

SEMIANNUAL REPORT AND SHAREHOLDER LETTER

# FRANKLIN STRATEGIC INCOME FUND

A Series of Franklin Strategic Series

October 31, 2019



FRANKLIN  
TEMPLETON

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# SHAREHOLDER LETTER

Dear Shareholder:

During the six months ended October 31, 2019, the U.S. economy continued to grow, but at a more moderate pace due to concerns about trade and geopolitical stress.

The Standard & Poor's® 500 Index (S&P 500®) recovered from heightened volatility in May and August 2019, reaching new all-time highs in October amid better-than-expected corporate earnings, investor optimism about a potential U.S.-China trade agreement and the U.S. Federal Reserve's third successive rate cut. However, markets reflected concerns about tighter regulation of technology companies, U.S. political uncertainties, geopolitical tensions and the impact of trade disputes on global growth and corporate earnings. In this environment, investment-grade bonds, as measured by the Bloomberg Barclays U.S. Aggregate Bond Index, posted a positive total return for the six-month period.

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

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

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

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

Sincerely,



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

*This letter reflects our analysis and opinions as of October 31, 2019, unless otherwise indicated. The information is not a complete analysis of every aspect of any market, country, industry, security or fund. Statements of fact are from sources considered reliable.*

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# SEMIANNUAL REPORT

## Franklin Strategic Income Fund

This semiannual report for Franklin Strategic Income Fund covers the period ended October 31, 2019.

### Your Fund's Goal and Main Investments

The Fund seeks a high level of current income, with capital appreciation over the long term as a secondary objective. The Fund uses an active asset allocation process and under normal market conditions invests at least 65% of its assets in U.S. and foreign debt securities, including those in emerging markets.

The Fund may invest in all varieties of fixed, variable and floating rate income securities, including bonds, U.S. and foreign government and agency securities, corporate loans (and loan participations), mortgage-backed securities and other asset-backed securities and convertible securities.

### Performance Overview

The Fund's Class A shares posted a +1.74% cumulative total return for the six months under review. In comparison, the Bloomberg Barclays U.S. Aggregate Bond Index, which represents the U.S. investment-grade fixed rate taxable bond market, posted a +5.71% total return.<sup>1</sup> The Lipper Multi-Sector Income Funds Classification Average, which consists of funds chosen by Lipper that seek current income by allocating assets among different fixed income securities sectors, with a significant portion rated below investment grade, posted a +3.63% total return.<sup>2</sup> You can find more of the Fund's performance data in the Performance Summary beginning on page 7.

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

1. Source: Morningstar.

2. Source: Lipper, a Thomson Reuters Company. For the six-month period ended 10/31/19, this category consisted of 331 funds. Lipper calculations do not include sales charges or expense subsidization by a fund's manager. Fund performance relative to the average may have differed if these or other factors had been considered. The indexes are unmanaged and include reinvestment of any income or distributions. They do not reflect any fees, expenses or sales charges. One cannot invest directly in an index, and an index is not representative of the Fund's portfolio.

3. Source: Bureau of Labor Statistics.

See [www.franklintempletondatasources.com](http://www.franklintempletondatasources.com) for additional data provider information.

**The dollar value, number of shares or principal amount, and names of all portfolio holdings are listed in the Fund's Consolidated Statement of Investments (SOI). The Consolidated SOI begins on page 15.**

### Economic and Market Overview

The U.S. economy expanded during the six months ended October 31, 2019. After moderating in 2019's second quarter, the economy grew faster in the third quarter, aided by consumer spending, housing investment, government spending, inventory investment and exports. The manufacturing sector expanded during the period's first half, but contracted in the second half. The services sector continued to expand throughout the period. The unemployment rate was 3.6% in April 2019, and though it varied slightly during the six months under review, it ended the period at 3.6%.<sup>3</sup> The annual inflation rate, as measured by the Consumer Price Index, decreased from 2.0% in April 2019 to 1.8% at period-end.<sup>3</sup>

At its July 2019 meeting, the U.S. Federal Reserve (Fed) lowered its target range for the federal funds rate for the first time since December 2008, to 2.00%–2.25%, citing muted inflation pressures and the potential effects of global trade tensions on economic growth. Furthermore, the Fed ended its balance sheet normalization program earlier than previously indicated. The Fed further lowered the federal funds target rate range by 0.25% at its September and October meetings, to 1.50%–1.75%, reiterating the rationale cited at the July meeting.

The 10-year Treasury yield, which moves inversely to its price, decreased during the period, falling to multi-year lows in 2019's third quarter before recovering partially in October. U.S. political uncertainties (including the impeachment inquiry into President Donald Trump), geopolitical tensions in certain regions, U.S. trade disputes with China and other trading partners, slower domestic and global economic growth, and the Fed's more accommodative monetary policy stance weighed on the Treasury yield at certain points during the period. However, several better-than-expected U.S. economic reports and periods of optimism about a potential U.S.-China trade agreement supported the yield. The

10-year yield fell persistently below certain short-term yields during most of the period, but rose above all short-term Treasury yields toward period-end amid investor optimism following the announcement of a potential phase one of the U.S.-China trade agreement. Overall, the 10-year Treasury yield declined from 2.51% at the beginning of the period to 1.69% at period-end.

### Portfolio Composition\*

Based on Consolidated Net Assets

	10/31/19
Mortgage-Backed Securities	22.3%
High-Yield Corporate Bonds	20.1%
International Government & Agency Bonds	19.0%
Interest-Rate Derivatives	12.8%
Collateralized Loan Obligations	11.4%
Floating-Rate Loans	10.4%
Investment-Grade Corporate Bonds	10.2%
Treasury Inflation-Protected Securities	3.9%
Asset-Backed Securities	2.3%
U.S. Treasuries	2.3%
Municipal Bonds	2.3%
Commercial Mortgage-Backed Securities	2.0%
Marketplace Loans	1.7%
Other	0.8%
Covered Bonds	0.1%
Currency Derivatives	-0.1%
Short-Term Investments & Other Net Assets	-0.3%

\*Notional exposure figures are intended to estimate the portfolio's exposure, including any hedged or increased exposure through certain derivatives held in the portfolio (or their underlying reference assets). Portfolio breakdown percentages may not total 100% and may be negative due to rounding, use of any derivatives, unsettled trades or other factors. Interest-rate derivatives sector consists of Treasury, interest rate and other derivatives that are primarily used for duration management.

## Investment Strategy

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

### What is a currency forward contract?

A currency forward contract is an agreement between the Fund and a counterparty to buy or sell a foreign currency in exchange for another currency at a specific exchange rate on a future date. Currency forward contracts are privately traded in the interbank market, not on a centralized exchange.

### What is a futures contract?

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

### What are swap agreements?

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

### What is an option?

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

## Manager's Discussion

For global fixed income markets, the six months under review began the period with low levels of volatility but ended with volatility at multiyear highs as investors worried about a potential recession. Interest rates remained relatively low as the Fed lowered its rate three times during the period in July, September and October of 2019, citing muted inflation pressures and the potential effects of global trade tensions on economic growth. Outside the U.S., many major economies kept their interest rates unchanged.

In this environment, most fixed income sectors posted positive total returns, but performance was mixed on a duration-matched basis. Non-agency residential mortgage-backed securities (RMBS) outpaced U.S. Treasuries, as did investment-grade corporate credit, commercial mortgage-backed securities (CMBS) and asset-backed securities. Treasury Inflation Protected-Securities (TIPS), high-yield corporate credit and emerging market bonds underperformed.

#### What is duration?

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

#### Dividend Distributions\*

5/1/19–10/31/19

Month	Dividend per Share (cents)				Advisor
	Class A	Class C	Class R	Class R6	Class
May	3.50	3.13	3.27	3.85	3.72
June	3.50	3.21	3.32	3.78	3.68
July	3.50	3.18	3.30	3.80	3.69
August	3.39	3.02	3.16	3.74	3.61
September	3.40	3.07	3.21	3.69	3.59
October	3.35	3.03	3.15	3.67	3.56
<b>Total</b>	<b>20.64</b>	<b>18.64</b>	<b>19.41</b>	<b>22.53</b>	<b>21.85</b>

\*The distribution amount is the sum of all estimated tax-basis net investment income distributions for the period shown. A portion or all of the distribution may be reclassified as return of capital or short-term or long-term capital gains once final tax designations are known. All Fund distributions will vary depending upon current market conditions, and past distributions are not indicative of future trends.

During the period, the Fund's allocation to investment-grade corporate credit added to results. Non-dollar developed securities, marketplace loans, CMBS and sovereign developed securities also benefited returns. In contrast, our allocation to senior secured floating-rate loans, high-yield corporate credit, sovereign emerging markets securities and foreign currency detracted from performance.

#### What is the yield curve?

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

Our largest allocation remained in corporate credit inclusive of high-yield, collateralized loan obligations (CLOs), senior secured floating-rate loans and investment-grade corporate credit but we pared exposure in senior secured floating-rate loans, high-yield and investment-grade corporate credit

exposures over the period. We increased our allocation to sovereign emerging markets securities, CLOs, taxable municipal bonds, TIPS and RMBS.

Our foreign-currency exposure is held through a basket of shorts with major positions in the euro, Chinese renminbi, Australian dollar, Canadian dollar and South Korean won versus a basket of longs with major positions in the Japanese yen, Norwegian krone, Indonesian rupiah, Brazilian real and Uruguayan, Colombian and Mexican peso and other emerging-market currencies. Foreign currency exposure detracted overall from returns; performance gains mainly from our short Swedish krona, Australian dollar and euro positions were offset by negative returns mainly from Norwegian krone, Japanese yen, Brazilian real, South African rand, Uruguayan and Colombian peso positions.

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



*Sonal Desai*

Sonal Desai, Ph.D.  
Co-Lead Portfolio Manager



*Patricia O'Connor*

Patricia O'Connor, CFA  
Co-Lead Portfolio Manager

William Chong, CFA, FRM  
Co-Lead Portfolio Manager

David Yuen, CFA, FRM  
Co-Lead Portfolio Manager

*The foregoing information reflects our analysis, opinions and portfolio holdings as of October 31, 2019, the end of the reporting period. The way we implement our main investment strategies and the resulting portfolio holdings may change depending on factors such as market and economic conditions. These opinions may not be relied upon as investment advice or an offer for a particular security. The information is not a complete analysis of every aspect of any market, country, industry, security or the Fund. Statements of fact are from sources considered reliable, but the investment manager makes no representation or warranty as to their completeness or accuracy. Although historical performance is no guarantee of future results, these insights may help you understand our investment management philosophy.*



## Performance Summary as of October 31, 2019

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

### Performance as of 10/31/19<sup>1</sup>

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

Share Class	Cumulative Total Return <sup>2</sup>	Average Annual Total Return <sup>3</sup>
<b>A<sup>4</sup></b>		
6-Month	+1.74%	-2.04%
1-Year	+5.90%	+1.90%
5-Year	+11.39%	+1.40%
10-Year	+55.49%	+4.12%
<b>Advisor</b>		
6-Month	+1.86%	+1.86%
1-Year	+6.15%	+6.15%
5-Year	+12.77%	+2.43%
10-Year	+59.35%	+4.77%

Share Class	Distribution Rate <sup>5</sup>	30-Day Standardized Yield <sup>6</sup>	
		(with fee waiver)	(without fee waiver)
A	4.20%	3.94%	3.91%
Advisor	4.60%	4.37%	4.34%

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

See page 8 for Performance Summary footnotes.

## Distributions (5/1/19–10/31/19)

Share Class	Net Investment Income
A	\$0.2064
C	\$0.1864
R	\$0.1941
R6	\$0.2253
Advisor	\$0.2185

## Total Annual Operating Expenses<sup>7</sup>

Share Class	With Fee Waiver	Without Fee Waiver
A	0.89%	0.94%
Advisor	0.64%	0.69%

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

All investments involve risks, including possible loss of principal. Bond prices generally move in the opposite direction of interest rates. Thus, as prices of bonds in the Fund adjust to a rise in interest rates, the Fund's share price may decline. Changes in the financial strength of a bond issuer or in a bond's credit rating may affect its value. High yields reflect the higher credit risks associated with certain lower rated securities held in the portfolio. Floating-rate loans and high-yield corporate bonds are rated below investment grade and are subject to greater risk of default, which could result in loss of principal—a risk that may be heightened in a slowing economy. The risks of foreign securities include currency fluctuations and political uncertainty. Investments in developing markets involve heightened risks related to the same factors, in addition to those associated with their relatively small size and lesser liquidity. Investing in derivative securities and the use of foreign currency techniques involve special risks as such may not achieve the anticipated benefits and/or may result in losses to the Fund. The Fund is actively managed but there is no guarantee that the manager's investment decisions will produce the desired results. The Fund's prospectus also includes a description of the main investment risks.

1. The Fund has a fee waiver associated with any investment it makes in a Franklin Templeton money fund and/or other Franklin Templeton fund, contractually guaranteed through 8/31/20. Fund investment results reflect the fee waiver; without this waiver, the results would have been lower.
2. Cumulative total return represents the change in value of an investment over the periods indicated.
3. Average annual total return represents the average annual change in value of an investment over the periods indicated. Return for less than one year, if any, has not been annualized.
4. Prior to 3/1/19, these shares were offered at a higher initial sales charge of 4.25%, thus actual returns (with sales charges) would have differed. Average annual total returns with sales charges have been restated to reflect the current maximum initial sales charge of 3.75%.
5. Distribution rate is based on the sum of the respective class's dividend distributions over the past six months and the maximum offering price (NAV for Advisor Class) per share on 10/31/19.
6. The Fund's 30-day standardized yield is calculated over a trailing 30-day period using the yield to maturity on bonds and/or the dividends accrued on stocks. It may not equal the Fund's actual income distribution rate, which reflects the Fund's past dividends paid to shareholders.
7. Figures are as stated in the Fund's current prospectus and may differ from the expense ratios disclosed in the Your Fund's Expenses and Consolidated Financial Highlights sections in this report. In periods of market volatility, assets may decline significantly, causing total annual Fund operating expenses to become higher than the figures shown.

## Your Fund's Expenses

As a Fund shareholder, you can incur two types of costs: (1) transaction costs, including sales charges (loads) on Fund purchases and redemptions; and (2) ongoing Fund costs, including management fees, distribution and service (12b-1) fees, and other Fund expenses. All mutual funds have ongoing costs, sometimes referred to as operating expenses. The table below shows ongoing costs of investing in the Fund and can help you understand these costs and compare them with those of other mutual funds. The table assumes a \$1,000 investment held for the six months indicated.

### Actual Fund Expenses

The table below provides information about actual account values and actual expenses in the columns under the heading "Actual." In these columns the Fund's actual return, which includes the effect of Fund expenses, is used to calculate the "Ending Account Value" for each class of shares. You can estimate the expenses you paid during the period by following these steps (*of course, your account value and expenses will differ from those in this illustration*): Divide your account value by \$1,000 (*if your account had an \$8,600 value, then  $\$8,600 \div \$1,000 = 8.6$* ). Then multiply the result by the number in the row for your class of shares under the headings "Actual" and "Expenses Paid During Period" (*if Actual Expenses Paid During Period were \$7.50, then  $8.6 \times \$7.50 = \$64.50$* ). In this illustration, the actual expenses paid this period are \$64.50.

### Hypothetical Example for Comparison with Other Funds

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

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

Share Class	Beginning Account Value 5/1/19	Actual (actual return after expenses)		Hypothetical (5% annual return before expenses)		Net Annualized Expense Ratio <sup>2</sup>
		Ending Account Value 10/31/19	Expenses Paid During Period 5/1/19–10/31/19 <sup>1, 2</sup>	Ending Account Value 10/31/19	Expenses Paid During Period 5/1/19–10/31/19 <sup>1, 2</sup>	
A	\$1,000	\$1,017.40	\$4.36	\$1,020.81	\$4.37	0.86%
C	\$1,000	\$1,015.30	\$6.38	\$1,018.80	\$6.39	1.26%
R	\$1,000	\$1,016.10	\$5.63	\$1,019.56	\$5.63	1.11%
R6	\$1,000	\$1,019.30	\$2.39	\$1,022.77	\$2.39	0.47%
Advisor	\$1,000	\$1,018.60	\$3.10	\$1,022.07	\$3.10	0.61%

1. Expenses are equal to the annualized expense ratio for the six-month period as indicated above—in the far right column—multiplied by the simple average account value over the period indicated, and then multiplied by 184/366 to reflect the one-half year period.

