 12/01/34	United States	457,825	\$ 482,39
Federal National Mortgage Association (FNMA) Fixed Rate 3.9%			
FNMA 15 Year, 2.50%, 7/01/27	United States	749,222	759,60
FNMA 15 Year, 3.00%, 11/01/26 - 7/01/28	United States	78,278,707	81,550,06
FNMA 15 Year, 3.00%, 8/01/28 - 9/01/28	United States	25,295,540	26,326,79
FNMA 15 Year, 3.50%, 1/01/26	United States	513,002	542,94
FNMA 15 Year, 4.50%, 3/01/20	United States	215,120	229,31
FNMA 15 Year, 5.00%, 1/01/18 - 6/01/18	United States	309,828	329,44
FNMA 15 Year, 5.50%, 12/01/13 - 4/01/22	United States	3,607,524	3,812,86
FNMA 15 Year, 6.00%, 7/01/16 - 10/01/16	United States	13,111	13,59
FNMA 15 Year, 7.50%, 10/01/14	United States	296	29
FNMA 30 Year, 3.00%, 1/01/28 - 5/01/43	United States	52,721,676	52,286,66
FNMA 30 Year, 3.50%, 5/01/43	United States	20,282,636	20,859,65
FNMA 30 Year, 4.00%, 11/01/40 - 8/01/43	United States	25,585,452	27,019,46
FNMA 30 Year, 4.00%, 5/01/42	United States	78,142,532	82,416,61
FNMA 30 Year, 4.50%, 3/01/28 - 2/01/41	United States	1,472,835	1,579,93
FNMA 30 Year, 5.00%, 9/01/23 - 1/01/42	United States	15,735,528	17,215,81
FNMA 30 Year, 5.50%, 9/01/33 - 7/01/38	United States	6,746,410	7,382,59
FNMA 30 Year, 6.00%, 6/01/34 - 5/01/38	United States	7,922,146	8,707,67
FNMA 30 Year, 6.50%, 3/01/28 - 10/01/37	United States	1,678,775	1,860,40
FNMA 30 Year, 7.50%, 10/01/29	United States	14,216	17,09
FNMA 30 Year, 8.00%, 1/01/25 - 5/01/26	United States	7,297	8,46
FNMA 30 Year, 8.50%, 7/01/25	United States	615	64
11111/1 00 1cai, 0.0070, 7701/20	Office Otates	010	
			332,919,95
Government National Mortgage Association (GNMA) Fixed			
Rate 0.3%			
GNMA I SF 30 Year, 5.00%, 6/15/34 - 7/15/34	United States	406,727	447,93
GNMA I SF 30 Year, 5.50%, 2/15/33 - 6/15/36	United States	1,122,875	1,239,03
GNMA I SF 30 Year, 6.00%, 8/15/36	United States	127,906	141,52
GNMA I SF 30 Year, 6.50%, 12/15/28 - 3/15/32	United States	115,253	129,31
GNMA I SF 30 Year, 7.00%, 11/15/27 - 5/15/28	United States	34,541	38,84
GNMA SF 30 Year, 7.50%, 9/15/23 - 5/15/27	United States	4,921	5,63
GNMA I SF 30 Year, 8.00%, 2/15/25 - 9/15/27	United States	7,019	8,09
GNMA I SF 30 Year, 8.50%, 8/15/24	United States	96	11
GNMA I SF 30 Year, 9.00%, 1/15/25	United States	374	37
GNMA I SF 30 Year, 9.50%, 6/15/25	United States	607	61
GNMA II SF 30 Year, 3.50%, 4/20/42	United States	20,948,427	21,800,91
GNMA II SF 30 Year, 5.00%, 9/20/33 - 11/20/33	United States	627,126	690,51
GNMA II SF 30 Year, 5.50%, 6/20/34	United States	315,002	354,61
GNMA II SF 30 Year, 6.00%, 11/20/34	United States	275,861	310,66
GNMA II SF 30 Year, 6.50%, 7/20/28 - 12/20/31	United States	142,556	162,26
GNMA II SF 30 Year, 7.50%, 8/20/16 - 4/20/32	United States	41,231	46,39
,,		,	25,376,84
Total Markeness Dooks of Consulting			25,576,64
Total Mortgage-Backed Securities (Cost \$424,016,141)			121 601 16
(Cost \$424,016,141)			424,604,46

Franklin Strategic Income Fund	Country	Principal Amount*	Value
Municipal Bonds 4.0%			
Arkansas State GO, Four-Lane Highway Construction and			
Improvement Bonds, 3.25%, 6/15/22	United States	16,000,000	\$ 16,668,64
California State GO,			
Build America Bonds, Various Purpose, 7.625%, 3/01/40	United States	6,200,000	8,426,73
Various Purpose, 6.00%, 4/01/38	United States	10,000,000	11,406,10
Various Purpose, 6.00%, 11/01/39	United States	1,000,000	1,151,50
Various Purpose, 5.25%, 11/01/40	United States	3,375,000	3,533,55
Various Purpose, 7.60%, 11/01/40	United States	15,000,000	20,547,00
Various Purpose, Refunding, 5.25%, 3/01/38	United States	7,220,000	7,522,15
Various Purpose, Refunding, 5.00%, 4/01/38	United States	20,000,000	20,555,60
Various Purpose, Refunding, NATL Insured, 4.50%,			
12/01/32	United States	1,815,000	1,818,5
Various Purpose, Refunding, Series 1, AGMC Insured,		, ,	
4.75%, 9/01/31	United States	1,755,000	1,820,9
Colorado State ISD, GO, Mitchell and Scurry Counties,		_,,.	-,,-
Unlimited Tax School Building Bonds, PSF Guarantee, 5.00%,			
8/15/43	United States	3,105,000	3,269,1
Florida Hurricane Catastrophe Fund Finance Corp. Revenue,	Office States	3,103,000	3,203,1
Series A, 2.995%, 7/01/20	United States	30,000,000	28,687,8
Illinois State GO,	Officed States	30,000,000	20,007,0
5.877%, 3/01/19	United States	20,000,000	21,764,4
Build America Bonds, 7.35%, 7/01/35	United States	8,000,000	8,713,1
·	Utilied States	8,000,000	0,713,1
Kansas State Development Finance Authority Revenue, Wichita			
State University Union Corp. Student Housing Project,			
Refunding, Series F-1,		5 705 000	F 070 0
5.25%, 6/01/38	United States	5,725,000	5,979,0
5.25%, 6/01/42	United States	5,800,000	6,034,7
5.00%, 6/01/46	United States	6,800,000	6,859,4
Marco Island Utility System Revenue, Refunding, 4.625%,		0.000.000	0.000.0
10/01/30	United States	2,800,000	2,923,2
10/01/31	United States	2,500,000	2,587,3
Metropolitan Boston Transit Parking Corp. Systemwide Parking			
Revenue, senior lien, 5.00%, 7/01/41	United States	4,250,000	4,388,8
Nassau County GO, General Improvement,			
Bonds, Series B, 5.00%, 4/01/39	United States	12,500,000	12,705,8
Series B, 5.00%, 4/01/43	United States	13,000,000	13,155,0
New Jersey EDA Revenue, School Facilities Construction,			
Refunding, Series NN, 5.00%, 3/01/30	United States	5,200,000	5,497,2
New York City HDC Revenue, Series B1, 5.00%, 7/01/33	United States	3,500,000	3,632,8
New York GO, Sub. Series G-1, 5.00%, 4/01/27	United States	14,000,000	15,549,6
New York State Urban Development Corp. Revenue, State			
Personal Income Tax, General Purpose, Series C, 5.00%,			
3/15/29	United States	19,500,000	21,570,7
Puerto Rico Electric Power Authority Power Revenue,			
Series A, 6.75%, 7/01/36	United States	30,900,000	25,793,7
Series XX, 5.25%, 7/01/40	United States	1,300,000	952,9
Puerto Rico Sales Tax FICO Sales Tax Revenue,		, ,	,5
Capital Appreciation, Refunding, Series A, NATL Insured,			
zero cpn., 8/01/46	United States	6,000,000	704,7
first subordinate, Series A, 5.75%, 8/01/37	United States	7,000,000	5,964,6
11131 340014111410, 351163 N, 3.7370, 0/01/37	Office Otales	,,000,000	5,504,0