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

## Consolidated Financial Highlights

## Franklin Strategic Income Fund

	Six Months Ended	Year Ended April 30,				
	October 31, 2019 (unaudited)	2019	2018	2017	2016	2015
<b>Class A</b>						
<b>Per share operating performance</b> (for a share outstanding throughout the period)						
Net asset value, beginning of period . . . . .	\$ 9.61	\$ 9.61	\$ 9.84	\$ 9.32	\$10.04	\$10.57
Income from investment operations <sup>a</sup> :						
Net investment income <sup>b</sup> . . . . .	0.21	0.42	0.39	0.39	0.42	0.42
Net realized and unrealized gains (losses) . . . . .	(0.04)	— <sup>c</sup>	(0.32)	0.30	(0.74)	(0.30)
Total from investment operations . . . . .	0.17	0.42	0.07	0.69	(0.32)	0.12
Less distributions from:						
Net investment income and net foreign currency gains . . . . .	(0.21)	(0.42)	(0.30)	(0.17)	(0.40)	(0.55)
Net realized gains . . . . .	—	—	—	—	—	(0.10)
Total distributions . . . . .	(0.21)	(0.42)	(0.30)	(0.17)	(0.40)	(0.65)
Net asset value, end of period . . . . .	\$ 9.57	\$ 9.61	\$ 9.61	\$ 9.84	\$ 9.32	\$10.04
Total return <sup>d</sup> . . . . .	1.74%	4.52%	0.64%	7.50%	(3.14)%	1.16%
<b>Ratios to average net assets<sup>e</sup></b>						
Expenses before waiver and payments by affiliates . . . . .	0.89%	0.89%	0.90%	0.88%	0.88%	0.86%
Expenses net of waiver and payments by affiliates <sup>f</sup> . . . . .	0.86%	0.84%	0.85%	0.82%	0.84%	0.85%
Net investment income . . . . .	4.28%	4.39%	3.93%	4.08%	4.44%	4.03%
<b>Supplemental data</b>						
Net assets, end of period (000's) . . . . .	\$3,058,166	\$3,131,799	\$3,291,002	\$3,833,786	\$4,500,752	\$5,242,844
Portfolio turnover rate . . . . .	52.97%	116.21% <sup>g</sup>	115.94%	140.83%	88.04%	72.51%
Portfolio turnover rate excluding mortgage dollar rolls <sup>h</sup> . . . . .	43.95%	39.01% <sup>g</sup>	47.40%	87.33%	48.33%	49.36%

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

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

<sup>c</sup>Amount rounds to less than \$0.01 per share.

<sup>d</sup>Total return does not reflect sales commissions or contingent deferred sales charges, if applicable, and is not annualized for periods less than one year.

<sup>e</sup>Ratios are annualized for periods less than one year.

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

<sup>g</sup>Excludes the value of portfolio activity as a result of in-kind transactions.

<sup>h</sup>See Note 1(i) regarding mortgage dollar rolls.

**Franklin Strategic Income Fund** (continued)

	Six Months Ended	Year Ended April 30,				
	October 31, 2019 (unaudited)	2019	2018	2017	2016	2015
<b>Class C</b>						
<b>Per share operating performance</b> (for a share outstanding throughout the period)						
Net asset value, beginning of period . . . . .	\$ 9.61	\$ 9.60	\$ 9.84	\$ 9.31	\$10.04	\$10.57
Income from investment operations <sup>a</sup> :						
Net investment income <sup>b</sup> . . . . .	0.19	0.38	0.35	0.35	0.38	0.38
Net realized and unrealized gains (losses) . . . . .	(0.04)	0.01	(0.33)	0.31	(0.75)	(0.30)
Total from investment operations . . . . .	0.15	0.39	0.02	0.66	(0.37)	0.08
Less distributions from:						
Net investment income and net foreign currency gains . . . . .	(0.19)	(0.38)	(0.26)	(0.13)	(0.36)	(0.51)
Net realized gains . . . . .	—	—	—	—	—	(0.10)
Total distributions . . . . .	(0.19)	(0.38)	(0.26)	(0.13)	(0.36)	(0.61)
Net asset value, end of period . . . . .	\$ 9.57	\$ 9.61	\$ 9.60	\$ 9.84	\$ 9.31	\$10.04
Total return <sup>c</sup> . . . . .	1.53%	4.19%	0.14%	7.19%	(3.64)%	0.76%
<b>Ratios to average net assets<sup>d</sup></b>						
Expenses before waiver and payments by affiliates . . . . .	1.29%	1.29%	1.30%	1.28%	1.28%	1.26%
Expenses net of waiver and payments by affiliates <sup>e</sup> . . . . .	1.26%	1.24%	1.25%	1.22%	1.24%	1.25%
Net investment income . . . . .	3.88%	3.99%	3.53%	3.68%	4.04%	3.63%
<b>Supplemental data</b>						
Net assets, end of period (000's) . . . . .	\$636,853	\$716,327	\$1,078,890	\$1,385,981	\$1,645,852	\$2,070,739
Portfolio turnover rate . . . . .	52.97%	116.21% <sup>f</sup>	115.94%	140.83%	88.04%	72.51%
Portfolio turnover rate excluding mortgage dollar rolls <sup>g</sup> . . . . .	43.95%	39.01% <sup>f</sup>	47.40%	87.33%	48.33%	49.36%

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

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

<sup>c</sup>Total return does not reflect sales commissions or contingent deferred sales charges, if applicable, and is not annualized for periods less than one year.

<sup>d</sup>Ratios are annualized for periods less than one year.

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

<sup>f</sup>Excludes the value of portfolio activity as a result of in-kind transactions.

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

**Franklin Strategic Income Fund** (continued)

	Six Months Ended October 31, 2019 (unaudited)		Year Ended April 30,			
	2019	2018	2017	2016	2015	
<b>Class R</b>						
<b>Per share operating performance</b> (for a share outstanding throughout the period)						
Net asset value, beginning of period . . . . .	\$ 9.57	\$ 9.57	\$ 9.81	\$ 9.28	\$10.01	\$10.54
Income from investment operations <sup>a</sup> :						
Net investment income <sup>b</sup> . . . . .	0.19	0.39	0.36	0.37	0.39	0.39
Net realized and unrealized gains (losses) . . . . .	(0.04)	0.01	(0.33)	0.31	(0.74)	(0.29)
Total from investment operations . . . . .	0.15	0.40	0.03	0.68	(0.35)	0.10
Less distributions from:						
Net investment income and net foreign currency gains . . . . .	(0.19)	(0.40)	(0.27)	(0.15)	(0.38)	(0.53)
Net realized gains . . . . .	—	—	—	—	—	(0.10)
Total distributions . . . . .	(0.19)	(0.40)	(0.27)	(0.15)	(0.38)	(0.63)
Net asset value, end of period . . . . .	\$ 9.53	\$ 9.57	\$ 9.57	\$ 9.81	\$ 9.28	\$10.01
 Total return <sup>c</sup> . . . . .	 1.61%	 4.28%	 0.29%	 7.38%	 (3.50)%	 0.91%
<b>Ratios to average net assets<sup>d</sup></b>						
Expenses before waiver and payments by affiliates . . . . .	1.14%	1.14%	1.15%	1.13%	1.13%	1.11%
Expenses net of waiver and payments by affiliates <sup>e</sup> . . . . .	1.11%	1.09%	1.10%	1.07%	1.09%	1.10%
Net investment income . . . . .	4.03%	4.14%	3.68%	3.83%	4.19%	3.78%
<b>Supplemental data</b>						
Net assets, end of period (000's) . . . . .	\$77,290	\$85,458	\$105,692	\$146,552	\$181,671	\$223,758
Portfolio turnover rate . . . . .	52.97%	116.21% <sup>f</sup>	115.94%	140.83%	88.04%	72.51%
Portfolio turnover rate excluding mortgage dollar rolls <sup>g</sup> . . . . .	43.95%	39.01% <sup>f</sup>	47.40%	87.33%	48.33%	49.36%

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

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

<sup>c</sup>Total return is not annualized for periods less than one year.

<sup>d</sup>Ratios are annualized for periods less than one year.

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

<sup>f</sup>Excludes the value of portfolio activity as a result of in-kind transactions.

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

**Franklin Strategic Income Fund** (continued)

	Six Months Ended October 31, 2019 (unaudited)	Year Ended April 30,				
		2019	2018	2017	2016	2015
<b>Class R6</b>						
<b>Per share operating performance</b> (for a share outstanding throughout the period)						
Net asset value, beginning of period . . . . .	\$ 9.63	\$ 9.62	\$ 9.86	\$ 9.33	\$10.05	\$10.58
Income from investment operations <sup>a</sup> :						
Net investment income <sup>b</sup> . . . . .	0.23	0.45	0.43	0.43	0.46	0.46
Net realized and unrealized gains (losses) . . . . .	(0.05)	0.02	(0.34)	0.31	(0.74)	(0.30)
Total from investment operations . . . . .	0.18	0.47	0.09	0.74	(0.28)	0.16
Less distributions from:						
Net investment income and net foreign currency gains . . . . .	(0.23)	(0.46)	(0.33)	(0.21)	(0.44)	(0.59)
Net realized gains . . . . .	—	—	—	—	—	(0.10)
Total distributions . . . . .	(0.23)	(0.46)	(0.33)	(0.21)	(0.44)	(0.69)
Net asset value, end of period . . . . .	\$ 9.58	\$ 9.63	\$ 9.62	\$ 9.86	\$ 9.33	\$10.05
Total return <sup>c</sup> . . . . .	1.93%	5.03%	0.95%	8.03%	(2.76)%	1.54%
<b>Ratios to average net assets<sup>d</sup></b>						
Expenses before waiver and payments by affiliates . . . . .	0.51%	0.51%	0.50%	0.48%	0.49%	0.48%
Expenses net of waiver and payments by affiliates <sup>e</sup> . . . . .	0.47%	0.45%	0.45%	0.42%	0.45%	0.47%
Net investment income . . . . .	4.67%	4.78%	4.33%	4.48%	4.83%	4.41%
<b>Supplemental data</b>						
Net assets, end of period (000's) . . . . .	\$150,506	\$307,287	\$433,068	\$369,106	\$286,503	\$253,929
Portfolio turnover rate . . . . .	52.97%	116.21% <sup>f</sup>	115.94%	140.83%	88.04%	72.51%
Portfolio turnover rate excluding mortgage dollar rolls <sup>g</sup> . . . . .	43.95%	39.01% <sup>f</sup>	47.40%	87.33%	48.33%	49.36%

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

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

<sup>c</sup>Total return is not annualized for periods less than one year.

<sup>d</sup>Ratios are annualized for periods less than one year.

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

<sup>f</sup>Excludes the value of portfolio activity as a result of in-kind transactions.

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

**Franklin Strategic Income Fund** (continued)

	Six Months Ended	Year Ended April 30,				
	October 31, 2019 (unaudited)	2019	2018	2017	2016	2015
<b>Advisor Class</b>						
<b>Per share operating performance</b> (for a share outstanding throughout the period)						
Net asset value, beginning of period . . . . .	\$ 9.62	\$ 9.62	\$ 9.85	\$ 9.33	\$10.05	\$10.58
Income from investment operations <sup>a</sup> :						
Net investment income <sup>b</sup> . . . . .	0.22	0.44	0.41	0.42	0.44	0.44
Net realized and unrealized gains (losses). . . . .	(0.04)	— <sup>c</sup>	(0.32)	0.30	(0.74)	(0.29)
Total from investment operations. . . . .	0.18	0.44	0.09	0.72	(0.30)	0.15
Less distributions from:						
Net investment income and net foreign currency gains . . . . .	(0.22)	(0.44)	(0.32)	(0.20)	(0.42)	(0.58)
Net realized gains. . . . .	—	—	—	—	—	(0.10)
Total distributions . . . . .	(0.22)	(0.44)	(0.32)	(0.20)	(0.42)	(0.68)
Net asset value, end of period . . . . .	\$ 9.58	\$ 9.62	\$ 9.62	\$ 9.85	\$ 9.33	\$10.05
Total return <sup>d</sup> . . . . .	1.86%	4.88%	0.79%	7.76%	(2.89)%	1.41%
<b>Ratios to average net assets<sup>e</sup></b>						
Expenses before waiver and payments by affiliates . . . . .	0.64%	0.64%	0.65%	0.63%	0.63%	0.61%
Expenses net of waiver and payments by affiliates <sup>f</sup> . . . . .	0.61%	0.59%	0.60%	0.57%	0.59%	0.60%
Net investment income. . . . .	4.53%	4.64%	4.18%	4.33%	4.69%	4.28%
<b>Supplemental data</b>						
Net assets, end of period (000's) . . . . .	\$593,969	\$608,317	\$933,747	\$1,070,103	\$904,899	\$1,130,796
Portfolio turnover rate. . . . .	52.97%	116.21% <sup>g</sup>	115.94%	140.83%	88.04%	72.51%
Portfolio turnover rate excluding mortgage dollar rolls <sup>h</sup> . . . . .	43.95%	39.01% <sup>g</sup>	47.40%	87.33%	48.33%	49.36%

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

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

<sup>c</sup>Amount rounds to less than \$0.01 per share.

<sup>d</sup>Total return is not annualized for periods less than one year.

<sup>e</sup>Ratios are annualized for periods less than one year.

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

<sup>g</sup>Excludes the value of portfolio activity as a result of in-kind transactions.

<sup>h</sup>See Note 1(i) regarding mortgage dollar rolls.



## Consolidated Statement of Investments, October 31, 2019 (unaudited)

## Franklin Strategic Income Fund

	Country/ Organization	Shares/ Warrants	Value
<b>Common Stocks and Other Equity Interests</b>			
<b>0.3%</b>			
<b>Commercial &amp; Professional Services 0.0%†</b>			
<sup>a,aa,b</sup> Remington Outdoor Co. Inc. . . . .	United States	1,322,439	\$ 1,322,439
<b>Consumer Services 0.0%†</b>			
<sup>a,b,c</sup> Turtle Bay Resort . . . . .	United States	5,579,939	122,759
<b>Energy 0.1%</b>			
Amplify Energy Corp. . . . .	United States	5,288	38,338
<sup>a,b</sup> Amplify Energy Corp., wts., 4/21/20 . . . . .	United States	50,712	—
<sup>a</sup> Birch Permian Holdings Inc. . . . .	United States	46,176	427,128
<sup>a</sup> Birch Permian Holdings Inc. . . . .	United States	359,948	3,284,525
<sup>a</sup> Chaparral Energy Inc., A . . . . .	United States	94,305	88,392
<sup>a,d</sup> Chaparral Energy Inc., A, 144A . . . . .	United States	3,418	3,204
<sup>a,b</sup> Halcon Resources Corp. . . . .	United States	2,215	44,015
<sup>a,b</sup> Halcon Resources Corp., wts., 9/09/20 . . . . .	United States	75,770	—
<sup>a,b</sup> Halcon Resources Corp., wts., A, 10/08/20 . . . . .	United States	10,639	—
<sup>a,b</sup> Halcon Resources Corp., wts., B, 10/08/22 . . . . .	United States	13,300	—
<sup>a,b</sup> Halcon Resources Corp., wts., C, 10/08/22 . . . . .	United States	17,100	—
<sup>a</sup> Riviera Resources Inc. . . . .	United States	84,462	1,101,384
<sup>a</sup> Roan Resources Inc. . . . .	United States	88,309	132,464
			5,119,450
<b>Materials 0.1%</b>			
<sup>a,b,e</sup> Appvion Operations Inc. . . . .	United States	331,326	4,417,403
<sup>a</sup> Verso Corp., A . . . . .	United States	38,905	569,569
<sup>a</sup> Verso Corp., wts., 7/25/23 . . . . .	United States	4,095	7,166
			4,994,138
<b>Media &amp; Entertainment 0.1%</b>			
<sup>a</sup> Clear Channel Outdoor Holdings Inc. . . . .	United States	285,564	665,364
<sup>a</sup> iHeartMedia Inc., A . . . . .	United States	115,084	1,650,305
<sup>a,b</sup> iHeartMedia Inc., B . . . . .	United States	1,941	23,659
<sup>a</sup> iHeartMedia Inc., wts., A, 5/01/39 . . . . .	United States	1	14
			2,339,342
<b>Retailing 0.0%†</b>			
<sup>a,b,e</sup> K2016470219 South Africa Ltd., A . . . . .	South Africa	125,940,079	83,322
<sup>a,b,e</sup> K2016470219 South Africa Ltd., B . . . . .	South Africa	12,532,821	8,292
			91,614
<b>Software &amp; Services 0.0%†</b>			
<sup>a,b</sup> WorkCapital BSD SARL, wts., 2/13/26 . . . . .	Brazil	6,000,000	750,000
<b>Total Common Stocks and Other Equity Interests (Cost \$65,238,205) . . . . .</b>			<b>14,739,742</b>
<b>Management Investment Companies (Cost \$152,217,419) 2.8%</b>			
<b>Diversified Financials 2.8%</b>			
<sup>f</sup> Franklin Floating Rate Income Fund . . . . .	United States	15,243,687	126,065,295

**Franklin Strategic Income Fund** (continued)

	Country/ Organization	Principal Amount*	Value
<b>Corporate Bonds 30.6%</b>			
<b>Banks 1.9%</b>			
<sup>d</sup> Akbank T.A.S., senior note, 144A, 5.125%, 3/31/25 . . . . .	Turkey	12,400,000	\$ 11,867,296
Bank of America Corp., senior bond, 3.248%, 10/21/27 . . . . .	United States	5,000,000	5,208,183
senior note, 3.50%, 4/19/26 . . . . .	United States	29,800,000	31,732,215
Citigroup Inc., sub. bond, 5.50%, 9/13/25 . . . . .	United States	10,000,000	11,455,689
Industrial & Commercial Bank of China Ltd., senior note, 3.538%, 11/08/27 . . . . .	China	8,500,000	8,883,477
<sup>d</sup> Intesa Sanpaolo SpA, senior note, 144A, 6.50%, 2/24/21 . . . . .	Italy	1,400,000	1,469,433
JPMorgan Chase & Co., sub. note, 3.875%, 9/10/24 . . . . .	United States	10,000,000	10,693,758
<sup>g</sup> Turkiye Vakiflar Bankasi TAO, secured note, Reg S, 2.375%, 11/04/22 . . . . .	Turkey	3,900,000	EUR 4,391,384
			<u>85,701,435</u>
<b>Capital Goods 1.2%</b>			
<sup>d</sup> Beacon Roofing Supply Inc., senior note, 144A, 4.875%, 11/01/25 . . . . .	United States	12,000,000	11,835,600
CNH Industrial NV, senior bond, 3.85%, 11/15/27 . . . . .	United Kingdom	6,600,000	6,888,915
<sup>d</sup> Herc Holdings Inc., senior note, 144A, 5.50%, 7/15/27 . . . . .	United States	5,300,000	5,512,000
Legrand France SA, senior bond, 8.50%, 2/15/25 . . . . .	France	200,000	260,435
<sup>h</sup> Onsite Rental Group Operations Pty. Ltd., secured note, PIK, 6.10%, 10/26/23 . . . . .	Australia	4,655,176	4,306,038
<sup>d</sup> Terex Corp., senior note, 144A, 5.625%, 2/01/25 . . . . .	United States	14,300,000	14,425,125
<sup>d</sup> Vertiv Group Corp., senior note, 144A, 9.25%, 10/15/24 . . . . .	United States	14,000,000	13,238,750
			<u>56,466,863</u>
<b>Commercial &amp; Professional Services 0.7%</b>			
United Rentals North America Inc., senior bond, 5.875%, 9/15/26 . . . . .	United States	16,000,000	17,040,000
<sup>d</sup> West Corp., senior note, 144A, 8.50%, 10/15/25 . . . . .	United States	17,300,000	13,148,000
			<u>30,188,000</u>
<b>Consumer Durables &amp; Apparel 0.7%</b>			
<sup>d</sup> Hanesbrands Inc., senior bond, 144A, 4.875%, 5/15/26 . . . . .	United States	15,000,000	15,937,500
KB Home, senior bond, 7.50%, 9/15/22 . . . . .	United States	5,000,000	5,662,500
senior note, 7.00%, 12/15/21 . . . . .	United States	8,000,000	8,630,000
			<u>30,230,000</u>
<b>Consumer Services 1.3%</b>			
<sup>d</sup> 1011778 BC ULC/New Red Finance Inc., secured note, second lien, 144A, 5.00%, 10/15/25 . . . . .	Canada	11,500,000	11,873,750
senior secured note, first lien, 144A, 4.25%, 5/15/24 . . . . .	Canada	2,000,000	2,056,330
<sup>d</sup> Golden Nugget Inc., senior note, 144A, 6.75%, 10/15/24 . . . . .	United States	13,200,000	13,630,320
<sup>d</sup> KFC Holding Co./Pizza Hut Holdings LLC/Taco Bell of America LLC, senior note, 144A, 5.00%, 6/01/24 . . . . .	United States	6,000,000	6,240,000
senior note, 144A, 5.25%, 6/01/26 . . . . .	United States	9,100,000	9,646,000
<sup>d</sup> Wynn Las Vegas LLC/Wynn Las Vegas Capital Corp., senior bond, 144A, 5.50%, 3/01/25 . . . . .	United States	13,700,000	14,590,500
			<u>58,036,900</u>

Franklin Strategic Income Fund (continued)

	Country/ Organization	Principal Amount*	Value
<b>Corporate Bonds</b> (continued)			
<b>Diversified Financials 2.3%</b>			
Capital One Financial Corp., senior note, 3.20%, 2/05/25 . . . . .	United States	11,900,000	\$ 12,330,983
<sup>i</sup> Cia Securitizadora de Creditos Financeiros Vert-Fintech, senior secured note, FRN, 5.96%, (BZDIOVRA + 5.75%), 2/14/24 . . . . .	Brazil	5,306 <sup>i</sup> BRL	1,366,622
The Goldman Sachs Group Inc., senior note, 3.50%, 1/23/25 . . . . .	United States	23,000,000	24,057,872
senior note, 3.75%, 2/25/26 . . . . .	United States	15,000,000	15,969,780
Morgan Stanley, senior bond, 3.591% to 7/22/27, FRN thereafter, 7/22/28 . . . . .	United States	10,000,000	10,578,159
senior note, 3.875%, 1/27/26 . . . . .	United States	32,300,000	34,891,660
Springleaf Finance Corp., senior note, 6.625%, 1/15/28 . . . . .	United States	5,700,000	6,327,000
			<u>105,522,076</u>
<b>Energy 3.5%</b>			
<sup>d</sup> Aker BP ASA, senior note, 144A, 4.75%, 6/15/24 . . . . .	Norway	5,900,000	6,136,000
<sup>d</sup> California Resources Corp., secured note, second lien, 144A, 8.00%, 12/15/22 . . . . .	United States	7,852,000	2,316,340
Cheniere Corpus Christi Holdings LLC, senior secured note, first lien, 7.00%, 6/30/24 . . . . .	United States	8,800,000	10,142,704
senior secured note, first lien, 5.875%, 3/31/25 . . . . .	United States	8,200,000	9,112,988
Cheniere Energy Partners LP, senior secured note, first lien, 5.25%, 10/01/25 . . . . .	United States	11,900,000	12,361,125
CONSOL Energy Inc., senior note, 5.875%, 4/15/22 . . . . .	United States	11,076,000	10,868,325
Ecopetrol SA, senior bond, 4.125%, 1/16/25 . . . . .	Colombia	8,200,000	8,626,400
Energy Transfer Operating LP, senior bond, 4.05%, 3/15/25 . . . . .	United States	1,300,000	1,364,926
senior note, 7.50%, 10/15/20 . . . . .	United States	11,000,000	11,544,376
<sup>d,h</sup> EnQuest PLC, senior note, 144A, PIK, 7.00%, 4/15/22 . . . . .	United Kingdom	9,955,122	7,998,592
Exxon Mobil Corp., senior note, 2.222%, 3/01/21 . . . . .	United States	3,000,000	3,019,250
<sup>d,k</sup> Gaz Capital SA, (OJSC Gazprom), loan participation, senior note, 144A, 3.85%, 2/06/20 . . . . .	Russia	20,000,000	20,084,100
Kinder Morgan Inc., senior bond, 4.30%, 6/01/25 . . . . .	United States	9,000,000	9,743,174
senior note, 3.15%, 1/15/23 . . . . .	United States	9,000,000	9,227,569
Martin Midstream Partners LP/Martin Midstream Finance Corp., senior note, 7.25%, 2/15/21 . . . . .	United States	19,000,000	17,166,500
Oceaneering International Inc., senior note, 4.65%, 11/15/24 . . . . .	United States	2,100,000	1,963,500
<sup>l</sup> Sanchez Energy Corp., senior note, 6.125%, 1/15/23 . . . . .	United States	6,000,000	300,000
Sunoco LP/Sunoco Finance Corp., senior note, 4.875%, 1/15/23 . . . . .	United States	5,900,000	6,069,625
<sup>l</sup> Weatherford International Ltd., senior note, 7.75%, 6/15/21 . . . . .	United States	9,000,000	2,880,000
senior note, 8.25%, 6/15/23 . . . . .	United States	7,000,000	2,170,000
<sup>d</sup> Woodside Finance Ltd., senior note, 144A, 3.70%, 9/15/26 . . . . .	Australia	5,400,000	5,622,899
			<u>158,718,393</u>
<b>Food &amp; Staples Retailing 0.5%</b>			
Walgreens Boots Alliance Inc., senior note, 3.80%, 11/18/24 . . . . .	United States	21,900,000	23,229,803

**Franklin Strategic Income Fund** (continued)

	Country/ Organization	Principal Amount*	Value
<b>Corporate Bonds</b> (continued)			
<b>Food, Beverage &amp; Tobacco 0.6%</b>			
Bunge Ltd. Finance Corp., senior note, 3.25%, 8/15/26 . . . . .	United States	2,000,000	\$ 2,005,690
<sup>d</sup> Imperial Brands Finance PLC, senior note, 144A, 3.50%, 2/11/23.	United Kingdom	20,400,000	20,861,825
Reynolds American Inc., senior note, 4.45%, 6/12/25 . . . . .	United Kingdom	1,900,000	2,040,794
			24,908,309
<b>Health Care Equipment &amp; Services 1.1%</b>			
Centene Corp.,			
senior note, 4.75%, 5/15/22 . . . . .	United States	2,000,000	2,050,000
<sup>d</sup> senior note, 144A, 5.375%, 6/01/26 . . . . .	United States	7,600,000	8,063,600
CHS/Community Health Systems Inc.,			
senior note, 6.875%, 2/01/22 . . . . .	United States	7,223,000	5,615,882
senior secured note, first lien, 6.25%, 3/31/23 . . . . .	United States	3,900,000	3,814,687
CVS Health Corp., senior bond, 4.30%, 3/25/28 . . . . .	United States	5,800,000	6,301,243
DaVita Inc.,			
senior bond, 5.125%, 7/15/24 . . . . .	United States	8,000,000	8,186,160
senior bond, 5.00%, 5/01/25 . . . . .	United States	6,000,000	6,097,500
Edwards Lifesciences Corp., senior note, 4.30%, 6/15/28 . . . . .	United States	1,957,000	2,210,448
HCA Inc., senior bond, 5.875%, 2/15/26 . . . . .	United States	3,000,000	3,382,500
<sup>d</sup> MEDNAX Inc., senior note, 144A, 6.25%, 1/15/27 . . . . .	United States	6,300,000	6,248,970
			51,970,990
<b>Materials 4.3%</b>			
<sup>h</sup> ARD Finance SA, secured note, PIK, 7.125%, 9/15/23 . . . . .	Luxembourg	1,300,000	1,353,625
<sup>d</sup> Ardagh Packaging Finance PLC/Ardagh MP Holdings USA Inc., senior note, 144A, 6.00%, 2/15/25 . . . . .	Luxembourg	11,500,000	12,103,750
<sup>d</sup> Cemex SAB de CV,			
senior secured bond, first lien, 144A, 5.70%, 1/11/25 . . . . .	Mexico	13,000,000	13,369,525
senior secured bond, first lien, 144A, 6.125%, 5/05/25 . . . . .	Mexico	2,000,000	2,075,070
<sup>g</sup> CNAC HK Finbridge Co. Ltd., senior note, Reg S, 4.875%, 3/14/25 . . . . .	China	7,800,000	8,465,964
Crown Americas LLC/Crown Americas Capital Corp. VI, senior note, 4.75%, 2/01/26 . . . . .	United States	7,100,000	7,472,750
<sup>d</sup> First Quantum Minerals Ltd.,			
senior note, 144A, 7.00%, 2/15/21 . . . . .	Zambia	2,144,000	2,158,740
senior note, 144A, 7.25%, 4/01/23 . . . . .	Zambia	7,200,000	7,258,500
<sup>d</sup> FMG Resources (August 2006) Pty. Ltd.,			
senior note, 144A, 5.125%, 3/15/23 . . . . .	Australia	3,600,000	3,757,500
senior note, 144A, 5.125%, 5/15/24 . . . . .	Australia	7,700,000	8,085,000
Freeport-McMoRan Inc., senior note, 4.55%, 11/14/24 . . . . .	United States	13,000,000	13,552,500
<sup>d</sup> Glencore Funding LLC,			
senior note, 144A, 4.125%, 5/30/23 . . . . .	Switzerland	5,000,000	5,238,364
senior note, 144A, 4.625%, 4/29/24 . . . . .	Switzerland	2,500,000	2,674,590
<sup>d</sup> Mauser Packaging Solutions Holding Co., senior note, 144A, 7.25%, 4/15/25 . . . . .	United States	15,000,000	14,400,000
<sup>d</sup> New Gold Inc., senior note, 144A, 6.375%, 5/15/25 . . . . .	Canada	6,900,000	6,589,500
<sup>d</sup> Northwest Acquisitions ULC/Dominion Finco Inc., secured note, second lien, 144A, 7.125%, 11/01/22 . . . . .	Canada	3,800,000	1,909,500
<sup>d</sup> Novelis Corp., senior bond, 144A, 5.875%, 9/30/26 . . . . .	United States	14,000,000	14,736,400

**Franklin Strategic Income Fund** (continued)

	Country/ Organization	Principal Amount*	Value
<b>Corporate Bonds</b> (continued)			
<b>Materials</b> (continued)			
<sup>d</sup> Owens-Brockway Glass Container Inc.,			
senior note, 144A, 5.00%, 1/15/22 . . . . .	United States	6,000,000	\$ 6,217,500
senior note, 144A, 5.875%, 8/15/23 . . . . .	United States	10,000,000	10,600,000
Reynolds Group Issuer Inc./Reynolds Group Issuer LLC/ Reynolds Group Issuer Luxembourg SA,			
senior secured note, first lien, 5.75%, 10/15/20 . . . . .	United States	5,427,003	5,452,510
<sup>d</sup> senior secured note, first lien, 144A, 5.125%, 7/15/23 . . . . .	United States	5,900,000	6,067,855
<sup>d,i</sup> senior secured note, first lien, 144A, FRN, 5.501%, (3-month USD LIBOR + 3.50%), 7/15/21 . . . . .	United States	6,500,000	6,532,500
<sup>d</sup> SABIC Capital II BV, senior note, 144A, 4.50%, 10/10/28 . . . . .	Saudi Arabia	5,500,000	6,111,517
<sup>d</sup> Sealed Air Corp.,			
senior bond, 144A, 5.125%, 12/01/24 . . . . .	United States	11,300,000	12,232,250
senior note, 144A, 4.875%, 12/01/22 . . . . .	United States	4,000,000	4,250,000
<sup>e</sup> Sociedad Quimica y Minera de Chile SA, senior note, 144A, 3.625%, 4/03/23 . . . . .	Chile	1,500,000	1,539,750
<sup>d</sup> SunCoke Energy Partners LP/SunCoke Energy Partners Finance Corp., senior note, 144A, 7.50%, 6/15/25 . . . . .	United States	12,000,000	10,260,000
			<u>194,465,160</u>
<b>Media &amp; Entertainment 2.7%</b>			
<sup>d</sup> Altice Financing SA, secured bond, 144A, 7.50%, 5/15/26 . . . . .	Luxembourg	3,000,000	3,191,250
CCO Holdings LLC/CCO Holdings Capital Corp.,			
senior bond, 5.25%, 9/30/22 . . . . .	United States	6,500,000	6,601,562
<sup>d</sup> senior bond, 144A, 5.375%, 5/01/25 . . . . .	United States	13,000,000	13,520,000
<sup>d</sup> Clear Channel Worldwide Holdings Inc.,			
first lien, senior secured note, 144A, 5.125%, 8/15/27 . . . . .	United States	6,400,000	6,677,952
senior sub. note, 144A, 9.25%, 2/15/24 . . . . .	United States	1,362,000	1,500,754
<sup>d</sup> CSC Holdings LLC, senior secured note, first lien, 144A, 5.50%, 5/15/26 . . . . .	United States	16,000,000	16,900,000
<sup>d</sup> Diamond Sports Group LLC/Diamond Sports Finance Co.,			
first lien, 144A, 5.375%, 8/15/26 . . . . .	United States	4,300,000	4,498,875
senior note, 144A, 6.625%, 8/15/27 . . . . .	United States	4,500,000	4,646,250
DISH DBS Corp.,			
senior bond, 5.00%, 3/15/23 . . . . .	United States	6,000,000	6,067,500
senior note, 5.875%, 11/15/24 . . . . .	United States	8,000,000	8,050,000
iHeartCommunications Inc.,			
secured note, 6.375%, 5/01/26 . . . . .	United States	661,721	715,486
senior note, 8.375%, 5/01/27 . . . . .	United States	1,199,371	1,292,322
<sup>d</sup> Live Nation Entertainment Inc., senior note, 144A, 4.75%, 10/15/27 . . . . .	United States	4,400,000	4,598,440
Netflix Inc., senior bond, 4.375%, 11/15/26 . . . . .	United States	11,800,000	12,039,540
<sup>d</sup> Nexstar Broadcasting Inc., senior note, 144A, 5.625%, 8/01/24 . . . . .	United States	15,000,000	15,688,200
<sup>d</sup> Univision Communications Inc., senior secured note, first lien, 144A, 5.125%, 2/15/25 . . . . .	United States	16,000,000	15,680,000
			<u>121,668,131</u>