Municipal Bonds (continued) Puerto Rico Sales Tax FICO	Franklin Strategic Income Fund	Country	Principal Amount*	Value
Puerto Rico Sales Tax FICO Sales Tax Revenue, (continued) first subordinate, Series A, 6.50%, 8/01/44 Refunding, Series A, NATIR RE, FGIC Insured, FGIC Insured, Zero cpn., 8/01/45 Red River Education Financing Corp. Education Revenue, Higher Education Financing Corp. Education Revenue, Higher Education, Texas Christian University, 5.00%, 3/15/43 South Carolina State Public Service Authority Revenue, Refunding, Series B, 5.00%, 12/01/38 United States United States 7,200,000 7,325,208 University of California Revenues, General, Series AK, 5.00%, 5/15/48 United States United States 7,200,000 7,325,208 University of California Revenues, General, Series AK, 5.00%, 5/15/48 United States 16,500,000 19,426,440 Total Municipal Bonds (Cost \$326,515,834) Total Investments before Short Term Investments (Cost \$7,156,456,218) Short Term Investments 11.3% Senior Floating Rate Interests (Cost \$26,445) 0.0%¹ Energy 0.0%¹ Patriot Coal Corp., Reimbursement Obligation, 4.50% - 8.273%, 12/31/13 United States 28,227 26,428 Foreign Government and Agency Securities 4.7% Pank of Negara Monetary Notes, 11/12/13 - 10/16/14 Malaysia 100%, 2/01/14 Canada 1,00%, 2/01/14 Canada 1,00%, 2/01/14 Canada 1,00%, 2/01/14 Canada 1,00%, 2/01/14 Canada 1,650,0,000 1,785,455 Hungary Treasury Bills, 1/08/14 - 6/25/14 Hungary Treasury Stabilization Bond, senior bond, 2,55%, 5/09/14 South Korea 6,495,900,000 KRW 2,760,362 Malaysia Treasury Bills, 1/09/14 - 4/30/14 Mexico Treasury Bills, 1/09/14 - 4/30/14 Mexico Treasury Bills, 1/09/14 - 4/30/14 Mexico Treasury Bills, 1/10/31/3 - 1/00/81/4 Mexico Treasury Bills, 1/10/31/3 - 1/00/81/4 Philippine Treasury Bills, 1/10/31/4 Philippine Treasury Bills, 1/09/14 - 68,545,044	Municipal Bonds (continued)			
Refunding, Series A, NATL RE, FGIC Insured, zero cpn, 8/01/45 United States 25,700,000 3,222,523 Red River Education Financing Corp. Education Revenue, Higher Education, Texas Christian University, 5.00%, 3/15/43 United States 4,900,000 5,043,668 South Carolina State Public Service Authority Revenue, Refunding, Series B, 5.00%, 12/01/38 United States 7,200,000 7,325,208 University of California Revenues, General, Series AK, 5.00%, 5/15/48 United States 16,500,000 19,426,440 Total Municipal Bonds (Cost \$326,515,834) United States 16,500,000 19,426,440 Total Investments before Short Term Investments (Cost \$7,156,456,218) 7,405,691,972 7,405,691,972 Short Term Investments 11.3% Investments Investments (Cost \$26,445) 0.0%¹ 8,227 26,428 Patriot Coal Corp., Reimbursement Obligation, 4.50% - 8.273%, 12/31/13 United States 28,227 26,428 Foreign Government and Agency Securities 4.7% Bank of Negara Monetary Notes, 11/12/13 - 10/16/14 Malaysia 315,300,000 MYR 98,284,007 Government of Canada, 1,00%, 2/01/14 Canada 4,773,000 CAD 4,577,064 2,00%, 3/01/14 Canada 18,630,000 CAD 17,855,455 </td <td>Puerto Rico Sales Tax FICO Sales Tax Revenue, (continued)</td> <td></td> <td></td> <td></td>	Puerto Rico Sales Tax FICO Sales Tax Revenue, (continued)			
zero cpn., 8/01/45 United States 25,700,000 3,222,523 Red River Education Financing Corp. Education Revenue, Higher Education, Fexas Christian University, 5.00%, 3/15/43 United States 4,900,000 5,043,668 South Carolina State Public Service Authority Revenue, Refunding, Series B, 5.00%, 12/01/38 United States 7,200,000 7,325,208 University of California Revenues, General, Series AK, 5.00%, 5/15/48 United States 16,500,000 19,426,440 Total Municipal Bonds (Cost \$326,515,834) United States 16,500,000 342,050,306 Total Investments before Short Term Investments (Cost \$7,156,456,218) 7,405,691,972 7,405,691,972 Short Term Investments 11.3% Senior Floating Rate Interests (Cost \$26,445) 0.0%! 8,273 26,428 Foreign Government and Agency Securities 4.7% United States 28,227 26,428 Foreign Government of Canada, 1.00%, 2/01/14 Malaysia 315,300,000 MYR 98,284,007 Government of Canada, 1.00%, 2/01/14 Canada 4,773,000 CAD 4,577,064 2.00%, 3/01/14 Canada 18,630,000 CAD 17,855,455 Hungary Treasury Bills, 1/08/14 - 6/25/14 Hungary		United States	18,300,000	\$ 16,846,980
Higher Education, Texas Christian University, 5.00%, 3/15/43. United States 4,900,000 5,043,668 South Carolina State Public Service Authority Revenue, Refunding, Series B, 5.00%, 12/01/38 United States 7,200,000 7,325,208 University of California Revenues, General, Series AK, 5.00%, 5/15/48 United States 16,500,000 19,426,440 Total Municipal Bonds (Cost \$326,515,834) United States 16,500,000 19,426,440 Total Investments before Short Term Investments (Cost \$7,156,456,218) 7,405,691,972 Short Term Investments 11.3% Senior Floating Rate Interests (Cost \$26,445) 0.0%¹ Fenergy 0.0%¹ Patriot Coal Corp., Reimbursement Obligation, 4.50% - 8.273%, 12/31/13 United States 28,227 26,428 Foreign Government and Agency Securities 4.7% Bank of Negara Monetary Notes, 11/12/13 - 10/16/14 Malaysia 315,300,000 MYR 98,284,007 Government of Canada, 1.00%, 2/01/14 Canada 4,773,000 CAD 4,577,064 2.00%, 3/01/14 Canada 3,656,000 CAD 3,517,627 0.75%, 5/01/14 Canada 18,630,000 CAD 17,855,455 Hungary Treasury Bills, 1/08/14 - 6/25/14 Hungary 4,533,440,000 HUF 20,618,522 Korea Monetary Stabilization Bond, senior bond, 2.27%, 9/09/14 South Korea 2,944,000,000 KRW 2,760,362 (Malaysia Treasury Bills, 1/09/14 - 4/30/14 Malaysia 2,600,000 MYR 806,424 (Malaysia Treasury Bills, 1/09/14 - 4/30/14 Malaysia 2,600,000 MYR 806,424 (Malaysia Treasury Bills, 1/09/14 - 4/30/14 Mexico 725,936,260° MXN 19,654,825 (Monetary Authority of Singapore Treasury Bills, 1/1/21/3 - 10/08/14 Singapore 37,130,000 SGD 29,886,662 (Philippine Treasury Bills, 1/1/31/3 - 10/08/14 Philippine Treasury Bills, 1/1/31/3 - 10/08/14 Philippines 2,975,970,000 PHP 68,545,044 Philippine Treasury Bills, 1/1/31/3 - 10/08/14 Philippines 2,975,970,000 PHP	zero cpn., 8/01/45	United States	25,700,000	3,222,523
South Carolina State Public Service Authority Revenue, Refunding, Series B, 5.00%, 12/01/38 United States 7,200,000 7,325,208 University of California Revenues, General, Series AK, 5.00%, 5/15/48 United States 16,500,000 19,426,440 Total Municipal Bonds (Cost \$326,515,834) 10tled States 16,500,000 19,426,440 Total Investments before Short Term Investments (Cost \$7,156,456,218) 7,405,691,972 Short Term Investments 11.3% 5.001 Total Investment Oscillation A.50% - 8.273%, 12/31/13 United States 28,227 26,428 5.002 Total Investment Oscillation A.50% - 8.273%, 12/31/13 United States 28,227 26,428 5.002 Total Investment Oscillation A.50% - 8.273%, 12/31/14 Canada 315,300,000 MYR 98,284,007 Government of Canada, 1.00%, 2/01/14 Canada 3,656,000 CAD 3,517,627 (0.75%, 5/01/14 Canada 3,656,000 CAD 3,517,627 (0.75%, 5/01/14 Canada 18,630,000 CAD 3,517,627 (0.75%, 5/01/14 Hungary 4,533,440,000 HUF 20,618,522 Korea Monetary Stabilization Bond, senior bond, 2,55%, 5/09/14 South Korea 2,944,000,000 KRW 6,087,782 (1.55%, 5/09/14 South Korea 2,944,000,000 K				
Refunding, Series B, 5.00%, 12/01/38 United States 7,200,000 7,325,208 University of California Revenues, General, Series AK, 5.00%, 5/15/48 United States 16,500,000 19,426,440 Total Municipal Bonds (Cost \$326,515,834) United States 16,500,000 342,050,306 Total Investments before Short Term Investments (Cost \$7,156,456,218) 7,405,691,972 7,405,691,972 Short Term Investments 11.3% Senior Floating Rate Interests (Cost \$26,445) 0.0%¹ 5,227 5,2428 Foreign Government and Agency Securities 4.7% United States 28,227 26,428 Foreign Government and Agency Securities 4.7% Malaysia 315,300,000 MYR 98,284,007 Government of Canada, 1.00%, 2/01/14 Canada 4,773,000 CAD 4,577,064 2.0%, 3/01/14 Canada 3,656,000 CAD 3,517,627 0.75%, 5/01/14 Canada 18,630,000 CAD 17,855,455 *Hungary Treasury Bills, 1/08/14 - 6/25/14 Hungary 4,533,440,000 HUF 20,618,522 Korea Monetary Stabilization Bond, senior bond, 2,578, 5/09/14 South Korea 2,944,000,000 KRW 6,087,782 2.55%, 5/09/1		United States	4,900,000	5,043,668
University of California Revenues, General, Series AK, 5.00%, 5/15/48 United States 16,500,000 19,426,440 Total Municipal Bonds (Cost \$326,515,834) 342,050,306 Total Investments before Short Term Investments (Cost \$7,156,456,218) 7,405,691,972 Short Term Investments 11.3% Senior Floating Rate Interests (Cost \$26,445) 0.0%¹ Fenergy 0.0%¹ 48,227 26,428 Patriot Coal Corp., Reimbursement Obligation, 4.50% - 8.273%, 12/31/13 United States 28,227 26,428 Foreign Government and Agency Securities 4.7% Malaysia 315,300,000 MYR 98,284,007 Government of Canada, 1.00%, 2/01/14 Canada 4,773,000 CAD 4,577,064 2.00%, 3/01/14 Canada 3,650,000 CAD 3,517,627 0.75%, 5/01/14 Canada 18,630,000 CAD 17,855,455 Hungary Treasury Bills, 1/08/14 - 6/25/14 Hungary 4,533,440,000 HUF 20,618,522 Korea Monetary Stabilization Bond, senior bond, 2.55%, 5/09/14 South Korea 6,495,900,000 KRW 6,087,782 2.72%, 9/09/14 South Korea 2,944,000,000 KRW 2,760,362 Malaysia Treasury Bills, 1/09/14 - 4/30/14 Mexico 25,936,260 M				
Total Municipal Bonds (Cost \$326,515,834) 342,050,306 Total Investments before Short Term Investments (Cost \$7,156,456,218) 7,405,691,972 Short Term Investments 11.3% Senior Floating Rate Interests (Cost \$26,445) 0.0% Patriot Coal Corp., Reimbursement Obligation, 4.50% - 8.273%, 12/31/13 United States 28,227 26,428 Foreign Government and Agency Securities 4.7% Bank of Negara Monetary Notes, 11/12/13 - 10/16/14 Malaysia 315,300,000 MYR 98,284,007 Government of Canada, 1.00%, 2/01/14 Canada 4,773,000 CAD 4,577,064 2.00%, 3/01/14 Canada 3,656,000 CAD 3,517,627 0.75%, 5/01/14 Canada 18,630,000 CAD 17,855,455 Hungary Treasury Bills, 1/08/14 - 6/25/14 Hungary 4,533,440,000 HUF 20,618,522 Korea Monetary Stabilization Bond, senior bond, 2.55%, 5/09/14 South Korea 6,495,900,000 KRW 6,087,782 2.72%, 9/09/14 South Korea 2,944,000,000 KRW 2,760,362 Malaysia Treasury Bills, 1/09/14 - 4/30/14 Mexico 25,936,260 MXN 19,654,825 Monetary Authority of Singapore Treasury Bills, 1/09/14 - 4/30/14 Mexico 25,936,260 MXN 19,654,825 Monetary Authority of Singapore Treasury Bills, 1/19/14 - 1/10/14 Singapore 37,130,00 SGD 29,886,662 Phillippine Treasury Bills, 1/19/13 - 1/03/14 Phillippines 2,975,970,00 PHP 68,545,044 Phillippine Treasury Bills, 1/11/3/13 - 1/08/14 Phillippines 2,975,970,00 PHP 68,545,044 Phillippine Treasury Bills, 1/11/3/13 - 1/08/14 Phillippines 2,975,970,00 PHP 68,545,044 Phillippine Treasury Bills, 1/11/3/13 - 1/08/14 Phillippines 2,975,970,00 PHP 68,545,044 Phillippine Treasury Bills, 1/11/3/13 - 1/103/14 Phillippines 2,975,970,00 PHP 68,545,044 Phillippine Treasury Bills, 1/11/3/13 - 1/103/14 Phillippines 2,975,970,00 PHP 68,545,044 Phillippine Treasury Bills, 1/11/3/13 - 1/103/14 Phillippines 2,975,970,00 PHP 68,545,044 Phillippine Treasury Bills, 1/11/3/13 - 1/103/14 Phillippines 2,975,970,00 PHP 68,545,044		United States	7,200,000	7,325,208
Total Investments before Short Term Investments (Cost \$7,156,456,218) Short Term Investments 11.3% Senior Floating Rate Interests (Cost \$26,445) 0.0% Energy 0.0% Patriot Coal Corp., Reimbursement Obligation, 4.50% - 8.273%, 12/31/13 United States Foreign Government and Agency Securities 4.7% Bank of Negara Monetary Notes, 11/12/13 - 10/16/14 Malaysia 1.00%, 2/01/14 Canada 4,773,000 CAD 4,577,064 2.00%, 3/01/14 Canada 1.00%, 2/01/14 Canada 3,656,000 CAD 3,517,627 0.75%, 5/01/14 Lunited States 28,227 26,428 Foreign Government of Canada, 1.00%, 2/01/14 Canada 4,773,000 CAD 4,577,064 2.00%, 3/01/14 Canada 1.00%, 2/01/14 Canada 1.00%, 2/01/14 Canada 1.00%, 2/01/14 Canada 1.00%, 2/01/14 South Korea 6,495,900,000 KRW 6,087,782 2.72%, 9/09/14 South Korea 2,944,000,000 KRW 2,760,362 Malaysia Treasury Bills, 1/09/14 - 4/30/14 Mexico 1,11/22/13 - 1/03/14 Singapore 37,130,000 SGD 2,9886,662 Phillippine Treasury Bills, 1/1/13/13 - 10/08/14 Phillippines 2,975,970,000 PHP 68,545,044	5/15/48	United States	16,500,000	19,426,440
Cost \$7,156,456,218)	Total Municipal Bonds (Cost \$326,515,834)			342,050,306
Short Term Investments 11.3% **Senior Floating Rate Interests (Cost \$26,445) 0.0%† Energy 0.0%† **Patriot Coal Corp., Reimbursement Obligation, 4.50% - 8.273%, 12/31/13. **United States** **Poreign Government and Agency Securities 4.7% **Bank of Negara Monetary Notes, 11/12/13 - 10/16/14 **Bank of Negara Monetary Notes, 11/12/13 - 10/16/14 **Government of Canada, 1.00%, 2/01/14 **Canada 4,773,000 CAD 4,577,064 **2.00%, 3/01/14 **Canada 3,656,000 CAD 3,517,627 **O.75%, 5/01/14 **Canada 18,630,000 CAD 17,855,455 **Hungary Treasury Bills, 1/08/14 - 6/25/14 **Hungary Treasury Bills, 1/08/14 - 6/25/14 **Korea Monetary Stabilization Bond, senior bond, 2.55%, 5/09/14 **South Korea 6,495,900,000 KRW 6,087,782 **Z.72%, 9/09/14 **South Korea 2,944,000,000 KRW 2,760,362 **Malaysia Treasury Bills, 1/09/14 - 4/30/14 **Mexico Treasury Bill	Total Investments before Short Term Investments			
Name	(Cost \$7,156,456,218)			7,405,691,972
Patriot Coal Corp., Reimbursement Obligation, 4.50% - 8.273%, 12/31/13	Short Term Investments 11.3%			
Patriot Coal Corp., Reimbursement Obligation, 4.50% - 8.273%, 12/31/13 . United States 28,227 26,428 Foreign Government and Agency Securities 4.7% Bank of Negara Monetary Notes, 11/12/13 - 10/16/14 Malaysia 315,300,000 MYR 98,284,007 Government of Canada, 1.00%, 2/01/14 Canada 4,773,000 CAD 4,577,064 2.00%, 3/01/14 Canada 3,656,000 CAD 3,517,627 0.75%, 5/01/14 Canada 18,630,000 CAD 17,855,455 Hungary Treasury Bills, 1/08/14 - 6/25/14 Hungary 4,533,440,000 HUF 20,618,522 Korea Monetary Stabilization Bond, senior bond, 2.55%, 5/09/14 South Korea 6,495,900,000 KRW 6,087,782 2.72%, 9/09/14 South Korea 2,944,000,000 KRW 2,760,362 Malaysia Treasury Bills, 1/09/14 - 4/30/14 Malaysia 2,600,000 MYR 806,424 Mexico Treasury Bills, 1/09/14 - 4/30/14 Mexico 25,936,260° MXN 19,654,825 Monetary Authority of Singapore Treasury Bills, 11/22/13 - 1/03/14 Singapore 37,130,000 SGD 29,886,662 Philippine Treasury Bills, 11/13/13 - 10/08/14 Philippines 2,975,970,000 PHP 68,545,044	_			
12/31/13				
Foreign Government and Agency Securities 4.7% 'Bank of Negara Monetary Notes, 11/12/13 - 10/16/14 Government of Canada, 1.00%, 2/01/14 Canada Canada 4,773,000 CAD 4,577,064 2.00%, 3/01/14 Canada 3,656,000 CAD 3,517,627 0.75%, 5/01/14 Canada 18,630,000 CAD 17,855,455 'Hungary Treasury Bills, 1/08/14 - 6/25/14 Hungary 4,533,440,000 HUF 20,618,522 Korea Monetary Stabilization Bond, senior bond, 2.55%, 5/09/14 South Korea 2,72%, 9/09/14 South Korea 4,949,900,000 KRW 6,087,782 2.72%, 9/09/14 Malaysia Treasury Bills, 1/09/14 - 4/30/14 Malaysia Treasury Bills, 1/09/14 - 4/30/14 Mexico Treasury Bills, 1/09/14 - 4/30/14 Mexico Treasury Bills, 1/09/14 - 4/30/14 Mexico Treasury Bills, 1/09/14 - 4/30/14 Singapore 37,130,000 SGD 29,886,662 'Philippine Treasury Bills, 11/13/13 - 10/08/14 Philippines 2,975,970,000 PHP 68,545,044				
Bank of Negara Monetary Notes, 11/12/13 - 10/16/14 Malaysia 315,300,000 MYR 98,284,007 Government of Canada, 1.00%, 2/01/14 Canada 4,773,000 CAD 4,577,064 2.00%, 3/01/14 Canada 3,656,000 CAD 3,517,627 0.75%, 5/01/14 Canada 18,630,000 CAD 17,855,455 r Hungary Treasury Bills, 1/08/14 - 6/25/14 Hungary 4,533,440,000 HUF 20,618,522 Korea Monetary Stabilization Bond, senior bond, South Korea 6,495,900,000 KRW 6,087,782 2.72%, 9/09/14 South Korea 2,944,000,000 KRW 2,760,362 rMalaysia Treasury Bill, 5/30/14 Malaysia 2,600,000 MYR 806,424 rMexico Treasury Bills, 1/09/14 - 4/30/14 Mexico 25,936,260s MXN 19,654,825 rMonetary Authority of Singapore Treasury Bills, Singapore 37,130,000 SGD 29,886,662 rPhilippine Treasury Bills, 11/13/13 - 10/08/14 Philippines 2,975,970,000 PHP 68,545,044	12/31/13	United States	28,227	26,428
Government of Canada, 1.00%, 2/01/14				
1.00%, 2/01/14 Canada 4,773,000 CAD 4,577,064 2.00%, 3/01/14 Canada 3,656,000 CAD 3,517,627 0.75%, 5/01/14 Canada 18,630,000 CAD 17,855,455 rHungary Treasury Bills, 1/08/14 - 6/25/14 Hungary 4,533,440,000 HUF 20,618,522 Korea Monetary Stabilization Bond, senior bond, 2.55%, 5/09/14 South Korea 6,495,900,000 KRW 6,087,782 2.72%, 9/09/14 South Korea 2,944,000,000 KRW 2,760,362 rMalaysia Treasury Bills, 5/30/14 Malaysia 2,600,000 MYR 806,424 rMexico Treasury Bills, 1/09/14 - 4/30/14 Mexico 25,936,260s MXN 19,654,825 rMonetary Authority of Singapore Treasury Bills, Singapore 37,130,000 SGD 29,886,662 rPhilippine Treasury Bills, 11/13/13 - 10/08/14 Philippines 2,975,970,000 PHP 68,545,044		Malaysia	315,300,000 MYR	98,284,007
2.00%, 3/01/14 Canada 3,656,000 CAD 3,517,627 0.75%, 5/01/14 Canada 18,630,000 CAD 17,855,455 Hungary Treasury Bills, 1/08/14 - 6/25/14 Hungary 4,533,440,000 HUF 20,618,522 Korea Monetary Stabilization Bond, senior bond, 2.55%, 5/09/14 South Korea 6,495,900,000 KRW 6,087,782 2.72%, 9/09/14 South Korea 2,944,000,000 KRW 2,760,362 Malaysia Treasury Bills, 5/30/14 Malaysia 2,600,000 MYR 806,424 Mexico Treasury Bills, 1/09/14 - 4/30/14 Mexico 25,936,260s MXN 19,654,825 Monetary Authority of Singapore Treasury Bills, Singapore 37,130,000 SGD 29,886,662 Philippine Treasury Bills, 11/13/13 - 10/08/14 Philippines 2,975,970,000 PHP 68,545,044	,	0 1	4 772 000 040	4 577 064
0.75%, 5/01/14 Canada 18,630,000 CAD 17,855,455 rHungary Treasury Bills, 1/08/14 - 6/25/14 Hungary 4,533,440,000 HUF 20,618,522 Korea Monetary Stabilization Bond, senior bond, 2.55%, 5/09/14 South Korea 6,495,900,000 KRW 6,087,782 2.72%, 9/09/14 South Korea 2,944,000,000 KRW 2,760,362 rMalaysia Treasury Bills, 5/30/14 Malaysia 2,600,000 MYR 806,424 rMexico Treasury Bills, 1/09/14 - 4/30/14 Mexico 25,936,260s MXN 19,654,825 rMonetary Authority of Singapore Treasury Bills, Singapore 37,130,000 SGD 29,886,662 rPhilippine Treasury Bills, 11/13/13 - 10/08/14 Philippines 2,975,970,000 PHP 68,545,044			, ,	
'Hungary Treasury Bills, 1/08/14 - 6/25/14 Hungary Treasury Bills, 1/08/14 - 6/25/14 Hungary 4,533,440,000 HUF 20,618,522 Korea Monetary Stabilization Bond, senior bond, 2.55%, 5/09/14 South Korea 6,495,900,000 KRW 6,087,782 2.72%, 9/09/14 South Korea 2,944,000,000 KRW 2,760,362 2,760,362 Malaysia Treasury Bill, 5/30/14 Malaysia 2,600,000 MYR 806,424 806,424 Mexico Treasury Bills, 1/09/14 - 4/30/14 Mexico 25,936,260s MXN 19,654,825 Monetary Authority of Singapore Treasury Bills, 11/22/13 - 1/03/14 Singapore 37,130,000 SGD 29,886,662 Philippine Treasury Bills, 11/13/13 - 10/08/14 Philippines 2,975,970,000 PHP 68,545,044				
Korea Monetary Stabilization Bond, senior bond, 2.55%, 5/09/14 South Korea 6,495,900,000 KRW 6,087,782 2.72%, 9/09/14 South Korea 2,944,000,000 KRW 2,760,362 Malaysia Treasury Bill, 5/30/14 Malaysia 2,600,000 MYR 806,424 Mexico Treasury Bills, 1/09/14 - 4/30/14 Mexico 25,936,260° MXN 19,654,825 Monetary Authority of Singapore Treasury Bills, 11/22/13 - 1/03/14 Singapore 37,130,000 SGD 29,886,662 Philippine Treasury Bills, 11/13/13 - 10/08/14 Philippines 2,975,970,000 PHP 68,545,044				
2.55%, 5/09/14 South Korea 6,495,900,000 KRW 6,087,782 2.72%, 9/09/14 South Korea 2,944,000,000 KRW 2,760,362 rMalaysia Treasury Bill, 5/30/14 Malaysia 2,600,000 MYR 806,424 rMexico Treasury Bills, 1/09/14 - 4/30/14 Mexico 25,936,260s MXN 19,654,825 rMonetary Authority of Singapore Treasury Bills, 1/22/13 - 1/03/14 Singapore 37,130,000 SGD 29,886,662 rPhilippine Treasury Bills, 11/13/13 - 10/08/14 Philippines 2,975,970,000 PHP 68,545,044		Trungary	4,555,440,000 1101	20,010,322
2.72%, 9/09/14 South Korea 2,944,000,000 KRW 2,760,362 rMalaysia Treasury Bills, 5/30/14 Malaysia 2,600,000 MYR 806,424 rMexico Treasury Bills, 1/09/14 - 4/30/14 Mexico 25,936,260s MXN 19,654,825 rMonetary Authority of Singapore Treasury Bills, 11/22/13 - 1/03/14 Singapore 37,130,000 SGD 29,886,662 rPhilippine Treasury Bills, 11/13/13 - 10/08/14 Philippines 2,975,970,000 PHP 68,545,044		South Korea	6.495.900.000 KRW	6.087.782
r Mexico Treasury Bills, 1/09/14 - 4/30/14 Mexico 25,936,260s MXN 19,654,825 r Monetary Authority of Singapore Treasury Bills, Singapore 37,130,000 SGD 29,886,662 r Philippine Treasury Bills, 11/13/13 - 10/08/14 Philippines 2,975,970,000 PHP 68,545,044		South Korea		
r Monetary Authority of Singapore Treasury Bills, 11/22/13 - 1/03/14 Singapore 37,130,000 SGD 29,886,662 r Philippine Treasury Bills, 11/13/13 - 10/08/14 Philippines 2,975,970,000 PHP 68,545,044	^r Malaysia Treasury Bill, 5/30/14	Malaysia	2,600,000 MYR	806,424
11/22/13 - 1/03/14 Singapore 37,130,000 SGD 29,886,662 Philippine Treasury Bills, 11/13/13 - 10/08/14 Philippines 2,975,970,000 PHP 68,545,044	Mexico Treasury Bills, 1/09/14 - 4/30/14	Mexico	25,936,260s MXN	19,654,825
Philippine Treasury Bills, 11/13/13 - 10/08/14 Philippines 2,975,970,000 PHP 68,545,044				
		0 1	, ,	
gr Singaporo Traccim, Rille $11/01/13 = b/02/14$ Singaporo Ub 0/16 000 SCD 76 /60 177				
	gr Singapore Treasury Bills, 11/01/13 - 5/02/14	Singapore	95,045,000 SGD	76,460,177
Sweden Treasury Bills, 11/20/13 - 12/18/13			, ,	
Uruguay Treasury Bills, 5/16/14 - 8/29/14		oruguay	112,0/0,000 010	4,710,800
Total Foreign Government and Agency Securities				
(Cost \$399,412,241)	(Cost \$399,412,241)			399,746,183
Total Investments before Money Market Funds	Total Investments before Money Market Funds			
(Cost \$7,555,894,904)	(Cost \$7,555,894,904)			7,805,464,583