**Franklin Strategic Income Fund** (continued)

	Country/ Organization	Principal Amount*	Value
<b>Corporate Bonds</b> (continued)			
<b>Pharmaceuticals, Biotechnology &amp; Life Sciences 1.6%</b>			
Allergan Funding SCS, senior bond, 3.80%, 3/15/25 . . . . .	United States	25,000,000	\$ 26,251,150
<sup>d</sup> Bausch Health Cos. Inc.,			
senior bond, 144A, 6.125%, 4/15/25 . . . . .	United States	3,100,000	3,225,938
senior note, 144A, 8.50%, 1/31/27 . . . . .	United States	5,000,000	5,637,500
senior note, first lien, 144A, 7.00%, 3/15/24 . . . . .	United States	2,100,000	2,202,218
<sup>d</sup> Bayer U.S. Finance II LLC, senior bond, 144A, 4.375%, 12/15/28 .	Germany	11,700,000	12,702,005
<sup>d,h</sup> Eagle Holdings Co. II LLC, senior note, 144A, PIK, 7.625%, 5/15/22 . . . . .	United States	3,300,000	3,337,125
<sup>d</sup> Endo DAC/Endo Finance LLC/Endo Finco Inc.,			
senior bond, 144A, 6.00%, 2/01/25 . . . . .	United States	11,000,000	7,067,500
senior note, 144A, 6.00%, 7/15/23 . . . . .	United States	1,637,000	1,090,651
<sup>d</sup> Jaguar Holding Co. II/Pharmaceutical Product Development LLC, senior note, 144A, 6.375%, 8/01/23 . . . . .	United States	10,000,000	10,375,000
			<u>71,889,087</u>
<b>Real Estate 0.8%</b>			
American Tower Corp., senior bond, 3.375%, 10/15/26 . . . . .	United States	15,500,000	16,141,201
<sup>g</sup> China Overseas Finance Cayman VI Ltd., senior note, Reg S, 5.95%, 5/08/24 . . . . .	China	7,500,000	8,501,700
MPT Operating Partnership LP/MPT Finance Corp.,			
senior bond, 5.25%, 8/01/26 . . . . .	United States	4,200,000	4,425,750
senior bond, 5.00%, 10/15/27 . . . . .	United States	5,700,000	6,027,750
			<u>35,096,401</u>
<b>Retailing 0.1%</b>			
<sup>b,d,h</sup> K2016470219 South Africa Ltd., senior secured note, 144A, PIK, 3.00%, 12/31/22 . . . . .	South Africa	9,981,540	12,353
<sup>b,d,h</sup> K2016470260 South Africa Ltd., senior secured note, 144A, PIK, 25.00%, 12/31/22 . . . . .	South Africa	2,371,531	10,946
<sup>d</sup> Party City Holdings Inc., senior note, 144A, 6.625%, 8/01/26 . . . .	United States	5,300,000	5,141,000
			<u>5,164,299</u>
<b>Semiconductors &amp; Semiconductor Equipment 0.1%</b>			
Maxim Integrated Products Inc., senior note, 3.375%, 3/15/23 . . .	United States	1,800,000	1,853,167
Qorvo Inc., senior note, 5.50%, 7/15/26 . . . . .	United States	2,600,000	2,781,948
			<u>4,635,115</u>
<b>Software &amp; Services 0.2%</b>			
<sup>d</sup> Symantec Corp., senior note, 144A, 5.00%, 4/15/25 . . . . .	United States	9,500,000	9,743,079
<b>Technology Hardware &amp; Equipment 0.5%</b>			
<sup>d</sup> CommScope Technologies LLC, senior bond, 144A, 6.00%, 6/15/25 . . . . .	United States	14,600,000	13,140,000
<sup>d</sup> Dell International LLC/EMC Corp., senior note, 144A, 7.125%, 6/15/24 . . . . .	United States	7,000,000	7,430,500
			<u>20,570,500</u>

Franklin Strategic Income Fund (continued)

	Country/ Organization	Principal Amount*	Value
<b>Corporate Bonds</b> (continued)			
<b>Telecommunication Services 1.4%</b>			
AT&T Inc., senior note, 2.95%, 7/15/26 . . . . .	United States	14,800,000	\$ 15,079,687
<sup>d</sup> Digicel Group Two Ltd.,			
senior note, 144A, 8.25%, 9/30/22 . . . . .	Bermuda	2,427,000	627,938
<sup>h</sup> senior note, 144A, PIK, 9.125%, 4/01/24 . . . . .	Bermuda	3,042,961	562,948
<sup>d</sup> Digicel Ltd., senior note, 144A, 6.00%, 4/15/21 . . . . .	Bermuda	10,000,000	7,562,500
Sprint Communications Inc.,			
senior note, 6.00%, 11/15/22 . . . . .	United States	10,000,000	10,600,000
<sup>d</sup> senior note, 144A, 7.00%, 3/01/20 . . . . .	United States	5,000,000	5,075,000
T-Mobile USA Inc.,			
senior bond, 6.50%, 1/15/24 . . . . .	United States	3,000,000	3,123,750
senior bond, 6.375%, 3/01/25 . . . . .	United States	13,000,000	13,522,730
senior note, 5.125%, 4/15/25 . . . . .	United States	6,000,000	6,256,800
			<u>62,411,353</u>
<b>Transportation 1.6%</b>			
<sup>d</sup> DAE Funding LLC,			
senior note, 144A, 4.50%, 8/01/22 . . . . .	United Arab Emirates	2,000,000	2,040,000
senior note, 144A, 5.00%, 8/01/24 . . . . .	United Arab Emirates	14,000,000	14,682,500
<sup>d</sup> Kazakhstan Temir Zholy Finance BV, senior bond, 144A, 6.95%, 7/10/42 . . . . .	Kazakhstan	18,100,000	24,494,730
<sup>d</sup> Mexico City Airport Trust, senior secured bond, first lien, 144A, 5.50%, 7/31/47 . . . . .	Mexico	12,718,000	12,806,072
<sup>g,k</sup> RZD Capital PLC, (Russian Railways), loan participation, senior bond, Reg S, 5.70%, 4/05/22 . . . . .	Russia	17,600,000	18,887,352
			<u>72,910,654</u>
<b>Utilities 3.5%</b>			
Calpine Corp.,			
senior bond, 5.75%, 1/15/25 . . . . .	United States	9,000,000	9,258,750
senior note, 5.375%, 1/15/23 . . . . .	United States	4,000,000	4,074,800
Clearway Energy Operating LLC, senior note, 5.75%, 10/15/25 . .	United States	12,800,000	13,184,000
Dominion Energy Inc., senior bond, 2.85%, 8/15/26 . . . . .	United States	11,400,000	11,611,381
<sup>d,m</sup> EDF SA,			
junior sub. bond, 144A, 5.625% to 1/22/24, FRN thereafter, Perpetual. . . . .	France	5,000,000	5,255,775
junior sub. note, 144A, 5.25% to 1/29/23, FRN thereafter, Perpetual. . . . .	France	25,000,000	25,914,000
Exelon Corp., senior bond, 3.95%, 6/15/25 . . . . .	United States	8,500,000	9,215,223
<sup>d</sup> InterGen NV, secured bond, 144A, 7.00%, 6/30/23 . . . . .	Netherlands	4,800,000	4,586,400
<sup>d</sup> Israel Electric Corp. Ltd., secured bond, 144A, 4.25%, 8/14/28 . .	Israel	9,200,000	10,037,062
The Southern Co., senior bond, 3.25%, 7/01/26 . . . . .	United States	24,200,000	25,266,991
<sup>d</sup> State Grid Overseas Investment 2016 Ltd., senior note, 144A, 3.50%, 5/04/27 . . . . .	China	12,800,000	13,539,456
<sup>d</sup> Talen Energy Supply LLC,			
senior note, 144A, 10.50%, 1/15/26 . . . . .	United States	3,000,000	2,587,500
senior secured note, 144A, 7.25%, 5/15/27 . . . . .	United States	10,800,000	10,827,000

**Franklin Strategic Income Fund** (continued)

	Country/ Organization	Principal Amount*	Value
<b>Corporate Bonds</b> (continued)			
<b>Utilities</b> (continued)			
<sup>d</sup> Three Gorges Finance I Cayman Islands Ltd., senior note, 144A, 3.15%, 6/02/26 . . . . .	China	12,800,000	\$ 13,225,728
Virginia Electric & Power Co., senior bond, 6.35%, 11/30/37 . . . . .	United States	820,000	1,157,504
			<u>159,741,570</u>
<b>Total Corporate Bonds (Cost \$1,392,458,413)</b> . . . . .			<u>1,383,268,118</u>
<sup>i,n</sup> <b>Senior Floating Rate Interests 5.8%</b>			
<b>Automobiles &amp; Components 0.0%†</b>			
Adient US LLC,			
Initial Term Loans, 6.459%, (3-month USD LIBOR + 4.25%), 5/06/24 . . . . .	United States	180,000	176,175
Initial Term Loans, 6.889%, (6-month USD LIBOR + 4.25%), 5/06/24 . . . . .	United States	538,200	526,763
Thor Industries Inc., Initial USD Term Loans, 5.813%, (1-month USD LIBOR + 3.75%), 2/01/26 . . . . .	United States	1,884,415	1,840,838
			<u>2,543,776</u>
<b>Capital Goods 0.2%</b>			
Altra Industrial Motion Corp., Term Loan, 3.786%, (3-month USD LIBOR + 2.00%), 10/01/25 . . . . .	United States	692,214	691,128
Doncasters U.S. Finance LLC, Second-Lien Term Loans, 10.354%, (3-month USD LIBOR + 8.25%), 10/09/20 . . . . .	United States	12,543,188	3,386,661
Harsco Corp., Term Loan B-2, 4.063%, (1-month USD LIBOR + 2.25%), 12/10/24 . . . . .	United States	2,040,990	2,047,368
Onsite Rental Group Operations Pty. Ltd., Term Loan, 6.323%, (1-month USD LIBOR + 4.50%), 10/25/22 . . . . .	Australia	3,404,855	3,362,294
			<u>9,487,451</u>
<b>Commercial &amp; Professional Services 0.0%†</b>			
United Rentals North America Inc., Initial Term Loans, 3.536%, (1-month USD LIBOR + 1.75%), 10/31/25 . . . . .	United States	997,481	1,002,885
Ventia Pty Ltd., Term B Loans, 5.604%, (3-month USD LIBOR + 3.50%), 5/21/26 . . . . .	Australia	829,952	832,027
			<u>1,834,912</u>
<b>Consumer Services 0.1%</b>			
Aristocrat Technologies Inc., Term B-3 Loans, 3.716%, (3-month USD LIBOR + 1.75%), 10/19/24 . . . . .	United States	1,408,412	1,413,474
Avis Budget Car Rental LLC, Tranche B Term Loans, 3.79%, (1-month USD LIBOR + 2.00%), 2/13/25 . . . . .	United States	1,994,924	1,999,073
Eldorado Resorts Inc., Initial Term Loan, 4.125% - 4.313%, (1-month USD LIBOR + 2.25%), 4/17/24 . . . . .	United States	3,215,110	3,214,412
			<u>6,626,959</u>
<b>Diversified Financials 0.0%†</b>			
Russell Investments U.S. Institutional Holdco Inc., Initial Term Loan, 5.036%, (1-month USD LIBOR + 3.25%), 6/01/23 . . . . .	United States	708,606	689,415



**Franklin Strategic Income Fund** (continued)

	Country/ Organization	Principal Amount*	Value
<sup>i,n</sup> <b>Senior Floating Rate Interests</b> (continued)			
<b>Energy 2.2%</b>			
Fieldwood Energy LLC, Closing Date Loans, 7.177%, (3-month USD LIBOR + 5.25%), 4/11/22 . . . . .	United States	64,439,645	\$ 52,131,673
Utex Industries Inc.,			
First Lien Initial Term Loan, 5.786%, (1-month USD LIBOR + 4.00%), 5/21/21 . . . . .	United States	9,168,440	7,059,699
Second Lien Initial Term Loan, 9.036%, (1-month USD LIBOR + 7.25%), 5/20/22 . . . . .	United States	955,410	506,367
Wolverine Fuels Holding LLC,			
First Lien Initial Term Loan, 7.874%, (3-month USD LIBOR + 5.75%), 8/14/20 . . . . .	United States	17,686,722	17,303,504
Second Lien Initial Term Loan, 12.874%, (3-month USD LIBOR + 10.75%), 2/16/21 . . . . .	United States	22,488,412	21,270,282
			<u>98,271,525</u>
<b>Food, Beverage &amp; Tobacco 0.4%</b>			
CSM Bakery Supplies LLC, Second Lien Term Loan, 9.78%, (3-month USD LIBOR + 7.75%), 7/03/21 . . . . .	United States	16,940,234	15,161,509
JBS USA Lux SA, New Term Loans, 4.286%, (1-month USD LIBOR + 2.50%), 5/01/26 . . . . .	United States	997,494	1,002,244
			<u>16,163,753</u>
<b>Household &amp; Personal Products 1.0%</b>			
<sup>b</sup> FGI Operating Co. LLC (Freedom Group),			
<sup>h</sup> Term Loan, PIK, 12.10%, (3-month USD LIBOR + 10.00%), 5/15/22 . . . . .	United States	15,064,735	14,699,084
Term Loan FILO, 9.624% - 9.658%, (3-month USD LIBOR + 7.50%), 5/15/21 . . . . .	United States	28,662,305	28,606,339
			<u>43,305,423</u>
<b>Materials 0.4%</b>			
Appvion Operations, Inc.,			
Term Loan, 8.10%, (3-month USD LIBOR + 6.00%), 6/15/26 . . . . .	United States	442,850	447,279
Term Loan, 8.22%, (6-month USD LIBOR + 6.00%), 6/15/26 . . . . .	United States	7,044,096	7,114,537
Axalta Coating Systems U.S. Holdings Inc., Term B-3 Dollar Loan, 3.854%, (3-month USD LIBOR + 1.75%), 6/01/24 . . . . .	United States	2,183,006	2,183,290
Chemours Co., Tranche B-2 US\$ Term Loan, 3.54%, (1-month USD LIBOR + 1.75%), 4/03/25 . . . . .	United States	4,104,239	3,897,315
Crown Americas LLC, Dollar Term B Loan, 3.997%, (1-month USD LIBOR + 2.00%), 4/03/25 . . . . .	United States	530,377	534,354
Oxbow Carbon LLC, Tranche A Term Loan, 4.286%, (1-month USD LIBOR + 2.50%), 1/04/22 . . . . .	United States	3,172,129	3,156,269
			<u>17,333,044</u>
<b>Media &amp; Entertainment 0.3%</b>			
Charter Communications Operating LLC, Term A-2 Loan, 3.55%, (1-month USD LIBOR + 1.50%), 3/31/23 . . . . .	United States	2,959,459	2,955,760
CSC Holdings LLC, March 2017 Incremental Term Loans, 4.171%, (1-month USD LIBOR + 2.25%), 7/17/25 . . . . .	United States	997,442	994,013
Diamond Sports Group LLC, Term Loan, 5.08%, (1-month USD LIBOR + 3.25%), 8/24/26 . . . . .	United States	3,000,000	3,018,375
Gray Television Inc., Term C Loan, 4.511%, (1-month USD LIBOR + 2.50%), 1/02/26 . . . . .	United States	396,805	398,386

**Franklin Strategic Income Fund** (continued)

	Country/ Organization	Principal Amount*	Value
<sup>i,n</sup> <b>Senior Floating Rate Interests</b> (continued)			
<b>Media &amp; Entertainment</b> (continued)			
iHeartCommunications Inc., Term Loan, 6.032%, (1-month USD LIBOR + 4.00%), 5/04/26 . . . . .	United States	2,282,583	\$ 2,293,277
Lions Gate Capital Holdings LLC, Term A Loan, 3.536%, (1-month USD LIBOR + 1.75%), 3/22/23 . . . . .	Canada	2,478,119	2,419,263
Nexstar Broadcasting Inc., Term B-4 Loan, 4.554%, (1-month USD LIBOR + 2.75%), 9/19/26 . . . . .	United States	997,625	1,003,112
			<u>13,082,186</u>
<b>Pharmaceuticals, Biotechnology &amp; Life Sciences 0.2%</b>			
Grifols Worldwide Operations USA Inc., Tranche B Term Loan, 4.086%, (1-week USD LIBOR + 2.25%), 1/31/25 . . . . .	United States	6,741,681	6,759,587
Syneos Health Inc., Initial Term B Loans, 3.786%, (1-month USD LIBOR + 2.00%), 8/01/24 . . . . .	United States	1,466,008	1,470,589
			<u>8,230,176</u>
<b>Retailing 0.1%</b>			
<sup>h</sup> 99 Cents Only Stores,			
First Lien Term Loan, PIK, 8.604%, (3-month USD LIBOR + 6.50%), 1/13/22 . . . . .	United States	2,642,070	2,173,103
First Lien Term Loan, PIK, 8.535%, (6-month USD LIBOR + 6.50%), 1/13/22 . . . . .	United States	1,983,114	1,631,111
			<u>3,804,214</u>
<b>Semiconductors &amp; Semiconductor Equipment 0.1%</b>			
MKS Instruments Inc., Tranche B-6 Term Loan, 3.536%, (1-month USD LIBOR + 1.75%), 2/02/26 . . . . .	United States	3,549,320	3,563,738
ON Semiconductor Corp., 2019 Replacement Term B-4 Loans, 3.786%, (1-month USD LIBOR + 2.00%), 9/18/26 . . . . .	United States	2,000,000	2,011,522
			<u>5,575,260</u>
<b>Software &amp; Services 0.5%</b>			
WEX Inc., Term B-3 Loan, 4.036%, (1-month USD LIBOR + 2.25%), 5/17/26 . . . . .	United States	1,844,081	1,853,302
<sup>b</sup> WorkCapital BSD SARL, Loan, 18.176%, (3-month USD LIBOR + 16.00%), 2/11/22 . . . . .	Luxembourg	20,000,000	20,023,463
			<u>21,876,765</u>
<b>Telecommunication Services 0.2%</b>			
Global Tel*Link Corp.,			
First Lien Term Loan, 6.036%, (1-month USD LIBOR + 4.25%), 11/29/25 . . . . .	United States	997,488	873,799
Second Lien Term Loan, 10.036%, (1-month USD LIBOR + 8.25%), 11/29/26 . . . . .	United States	545,755	521,196
Securus Technologies Holdings Inc.,			
Initial Term Loan, 6.286%, (1-month USD LIBOR + 4.50%), 11/01/24 . . . . .	United States	2,487,342	1,975,658
Second Lien Initial Loan, 10.036%, (1-month USD LIBOR + 8.25%), 11/01/25 . . . . .	United States	10,588,688	5,823,779
			<u>9,194,432</u>

**Franklin Strategic Income Fund** (continued)

	Country/ Organization	Principal Amount*		Value
<sup>i,n</sup> <b>Senior Floating Rate Interests</b> (continued)				
<b>Transportation 0.1%</b>				
Air Canada, Term Loan, 3.805%, (1-month USD LIBOR + 2.00%), 10/06/23 . . . . .	Canada	407,413	\$	409,451
Allegiant Travel Co., Class B Term Loans, 6.709%, (3-month USD LIBOR + 4.50%), 2/05/24 . . . . .	United States	2,901,565		2,912,446
Hertz Corp., Tranche B-1 Term Loan, 4.54%, (1-month USD LIBOR + 2.75%), 6/30/23 . . . . .	United States	994,751		996,201
				<u>4,318,098</u>
<b>Utilities 0.0%†</b>				
EFS Cogen Holdings I LLC (Linden), Term B Advance, 5.04%, (1-month USD LIBOR + 3.25%), 6/28/23 . . . . .	United States	282,435		281,994
Term B Advance, 5.36%, (3-month USD LIBOR + 3.25%), 6/28/23 . . . . .	United States	697,512		696,422
				<u>978,416</u>
<b>Total Senior Floating Rate Interests (Cost \$289,272,277)</b> . . . . .				<u>263,315,805</u>
<b>Foreign Government and Agency Securities 12.2%</b>				
<sup>d</sup> The African Export-Import Bank, senior bond, 144A, 3.994%, 9/21/29 . . . . .	Supranational <sup>o</sup>	8,600,000		8,724,571
<sup>d</sup> Angolan Government International Bond, senior note, 144A, 8.25%, 5/09/28 . . . . .	Angola	26,800,000		28,106,232
<sup>9</sup> Banque Centrale de Tunisie International Bond, senior note, Reg S, 5.625%, 2/17/24 . . . . .	Tunisia	25,700,000	EUR	28,094,677
<sup>p</sup> Brazil Notas do Tesouro Nacional, Index Linked, 6.00%, 5/15/23 . . . . .	Brazil	19,500 <sup>i</sup>	BRL	18,073,278
<sup>d</sup> Dominican Republic, senior note, 144A, 8.90%, 2/15/23 . . . . .	Dominican Republic	838,300,000	DOP	15,908,746
<sup>d</sup> The Export-Import Bank of India, senior note, 144A, 3.875%, 2/01/28 . . . . .	India	16,000,000		17,052,344
<sup>d</sup> Government of Belarus International Bond, senior bond, 144A, 6.20%, 2/28/30 . . . . .	Belarus	3,500,000		3,747,132
senior note, 144A, 7.625%, 6/29/27 . . . . .	Belarus	7,500,000		8,634,375
Government of China, 3.29%, 5/23/29 . . . . .	China	270,300,000	CNY	38,353,264
Government of Colombia, senior bond, 9.85%, 6/28/27 . . . . .	Colombia	55,750,000,000	COP	20,737,762
senior bond, 5.00%, 6/15/45 . . . . .	Colombia	20,700,000		24,162,282
<sup>d</sup> Government of Gabon, 144A, 6.375%, 12/12/24 . . . . .	Gabon	29,000,000		28,954,035
Government of Indonesia, senior bond, FR34, 12.80%, 6/15/21 . . . . .	Indonesia	129,210,000,000	IDR	10,184,371
senior bond, FR39, 11.75%, 8/15/23 . . . . .	Indonesia	29,150,000,000	IDR	2,449,518
senior bond, FR44, 10.00%, 9/15/24 . . . . .	Indonesia	8,340,000,000	IDR	679,760
senior bond, FR56, 8.375%, 9/15/26 . . . . .	Indonesia	363,988,000,000	IDR	28,355,138
<sup>d</sup> Government of Iraq, 144A, 5.80%, 1/15/28 . . . . .	Iraq	29,000,000		27,896,985
<sup>d</sup> Government of Kazakhstan, senior bond, 144A, 4.875%, 10/14/44 . . . . .	Kazakhstan	19,300,000		23,534,999
Government of Mexico, senior note, 4.15%, 3/28/27 . . . . .	Mexico	13,900,000		14,899,410
Government of Peru, senior bond, 6.55%, 3/14/37 . . . . .	Peru	11,400,000		16,675,464

**Franklin Strategic Income Fund** (continued)

	Country/ Organization	Principal Amount*		Value
<b>Foreign Government and Agency Securities</b>				
(continued)				
<sup>d</sup> Government of Russia, senior note, 144A, 4.875%, 9/16/23 . . . .	Russia	8,600,000	\$	9,415,581
Government of South Africa, senior bond, 7.00%, 2/28/31 . . . . .	South Africa	365,000,000	ZAR	20,153,319
<sup>d,g</sup> Government of Spain,				
senior bond, 144A, Reg S, 1.45%, 4/30/29 . . . . .	Spain	17,300,000	EUR	21,543,391
senior bond, 144A, Reg S, 2.70%, 10/31/48 . . . . .	Spain	35,600,000	EUR	55,210,551
<sup>d</sup> Government of Ukraine,				
144A, 7.75%, 9/01/22 . . . . .	Ukraine	2,200,000		2,344,320
144A, 7.75%, 9/01/23 . . . . .	Ukraine	4,355,000		4,665,947
144A, 7.75%, 9/01/24 . . . . .	Ukraine	4,355,000		4,676,181
<sup>a,q</sup> 144A, VRI, GDP Linked Security, 5/31/40 . . . . .	Ukraine	9,990,000		9,411,080
senior bond, 144A, 7.375%, 9/25/32 . . . . .	Ukraine	6,000,000		6,285,090
Government of Uruguay,				
senior bond, 4.375%, 1/23/31 . . . . .	Uruguay	8,000,000		8,942,080
<sup>r</sup> senior bond, Index Linked, 3.70%, 6/26/37 . . . . .	Uruguay	835,347,737	UYU	22,293,211
Nota do Tesouro Nacional, 10.00%, 1/01/23 . . . . .	Brazil	34,402 <sup>l</sup>	BRL	9,675,969
<sup>d</sup> Panama Notas del Tesoro, senior note, 144A, 3.75%, 4/17/26 . . .	Panama	8,200,000		8,511,600
<b>Total Foreign Government and Agency Securities</b>				
<b>(Cost \$553,404,894)</b> . . . . .				<u>548,352,663</u>
<b>U.S. Government and Agency Securities 6.2%</b>				
U.S. Treasury Bond,				
7.125%, 2/15/23 . . . . .	United States	3,000,000		3,538,067
6.25%, 8/15/23 . . . . .	United States	4,000,000		4,694,375
6.875%, 8/15/25 . . . . .	United States	1,000,000		1,293,652
5.25%, 2/15/29 . . . . .	United States	1,750,000		2,288,775
U.S. Treasury Note,				
3.125%, 11/15/28 . . . . .	United States	81,000,000		90,852,890
<sup>r</sup> Index Linked, 0.625%, 1/15/24 . . . . .	United States	25,234,651		25,656,744
<sup>r</sup> Index Linked, 0.125%, 7/15/24 . . . . .	United States	97,827,737		97,925,262
<sup>r</sup> Index Linked, 0.375%, 7/15/25 . . . . .	United States	34,295,255		34,819,321
<sup>r</sup> Index Linked, 0.375%, 7/15/27 . . . . .	United States	18,784,202		19,113,536
<b>Total U.S. Government and Agency Securities</b>				
<b>(Cost \$272,885,650)</b> . . . . .				<u>280,182,622</u>
<b>Asset-Backed Securities and Commercial Mortgage-Backed Securities 30.1%</b>				
<b>Banks 0.4%</b>				
<sup>s</sup> Commercial Mortgage Trust, 2006-GG7, AJ, FRN, 5.637%, 7/10/38 . . . . .	United States	5,333,000		4,941,858
CSAIL Commercial Mortgage Trust, 2015-C1, A4, 3.505%, 4/15/50 . . . . .	United States	10,050,000		10,657,941
<sup>s</sup> CWABS Asset-Backed Certificates Trust, 2005-11, AF4, FRN, 5.21%, 3/25/34 . . . . .	United States	1,629,592		1,648,209
<sup>l</sup> Merrill Lynch Mortgage Investors Trust, 2005-A6, 2A3, FRN, 2.203%, (1-month USD LIBOR + 0.38%), 8/25/35 . . . . .	United States	831,420		838,721
				<u>18,086,729</u>

**Franklin Strategic Income Fund** (continued)

	Country/ Organization	Principal Amount*		Value
<b>Asset-Backed Securities and Commercial Mortgage-Backed Securities</b> (continued)				
<b>Diversified Financials 29.7%</b>				
<sup>†</sup> American Express Credit Account Master Trust, 2017-2, A, FRN, 2.364%, (1-month USD LIBOR + 0.45%), 9/16/24 . . . . .	United States	9,170,000	\$	9,215,936
<sup>d,t</sup> AMMC CLO XI Ltd., 2012-11A, BR2, 144A, FRN, 3.536%, (3-month USD LIBOR + 1.60%), 4/30/31 . . . . .	United States	3,000,000		2,932,530
2012-11A, CR2, 144A, FRN, 3.836%, (3-month USD LIBOR + 1.90%), 4/30/31 . . . . .	United States	1,000,000		941,690
2012-11A, DR2, 144A, FRN, 4.786%, (3-month USD LIBOR + 2.85%), 4/30/31 . . . . .	United States	1,450,000		1,298,243
<sup>d,t</sup> Antares CLO Ltd., 2018-1A, B, 144A, FRN, 3.616%, (3-month USD LIBOR + 1.65%), 4/20/31 . . . . .	United States	17,500,000		17,055,150
<sup>d,t</sup> Ares CLO Ltd., 2018-48A, D, 144A, FRN, 4.666%, (3-month USD LIBOR + 2.70%), 7/20/30 . . . . .	United States	3,550,000		3,274,875
<sup>d,s</sup> ARES L CLO Ltd., 2018-50A, B, 144A, FRN, 3.701%, 1/15/32 . . . . .	United States	15,700,000		15,475,333
<sup>d,s</sup> ARES LII CLO Ltd., 2019-52A, A2, 144A, FRN, 3.603%, 4/22/31 . . . . .	United States	2,522,358		2,516,077
2019-52A, B, 144A, FRN, 3.803%, 4/22/31 . . . . .	United States	3,500,000		3,503,500
2019-52A, C, 144A, FRN, 4.633%, 4/22/31 . . . . .	United States	1,000,000		995,020
2019-52A, D, 144A, FRN, 5.903%, 4/22/31 . . . . .	United States	1,703,704		1,680,278
<sup>d,t</sup> Ares XLIII CLO Ltd., 2017-43A, A, 144A, FRN, 3.221%, (3-month USD LIBOR + 1.22%), 10/15/29 . . . . .	United States	3,870,000		3,875,495
<sup>d,s</sup> Atrium XIV LLC, 14A, D, 144A, FRN, 4.951%, 8/23/30 . . . . .	United States	3,750,000		3,587,550
Banc of America Commercial Mortgage Trust, 2015-UBS7, A3, 3.441%, 9/15/48 . . . . .	United States	10,920,000		11,575,335
2015-UBS7, A4, 3.705%, 9/15/48 . . . . .	United States	12,450,000		13,384,853
<sup>s</sup> 2015-UBS7, B, FRN, 4.361%, 9/15/48 . . . . .	United States	6,740,000		7,316,574
<sup>d,s</sup> BCAP LLC Trust, 2009-RR1, 2A2, 144A, FRN, 4.94%, 5/26/35 . . . . .	United States	5,223,207		5,095,359
<sup>d,s</sup> BCC Middle Market CLO LLC, 2018-1A, A2, 144A, FRN, 4.116%, 10/20/30 . . . . .	United States	6,300,000		6,253,695
<sup>d</sup> Betony CLO 2 Ltd., <sup>s</sup> 2018-1A, A1, 144A, FRN, 3.016%, 4/30/31 . . . . .	United States	15,300,000		15,169,338
<sup>†</sup> 2018-1A, C, 144A, FRN, 4.836%, (3-month USD LIBOR + 2.90%), 4/30/31 . . . . .	United States	4,000,000		3,623,720
<sup>d,s</sup> BlueMountain CLO Ltd., 2012-2A, BR2, 144A, FRN, 3.586%, 11/20/28 . . . . .	United States	6,710,000		6,678,060
2012-2A, CR2, 144A, FRN, 4.136%, 11/20/28 . . . . .	United States	2,730,000		2,666,910
2014-2A, CR2, 144A, FRN, 4.166%, 10/20/30 . . . . .	United States	3,800,000		3,625,048
2018-1A, D, 144A, FRN, 4.986%, 7/30/30 . . . . .	United States	5,000,000		4,589,250
<sup>d,s,u</sup> BlueMountain EUR CLO, 5A, A, 144A, FRN, 0.91%, 1/15/33 . . . . .	Ireland	20,900,000	EUR	23,309,771
5A, B, 144A, FRN, 1.55%, 1/15/33 . . . . .	Ireland	6,200,000	EUR	6,914,860
<sup>d,t</sup> BlueMountain Fuji U.S. CLO II Ltd., 2017-2A, A1A, 144A, FRN, 3.166%, (3-month USD LIBOR + 1.20%), 10/20/30 . . . . .	United States	4,200,000		4,202,688
<sup>d,t</sup> BlueMountain Fuji U.S. CLO III Ltd., 2017-3A, A2, 144A, FRN, 3.151%, (3-month USD LIBOR + 1.15%), 1/15/30 . . . . .	United States	4,600,000		4,496,500
2017-3A, C, 144A, FRN, 3.701%, (3-month USD LIBOR + 1.70%), 1/15/30 . . . . .	United States	600,000		567,732