Statement of Investments, October 31, 2013 (unaudited) (continued)

Franklin Strategic Income Fund	Country	Shares	Value
Short Term Investments (continued)			
Money Market Funds (Cost \$557,425,553) 6.6%			
a,t Institutional Fiduciary Trust Money Market Portfolio	United States	557,425,553	\$ 557,425,553
Total Investments (Cost \$8,113,320,457) 98.5%			8,362,890,136
Other Assets, less Liabilities 1.5%			125,889,374
Net Assets 100.0%			\$8,488,779,510

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

Security has been deemed illiquid because it may not be able to be sold within seven days. At October 31, 2013, the aggregate value of these securities was \$1,202,322, representing 0.01% of net assets.

^cSee Note 1(g) regarding investment in FT Holdings Corporation II.

At October 31, 2013, pursuant to the Fund's policies and the requirements of applicable securities law, the Fund may be restricted from trading these securities for a limited or extended period of time due to ownership limits and/or potential possession of material non-public information.

eSecurity 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 October 31, 2013, the aggregate value of these securities was \$1,640,562,259, representing 19.33% of net assets.

^fPerpetual security with no stated maturity date.

gA portion or all of the security purchased on a when-issued or delayed delivery basis. See Note 1(c).

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

The coupon rate shown represents the rate at period end.

Income may be received in additional securities and/or cash.

kSee Note 1(i) regarding senior floating rate interests.

Principal amount is stated in 100 Mexican Peso Units.

^mPrincipal amount of security is adjusted for inflation. See Note 1(k).

ⁿPrincipal amount is stated in 1000 Brazilian Real Units.

^oRedemption price at maturity is adjusted for inflation. See Note 1(k).

PSecurity was purchased pursuant to Regulation S under the Securities Act of 1933, which exempts from registration securities offered and sold outside of the United States. Such a security cannot be sold in the United States without either an effective registration statement filed pursuant to the Securities Act of 1933, or pursuant to an exemption from registration. This security has been deemed liquid under guidelines approved by the Trust's Board of Trustees. At October 31, 2013, the value of this security was \$19,550,085, representing 0.23% of net assets.

^qSee Note 9 regarding unfunded loan commitments.

'The security is traded on a discount basis with no stated coupon rate.

sPrincipal amount is stated in 10 Mexican Peso Units.

^tSee Note 7 regarding investments in the Institutional Fiduciary Trust Money Market Portfolio.

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

^aNon-income producing.

Statement of Investments, October 31, 2013 (unaudited) (continued)

Franklin Strategic Income Fund

At October 31, 2013, the Fund had the following forward exchange contracts outstanding. See Note 1(d).