**Franklin Strategic Income Fund** (continued)

	Country/ Organization	Principal Amount*	Value
<b>Asset-Backed Securities and Commercial Mortgage-Backed Securities</b> (continued)			
<b>Diversified Financials</b> (continued)			
<sup>d</sup> BRAVO Residential Funding Trust, 2019-1, A1C, 144A, 3.50%, 3/25/58 . . . . .	United States	10,804,901	\$ 11,007,743
<sup>d,s</sup> Burnham Park CLO Ltd., 2016-1A, BR, 144A, FRN, 3.466%, 10/20/29 . . . . .	United States	3,500,000	3,463,635
2016-1A, CR, 144A, FRN, 4.116%, 10/20/29 . . . . .	United States	4,000,000	3,884,720
<sup>d,s</sup> Buttermilk Park CLO Ltd., 2018-1A, C, 144A, FRN, 4.101%, 10/15/31 . . . . .	United States	9,730,950	9,410,704
<sup>t</sup> Capital One Multi-Asset Execution Trust, 2016-A2, A2, FRN, 2.551%, (1-month USD LIBOR + 0.63%), 2/15/24 . . . . .	United States	44,033,000	44,302,887
2016-A7, A7, FRN, 2.431%, (1-month USD LIBOR + 0.51%), 9/16/24 . . . . .	United States	4,400,000	4,427,740
<sup>d,t</sup> Carlyle Global Market Strategies CLO Ltd., 2014-4RA, C, 144A, FRN, 4.901%, (3-month USD LIBOR + 2.90%), 7/15/30 . . . . .	United States	3,000,000	2,690,670
<sup>d,s</sup> Carlyle GMS Finance MM CLO LLC, 2015-1A, A2R, 144A, FRN, 4.201%, 10/15/31 . . . . .	United States	12,000,000	11,903,400
<sup>d,t</sup> Carlyle U.S. CLO Ltd., 2017-2A, A1B, 144A, FRN, 3.186%, (3-month USD LIBOR + 1.22%), 7/20/31 . . . . .	United States	8,500,000	8,500,255
<sup>d,t</sup> Catamaran CLO Ltd., 2014-2A, BR, 144A, FRN, 4.953%, (3-month USD LIBOR + 2.95%), 10/18/26 . . . . .	United States	11,770,000	11,775,414
<sup>d,s</sup> CGRBS Commercial Mortgage Trust, 2013-VN05, C, 144A, FRN, 3.584%, 3/13/35 . . . . .	United States	7,700,000	8,153,741
<sup>d,s</sup> CIM Trust, 2019-INV1, A1, 144A, FRN, 4.00%, 2/25/49 . . . . .	United States	14,067,317	14,432,353
2019-INV2, A3, 144A, FRN, 4.00%, 5/25/49 . . . . .	United States	17,857,951	18,673,020
<sup>s</sup> Citibank Credit Card Issuance Trust, 2016-A3, A3, FRN, 2.48%, 12/07/23 . . . . .	United States	4,800,000	4,826,269
2017-A7, A7, FRN, 2.348%, 8/08/24 . . . . .	United States	36,060,000	36,112,319
<sup>d,s</sup> Cole Park CLO Ltd., 2015-1A, BR, 144A, FRN, 3.566%, 10/20/28 . . . . .	United States	3,530,000	3,507,337
<sup>d,s</sup> Consumer Loan Underlying Bond CLUB Certificate Issuer Trust I, 2018-14, PT, 144A, FRN, 9.459%, 9/16/41 . . . . .	United States	5,315,974	5,218,437
2018-29, PT, 144A, FRN, 25.917%, 12/15/43 . . . . .	United States	2,385,591	1,973,324
2019-26, PT, 144A, FRN, 20.442%, 8/15/44 . . . . .	United States	8,066,325	7,592,886
2019-31, PT, 144A, FRN, 21.412%, 9/15/44 . . . . .	United States	7,284,495	6,808,026
2019-37, PT, 144A, FRN, 20.088%, 10/17/44 . . . . .	United States	7,257,122	6,973,307
2019-42, PT, 144A, FRN, 24.207%, 11/15/44 . . . . .	United States	7,577,604	7,286,316
2019-S1, PT, 144A, FRN, 14.902%, 4/15/44 . . . . .	United States	7,203,375	6,325,383
2019-S2, PT, 144A, FRN, 14.389%, 5/16/44 . . . . .	United States	5,130,082	4,689,474
2019-S3, PT, 144A, FRN, 14.539%, 6/15/44 . . . . .	United States	5,931,262	5,534,463
2019-S4, PT, 144A, FRN, 13.454%, 8/15/44 . . . . .	United States	6,712,272	6,265,039
2019-S5, PT, 144A, FRN, 13.279%, 9/15/44 . . . . .	United States	6,211,248	5,695,440
2019-S6, PT, 144A, FRN, 12.793%, 10/17/44 . . . . .	United States	5,787,144	5,403,167
<sup>s</sup> Discover Card Execution Note Trust, 2017-A7, A7, FRN, 2.281%, 4/15/25 . . . . .	United States	5,360,000	5,356,204
<sup>d,s</sup> Dryden 38 Senior Loan Fund, 2015-38A, CR, 144A, FRN, 4.001%, 7/15/30 . . . . .	United States	7,186,000	6,893,314
2015-38A, DR, 144A, FRN, 5.001%, 7/15/30 . . . . .	United States	4,556,000	4,211,976

Franklin Strategic Income Fund (continued)

	Country/ Organization	Principal Amount*	Value
<b>Asset-Backed Securities and Commercial Mortgage-Backed Securities (continued)</b>			
<b>Diversified Financials (continued)</b>			
<sup>d,t</sup> Dryden 41 Senior Loan Fund, 2015-41A, AR, 144A, FRN, 2.956%, (3-month USD LIBOR + 0.97%), 4/15/31 . . . . .	United States	9,850,000	\$ 9,742,734
<sup>d,t</sup> Dryden 42 Senior Loan Fund, 2016-42A, DR, 144A, FRN, 4.931%, (3-month USD LIBOR + 2.93%), 7/15/30 . . . . .	United States	8,400,000	7,649,628
<sup>d,t</sup> Dryden 55 CLO Ltd., 2018-55A, A1, 144A, FRN, 3.021%, (3-month USD LIBOR + 1.02%), 4/15/31 . . . . .	United States	11,500,000	11,393,970
2018-55A, D, 144A, FRN, 4.851%, (3-month USD LIBOR + 2.85%), 4/15/31 . . . . .	United States	3,000,000	2,724,090
<sup>d,t</sup> Dryden 64 CLO Ltd., 2018-64A, A, 144A, FRN, 2.973%, (3-month USD LIBOR + 0.97%), 4/18/31 . . . . .	United States	5,070,000	5,010,580
2018-64A, D, 144A, FRN, 4.653%, (3-month USD LIBOR + 2.65%), 4/18/31 . . . . .	United States	2,200,000	2,007,720
<sup>d,s</sup> Eaton Vance CLO Ltd., 2014-1RA, C, 144A, FRN, 4.101%, 7/15/30 . . . . .	United States	1,972,575	1,907,776
2014-1RA, D, 144A, FRN, 5.051%, 7/15/30 . . . . .	United States	3,653,850	3,491,473
<sup>d,s</sup> Eleven Madison Trust 2015-11MD Mortgage Trust, 2015-11MD, A, 144A, FRN, 3.673%, 9/10/35 . . . . .	United States	14,920,000	15,971,918
FHLMC Structured Agency Credit Risk Debt Notes, <sup>t</sup> 2013-DN2, M2, FRN, 6.073%, (1-month USD LIBOR + 4.25%), 11/25/23 . . . . .	United States	12,101,524	13,061,494
<sup>t</sup> 2014-DN1, M2, FRN, 4.023%, (1-month USD LIBOR + 2.20%), 2/25/24 . . . . .	United States	5,822,052	5,889,301
<sup>t</sup> 2014-DN2, M3, FRN, 5.423%, (1-month USD LIBOR + 3.60%), 4/25/24 . . . . .	United States	21,379,000	22,587,816
<sup>t</sup> 2014-DN3, M3, FRN, 5.823%, (1-month USD LIBOR + 4.00%), 8/25/24 . . . . .	United States	1,057,862	1,116,690
<sup>t</sup> 2014-DN4, M3, FRN, 6.373%, (1-month USD LIBOR + 4.55%), 10/25/24 . . . . .	United States	13,753,024	14,752,523
<sup>t</sup> 2014-HQ1, M3, FRN, 5.923%, (1-month USD LIBOR + 4.10%), 8/25/24 . . . . .	United States	3,074,073	3,249,385
<sup>t</sup> 2014-HQ2, M2, FRN, 4.023%, (1-month USD LIBOR + 2.20%), 9/25/24 . . . . .	United States	6,882,177	6,970,515
<sup>t</sup> 2014-HQ3, M3, FRN, 6.573%, (1-month USD LIBOR + 4.75%), 10/25/24 . . . . .	United States	6,088,430	6,450,475
<sup>t</sup> 2015-DNA1, M3, FRN, 5.123%, (1-month USD LIBOR + 3.30%), 10/25/27 . . . . .	United States	2,830,000	3,010,899
<sup>t</sup> 2015-DNA3, M3, FRN, 6.523%, (1-month USD LIBOR + 4.70%), 4/25/28 . . . . .	United States	18,411,581	20,320,895
<sup>t</sup> 2015-HQ1, M3, FRN, 5.623%, (1-month USD LIBOR + 3.80%), 3/25/25 . . . . .	United States	7,239,514	7,439,946
<sup>t</sup> 2015-HQA1, M3, FRN, 6.523%, (1-month USD LIBOR + 4.70%), 3/25/28 . . . . .	United States	18,830,000	19,950,969
<sup>t</sup> 2016-DNA2, M3, FRN, 6.473%, (1-month USD LIBOR + 4.65%), 10/25/28 . . . . .	United States	17,584,196	18,862,898
<sup>s</sup> 2017-DNA1, M2, FRN, 5.073%, 7/25/29 . . . . .	United States	7,300,000	7,660,394
<sup>s</sup> 2017-DNA2, M2, FRN, 5.273%, 10/25/29 . . . . .	United States	5,868,312	6,237,802

**Franklin Strategic Income Fund** (continued)

	Country/ Organization	Principal Amount*	Value
<b>Asset-Backed Securities and Commercial Mortgage-Backed Securities</b> (continued)			
<b>Diversified Financials</b> (continued)			
FHLMC Structured Agency Credit Risk Debt Notes, (continued)			
†2017-DNA3, M2, FRN, 4.323%, (1-month USD LIBOR + 2.50%), 3/25/30 . . . . .	United States	26,312,269	\$ 26,868,426
§2017-HQA1, M2, FRN, 5.373%, 8/25/29 . . . . .	United States	28,226,000	29,594,425
d,t Flagship CLO VIII Ltd.,			
2014-8A, ARR, 144A, FRN, 2.851%, (3-month USD LIBOR + 0.85%), 1/16/26 . . . . .	United States	4,838,441	4,838,296
2014-8A, DR, 144A, FRN, 5.051%, (3-month USD LIBOR + 3.05%), 1/16/26 . . . . .	United States	3,000,000	2,879,580
FNMA Connecticut Avenue Securities,			
†2013-C01, M2, FRN, 7.073%, (1-month USD LIBOR + 5.25%), 10/25/23 . . . . .	United States	14,863,521	16,386,049
†2014-C01, M2, FRN, 6.223%, (1-month USD LIBOR + 4.40%), 1/25/24 . . . . .	United States	17,060,372	18,518,914
†2014-C02, 1M2, FRN, 4.423%, (1-month USD LIBOR + 2.60%), 5/25/24 . . . . .	United States	13,807,687	14,365,603
†2014-C03, 1M2, FRN, 4.823%, (1-month USD LIBOR + 3.00%), 7/25/24 . . . . .	United States	30,489,149	32,039,401
†2014-C03, 2M2, FRN, 4.723%, (1-month USD LIBOR + 2.90%), 7/25/24 . . . . .	United States	3,903,526	4,059,751
†2015-C01, 1M2, FRN, 6.123%, (1-month USD LIBOR + 4.30%), 2/25/25 . . . . .	United States	7,887,349	8,355,339
†2015-C01, 2M2, FRN, 6.373%, (1-month USD LIBOR + 4.55%), 2/25/25 . . . . .	United States	9,726,017	10,060,237
†2015-C02, 1M2, FRN, 5.823%, (1-month USD LIBOR + 4.00%), 5/25/25 . . . . .	United States	22,732,334	23,990,401
†2015-C02, 2M2, FRN, 5.823%, (1-month USD LIBOR + 4.00%), 5/25/25 . . . . .	United States	11,163,113	11,615,056
†2015-C03, 1M2, FRN, 6.823%, (1-month USD LIBOR + 5.00%), 7/25/25 . . . . .	United States	27,347,322	29,544,433
†2015-C03, 2M2, FRN, 6.823%, (1-month USD LIBOR + 5.00%), 7/25/25 . . . . .	United States	13,868,546	14,752,951
§2016-C02, 1M2, FRN, 7.823%, 9/25/28 . . . . .	United States	9,945,586	10,855,818
§2016-C04, 1M2, FRN, 6.073%, 1/25/29 . . . . .	United States	9,910,000	10,473,370
§2016-C05, 2M2, FRN, 6.273%, 1/25/29 . . . . .	United States	6,570,520	6,921,274
§2016-C06, 1M2, FRN, 6.073%, 4/25/29 . . . . .	United States	2,220,000	2,362,670
§2016-C07, 2M2, FRN, 6.173%, 5/25/29 . . . . .	United States	4,099,885	4,308,537
†2017-C01, 1M2, FRN, 5.373%, (1-month USD LIBOR + 3.55%), 7/25/29 . . . . .	United States	22,910,000	24,008,237
§2017-C03, 1M2, FRN, 4.823%, 10/25/29 . . . . .	United States	24,932,535	25,972,316
§2017-C03, 2M2, FRN, 4.673%, 11/25/29 . . . . .	United States	5,225,499	5,379,594
§2017-C05, 1M2, FRN, 4.023%, 1/25/30 . . . . .	United States	12,555,148	12,713,427
d Galaxy XVIII CLO Ltd.,			
§2018-28A, A2, 144A, FRN, 3.071%, 7/15/31 . . . . .	United States	9,500,000	9,488,315
†2018-28A, C, 144A, FRN, 3.951%, (3-month USD LIBOR + 1.95%), 7/15/31 . . . . .	United States	3,070,000	2,931,850



**Franklin Strategic Income Fund** (continued)

	Country/ Organization	Principal Amount*	Value
<b>Asset-Backed Securities and Commercial Mortgage-Backed Securities</b> (continued)			
<b>Diversified Financials</b> (continued)			
<sup>d,s</sup> Galaxy XXV CLO Ltd., 2018-25A, D, 144A, FRN, 5.04%, 10/25/31 .....	United States	4,734,850	\$ 4,439,774
<sup>d,s</sup> Galaxy XXVI CLO Ltd., 2018-26A, A, 144A, FRN, 3.35%, 11/22/31 .....	United States	7,600,000	7,585,712
<sup>d,t</sup> Galaxy XXVII CLO Ltd., 2018-27A, C, 144A, FRN, 3.968%, (3-month USD LIBOR + 1.80%), 5/16/31 .....	United States	3,600,000	3,393,864
2018-27A, C, 144A, FRN, 4.918%, (3-month USD LIBOR + 2.75%), 5/16/31 .....	United States	5,750,000	5,143,145
GS Mortgage Securities Trust, <sup>s</sup> 2016-GS3, B, FRN, 3.395%, 10/10/49 .....	United States	8,037,000	8,356,726
2017-GS6, B, 3.869%, 5/10/50 .....	United States	7,700,000	8,245,891
<sup>d,s</sup> HPS Loan Management Ltd., 2013A-18, C, 144A, FRN, 4.151%, 10/15/30 .....	United States	4,950,000	4,767,197
<sup>d,s</sup> LCM XVI LP, 2016A, A2R, 144A, FRN, 3.181%, 10/15/31 .....	United States	7,655,557	7,634,121
2016A, BR2, 144A, FRN, 3.751%, 10/15/31 .....	United States	13,525,832	13,490,259
<sup>d,s</sup> LCM XVII LP, 2017A, BRR, 144A, FRN, 3.601%, 10/15/31 .....	United States	4,590,000	4,479,886
2017A, CRR, 144A, FRN, 4.101%, 10/15/31 .....	United States	4,240,000	4,048,903
<sup>d,t</sup> LCM XVIII LP, 2018A, DR, 144A, FRN, 4.766%, (3-month USD LIBOR + 2.80%), 4/20/31 .....	United States	6,860,000	6,151,568
<sup>d,t</sup> LCM XXIV Ltd., 24A, A, 144A, FRN, 3.276%, (3-month USD LIBOR + 1.31%), 3/20/30 .....	United States	4,300,000	4,299,054
<sup>d,s</sup> Madison Park Euro Funding XIV DAC, 2014A, A1N, 144A, FRN, 1.12%, 7/15/32 .....	Ireland	9,800,000	EUR 10,977,246
<sup>d,t</sup> Madison Park Funding XXIII Ltd., 2017-23A, B, 144A, FRN, 3.636%, (3-month USD LIBOR + 1.70%), 7/27/30 .....	United States	2,400,000	2,385,144
2017-23A, C, 144A, FRN, 4.286%, (3-month USD LIBOR + 2.35%), 7/27/30 .....	United States	5,000,000	4,917,650
<sup>d,s</sup> Magnetite Ltd., 2015-14RA, A1, 144A, FRN, 3.123%, 10/18/31 ..	United States	2,000,000	1,994,660
<sup>d,s</sup> Mill City Mortgage Loan Trust, 2018-4, A1B, 144A, FRN, 3.50%, 4/25/66 .....	United States	16,720,000	17,257,378
<sup>t</sup> MortgageIT Trust, 2004-1, A2, FRN, 2.723%, (1-month USD LIBOR + 0.90%), 11/25/34 .....	United States	1,618,376	1,640,612
2005-5, A1, FRN, 2.343%, (1-month USD LIBOR + 0.26%), 12/25/35 .....	United States	1,472,177	1,475,873
<sup>d,s</sup> Mountain View Funding CLO XIV Ltd., 2019-1A, A1, 144A, FRN, 3.441%, 4/15/29 .....	United States	5,000,000	5,001,050
2019-1A, C, 144A, FRN, 4.901%, 4/15/29 .....	United States	4,500,000	4,505,490

**Franklin Strategic Income Fund** (continued)

	Country/ Organization	Principal Amount*	Value
<b>Asset-Backed Securities and Commercial Mortgage-Backed Securities</b> (continued)			
<b>Diversified Financials</b> (continued)			
<sup>d,s</sup> Neuberger Berman CLO XVIII Ltd., 2014-18A, CR2, 144A, FRN, 4.966%, 10/21/30 . . . . .	United States	500,000	\$ 451,250
<sup>d,s</sup> Neuberger Berman CLO XXII Ltd., 2016-22A, CR, 144A, FRN, 4.202%, 10/17/30 . . . . .	United States	2,129,630	2,071,065
<sup>d,t</sup> NZCG Funding Ltd., 2015-1A, A2R, 144A, FRN, 3.682%, (3-month USD LIBOR + 1.55%), 2/26/31 . . . . .	United States	15,500,000	15,195,580
<sup>d,s</sup> Octagon Investment Partners 24 Ltd., 2015-1A, BS, 144A, FRN, 3.866%, 4/21/31 . . . . .	United States	4,485,000	4,482,444
<sup>d,s</sup> Octagon Investment Partners 28 Ltd., 2016-1A, A2R, 144A, FRN, 3.386%, 10/24/30 . . . . .	United States	10,000,000	10,012,100
2016-1A, BR, 144A, FRN, 3.736%, 10/24/30 . . . . .	United States	3,914,730	3,912,185
<sup>d,t</sup> Octagon Investment Partners 30 Ltd., 144A, FRN, 3.286%, (3-month USD LIBOR + 1.32%), 3/17/30 . . . . .	United States	4,300,000	4,308,901
<sup>d,t</sup> Octagon Investment Partners 36 Ltd., 2018-1A, A1, 144A, FRN, 2.971%, (3-month USD LIBOR + 0.97%), 4/15/31 . . . . .	United States	7,475,000	7,419,536
<sup>d,t</sup> Octagon Investment Partners 37 Ltd., 2018-2A, C, 144A, FRN, 4.79%, (3-month USD LIBOR + 2.85%), 7/25/30 . . . . .	United States	4,000,000	3,624,160
<sup>d,s</sup> Octagon Investment Partners 38 Ltd., 2018-1A, C, 144A, FRN, 4.916%, 7/20/30 . . . . .	United States	5,000,000	4,576,750
<sup>d,t</sup> Octagon Investment Partners XVI Ltd., 2013-1A, DR, 144A, FRN, 5.002%, (3-month USD LIBOR + 3.00%), 7/17/30 . . . . .	United States	6,000,000	5,485,380
<sup>d,t</sup> Octagon Investment Partners XXIII Ltd., 2015-1A, BR, 144A, FRN, 3.201%, (3-month USD LIBOR + 1.20%), 7/15/27 . . . . .	United States	4,590,000	4,513,255
2015-1A, DR, 144A, FRN, 4.551%, (3-month USD LIBOR + 2.55%), 7/15/27 . . . . .	United States	6,400,000	6,232,256
<sup>t</sup> Opteum Mortgage Acceptance Corp. Trust, 2005-4, 1APT, FRN, 2.133%, (1-month USD LIBOR + 0.31%), 11/25/35 . . . . .	United States	1,680,613	1,693,821
<sup>d,t</sup> Race Point IX CLO Ltd., 2015-9A, A1AR, 144A, FRN, 3.211%, (3-month USD LIBOR + 1.21%), 10/15/30 . . . . .	United States	3,600,000	3,591,072
<sup>d,s</sup> Strata CLO I Ltd., 2018-1A, B, 144A, FRN, 4.201%, 1/15/31 . . . . .	United States	14,100,000	13,917,405
<sup>t</sup> Structured Asset Securities Corp., 2005-2XS, 2A2, FRN, 3.532%, (1-month USD LIBOR + 1.50%), 2/25/35 . . . . .	United States	1,804,816	1,836,013
<sup>s</sup> Thornburg Mortgage Securities Trust, 2005-1, A3, FRN, 4.578%, 4/25/45 . . . . .	United States	2,184,401	2,206,692
<sup>d,s</sup> Upgrade Master Pass-Thru Trust, 2019-PT1, A, 144A, FRN, 11.128%, 6/15/25 . . . . .	United States	3,606,486	3,605,047
<sup>d</sup> Voya CLO Ltd., <sup>s</sup> 2013-2A, A2AR, 144A, FRN, 3.34%, 4/25/31 . . . . .	United States	2,200,000	2,142,734
<sup>t</sup> 2013-2A, BR, 144A, FRN, 3.79%, (3-month USD LIBOR + 1.85%), 4/25/31 . . . . .	United States	5,770,000	5,433,955
<sup>t</sup> 2014-1A, CR2, 144A, FRN, 4.803%, (3-month USD LIBOR + 2.80%), 4/18/31 . . . . .	United States	8,000,000	7,239,440
<sup>s</sup> 2015-2A, BR, 144A, FRN, 3.434%, 7/23/27 . . . . .	United States	9,290,000	9,223,948
<sup>s</sup> 2016-3A, A1R, 144A, FRN, 3.193%, 10/18/31 . . . . .	United States	10,000,000	9,986,100
<sup>t</sup> 2017-2A, B, 144A, FRN, 4.351%, (3-month USD LIBOR + 2.35%), 6/07/30 . . . . .	United States	19,200,000	18,764,544
<sup>s</sup> 2018-2A, A1, 144A, FRN, 3.001%, 7/15/31 . . . . .	United States	5,000,000	4,947,600

Franklin Strategic Income Fund (continued)

	Country/ Organization	Principal Amount*	Value
<b>Asset-Backed Securities and Commercial Mortgage-Backed Securities (continued)</b>			
<b>Diversified Financials (continued)</b>			
<sup>d</sup> Voya CLO Ltd., (continued)			
<sup>†</sup> 2018-2A, D, 144A, FRN, 4.751%, (3-month USD LIBOR + 2.75%), 7/15/31 . . . . .	United States	2,900,000	\$ 2,660,141
<sup>s</sup> Wells Fargo Mortgage Backed Securities Trust, 2004-W, A9, FRN, 4.597%, 11/25/34 . . . . .	United States	850,582	891,982
			<u>1,342,483,053</u>
<b>Total Asset-Backed Securities and Commercial Mortgage-Backed Securities (Cost \$1,385,780,743) . . . . .</b>			<u>1,360,569,782</u>
<b>Mortgage-Backed Securities 9.4%</b>			
<sup>v</sup> Federal Home Loan Mortgage Corp. (FHLMC) Adjustable Rate 0.0% <sup>†</sup>			
FHLMC, 4.93%, (US 1 Year CMT T-Note +/- MBS Margin), 1/01/33 . . . . .	United States	16,943	17,519
<b>Federal Home Loan Mortgage Corp. (FHLMC) Fixed Rate 6.6%</b>			
<sup>w</sup> FHLMC 30 Year, 2.50%, 11/01/49 . . . . .	United States	13,500,000	13,425,644
<sup>w</sup> FHLMC 30 Year, 3.00%, 11/01/49 . . . . .	United States	51,300,000	52,133,625
<sup>w</sup> FHLMC 30 Year, 3.50%, 11/01/49 . . . . .	United States	42,500,000	43,642,188
<sup>w</sup> FHLMC 30 Year, 4.00%, 11/01/49 . . . . .	United States	58,450,000	60,651,750
<sup>w</sup> FHLMC 30 Year, 4.50%, 11/01/49 . . . . .	United States	54,700,000	57,534,436
FHLMC Gold 15 Year, 5.00%, 7/01/22 . . . . .	United States	33,447	34,587
FHLMC Gold 30 Year, 3.50%, 12/01/47 . . . . .	United States	12,811,039	13,313,216
FHLMC Gold 30 Year, 3.50%, 5/01/49 . . . . .	United States	53,806,224	55,328,846
FHLMC Gold 30 Year, 4.50%, 10/01/40 . . . . .	United States	138,665	150,444
FHLMC Gold 30 Year, 5.00%, 5/01/27 - 2/01/38 . . . . .	United States	1,057,131	1,154,542
FHLMC Gold 30 Year, 5.50%, 6/01/33 - 6/01/36 . . . . .	United States	747,394	829,252
FHLMC Gold 30 Year, 6.00%, 6/01/33 - 6/01/37 . . . . .	United States	263,282	296,515
FHLMC Gold 30 Year, 6.50%, 10/01/21 - 6/01/36 . . . . .	United States	107,761	121,083
FHLMC Gold 30 Year, 7.00%, 9/01/21 - 8/01/32 . . . . .	United States	20,282	21,208
FHLMC Gold 30 Year, 7.50%, 1/01/26 - 1/01/31 . . . . .	United States	4,907	5,766
FHLMC Gold 30 Year, 8.00%, 11/01/25 - 1/01/26 . . . . .	United States	67	67
FHLMC Gold 30 Year, 9.00%, 12/01/24 . . . . .	United States	51	55
			<u>298,643,224</u>
<sup>v</sup> Federal National Mortgage Association (FNMA) Adjustable Rate 0.0% <sup>†</sup>			
FNMA, 4.493%, (US 1 Year CMT T-Note +/- MBS Margin), 12/01/34 . . . . .	United States	116,366	122,864
<b>Federal National Mortgage Association (FNMA) Fixed Rate 2.7%</b>			
FNMA 15 Year, 2.50%, 7/01/27 . . . . .	United States	234,579	237,704
FNMA 15 Year, 4.50%, 3/01/20 . . . . .	United States	1,449	1,494
FNMA 15 Year, 5.50%, 3/01/21 - 4/01/22 . . . . .	United States	20,800	20,970
FNMA 30 Year, 3.00%, 9/01/48 . . . . .	United States	38,798,845	39,838,358
FNMA 30 Year, 3.50%, 11/01/47 . . . . .	United States	13,325,469	13,828,671

**Franklin Strategic Income Fund** (continued)

	Country/ Organization	Principal Amount*	Value
<b>Mortgage-Backed Securities</b> (continued)			
<b>Federal National Mortgage Association (FNMA) Fixed Rate</b> (continued)			
FNMA 30 Year, 3.50%, 6/01/49 . . . . .	United States	59,253,921	\$ 60,809,165
FNMA 30 Year, 4.50%, 3/01/28 - 2/01/41 . . . . .	United States	409,397	441,693
FNMA 30 Year, 5.00%, 9/01/23 - 10/01/35 . . . . .	United States	1,074,842	1,173,561
FNMA 30 Year, 5.50%, 9/01/33 - 12/01/35 . . . . .	United States	985,461	1,098,627
FNMA 30 Year, 6.00%, 6/01/34 - 5/01/38 . . . . .	United States	2,133,354	2,417,441
FNMA 30 Year, 6.50%, 3/01/28 - 10/01/37 . . . . .	United States	284,816	325,716
FNMA 30 Year, 7.50%, 10/01/29 . . . . .	United States	4,811	5,627
FNMA 30 Year, 8.00%, 1/01/25 - 5/01/26 . . . . .	United States	2,406	2,682
			<u>120,201,709</u>
<b>Government National Mortgage Association (GNMA) Fixed Rate 0.1%</b>			
GNMA I SF 30 Year, 5.00%, 6/15/34 - 7/15/34 . . . . .	United States	126,686	139,357
GNMA I SF 30 Year, 5.50%, 2/15/33 - 6/15/36 . . . . .	United States	340,546	374,992
GNMA I SF 30 Year, 6.00%, 8/15/36 . . . . .	United States	20,998	24,106
GNMA I SF 30 Year, 6.50%, 2/15/29 - 3/15/32 . . . . .	United States	38,030	42,123
GNMA I SF 30 Year, 7.00%, 11/15/27 - 5/15/28 . . . . .	United States	9,411	9,657
GNMA I SF 30 Year, 7.50%, 9/15/23 - 5/15/27 . . . . .	United States	631	652
GNMA I SF 30 Year, 8.00%, 2/15/25 - 9/15/27 . . . . .	United States	3,422	3,703
GNMA I SF 30 Year, 8.50%, 8/15/24 . . . . .	United States	44	45
GNMA I SF 30 Year, 9.00%, 1/15/25 . . . . .	United States	183	183
GNMA I SF 30 Year, 9.50%, 6/15/25 . . . . .	United States	367	368
GNMA II SF 30 Year, 4.50%, 5/20/49 . . . . .	United States	4,186,986	4,391,491
GNMA II SF 30 Year, 5.00%, 9/20/33 - 11/20/33 . . . . .	United States	185,081	205,115
GNMA II SF 30 Year, 5.50%, 6/20/34 . . . . .	United States	95,758	107,932
GNMA II SF 30 Year, 6.00%, 11/20/34 . . . . .	United States	92,635	107,425
GNMA II SF 30 Year, 6.50%, 7/20/28 - 12/20/31 . . . . .	United States	52,048	59,372
GNMA II SF 30 Year, 7.50%, 4/20/32 . . . . .	United States	15,794	17,819
			<u>5,484,340</u>
<b>Total Mortgage-Backed Securities (Cost \$420,257,573)</b> . . . . .			<u>424,469,656</u>
<b>Municipal Bonds 1.9%</b>			
City of Austin Electric Utility System Revenue, Travis and Williamson Counties, Refunding, 6.262%, 11/15/32 . . . . .	United States	5,955,000	7,483,589
<sup>u</sup> Greenville City School District GO, County of Darke, School Improvement, Refunding, 3.541%, 1/01/51 . . . . .	United States	7,335,000	7,335,953
<sup>u</sup> Honolulu City and County Wastewater System Revenue, Second Bond Resolution, Refunding, Junior, 2.585%, 7/01/28 . . . . .	United States	1,180,000	1,192,001
Kaiser Foundation Hospitals, 3.266%, 11/01/49 . . . . .	United States	9,825,000	10,031,339
New York State GO, Refunding, Series B, 3.20%, 2/15/39 . . . . .	United States	11,740,000	11,897,668
New York State Urban Development Corp. Sales Tax Revenue, Bidding Group 2, Series B, 2.97%, 3/15/34 . . . . .	United States	19,210,000	19,321,610
<sup>u</sup> Ohio State Hospital Facility Revenue, Cleveland Clinic Health System Obligated Group, Refunding, Series G, 3.276%, 1/01/42 . . . . .	United States	1,975,000	2,029,569
Orlando Health Obligated Group, 3.777%, 10/01/28 . . . . .	United States	3,870,000	4,189,238