Forward Exchange Contracts

	Counter-			Contract	Settlement	Unrealized	Unrealized
Currency	party	Туре	Quantity	Amount	Date	Appreciation	Depreciation
Japanese Yen	JPHQ	Buy	1,081,080,000	\$11,002,239	11/01/13	\$ —	\$ (7,220)
Japanese Yen	JPHQ	Sell	1,081,080,000	13,598,559	11/01/13	2,603,539	_
Euro	DBAB	Sell	1,081,381	1,411,186	11/04/13	_	(57,288)
Euro	BZWS	Sell	2,275,342	2,962,063	11/05/13	_	(127,772)
Indian Rupee	HSBC	Buy	810,750,000	13,048,769	11/05/13	_	(86,447)
Indian Rupee	HSBC	Sell	810,750,000	13,202,247	11/05/13	202,584	_
Japanese Yen	BZWS	Buy	386,912,500	3,933,597	11/05/13	_	(16,013)
Japanese Yen	BZWS	Sell	386,912,500	4,867,436	11/05/13	932,303	_
Euro	DBAB	Sell	2,722,738	3,506,069	11/07/13	_	(191,329)
Euro	DBAB	Buy	2,722,738	3,674,743	11/07/13	22,656	_
Euro	DBAB	Sell	5,072,000	6,517,520	11/08/13	_	(370,123)
Indian Rupee	DBAB	Buy	14,842,000	235,754	11/08/13	1,355	_
Indian Rupee	HSBC	Buy	513,580,000	8,160,418	11/08/13	44,303	_
Euro	JPHQ	Sell	1,674,559	2,144,231	11/12/13	_	(129,796)
Indian Rupee	HSBC	Buy	16,031,000	231,662	11/12/13	24,175	_
Indian Rupee	JPHQ	Buy	71,085,000	1,135,634	11/13/13	_	(1,492)
Indian Rupee	JPHQ	Buy	71,085,000	1,025,166	11/13/13	108,976	_
Indian Rupee	HSBC	Buy	40,470,000	594,797	11/13/13	50,891	_
Euro	DBAB	Sell	3,700,000	4,858,840	11/14/13	_	(165,729)
Euro	DBAB	Sell	980,583	1,251,832	11/15/13	_	(79,795)
Japanese Yen	MSCO	Sell	39,600,000	500,600	11/15/13	97,825	_
Indian Rupee	DBAB	Buy	40,697,000	595,334	11/18/13	53,131	_
Euro	DBAB	Sell	274,053	352,087	11/19/13	_	(20,079)
Euro	DBAB	Buy	274,053	357,198	11/19/13	14,968	_
Malaysian Ringgit	DBAB	Buy	1,869,600	600,000	11/19/13	_	(10,091)
Euro	UBSW	Sell	3,997,188	5,116,800	11/20/13	_	(311,419)
Euro	JPHQ	Sell	956,373	1,220,920	11/20/13	_	(77,843)
Indian Rupee	DBAB	Buy	37,071,000	547,335	11/20/13	43,046	_
Malaysian Ringgit	HSBC	Buy	1,130,000	362,038	11/20/13	_	(5,492)
Indian Rupee	DBAB	Buy	30,088,000	462,036	11/26/13	16,389	_
Indian Rupee	JPHQ	Buy	101,163,500	1,583,200	11/27/13	24,969	_
Chilean Peso	DBAB	Buy	2,000,000,000	3,969,829	11/29/13	_	(83,089)
Euro	DBAB	Sell	5,317,857	6,903,417	11/29/13	_	(318,426)
Indian Rupee	JPHQ	Buy	101,163,500	1,555,404	11/29/13	51,930	_
Indian Rupee	DBAB	Buy	46,286,000	689,498	11/29/13	45,916	_
Euro	DBAB	Sell	5,240,000	6,832,724	12/03/13	_	(283,413)
Indian Rupee	CITI	Buy	116,369,000	1,661,939	12/03/13	185,012	_
Euro	UBSW	Sell	12,746,000	16,732,566	12/09/13	_	(577,092)
Euro	DBAB	Sell	25,404,261	33,348,173	12/10/13	_	(1,152,010)
Euro	DBAB	Buy	25,404,261	33,115,724	12/10/13	1,384,459	_
Japanese Yen	UBSW	Sell	1,055,280,000	12,890,018	12/12/13	2,154,610	_
Euro	DBAB	Sell	7,500,000	9,786,000	12/13/13	_	(399,372)
Euro	JPHQ	Sell	774,000	1,010,314	12/13/13	_	(40,817)

Statement of Investments, October 31, 2013 (unaudited) (continued)

Franklin Strategic Income Fund

Forward Exchange Contracts	(continuea	1)					
Currency	Counter- party	Туре	Quantity	Contract Amount	Settlement Date	Unrealized Appreciation	Unrealized Depreciation
Euro	DBAB	Buy	7,500,000	\$10,123,500	12/13/13	\$ 61,872	\$ —
Euro	CITI	Sell	10,316,000	13,548,003	12/17/13	_	(461,669)
Euro	DBAB	Sell	1,947,500	2,572,063	12/18/13	_	(72,746)
Indian Rupee	JPHQ	Buy	807,353,000	11,563,349	12/18/13	1,198,906	_
Euro	DBAB	Sell	1,398,222	1,856,587	12/20/13	_	(42,275)
Indian Rupee	JPHQ	Buy	444,800,000	7,021,532	12/23/13	222	_
Singapore Dollar	DBAB	Buy	3,982,600	3,170,860	12/23/13	35,325	_
Indian Rupee	DBAB	Buy	30,088,000	467,579	12/26/13	7,018	_
Euro	DBAB	Sell	877,650	1,163,413	1/03/14	_	(28,500)
Indian Rupee	CITI	Buy	115,246,000	1,782,421	1/06/14	30,209	_
Indian Rupee	HSBC	Buy	94,216,000	1,469,932	1/06/14	11,931	_
Indian Rupee	HSBC	Buy	512,050,000	8,065,710	1/07/14	_	(14,078)
Indian Rupee	DBAB	Buy	81,531,000	1,284,058	1/07/14	_	(2,039)
Indian Rupee	DBAB	Buy	15,186,000	241,335	1/08/14	_	(2,607)
Malaysian Ringgit	DBAB	Buy	2,856,400	923,415	1/08/14	_	(22,144)
Chilean Peso	DBAB	Buy	6,367,400,000	12,931,357	1/10/14	_	(620,573)
Chilean Peso	DBAB	Sell	6,367,400,000	12,312,482	1/10/14	1,698	_
Japanese Yen	HSBC	Sell	642,460,000	7,367,661	1/10/14	830,328	_
British Pound	DBAB	Sell	1,072,503	1,716,006	1/13/14	_	(2,864)
Euro	UBSW	Sell	19,118,050	25,035,674	1/13/14	_	(928,481)
Euro	DBAB	Sell	9,119,948	11,960,812	1/13/14	_	(424,957)
Euro	DBAB	Buy	2,995,263	4,043,305	1/13/14	24,550	_
Euro	DBAB	Sell	6,324,316	8,379,086	1/14/14	_	(209,960)
Euro	JPHQ	Sell	3,605,906	4,721,032	1/14/14	_	(176,144)
Indian Rupee	DBAB	Buy	59,919,000	957,448	1/15/14	_	(17,197)
Euro	DBAB	Sell	3,635,363	4,859,574	1/16/14	_	(77,625)
Japanese Yen	UBSW	Sell	1,289,890,000	14,538,886	1/16/14	1,413,202	_
Malaysian Ringgit	JPHQ	Buy	525,000	171,093	1/16/14	_	(5,442)
Euro	DBAB	Sell	717,675	957,378	1/17/14	_	(17,300)
Indian Rupee	DBAB	Buy	128,487,000	2,049,934	1/17/14	_	(34,746)
Indian Rupee	JPHQ	Buy	84,715,000	1,341,852	1/21/14	_	(14,544)
Euro	DBAB	Sell	10,100,000	13,490,065	1/22/14	_	(226,925)
Euro	JPHQ	Sell	7,281,540	9,701,560	1/22/14	_	(187,630)
Indian Rupee	JPHQ	Buy	42,318,000	675,510	1/22/14	_	(12,645)
Indian Rupee	DBAB	Buy	29,785,000	475,373	1/22/14		(8,824)
Japanese Yen	DBAB	Sell	1,804,920,000	20,289,119	1/22/14	1,921,957	(0.641)
Singapore Dollar	JPHQ	Buy	2,660,000	2,145,161	1/24/14	_	(3,641)
Euro	BZWS	Sell	2,962,111	3,920,251	1/27/14	_	(102,681)
Indian Rupee	JPHQ	Buy	655,080,000	10,426,147	1/28/14	_	(180,780)
Euro	DBAB	Sell	19,046,862	25,685,645	1/30/14		(182,605)
Euro	DBAB	Sell	8,039,499	10,998,838	1/30/14	80,096	(202.014)
Chilean Peso	DBAB	Buy	1,969,000,000	4,000,000	1/31/14	_	(202,914)
Euro	DBAB	Sell	17,959,934	24,228,178	1/31/14	_	(163,923)
Euro	MSCO	Sell	2,920,000	3,931,984	1/31/14	_	(33,784)

Statement of Investments, October 31, 2013 (unaudited) (continued)

Franklin Strategic Income Fund

Forward Exchange Contracts	(continued	1)					
Currency	Counter- party	Туре	Quantity	Contract Amount	Settlement Date	Unrealized Appreciation	Unrealized Depreciation
Japanese Yen	DBAB	Sell	271,050,000	\$ 3,000,000	1/31/14	\$ 241,601	\$ —
Indian Rupee	HSBC	Buy	810,750,000	12,903,868	2/05/14	_	(225,102)
Euro	DBAB	Sell	14,788,625	19,924,714	2/06/14	_	(160,540)
Chilean Peso	DBAB	Buy	2,030,000,000	4,110,976	2/07/14	_	(199,043)
Chilean Peso	BZWS	Buy	2,082,200,000	3,942,067	2/10/14	69,235	_
Euro	DBAB	Sell	3,967,734	5,324,422	2/11/14	_	(64,432)
Japanese Yen	HSBC	Sell	514,820,000	5,534,985	2/12/14	295,355	_
Japanese Yen	JPHQ	Sell	514,551,000	5,535,003	2/12/14	298,111	_
Euro	UBSW	Sell	6,497,000	8,714,426	2/13/14	_	(109,631)
Japanese Yen	CITI	Sell	681,970,000	7,380,029	2/13/14	439,164	_
Japanese Yen	JPHQ	Sell	341,500,000	3,690,017	2/13/14	214,343	_
Japanese Yen	GSCO	Sell	413,700,000	4,444,564	2/18/14	233,911	_
Japanese Yen	JPHQ	Sell	341,660,000	3,689,952	2/18/14	212,524	_
Japanese Yen	GSCO	Sell	342,050,000	3,689,999	2/19/14	208,577	_
Japanese Yen	CITI	Sell	340,580,000	3,689,984	2/19/14	223,524	_
Euro	BZWS	Sell	5,503,000	7,345,625	2/20/14	_	(128,510)
Euro	DBAB	Sell	11,080,000	14,651,860	2/25/14	_	(397,062)
Euro	DBAB	Buy	11,080,000	15,012,292	2/25/14	36,629	_
Japanese Yen	BZWS	Sell	170,800,000	1,845,010	2/25/14	106,514	_
Euro	UBSW	Sell	15,984,655	21,361,093	2/26/14	_	(349,401)
Euro	BZWS	Sell	10,320,159	13,758,447	2/26/14	_	(258,481)
Japanese Yen	UBSW	Sell	110,527,000	1,122,557	2/26/14	_	(2,455)
Euro	BZWS	Sell	4,270,934	5,704,891	2/27/14	_	(95,940)
Japanese Yen	DBAB	Sell	114,235,000	1,247,999	2/27/14	85,236	_
Japanese Yen	BZWS	Sell	765,170,000	8,217,902	2/27/14	429,471	_
Singapore Dollar	DBAB	Buy	3,355,500	2,623,944	2/27/14	77,739	_
Euro	UBSW	Sell	2,950,776	3,951,856	2/28/14	_	(55,928)
Singapore Dollar	DBAB	Buy	1,290,500	1,042,660	2/28/14	_	(3,610)
Singapore Dollar	DBAB	Buy	1,290,500	1,006,395	2/28/14	32,655	
Euro	DBAB	Sell	32,889,819	43,274,779	3/03/14	_	(1,396,888)
Euro	UBSW	Sell	7,337,000	9,628,712	3/03/14		(336,561)
Japanese Yen	JPHQ	Sell	286,100,000	3,146,169	3/03/14	233,960	_
Japanese Yen	HSBC	Sell	286,000,000	3,141,131	3/04/14	229,920	_
Japanese Yen	UBSW	Sell	319,100,000	3,471,119	3/04/14	222,981	_
Japanese Yen	DBAB	Sell	1,262,100,000	13,718,031	3/04/14	871,038	(446 572)
Euro	DBAB	Sell	8,600,000	11,234,180	3/05/14	_	(446,573)
Euro	DBAB	Sell	5,700,000	7,396,035	3/06/14	_	(345,874)
Euro	DBAB	Sell	13,164,834	17,094,590	3/17/14	_	(786,660)
Euro	DBAB	Sell	5,989,400	7,772,504	3/18/14	_	(362,667)
Euro	JPHQ HSBC	Sell	1,796,800	2,354,257 3,389,043	3/19/14	15 219	(86,272)
Singapore Dollar	HSBC	Buy	4,228,000		3/19/14	15,318	_
Singapore Dollar	JPHQ DBAB	Buy	2,638,000 3,699,000	2,058,943	3/19/14 3/19/14	65,159	_
	DBAB	Buy		2,900,176		78,237	(1 196 157)
Euro	DBAB	Sell	19,515,107	25,320,563	3/20/14	_	(1,186,157)

Statement of Investments, October 31, 2013 (unaudited) (continued)

Franklin Strategic Income Fund

	Counter-			Contract	Settlement	Unrealized	Unrealized
Currency	party	Type	Quantity	Amount	Date	Appreciation	Depreciation
Euro	JPHQ	Sell	2,995,000	\$ 3,893,470	3/20/14	\$ —	\$ (174,539)
Euro	DBAB	Buy	3,206,902	4,336,213	3/20/14	19,616	_
Euro	JPHQ	Sell	2,995,000	3,875,635	3/21/14	_	(192,382)
Euro	JPHQ	Sell	2,995,000	3,890,131	3/24/14	_	(177,910)
Euro	JPHQ	Sell	2,396,000	3,101,874	3/25/14	_	(152,565)
Euro	DBAB	Sell	4,664,548	6,074,640	3/26/14	_	(261,133)
Euro	DBAB	Sell	4,646,840	6,000,000	3/27/14	_	(311,734)
Japanese Yen	DBAB	Sell	468,900,000	5,000,000	3/27/14	226,247	_
Euro	DBAB	Sell	1,426,335	1,839,145	3/31/14	_	(98,240)
Euro	DBAB	Sell	40,173,657	51,629,175	4/03/14	_	(2,938,853)
Euro	BZWS	Sell	667,313	858,865	4/07/14	_	(47,556)
Euro	DBAB	Sell	4,858,083	6,375,194	4/10/14	_	(223,648)
Chilean Peso	MSCO	Buy	464,940,000	950,506	4/14/14	_	(60,513)
Euro	DBAB	Sell	7,677,703	10,054,720	4/14/14	_	(374,156)
Euro	HSBC	Sell	711,759	931,643	4/16/14	_	(35,167)
Chilean Peso	MSCO	Buy	416,590,000	845,782	4/21/14	_	(48,904)
Euro	DBAB	Sell	16,281,961	21,373,583	4/22/14	_	(743,083)
Euro	BZWS	Sell	657,799	866,308	4/22/14	_	(27,216)
Euro	JPHQ	Sell	182,434	238,812	4/22/14	_	(8,997)
Euro	DBAB	Sell	2,578,396	3,379,504	4/23/14	_	(122,878)
Euro	BZWS	Sell	7,129,865	9,313,030	4/25/14	_	(371,907)
Euro	DBAB	Sell	908,953	1,187,093	4/25/14	_	(47,595)
Chilean Peso	JPHQ	Buy	937,202,000	1,886,667	4/28/14	_	(95,198)
British Pound	DBAB	Sell	1,284,637	1,992,600	4/29/14	_	(64,521)
British Pound	DBAB	Buy	1,284,637	1,980,653	4/29/14	76,468	_
Euro	DBAB	Sell	7,182,252	9,484,970	4/30/14	_	(271,230)
Euro	BZWS	Sell	460,253	600,262	4/30/14	_	(24,935)
Singapore Dollar	DBAB	Buy	20,972,900	16,951,222	4/30/14	_	(62,072)
Euro	DBAB	Sell	968,556	1,281,883	5/05/14	_	(33,797)
Euro	DBAB	Sell	3,815,920	5,000,000	5/06/14	_	(183,539)
Euro	DBAB	Sell	2,526,241	3,322,490	5/07/14	_	(109,161)
Japanese Yen	DBAB	Sell	2,136,365,000	22,000,000	5/07/14	243,463	_
British Pound	DBAB	Sell	9,100,000	14,071,330	5/09/14	_	(499,621)
British Pound	DBAB	Buy	1,888,931	2,921,459	5/09/14	103,104	_
Chilean Peso	DBAB	Buy	6,734,000,000	13,702,309	5/09/14	_	(844,621)
Euro	DBAB	Sell	6,100,000	8,007,775	5/09/14	_	(278,521)
Euro	DBAB	Sell	3,090,000	4,086,834	5/12/14	_	(110,684)
Singapore Dollar	DBAB	Buy	17,302,320	14,062,582	5/12/14	_	(128,919)
British Pound	DBAB	Sell	2,184,041	3,333,938	5/15/14	_	(162,996)
British Pound	DBAB	Buy	2,062,985	3,180,505	5/15/14	122,604	_
Euro	DBAB	Sell	2,050,692	2,647,854	5/19/14	_	(137,900)
Euro	JPHQ	Sell	855,033	1,105,481	5/23/14	_	(56,048)
Japanese Yen	DBAB	Sell	1,008,700,000	10,000,000	5/28/14	_	(274,450)
Euro	GSCO	Sell	800,000	1,031,480	5/30/14	_	(55,309)
			•	•			•

Statement of Investments, October 31, 2013 (unaudited) (continued)

Franklin Strategic Income Fund

Forward Exchange Contracts (continued)								
Currency	Counter- party	Туре	Quantity	Contract Amount	Settlement Date	Unrealized Appreciation	Unrealized Depreciation	
Euro	DBAB	Sell	3,488,331	\$ 4,539,365	6/05/14	\$ —	\$ (199,561)	
Singapore Dollar	JPHQ	Buy	18,544,500	14,751,810	6/05/14	182,991	_	
Japanese Yen	JPHQ	Sell	381,050,000	3,872,599	6/10/14	_	(9,168)	
Japanese Yen	HSBC	Sell	561,900,000	5,808,833	6/10/14	84,742	_	
Japanese Yen	BZWS	Sell	527,610,000	5,421,605	6/10/14	46,827	_	
Japanese Yen	JPHQ	Sell	520,600,000	5,421,584	6/11/14	118,169	_	
Japanese Yen	DBAB	Sell	186,100,000	1,936,605	6/11/14	40,782	_	
Japanese Yen	JPHQ	Sell	219,500,000	2,323,120	6/17/14	86,926	_	
Chilean Peso	DBAB	Buy	2,426,750,000	4,721,304	6/19/14	_	(107,009)	
Singapore Dollar	HSBC	Buy	3,182,000	2,527,403	6/20/14	35,305	_	
Euro	DBAB	Sell	1,175,900	1,541,664	6/27/14	_	(55,901)	
Euro	UBSW	Sell	9,972,000	13,021,737	6/30/14	_	(526,220)	
Japanese Yen	BZWS	Sell	1,772,250,000	18,214,286	6/30/14	157,067	_	
Japanese Yen	DBAB	Sell	1,175,148,000	12,000,000	7/01/14	26,466	_	
British Pound	DBAB	Sell	825,578	1,230,359	7/07/14	_	(90,967)	
British Pound	DBAB	Sell	992,188	1,480,741	7/09/14	_	(107,217)	
Euro	DBAB	Sell	4,572,237	5,899,557	7/09/14	_	(312,434)	
Chilean Peso	DBAB	Buy	432,000,000	816,249	7/10/14	3,423	_	
Euro	DBAB	Sell	1,877,906	2,424,565	7/10/14	_	(126,827)	
Euro	DBAB	Sell	4,880,504	6,294,386	7/11/14	_	(336,463)	
Euro	DBAB	Sell	2,202,128	2,893,641	7/23/14	_	(98,356)	
Euro	DBAB	Sell	4,253,562	5,632,142	7/25/14	_	(147,137)	
Euro	BZWS	Sell	5,986,000	7,927,858	7/28/14	_	(205,335)	
Euro	CITI	Sell	2,785,851	3,689,372	7/28/14	_	(95,771)	
Euro	DBAB	Sell	11,104,766	14,717,702	7/29/14	_	(370,423)	
British Pound	DBAB	Sell	846,924	1,289,526	7/30/14	_	(65,722)	
Euro	DBAB	Sell	16,505,750	21,903,608	8/01/14	_	(523,101)	
Euro	JPHQ	Sell	3,379,556	4,470,148	8/06/14	_	(121,803)	
Euro	CITI	Sell	1,324,074	1,762,740	8/08/14	_	(36,350)	
Chilean Peso	JPHQ	Buy	1,352,200,000	2,536,723	8/11/14	20,480	_	
Chilean Peso	BZWS	Buy	2,082,200,000	3,869,901	8/11/14	67,836	_	
Euro	CITI	Sell	384,312	512,090	8/11/14	_	(10,101)	
Japanese Yen	DBAB	Sell	112,187,000	1,142,934	8/19/14	_	(709)	
Chilean Peso	JPHQ	Buy	5,646,370,800	10,627,462	8/20/14	40,502	_	
Japanese Yen	JPHQ	Sell	151,946,000	1,563,029	8/20/14	14,060	_	
Japanese Yen	HSBC	Sell	208,867,000	2,153,268	8/20/14	24,035	_	
Euro	JPHQ	Sell	9,800,000	13,100,591	8/21/14	_	(215,784)	
Japanese Yen	BZWS	Sell	50,333,000	519,111	8/22/14	5,994	_	
Euro	BZWS	Sell	2,935,231	3,934,941	8/25/14	_	(53,546)	
Japanese Yen	DBAB	Sell	49,740,000	511,802	8/25/14	4,713	_	
Japanese Yen	CITI	Sell	100,563,000	1,035,222	8/25/14	10,002	_	
Japanese Yen	HSBC	Sell	99,826,000	1,025,002	8/25/14	7,296	_	
Euro	DBAB	Sell	2,214,428	2,958,476	8/26/14	_	(50,571)	
Japanese Yen	BZWS	Sell	139,815,000	1,422,330	8/26/14	_	(3,074)	

Statement of Investments, October 31, 2013 (unaudited) (continued)

Franklin Strategic Income Fund

Euro DBAB Sell 3,473,733 4,655,845 8/27/14 — (64,409								
Japanese Yen JPHQ Sell 100,349,000 \$ 1,020,829 8/26/14 \$ — \$ (2,222) Euro DBAB Sell 3,473,733 4,655,845 8/27/14 — (64,405)	C		T	0				
Euro DBAB Sell 3,473,733 4,655,845 8/27/14 — (64,409	Currency		туре	·		Date	Appreciation	
	Japanese Yen	JPHQ	Sell	100,349,000	\$ 1,020,829		\$ —	
Euro	Euro	DBAB	Sell	3,473,733	4,655,845	8/27/14	_	(64,409)
	Euro	JPHQ	Sell	1,161,245	1,549,693	8/27/14	_	(28,255)
Japanese Yen DBAB Sell 1,803,257,000 18,270,081 8/27/14 — (114,205	Japanese Yen	DBAB	Sell	1,803,257,000	18,270,081	8/27/14	_	(114,205)
Japanese Yen	Japanese Yen	HSBC	Sell	158,794,000	1,609,067	8/27/14	_	(9,845)
Japanese Yen JPHQ Sell 50,640,000 513,786 8/27/14 — (2,491	Japanese Yen	JPHQ	Sell	50,640,000	513,786	8/27/14	_	(2,491)
Singapore Dollar DBAB Buy 3,355,500 2,624,971 8/27/14 77,953 —	Singapore Dollar	DBAB	Buy	3,355,500	2,624,971	8/27/14	77,953	_
Euro DBAB Sell 14,050,998 18,789,304 8/28/14 — (303,843	Euro	DBAB	Sell	14,050,998	18,789,304	8/28/14	_	(303,843)
Euro DBAB Sell 10,420,622 13,915,698 8/29/14 — (244,373	Euro	DBAB	Sell	10,420,622	13,915,698	8/29/14	_	(244,373)
Japanese Yen JPHQ Sell 49,853,000 513,078 8/29/14 4,813 —	Japanese Yen	JPHQ	Sell	49,853,000	513,078	8/29/14	4,813	_
Euro BZWS Sell 742,104 991,451 9/19/14 — (17,030	Euro	BZWS	Sell	742,104	991,451	9/19/14	_	(17,030)
Euro UBSW Sell 10,201,937 13,635,909 9/22/14 — (228,138	Euro	UBSW	Sell	10,201,937	13,635,909	9/22/14	_	(228,138)
Japanese Yen DBAB Sell 2,094,875,000 21,220,371 9/22/14 — (143,521	Japanese Yen	DBAB	Sell	2,094,875,000	21,220,371	9/22/14	_	(143,521)
Euro DBAB Sell 8,820,523 11,967,862 9/23/14 — (18,937	Euro	DBAB	Sell	8,820,523	11,967,862	9/23/14	_	(18,937)
	Euro	BZWS	Sell	1,894,260		9/24/14	_	(9,872)
Euro DBAB Sell 9,302,000 12,561,142 9/30/14 — (80,270	Euro	DBAB	Sell	9,302,000	12,561,142	9/30/14	_	(80,270)
Japanese Yen JPHQ Sell 387,212,500 3,927,005 9/30/14 — (22,227	Japanese Yen	JPHQ	Sell	387,212,500	3,927,005	9/30/14	_	(22,227)
Euro JPHQ Sell 8,180,000 11,155,598 10/07/14 38,717 —	Euro	JPHQ	Sell	8,180,000	11,155,598	10/07/14	38,717	_
Euro DBAB Sell 835,443 1,133,613 10/08/14 — (1,785	Euro	DBAB	Sell	835,443	1,133,613	10/08/14	_	(1,785)
Euro BZWS Sell 8,197,000 11,088,246 10/14/14 — (52,004	Euro	BZWS	Sell	8,197,000	11,088,246	10/14/14	_	(52,004)
Euro DBAB Sell 7,975,252 10,783,977 10/15/14 — (54,940	Euro	DBAB	Sell	7,975,252	10,783,977	10/15/14	_	(54,940)
Euro DBAB Sell 3,327,609 4,504,418 10/17/14 — (18,062	Euro	DBAB	Sell	3,327,609	4,504,418	10/17/14	_	(18,062)
Malaysian Ringgit JPHQ Buy 2,290,000 707,861 10/20/14 14,022 —	Malaysian Ringgit	JPHQ	Buy	2,290,000	707,861	10/20/14	14,022	_
Euro DBAB Sell 444,306 608,668 10/22/14 4,811 —	Euro	DBAB	Sell	444,306	608,668	10/22/14	4,811	_
Japanese Yen DBAB Sell 767,340,000 7,872,843 10/22/14 44,610 —	Japanese Yen	DBAB	Sell	767,340,000	7,872,843	10/22/14	44,610	_
Chilean Peso CITI Buy 1,510,671,000 2,899,560 10/24/14 — (64,793	Chilean Peso	CITI	Buy	1,510,671,000	2,899,560	10/24/14	_	(64,793)
Japanese Yen JPHQ Sell 993,630,000 10,133,033 10/24/14 — (3,998	Japanese Yen	JPHQ	Sell	993,630,000	10,133,033	10/24/14	_	(3,998)
Malaysian Ringgit DBAB Buy 30,637,000 9,513,119 10/24/14 150,665 —	Malaysian Ringgit	DBAB	Buy	30,637,000		10/24/14	150,665	_
Malaysian Ringgit HSBC Buy 20,429,388 6,309,261 10/24/14 134,750 —	Malaysian Ringgit	HSBC	Buy	20,429,388	6,309,261	10/24/14	134,750	_
Euro BZWS Sell 935,270 1,287,698 10/27/14 16,550 —		BZWS	Sell	935,270	1,287,698	10/27/14		_
Euro GSCO Sell 9,398,000 12,967,360 10/29/14 194,220 —	Euro	GSCO	Sell	9,398,000	12,967,360	10/29/14	194,220	_
Euro DBAB Sell 5,905,773 8,155,932 10/31/14 129,141 —	Euro	DBAB	Sell	5,905,773	8,155,932	10/31/14	129,141	_
Japanese Yen BZWS Sell 386,912,500 3,945,671 11/05/14 15,207 —	Japanese Yen	BZWS	Sell			11/05/14		_
Japanese Yen JPHQ Sell 1,081,080,000 11,036,085 11/05/14 53,895 —	•				11,036,085		•	_
								(31,159,445)
								\$ (9,909,420)

Statement of Investments, October 31, 2013 (unaudited) (continued)

Franklin Strategic Income Fund

At October 31, 2013, the Fund had the following credit default swap contracts outstanding. See Note 1(d).

Credit Default Swap Contracts

Description	Counter- party/ Exchange	Notional Amount ^a	Periodic Payment Rate	Expiration Date	Upfront Premiums Paid (Received)	Unrealized Appreciation	Unrealized Depreciation	Market Value	Rating ^b
Centrally Cleared Swaps Contracts to Sell Protection ^c Traded Index CDX.NA.HY.20	ICE	50,000,000	5.00%	12/20/18	\$ 2,241,815	\$1,359,378	\$ —	\$3,601,193	Non Investment Grade
Centrally Cleared Swaps unrealized ap	preciation (d	lepreciation)				1,359,378	_		araao
OTC Swaps Contracts to Sell Protection ^c Traded Index									
CMBX.NA.AJ.2	FBC0	40,800,000	1.09%	3/15/49	\$(5,722,468)	619,518	_	(5,102,950)	Non Investment Grade
MCDX.NA.19	CITI	100,000,000	1.00%	12/20/18	(1,863,987)	412,785	_	(1,451,202)	Non Investment Grade
OTC Swaps unrealized appreciation ((depreciation	ı)				1,032,303	_		u. u.u
Total Credit Default Swaps unreali	zed apprecia	tion (depreciation	on)			2,391,681			
Net unrealized appreciation (dep	reciation) .					\$2,391,681			

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

See Note 10 regarding other derivative information.

See Abbreviations on page 73.

Based on Standard and Poor's (S&P) Rating for single name swaps and internal ratings for index swaps. Internal ratings based on mapping into equivalent ratings from

The fund enters contracts to sell protection to create a long credit position. Performance triggers include failure to pay or bankruptcy of the underlying securities for traded

Financial Statements

Statement of Assets and Liabilities

October 31, 2013 (unaudited)

	Franklin Strategic
	Income Fund
Assets:	
Investments in securities:	
Cost - Unaffiliated issuers	\$7,555,894,904
Cost - Sweep Money Fund (Note 7)	557,425,553
Total cost of investments	\$8,113,320,457
Value - Unaffiliated issuers	\$7,805,464,583
Value - Sweep Money Fund (Note 7)	557,425,553
Total value of investments	8,362,890,136
Cash	13,881,887
Restricted cash (Note 1e)	370,000
Foreign currency, at value (cost \$67,225,899)	66,791,222
Receivables:	
Investment securities sold	51,919,658
Capital shares sold	20,911,204
Interest	93,925,158
Due from brokers	33,210,000
Variation margin	575,966
Swaps (premiums paid \$2,281,250)	2,241,815
Unrealized appreciation on forward exchange contracts	21,250,025
Unrealized appreciation on OTC swap contracts	1,032,303
Other assets	322,092
Total assets	8,669,321,466
Liabilities:	
Payables:	
Investment securities purchased	108,488,839
Capital shares redeemed	21,305,441
Management fees	3,207,586
Distribution fees	2,294,835
Transfer agent fees	1,762,799
Distributions to shareholders	2,873,559
Due to brokers	370,000
OTC Swaps (premiums received \$7,696,126)	7,586,455
Unrealized depreciation on forward exchange contracts	31,159,445
Unrealized depreciation on unfunded loan commitments (Note 9)	2,441
Deferred tax	342,454
Accrued expenses and other liabilities	1,148,102
Total liabilities	180,541,956
Net assets, at value	\$8,488,779,510
Net assets consist of:	
Paid-in capital	\$8,214,559,561
Distributions in excess of net investment income	(39,110,168)
Net unrealized appreciation (depreciation)	242,369,801
Accumulated net realized gain (loss)	70,960,316
Net assets, at value	\$8,488,779,510

Financial Statements (continued)

Statement of Assets and Liabilities (continued)

October 31, 2013 (unaudited)

	Franklin Strategic
	Income Fund
Class A:	
Net assets, at value	\$4,956,738,199
Shares outstanding	467,625,093
Net asset value per share ^a	\$10.60
Maximum offering price per share (net asset value per share ÷ 95.75%)	\$11.07
Class C:	
Net assets, at value	\$2,088,717,094
Shares outstanding	197,103,376
Net asset value and maximum offering price per share ^a	\$10.60
Class R:	
Net assets, at value	\$ 232,003,940
Shares outstanding	21,957,056
Net asset value and maximum offering price per share	\$10.57
Class R6	
Net assets, at value	\$ 231,447,252
Shares outstanding	21,812,109
Net asset value and maximum offering price per share	\$10.61
Advisor Class:	
Net assets, at value	\$ 979,873,025
Shares outstanding	92,366,641
Net asset value and maximum offering price per share	\$10.61

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

Financial Statements (continued)

Statement of Operations

for the six months ended October 31, 2013 (unaudited)

	Franklin Strategic Income Fund
Investment income:	
Dividends	\$ 1,392,954
Interest	204,535,543
Total investment income	205,928,497
Expenses:	
Management fees (Note 3a)	18,656,033
Distribution fees: (Note 3c)	
Class A	6,213,991
Class C	6,846,594
Class R	602,522
Transfer agent fees: (Note 3e)	0.010.660
Class A	3,213,660
Class C	1,361,711
Class R	155,749 71
Advisor Class	622,545
Custodian fees (Note 4)	524,996
Reports to shareholders	321,239
Registration and filing fees	143,216
Professional fees	77,114
Trustees' fees and expenses	47,054
Other	247,707
Total expenses	39,034,202
Expense reductions (Note 4)	(4,515)
Net expenses	39,029,687
Net investment income	166,898,810
Realized and unrealized gains (losses):	
Net realized gain (loss) from:	
Investments	18,862,712
Foreign currency transactions	(6,754,884)
Swap contracts	7,366,032
Net realized gain (loss)	19,473,860
Net change in unrealized appreciation (depreciation) on:	
Investments	(172,789,323)
Translation of other assets and liabilities denominated in foreign currencies	(32,342,973)
Change in deferred taxes on unrealized appreciation	914,755
Net change in unrealized appreciation (depreciation)	(204,217,541)
Net realized and unrealized gain (loss)	(184,743,681)
Net increase (decrease) in net assets resulting from operations	\$ (17,844,871)

Financial Statements (continued)

Statements of Changes in Net Assets

	Franklin Strateg	ic Income Fund
	Six Months Ended October 31, 2013 (unaudited)	Year Ended April 30, 2013
Increase (decrease) in net assets:		
Operations:		
Net investment income	\$ 166,898,810	\$ 296,054,912
contracts	19,473,860	141,916,424
Net change in unrealized appreciation (depreciation) on investments, translation of other assets and liabilities denominated in foreign currencies and deferred taxes	(204,217,541)	224,490,205
Net increase (decrease) in net assets resulting from operations	(17,844,871)	662,461,541
Distributions to shareholders from:		
Net investment income and net foreign currency gains:		
Class A	(106,720,762)	(230,894,978) (357,139)
Class C	(40.985.865)	(89,867,899)
Class R	(4,838,904)	(12,937,849)
Class R6	(2,738,640)	_
Advisor Class	(21,894,880)	(46,009,914)
Class A	_	(15,257,744)
Class B	_	(13,391)
Class C	_	(6,432,291)
Class R	_	(875,855)
Advisor Class		(2,883,125)
Total distributions to shareholders	(177,179,051)	(405,530,185)
Capital share transactions: (Note 2)		
Class A	109,462,588	1,055,895,095
Class B	_	(18,389,250)
Class C	31,098,954	474,619,339
Class R	(22,466,650)	2,168,874
Class R6	226,905,383	_
Advisor Class	46,358,752	212,884,187
Total capital share transactions	391,359,027	1,727,178,245
Net increase (decrease) in net assets	196,335,105	1,984,109,601
Net assets:		
Beginning of period	8,292,444,405	6,308,334,804
End of period	\$8,488,779,510	\$8,292,444,405
Distributions in excess of net investment income included in net assets:		
End of year	\$ (39,110,168)	\$ (28,829,927)

Notes to Financial Statements (unaudited)

Franklin Strategic Income Fund

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Franklin Strategic Series (Trust) is registered under the Investment Company Act of 1940, as amended, (1940 Act) as an open-end investment company, consisting of nine separate funds. The Franklin Strategic Income Fund (Fund) is included in this report. The financial statements of the remaining funds in the Trust are presented separately. The Fund offers five classes of shares: Class A, Class C, Class R, Class R6 and Advisor Class. Effective May 1, 2013, the Fund began offering a new class of shares, Class R6. Each class of shares differs by its initial sales load, and contingent deferred sales charges, voting rights on matters affecting a single class, its exchange privilege and fees primarily due to differing arrangements for distribution and transfer agent fees.

The following summarizes the Fund's significant accounting policies.

a. Financial Instrument Valuation

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

Equity securities and exchange traded funds listed on an exchange or on the NASDAQ National Market System are valued at the last quoted sale price or the official closing price of the day, respectively. Foreign equity securities are valued as of the close of trading on the foreign stock exchange on which the security is primarily traded, or the NYSE, whichever is earlier. The value is then converted into U.S. dollar equivalent at the foreign exchange rate in effect at the close of the NYSE on the day that the value of the security is determined. Over-the-counter (OTC) securities are valued within the range of the most recent quoted bid and ask prices. Securities that trade in multiple markets or on multiple exchanges are valued according to the broadest and most representative market. Certain equity securities are valued based upon fundamental characteristics or relationships to similar securities. Investments in open-end mutual funds are valued at the closing net asset value.

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,

Notes to Financial Statements (unaudited) (continued)

Franklin Strategic Income Fund

1. Organization and Significant Accounting Policies (continued)

a. Financial Instrument Valuation (continued)

credit spreads, estimated default rates, anticipated market interest rate volatility, coupon rates, anticipated timing of principal repayments, underlying collateral, and other unique security features in order to estimate the relevant cash flows, which are then discounted to calculate the fair value. Securities denominated in a foreign currency are converted into their U.S. dollar equivalent at the foreign exchange rate in effect at the close of the NYSE on the date that the values of the foreign debt securities are determined

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

The Fund has procedures to determine the fair value of financial instruments for which market prices are not reliable or readily available. Under these procedures, the VLOC convenes on a regular basis to review such financial instruments and considers a number of factors, including significant unobservable valuation inputs, when arriving at fair value. The VLOC primarily employs a market-based approach which may use related or comparable assets or liabilities, recent transactions, market multiples, book values, and other relevant information for the investment to determine the fair value of the investment. An income-based valuation approach may also be used in which the anticipated future cash flows of the investment are discounted to calculate fair value. Discounts may also be applied due to the nature or duration of any restrictions on the disposition of the investments. Due to the inherent uncertainty of valuations of such investments, the fair values may differ significantly from the values that would have been used had an active market existed. The VLOC employs various methods for calibrating these valuation approaches including a regular review of key inputs and assumptions, transactional back-testing or disposition analysis, and reviews of any related market activity.

Trading in securities on foreign securities stock exchanges and OTC markets may be completed before the daily close of business on the NYSE. Occasionally, events occur between the time at which trading in a foreign security is completed and the close of the NYSE that might call into question the reliability of the value of a portfolio security held by the Fund. As a result, differences may arise between the value of the Fund's portfolio securities as determined at the foreign market close and the latest indications of value at the close of the NYSE. In order to minimize the potential for these differences, the VLOC monitors price movements following the close of trading in foreign stock markets through a series of country specific market proxies (such as baskets of American Depositary Receipts, futures contracts and exchange traded funds). These price movements are measured against established trigger thresholds for each specific market proxy to assist in determining if an event has occurred that may call into question the reliability

Notes to Financial Statements (unaudited) (continued)

Franklin Strategic Income Fund

1. Organization and Significant Accounting Policies (continued)

a. Financial Instrument Valuation (continued)

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.

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

b. Foreign Currency Translation

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

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

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

c. Securities Purchased on a When-Issued and Delayed Delivery Basis

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

Notes to Financial Statements (unaudited) (continued)

Franklin Strategic Income Fund

1. Organization and Significant Accounting Policies (continued)

d. Derivative Financial Instruments

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

Derivative counterparty credit risk is managed through a formal evaluation of the creditworthiness of all potential counterparties. The Fund attempts to reduce its exposure to counterparty credit risk on OTC derivatives, whenever possible, by entering into International Swaps and Derivatives Association (ISDA) master agreements with certain counterparties. These agreements contain various provisions, including but not limited to collateral requirements, events of default, or early termination. Termination events applicable to the counterparty include certain deteriorations in the credit quality of the counterparty. Termination events applicable to the Fund include failure of the Fund to maintain certain net asset levels and/or limit the decline in net assets over various periods of time. In the event of default or early termination, the ISDA master agreement gives the non-defaulting party the right to net and close-out all transactions traded, whether or not arising under the ISDA agreement, to one net amount payable by one counterparty to the other. However, absent an event of default or early termination, OTC derivative assets and liabilities are presented gross and not offset in the Statement of Assets and Liabilities. Early termination by the counterparty may result in an immediate payment by the Fund of any net liability owed to that counterparty under the ISDA agreement.

Collateral requirements differ by type of derivative. Collateral 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 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

Notes to Financial Statements (unaudited) (continued)

Franklin Strategic Income Fund

1. Organization and Significant Accounting Policies (continued)

d. Derivative Financial Instruments (continued)

broker and can be in the form of cash and/or securities. Unrestricted cash may be invested according to the Fund's investment objectives.

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

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

See Note 10 regarding other derivative information.

e. Restricted Cash

At October 31, 2013, the Fund received 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 Statement of Assets and Liabilities.

Notes to Financial Statements (unaudited) (continued)

Franklin Strategic Income Fund

1. Organization and Significant Accounting Policies (continued)

f. 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.

g. FT Holdings Corporation II (FT Subsidiary)

The Fund invests in certain financial instruments through its investments in the FT Subsidiary. The FT Subsidiary is a Delaware Corporation, is a wholly owned subsidiary of the Fund, and is able to invest in certain financial instruments consistent with the investment objective of the Fund. At October 31, 2013, the FT Subsidiary's investment, Turtle Bay Resort, as well as any other assets and liabilities of the FT Subsidiary are reflected in the Fund's Statement of Investments and Statement of Assets and Liabilities. The financial statements have been consolidated and include the accounts of the Fund and the FT Subsidiary. All intercompany transactions and balances have been eliminated.

h. Mortgage Dollar Rolls

The Fund enters into mortgage dollar rolls, typically on a to-be-announced basis. Mortgage dollar rolls are agreements between the Fund and a financial institution to simultaneously sell and repurchase mortgage-backed securities at a future date. Gains or losses are realized on the initial sale, and the difference between the repurchase price and the sale price is recorded as an unrealized gain or loss to the Fund upon entering into the mortgage dollar roll. In addition, the Fund may invest the cash proceeds that are received from the initial sale. During the period between the sale and repurchase, the Fund is not entitled to principal and interest paid on the mortgage backed securities. The risks of mortgage dollar roll transactions include the potential inability of the counterparty to fulfill its obligations.

i. 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).

Notes to Financial Statements (unaudited) (continued)

Franklin Strategic Income Fund

1. Organization and Significant Accounting Policies (continued)

i. Senior Floating Rate Interests (continued)

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.

j. Income and Deferred Taxes

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

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

The Fund recognizes the tax benefits of uncertain tax positions only when the position is "more likely than not" to be sustained upon examination by the tax authorities based on the technical merits of the tax position. As of October 31, 2013, and for all open tax years, the Fund has determined that no liability for unrecognized tax benefits is required in the Fund's financial statements related to uncertain tax positions taken on a tax return (or expected to be taken on future tax returns). Open tax years are those that remain subject to examination and are based on each tax jurisdiction statute of limitation.

k. Security Transactions, Investment Income, Expenses and Distributions

Security transactions are accounted for on trade date. Realized gains and losses on security transactions are determined on a specific identification basis. Interest income and estimated expenses are accrued daily. Amortization of premium and accretion of discount on debt securities are included in interest income. Paydown gains and losses are recorded as an adjustment to interest income. Facility fees are recognized as income over the expected term of the loan. Dividend income is recorded on the ex-dividend date. Distributions to shareholders are recorded on the ex-dividend date and are determined according to income tax regulations (tax basis). Distributable earnings

Notes to Financial Statements (unaudited) (continued)

Franklin Strategic Income Fund

1. Organization and Significant Accounting Policies (continued)

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

determined on a tax basis may differ from earnings recorded in accordance with accounting principles generally accepted in the United States of America. These differences may be permanent or temporary. Permanent differences are reclassified among capital accounts to reflect their tax character. These reclassifications have no impact on net assets or the results of operations. Temporary differences are not reclassified, as they may reverse in subsequent periods.

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

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

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

1. Accounting Estimates

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

m. 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.

Notes to Financial Statements (unaudited) (continued)

Franklin Strategic Income Fund

2. SHARES OF BENEFICIAL INTEREST

At October 31, 2013, there were an unlimited number of shares authorized (without par value). Transactions in the Fund's shares were as follows:

	Six Months Ended Year Ended October 31, 2013 April 30, 2013					
	Shares	A	mount	Shares		Amount
Class A Shares:						
Shares sold	80,550,783	\$ 85	1,772,090	156,328,438	\$3	1,664,710,609
distributions	9,127,259	9!	5,791,925	20,262,991		215,348,775
Shares redeemed	(79,572,212)	(838	3,101,427)	(77,471,999)		(824,164,289)
Net increase (decrease)	10,105,830	\$ 109	9,462,588	99,119,430	\$.	1,055,895,095
Class B Shares ^a :						_
Shares sold				54,707	\$	584,097
distributions				29,976		317,252
Shares redeemed				(1,806,955)		(19,290,599)
Net increase (decrease)				(1,722,272)	\$	(18,389,250)
Class C Shares:						_
Shares sold	30,704,090	\$ 324	1,971,292	66,115,522	\$	704,117,353
distributions	3,480,504	36	5,522,562	7,858,286		83,483,367
Shares redeemed	(31,400,582)	(330	0,394,900)	(29,427,899)		(312,981,381)
Net increase (decrease)	2,784,012	\$ 3	1,098,954	44,545,909	\$	474,619,339
Class R Shares:						
Shares sold	2,254,863	\$ 23	3,736,621	6,457,399	\$	68,442,116
Shares issued in reinvestment of distributions	445,243	4	1,659,446	1,258,648		13,320,129
Shares redeemed	(4,827,740)	(50	0,862,717)	(7,517,732)		(79,593,371)
Net increase (decrease)	(2,127,634)	\$ (22	2,466,650)	198,315	\$	2,168,874
Class R6 Sharesb:						_
Shares sold ^c	21,552,191	\$ 224	1,183,836			
distributions	261,544	2	2,738,584			
Shares redeemed	(1,626)		(17,037)			
Net increase (decrease)	21,812,109	\$ 226	5,905,383			
Advisor Class Shares:						
Shares sold	21,180,082	\$ 223	3,626,765	33,927,651	\$	361,582,495
distributions	1,875,807	19	9,703,043	4,139,838		44,017,295
Shares redeemed ^c	(18,680,510)	(196	5,971,056)	(18,102,184)		(192,715,603)
Net increase (decrease)	4,375,379	\$ 46	5,358,752	19,965,305	\$	212,884,187

^aEffective March 21, 2013, all Class B shares were converted to Class A.

^bFor the period May 1, 2013 (effective date) to October 31, 2013.

^cEffective May 1, 2013, a portion of Advisor Class shares were exchanged into Class R6.

Notes to Financial Statements (unaudited) (continued)

Franklin Strategic Income Fund

3. TRANSACTIONS WITH AFFILIATES

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

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

a. Management Fees

The Fund pays an investment management fee to Advisers based on the average daily net assets of the Fund as follows:

Annualized Fee Rate	Net Assets
0.625%	Up to and including \$100 million
0.500%	Over \$100 million, up to and including \$250 million
0.450%	Over \$250 million, up to and including \$7.5 billion
0.440%	Over \$7.5 billion, up to and including \$10 billion
0.430%	Over \$10 billion, up to and including \$12.5 billion
0.420%	Over \$12.5 billion, up to and including \$15 billion
0.400%	Over \$15 billion, up to and including \$17.5 billion
0.380%	Over \$17.5 billion, up to and including \$20 billion
0.360%	Over \$20 billion, up to and including \$35 billion
0.355%	Over \$35 billion, up to and including \$50 billion
0.350%	In excess of \$50 billion

b. Administrative Fees

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

c. Distribution Fees

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

Notes to Financial Statements (unaudited) (continued)

Franklin Strategic Income Fund

3. Transactions with Affiliates (continued)

c. Distribution Fees (continued)

distribution plans, the Fund pays Distributors for costs incurred in connection with the servicing, sale and distribution of the Fund's shares up to the maximum annual plan rate for each class. The plan year, for purposes of monitoring compliance with the maximum annual plan rates, is February 1 through January 31.

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

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

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 period:

Sales charges retained net of commissions paid to unaffiliated	
broker/dealers	\$1,815,282
CDSC retained	\$ 294,588

e. Transfer Agent Fees

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

For the period ended October 31, 2013, the Fund paid transfer agent fees of \$5,353,736, of which \$2,524,099 was retained by Investor Services.

f. Waiver and Expense Reimbursements

Investor Services has contractually agreed in advance to waive or limit its fees so that the Class R6 transfer agent fees for the Fund do not exceed 0.01% until August 31, 2014. There were no expenses waived during the period ended October 31, 2013.

Notes to Financial Statements (unaudited) (continued)

Franklin Strategic Income Fund

4. EXPENSE OFFSET ARRANGEMENT

The Fund has entered into an arrangement with its custodian whereby credits realized as a result of uninvested cash balances are used to reduce a portion of the Fund's custodian expenses. During the period ended October 31, 2013, the custodian fees were reduced as noted in the Statement of Operations.

5. INCOME TAXES

At October 31, 2013, the cost of investments and net unrealized appreciation (depreciation) for income tax purposes were as follows:

Cost of investments	\$8,144,585,181
Unrealized appreciation	\$ 321,779,826
Unrealized depreciation	(103,474,871)
Net unrealized appreciation (depreciation)	\$ 218,304,955

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

6. INVESTMENT TRANSACTIONS

Purchases and sales of investments (excluding short term securities) for the period ended October 31, 2013, aggregated \$2,588,673,949 and \$2,233,445,864, respectively.

7. INVESTMENTS IN INSTITUTIONAL FIDUCIARY TRUST MONEY MARKET PORTFOLIO

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

8. CREDIT RISK AND DEFAULTED SECURITIES

At October 31, 2013, the Fund had 50.55% of its portfolio invested in high yield, senior secured floating rate notes, or other securities rated below investment grade. These securities may be more sensitive to economic conditions causing greater price volatility and are potentially subject to a greater risk of loss due to default than higher rated securities.

Notes to Financial Statements (unaudited) (continued)

Franklin Strategic Income Fund

9. Unfunded Loan Commitments

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

At October 31, 2013, unfunded commitments were as follows:

Borrower	Unfunded Commitment
Patriot Coal Corp., Reimbursement Obligation, 4.50% - 8.273%, 12/31/13	\$3,942,831

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

10. OTHER DERIVATIVE INFORMATION

At October 31, 2013, the Fund's investments in derivative contracts are reflected on the Statement of Assets and Liabilities as follows:

Asset Derivatives Liability Derivatives

Derivative Contracts Not Accounted for as Hedging Instruments	Statement of Assets and Liabilities Location	Fair Value Amount	Statement of Assets and Liabilities Location	Fair Value Amount
Foreign exchange contracts	Unrealized appreciation on forward exchange contracts	\$21,250,025	Unrealized depreciation on forward exchange contracts	\$31,159,445
Credit contracts	Unrealized appreciation on OTC swap contracts/ variation margin	2,391,681ª	Unrealized depreciation on OTC swap contracts	_

alnoludes cumulative appreciation (depreciation) of centrally cleared swaps as reported in the Statement of Investments. Only current day variation margin is separately reported within the Statement of Assets and Liabilities.

Notes to Financial Statements (unaudited) (continued)

Franklin Strategic Income Fund

10. OTHER DERIVATIVE INFORMATION (continued)

For the period ended October 31, 2013, the effect of derivative contracts on the Fund's Statement of Operations was as follows:

Derivative Contracts Not Accounted for as Hedging Instruments	Statement of Operations Locations	Realized Gain (Loss) for the Period	Change in Unrealized Appreciation (Depreciation) for the Period
Foreign exchange contracts	Net realized gain (loss) from foreign currency transactions / Net change in unrealized appreciation (depreciation) on translation of other assets and liabilities denominated in foreign currencies	\$(5,845,061)	\$(32,794,170)
Credit contracts	Net realized gain (loss) from swap contracts /Net change in unrealized appreciation (depreciation) on investments	7,366,032	(3,416,361)

At October 31 2013, the Fund's OTC derivative assets and liabilities, are as follows:

	Gross and Net Amounts of Assets and Liabilities Presented in the Statement of Assets and Liabilities		
	Assets ^a Liabilities ^a		
Derivatives			
Forward Exchange Contracts	\$21,250,025	\$31,159,445	
Swaps	1,032,303	7,586,455	
Total	\$22,282,328	\$38,745,900	

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

Notes to Financial Statements (unaudited) (continued)

Franklin Strategic Income Fund

10. OTHER DERIVATIVE INFORMATION (continued)

At October 31 2013, the Fund's OTC derivative assets which may be offset against the Fund's OTC derivative liabilities, and collateral received from the counterparty, is as follows:

	Amounts Not Offset in the Statement of Assets and Liabilities				
	Gross and Net Amounts of Assets Presented in the Statement of Assets and Liabilities	Financial Instruments Available for Offset	Financial Instruments Collateral Received ^{a,b}	Cash Collateral Received	Net Amount (Not less than zero)
Counterparty					
BZWS	\$ 1,847,004	\$ (1,541,872)	\$ —	\$ —	\$ 305,132
CITI	1,300,696	(1,300,696)	_	_	_
DBAB	6,411,637	(6,411,637)	_	_	_
FBCO	619,518	(619,518)	_	_	_
GSCO	636,708	(55,309)	_	(370,000)	211,399
HSBC	1,990,933	(376,131)	(1,614,802)	_	_
JPHQ	5,587,214	(2,187,853)	(2,746,303)	_	653,058
MSCO	97,825	(97,825)	_	_	_
UBS	3,790,793	(3,425,326)	_	_	365,467
Total	\$22,282,328	\$(16,016,167)	\$(4,361,105)	\$(370,000)	\$1,535,056

^aAt October 31, 2013 the Fund received United Kingdom Treasury Bonds and Notes and U.S. Treasury Bonds and Notes as collateral for derivatives.

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

Notes to Financial Statements (unaudited) (continued)

Franklin Strategic Income Fund

10. OTHER DERIVATIVE INFORMATION (continued)

At October 31 2013, the Fund's OTC derivative liabilities which may be offset against the Fund's OTC derivative assets, and collateral pledged to the counterparty, is as follows:

	Amounts Not Offset in the Statement of Assets and Liabilities				
	Gross and Net Amounts of Liabilities Presented in the Statement of Assets and Liabilities	Financial Instruments Available for Offset	Financial Instruments Collateral Pledged	Cash Collateral Pledgedª	Net Amount (Not less than zero)
Counterparty					
BZWS	\$ 1,541,872	\$ (1,541,872)	\$ —	\$ —	\$ —
CITI	2,532,671	(1,300,696)	_	_	1,231,975
DBAB	22,761,069	(6,411,637)	_	(16,349,432)	_
FBCO	5,722,468	(619,518)	_	(5,050,000)	52,950
GSCO	55,309	(55,309)	_	_	_
HSBC	376,131	(376,131)	_	_	_
JPHQ	2,187,853	(2,187,853)	_	_	_
MSCO	143,201	(97,825)	_	_	45,376
UBS	3,425,326	(3,425,326)	_	_	_
Total	\$38,745,900	\$(16,016,167)	\$ —	\$(21,399,432)	\$1,330,301

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

For the period ended October 31, 2013, the average month end fair value of derivatives represented 0.74% of average month end net assets. The average month end number of open derivative contracts for the period was 288.

See Note 1(d) regarding derivative financial instruments.

11. CREDIT FACILITY

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

Notes to Financial Statements (unaudited) (continued)

Franklin Strategic Income Fund

11. CREDIT FACILITY (continued)

Under the terms of the Global Credit Facility, the Fund shall, in addition to interest charged on any borrowings made by the Fund and other costs incurred by the Fund, pay its share of fees and expenses incurred in connection with the implementation and maintenance of the Global Credit Facility, based upon its relative share of the aggregate net assets of all of the Borrowers, including an annual commitment fee of 0.07% based upon the unused portion of the Global Credit Facility. These fees are reflected in other expenses on the Statement of Operations. During the period ended October 31, 2013, 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 inputs or methodology used for valuing financial instruments are not an indication of the risk associated with investing in those financial instruments.

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

Notes to Financial Statements (unaudited) (continued)

Franklin Strategic Income Fund

12. FAIR VALUE MEASUREMENTS (continued)

A summary of inputs used as of October 31, 2013, 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:				
Equity Investments: ^a				
Consumer Services	\$ —	\$ 5,133,544	\$ —	\$ 5,133,544
Materials	_	4,956,000	b	4,956,000
Transportation	_	4,654,790	_	4,654,790
Other Equity Investments ^c	97,531,068	_	b	97,531,068
Corporate Bonds	_	3,278,569,795	_	3,278,569,795
Senior Floating Rate Interests	_	1,111,024,078	1,202,322	1,112,226,400
Foreign Government and Agency Securities		1,635,462,189		1,635,462,189
U.S. Government and Agency Securities	_	155,886,851	_	155,886,851
Asset-Backed Securities and Commercial Mortgage-Backed		, ,		, ,
Securities	_	344,616,565	_	344,616,565
Mortgage-Backed Securities	_	424,604,464	_	424,604,464
Municipal Bonds	_	342,050,306	_	342,050,306
Short Term Investments	557,425,553	399,772,611	_	957,198,164
Total Investments in Securities	\$ 654,956,621	\$ 7,706,731,193	\$1,202,322	\$ 8,362,890,136
Forward Exchange Contracts	\$ _	\$ 21,250,025	\$ —	\$ 21,250,025
Swap Contracts	_	2,391,681	_	2,391,681
Liabilities:		2,552,561		2,001,001
Forward Exchange Contracts	_	31,159,445	_	31,159,445
Unfunded Loan Commitments	_	2,441	_	2,441

^alncludes common, preferred, and convertible preferred stocks as well as other equity investments.

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

blncludes securities determined to have no value at October 31, 2013.

cFor detailed categories, see the accompanying Statement of Investments.

Notes to Financial Statements (unaudited) (continued)

Franklin Strategic Income Fund

13. New Accounting Pronouncements

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

14. SUBSEQUENT EVENTS

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

ABBREVIATIONS

ADDREVIATIONS		
Counterparty	Currency	Selected Portfolio
Counterparty BZWS - Barclays Bank PLC CITI - Citigroup, Inc. DBAB - Deutsche Bank AG FBCO - Credit Suisse Group AG GSCO - The Goldman Sachs Group, Inc. HSBC - HSBC Bank USA, N.A. JPHQ - JP Morgan Chase & Co. MSCO - Morgan Stanley UBSW - UBS AG	BRL - Brazilian Real CAD - Canadian Dollar EUR - Euro GBP - British Pound HUF - Hungarian Forint IDR - Indonesian Rupiah KRW - South Korean Won LKR - Sri Lankan Rupee MXN - Mexican Peso MYR - Malaysian Ringgit PHP - Philippine Peso PLN - Polish Zloty	AGMC - Assured Guaranty Municipal Corp. CDO - Collateralized Debt Obligation CLO - Collateralized Loan Obligation DIP - Debtor-In-Possession EDA - Economic Development Authority ETF - Exchange Traded Fund FGIC - Financial Guaranty Insurance Co. FICO - Financing Corp.
	SEK - Swedish Krona SGD - Singapore Dollar UYU - Uruguayan Peso	FRN - Floating Rate Note GO - General Obligation HDC - Housing Development Corp. ISD - Independent School District L/C - Letter of Credit NATL - National Public Financial Guarantee Corp. NATL RE - National Public Financial Guarantee Corp. Reinsured PIK - Payment-In-Kind PSF - Permanent School Fund SF - Single Family

Shareholder Information

Franklin Strategic Income Fund

Proxy Voting Policies and Procedures

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

Quarterly Statement of Investments

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

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Franklin Templeton Funds

Literature Request. To receive a summary prospectus and/or prospectus, please call us at (800) DIAL BEN/342-5236 or visit franklintempleton.com or etf.franklintempleton.com for Franklin Short Duration U.S. Government ETF. Investors should carefully consider a fund's investment goals, risks, charges and expenses before investing. The prospectus contains this and other information. Please carefully read a prospectus before investing.

VALUE

Franklin All Cap Value Fund
Franklin Balance Sheet Investment Fund
Franklin Large Cap Value Fund
Franklin MicroCap Value Fund
Franklin MidCap Value Fund
Franklin Small Cap Value Fund
Mutual Beacon Fund
Mutual Quest Fund
Mutual Recovery Fund²
Mutual Shares Fund

BLEND

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

GROWTH

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

SECTOR

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

GLOBAL

Franklin World Perspectives Fund Mutual Global Discovery Fund Templeton Global Opportunities Trust Templeton Global Smaller Companies Fund Templeton Growth Fund Templeton World Fund

INTERNATIONAL

Franklin India Growth Fund
Franklin International Growth Fund
Franklin International Small Cap Growth Fund
Mutual European Fund
Mutual International Fund
Templeton Asian Growth Fund
Templeton BRIC Fund
Templeton China World Fund
Templeton Developing Markets Trust
Templeton Emerging Markets Small Cap Fund
Templeton Foreign Fund
Templeton Foreign Smaller Companies Fund
Templeton Frontier Markets Fund

HYBRID

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

ALTERNATIVE

Franklin K2 Alternative Strategies Fund

ASSET ALLOCATION

Franklin LifeSmart $^{\!\top\!\!M}$ Retirement Target Funds (2015-2050) 6

Franklin Templeton Corefolio® Allocation Fund
Franklin Templeton Founding Funds Allocation Fund
Franklin Templeton Conservative Allocation Fund
Franklin Templeton Growth Allocation Fund
Franklin Templeton Moderate Allocation Fund
Franklin Templeton Global Allocation Fund
Franklin Templeton Multi-Asset Real Return Fund

FIXED INCOME

Franklin Adjustable U.S. Government Securities Fund⁷ Franklin Floating Rate Daily Access Fund Franklin Global Government Bond Fund Franklin High Income Fund

Franklin Limited Maturity U.S. Government Securities Fund⁷

Franklin Low Duration Total Return Fund

Franklin Real Return Fund

Franklin Short Duration U.S. Government ETF

Franklin Strategic Income Fund Franklin Strategic Mortgage Portfolio Franklin Templeton Hard Currency Fund

Franklin Total Return Fund

Franklin U.S. Government Securities Fund⁷ Templeton Constrained Bond Fund

Templeton Emerging Markets Bond Fund

Templeton Global Bond Fund Templeton Global Total Return Fund

Templeton International Bond Fund

TAX-FREE INCOME⁸

National

Double Tax-Free Income Fund⁹ Federal Tax-Free Income Fund High Yield Tax-Free Income Fund Insured Tax-Free Income Fund^{10, 11}

Limited-/Intermediate-Term

California Intermediate-Term Tax-Free Income Fund Federal Intermediate-Term Tax-Free Income Fund Federal Limited-Term Tax-Free Income Fund New York Intermediate-Term Tax-Free Income Fund

State-Specific

Alabama Kentucky New York (2 funds) Arizona Louisiana North Carolina California Maryland (4 funds)11 Ohio Massachusetts Colorado Oregon Michigan Pennsylvania Connecticut Minnesota Florida Missouri Tennessee Virginia Georgia **New Jersey**

INSURANCE FUNDS

Franklin Templeton Variable Insurance Products Trust¹²

- $1. \, \text{The fund is closed to new investors. Existing shareholders and select retirement plans \, \text{may} \, \text{add to their accounts.}$
- 2. The fund is a continuously offered, closed-end fund. Shares may be purchased daily; there is no daily redemption. However, each quarter, pending board approval, the fund will authorize the repurchase of 5%–25% of the outstanding number of shares. Investors may tender all or a portion of their shares during the tender period.
- 3. Effective 6/3/13, the fund closed to new investors, with limited exceptions.
- 4. Effective 12/10/13, the fund closed to new investors, with limited exceptions.
- 5. Effective 6/28/13, the fund closed to new investors. Existing shareholders and select retirement plans may add to their accounts.
- 6. Effective 5/1/13, the Franklin Templeton Retirement Target Funds changed their names to Franklin LifeSmart Retirement Target Funds. The funds' investment goals and principal investment strategies remained unchanged. These funds' target dates are in five-year increments.

- 7. An investment in the fund is neither insured nor guaranteed by the U.S. government or by any other entity or institution.
- 8. For investors subject to the alternative minimum tax, a small portion of fund dividends may be taxable. Distributions of capital gains are generally taxable.
- 9. The fund is closed to all new investments (other than reinvestment of dividends and capital gains distributions).
- 10. The fund invests primarily in insured municipal securities.
- 11. Effective at the close of market on 3/1/13, Franklin Insured Tax-Free Income Fund and Franklin California Insured Tax-Free Income Fund closed to all new investments (other than reinvestment of dividends and capital gains distributions).
- 12. The funds of the Franklin Templeton Variable Insurance Products Trust are generally available only through insurance company variable contracts.

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



< GAIN FROM OUR PERSPECTIVE® >

Semiannual Report and Shareholder Letter
FRANKLIN STRATEGIC INCOME FUND

Investment Manager

Franklin Advisers, Inc.

Distributor

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

Shareholder Services (800) 632-2301

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

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