**Franklin Strategic Income Fund** (continued)

	Country/ Organization	Principal Amount*	Value
<b>Municipal Bonds</b> (continued)			
<sup>u</sup> Pennsylvania State Turnpike Commission Turnpike Revenue, Motor License Fund-Enhanced, Subordinate, Refunding, First Series, 3.579%, 12/01/43 . . . . .	United States	9,825,000	\$ 9,930,226
RWJ Barnabas Health Inc., 3.477%, 7/01/49 . . . . .	United States	2,650,000	2,707,553
San Jose RDA Successor Agency Tax Allocation, Senior, Refunding, Series A-T, 3.25%, 8/01/29 . . . . .	United States	5,675,000	6,005,342
<sup>u</sup> Texas State University System Financing Revenue, Refunding, Serise B, 2.938%, 3/15/33 . . . . .	United States	2,315,000	2,356,739
Refunding, Serise B, 3.289%, 3/15/40 . . . . .	United States	1,965,000	1,982,213
<b>Total Municipal Bonds (Cost \$84,864,411)</b> . . . . .			<u>86,463,040</u>
		<b>Shares/ Units</b>	
<b>Escrows and Litigation Trusts 0.0%†</b>			
<sup>a,b</sup> Clear Channel Communications Inc., Escrow Account . . . . .	United States	8,000,000	—
<sup>a,b</sup> iHeartCommunications Inc., Escrow Account. . . . .	United States	3,100,000	—
<sup>a,b</sup> NewPage Corp., Litigation Trust . . . . .	United States	14,000,000	—
<sup>a,aa,b,e</sup> Remington Outdoor Co. Inc., Litigation Units . . . . .	United States	124,500	—
<sup>a,b</sup> T-Mobile USA Inc., Escrow Account . . . . .	United States	29,900,000	—
<sup>a</sup> Vistra Energy Corp., Escrow Account . . . . .	United States	30,000,000	135,000
<b>Total Escrows and Litigation Trusts (Cost \$869,132)</b> . . . . .			<u>135,000</u>
<b>Total Investments before Short Term Investments (Cost \$4,617,248,717)</b> . . . . .			<u>4,487,561,723</u>
		<b>Shares</b>	
<b>Short Term Investments 3.7%</b>			
<b>Money Market Funds (Cost \$58,779,273) 1.3%</b>			
<sup>f,x</sup> Institutional Fiduciary Trust Money Market Portfolio, 1.56% . . . . .	United States	58,779,273	58,779,273

**Franklin Strategic Income Fund** (continued)

	Country/ Organization	Principal Amount*	Value
<b>Short Term Investments</b> (continued)			
<b>Repurchase Agreements (Cost \$108,109,163) 2.4%</b>			
<sup>y</sup> Joint Repurchase Agreement, 1.722%, 11/01/19 (Maturity Value \$108,114,333) BNP Paribas Securities Corp. (Maturity Value \$76,530,893) Deutsche Bank Securities Inc. (Maturity Value \$18,828,111) HSBC Securities (USA) Inc. (Maturity Value \$12,755,329) Collateralized by U.S. Government Agency Securities, 5.00%, 10/20/48; <sup>z</sup> U.S. Treasury Bills, 12/03/19 - 12/10/19; and U.S. Treasury Notes, 1.625% - 1.875%, 3/15/20 - 4/30/22 (valued at \$110,273,355) . . . . .			
	United States	108,109,163	\$ 108,109,163
<b>Total Investments (Cost \$4,784,137,153) 103.0%</b>			4,654,450,159
<b>Other Assets, less Liabilities (3.0%)</b>			(137,666,194)
<b>Net Assets 100.0%</b>			<u>\$4,516,783,965</u>

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

\*The principal amount is stated in U.S. dollars unless otherwise indicated.

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

<sup>aa</sup>See Note 10 regarding holdings of 5% voting securities.

<sup>b</sup>Fair valued using significant unobservable inputs. See Note 12 regarding fair value measurements.

<sup>c</sup>The security is owned by FT Holdings Corporation II, a wholly-owned subsidiary of the Fund. See Note 1(h).

<sup>d</sup>Security was purchased pursuant to Rule 144A under the Securities Act of 1933 and may be sold in transactions exempt from registration only to qualified institutional buyers or in a public offering registered under the Securities Act of 1933. At October 31, 2019, the aggregate value of these securities was \$1,664,808,595, representing 36.9% of net assets.

<sup>e</sup>See Note 8 regarding restricted securities.

<sup>f</sup>See Note 3(f) regarding investments in affiliated management investment companies.

<sup>g</sup>Security was purchased pursuant to Regulation S under the Securities Act of 1933, which exempts from registration securities offered and sold outside of the United States. Such a security cannot be sold in the United States without either an effective registration statement filed pursuant to the Securities Act of 1933, or pursuant to an exemption from registration. At October 31, 2019, the aggregate value of these securities was \$145,095,019, representing 3.2% of net assets.

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

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

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

<sup>k</sup>See Note 1(g) regarding loan participation notes.

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

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

<sup>n</sup>See Note 1(j) regarding senior floating rate interests.

<sup>o</sup>A supranational organization is an entity formed by two or more central governments through international treaties.

<sup>p</sup>Redemption price at maturity and coupon payment are adjusted for inflation. See Note 1(l).

<sup>q</sup>The principal represents the notional amount. See Note 1(e) regarding value recovery instruments.

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

<sup>s</sup>Adjustable rate security with an interest rate that is not based on a published reference index and spread. The rate is based on the structure of the agreement and current market conditions. The coupon rate shown represents the rate at period end.

<sup>t</sup>The coupon rate shown represents the rate inclusive of any caps or floors, if applicable, in effect at period end.

<sup>u</sup>Security purchased on a when-issued basis. See Note 1(d).

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

<sup>w</sup>Security purchased on a to-be-announced (TBA) basis. See Note 1(d).

<sup>x</sup>The rate shown is the annualized seven-day effective yield at period end.

<sup>y</sup>See Note 1(c) regarding joint repurchase agreement.

<sup>z</sup>The security was issued on a discount basis with no stated coupon rate.

**Franklin Strategic Income Fund** (continued)

At October 31, 2019, the Fund had the following futures contracts outstanding. See Note 1(e).

**Futures Contracts**

Description	Type	Number of Contracts	Notional Amount*	Expiration Date	Value/ Unrealized Appreciation (Depreciation)
<b>Interest Rate Contracts</b>					
Australian 10 Yr. Bond . . . . .	Long	110	\$ 11,058,079	12/16/19	\$ (53,865)
Canadian 10 Yr. Bond . . . . .	Long	155	16,723,281	12/18/19	(19,764)
CME Ultra Long Term U.S. Treasury Bond . . . . .	Short	73	13,851,750	12/19/19	(203,278)
CME Ultra Long Term U.S. Treasury Bond . . . . .	Long	320	60,720,000	12/19/19	431,962
U.S. Treasury 5 Yr. Note . . . . .	Long	1,374	163,785,094	12/31/19	(40,742)
U.S. Treasury 10 Yr. Note . . . . .	Long	820	106,843,438	12/19/19	(385,217)
U.S. Treasury 30 Yr. Bond . . . . .	Long	59	9,521,125	12/19/19	(216,264)
Ultra 10 Yr. U.S. Treasury Note . . . . .	Long	436	61,959,688	12/19/19	(882,816)
Total Futures Contracts. . . . .					<u>\$ (1,369,984)</u>

\*As of period end.

At October 31, 2019, the Fund had the following forward exchange contracts outstanding. See Note 1(e).

**Forward Exchange Contracts**

Currency	Counterparty <sup>a</sup>	Type	Quantity	Contract Amount	Settlement Date	Unrealized Appreciation	Unrealized Depreciation
<b>OTC Forward Exchange Contracts</b>							
Australian Dollar . . . . .	JPHQ	Sell	12,600,000	\$ 8,822,205	11/26/19	\$ 128,912	\$ —
Brazilian Real . . . . .	JPHQ	Buy	106,200,000	26,415,939	12/09/19	—	(13,430)
Brazilian Real . . . . .	JPHQ	Sell	111,260,000	27,296,430	12/09/19	—	(364,051)
Brazilian Real . . . . .	JPHQ	Sell	1,475,000	361,254	12/11/19	—	(5,413)
Brazilian Real . . . . .	JPHQ	Sell	22,200,000	5,437,277	12/13/19	—	(80,859)
Brazilian Real . . . . .	JPHQ	Sell	33,000,000	8,417,938	12/13/19	215,305	—
Indonesian Rupiah . . . . .	JPHQ	Buy	46,000,000,000	3,255,946	12/13/19	—	(4,809)
Indonesian Rupiah . . . . .	JPHQ	Sell	230,000,000,000	15,691,090	12/13/19	—	(564,590)
South Korean Won . . . . .	JPHQ	Sell	18,600,000,000	15,898,115	12/16/19	—	(15,497)
Australian Dollar . . . . .	JPHQ	Sell	68,000,000	45,885,380	1/09/20	—	(1,083,780)
Canadian Dollar . . . . .	JPHQ	Sell	15,200,000	11,645,903	1/21/20	95,035	—
Australian Dollar . . . . .	DBAB	Sell	3,000,000	2,109,900	1/28/20	36,944	—
Australian Dollar . . . . .	JPHQ	Sell	26,100,000	17,756,770	1/28/20	—	(277,944)
Japanese Yen . . . . .	JPHQ	Buy	16,230,000,000	153,795,486	1/29/20	—	(2,568,762)
Canadian Dollar . . . . .	JPHQ	Sell	25,000,000	18,837,074	1/30/20	—	(161,354)
Euro . . . . .	JPHQ	Sell	102,596,949	115,676,091	1/30/20	514,348	—
Mexican Peso . . . . .	JPHQ	Buy	323,700,000	16,710,202	1/30/20	—	(119,258)
Mexican Peso . . . . .	JPHQ	Sell	26,000,000	1,339,274	1/30/20	6,668	—
Norwegian Krone . . . . .	JPHQ	Buy	257,400,000	28,611,233	1/30/20	—	(607,779)
Chinese Yuan Renminbi . . . . .	JPHQ	Sell	636,100,000	89,112,406	2/24/20	—	(858,739)
Japanese Yen . . . . .	JPHQ	Buy	750,000,000	6,955,651	3/13/20	50,735	—
Japanese Yen . . . . .	JPHQ	Buy	3,700,000,000	34,812,553	3/13/20	—	(247,714)
Canadian Dollar . . . . .	JPHQ	Sell	3,000,000	2,293,999	3/16/20	14,214	—
Canadian Dollar . . . . .	JPHQ	Sell	37,400,000	28,285,762	3/16/20	—	(135,556)

**Franklin Strategic Income Fund** (continued)

**Forward Exchange Contracts** (continued)

Currency	Counterparty <sup>a</sup>	Type	Quantity	Contract Amount	Settlement Date	Unrealized Appreciation	Unrealized Depreciation
<b>OTC Forward Exchange Contracts</b> (continued)							
Euro	JPHQ	Sell	78,606,321	\$87,816,069	3/16/20	\$ —	\$ (660,052)
Norwegian Krone	JPHQ	Buy	417,400,000	46,610,832	3/16/20	—	(1,205,660)
Swedish Krona	JPHQ	Buy	294,000,000	29,995,562	3/16/20	671,051	—
Swedish Krona	JPHQ	Sell	294,000,000	30,910,276	3/16/20	243,664	—
Turkish Lira	JPHQ	Buy	62,000,000	9,831,127	4/15/20	549,790	—
Total Forward Exchange Contracts						\$ 2,526,666	\$ (8,975,247)
Net unrealized appreciation (depreciation)						\$	\$ (6,448,581)

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

At October 31, 2019, the Fund had the following credit default swap contracts outstanding. See Note 1(e).

**Credit Default Swap Contracts**

Description	Periodic Payment Rate Received (Paid)	Payment Frequency	Counterparty	Maturity Date	Notional Amount <sup>a</sup>	Value	Unamortized Upfront Payments (Receipts)	Unrealized Appreciation (Depreciation)	Rating <sup>b</sup>
<b>Centrally Cleared Swap Contracts</b>									
<b>Contracts to Sell Protection<sup>c,d</sup></b>									
<b>Traded Index</b>									
CDX.EM.31	1.00%	Quarterly		6/20/24	\$48,700,000	\$ (1,908,845)	\$ (1,187,473)	\$ (721,372)	Investment Grade
<b>OTC Swap Contracts</b>									
<b>Contracts to Buy Protection<sup>c</sup></b>									
<b>Single Name</b>									
Ally Financial Inc.	(5.00)%	Quarterly	JPHQ	12/20/24	\$19,800,000	\$ (4,073,924)	\$ (3,803,688)	\$ (270,236)	
Government of Italy	(1.00)%	Quarterly	BZWS	6/20/23	14,200,000	(219,289)	112,498	(331,787)	
Government of Turkey	(1.00)%	Quarterly	BZWS	12/20/19	9,100,000	(15,698)	58,218	(73,916)	
<b>Contracts to Sell Protection<sup>c,d</sup></b>									
<b>Single Name</b>									
Government of Argentina	5.00%	Quarterly	CITI	12/20/21	48,600,000	(28,867,642)	(27,304,500)	(1,563,142)	CCC-
Government of Indonesia	1.00%	Quarterly	CITI	12/20/24	24,700,000	311,476	166,141	145,335	NR
Government of Italy	1.00%	Quarterly	BZWS	6/20/23	14,200,000	72,083	(493,320)	565,403	NR
Government of Russia	1.00%	Quarterly	CITI	12/20/24	13,500,000	172,465	137,557	34,908	BBB-
<b>Traded Index</b>									
<sup>e</sup> BNP Paribas Bespoke									
Bordeaux Index, Mezzanine Tranche 7-10%	2.10%	Quarterly	BNDP	6/20/20	6,850,000	81,517	—	81,517	Non-Investment Grade



**Franklin Strategic Income Fund** (continued)

**Credit Default Swap Contracts** (continued)

Description	Periodic Payment Rate Received (Paid)	Payment Frequency	Counter- party	Maturity Date	Notional Amount <sup>a</sup>	Value	Unamortized Upfront Payments (Receipts)	Unrealized Appreciation (Depreciation)	Rating <sup>b</sup>
<b>OTC Swap Contracts</b> (continued)									
<b>Contracts to Sell Protection<sup>c,d</sup></b> (continued)									
<b>Traded Index</b> (continued)									
<sup>e</sup> BNP Paribas Bespoke Rodez2 Index, Mezzanine Tranche 5-7%	3.20%	Quarterly	BNDP	12/20/20	\$ 3,300,000	\$ 79,605	\$ —	\$ 79,605	Non-Investment Grade
<sup>e</sup> Citibank Bespoke Bogota Index, Mezzanine Tranche 7-10%	1.35%	Quarterly	CITI	6/20/20	7,000,000	34,628	—	34,628	Non-Investment Grade
<sup>e</sup> Citibank Bespoke Cambridge Index, Equity Tranche 0-3%	0.00%	Quarterly	CITI	12/20/19	22,249,500	(1,986,973)	(249,483)	(1,737,490)	Non-Investment Grade
<sup>e</sup> Citibank Bespoke Palma Index, Mezzanine Tranche 5-7%	2.30%	Quarterly	CITI	6/20/21	6,700,000	95,093	—	95,093	Non-Investment Grade
<sup>e</sup> Citibank Bespoke Phoenix Index, Mezzanine Tranche 5-7%	2.90%	Quarterly	CITI	12/20/21	8,500,000	232,283	—	232,283	Non-Investment Grade
<sup>e</sup> Citibank Bespoke Singapore Index, Equity Tranche 0-3%	0.00%	Quarterly	CITI	6/20/20	7,000,000	(741,459)	(623,504)	(117,955)	Non-Investment Grade
<sup>e</sup> Citibank Bespoke Sydney Index, Equity Tranche 0-3%	0.00%	Quarterly	CITI	6/20/20	4,394,022	(559,928)	(446,816)	(113,112)	Non-Investment Grade
<sup>e</sup> Citibank Bespoke Verona Index, Equity Tranche 0-3%	0.00%	Quarterly	CITI	12/20/19	8,883,500	(122,845)	(122,273)	(572)	Non-Investment Grade
<sup>e</sup> Citibank Bespoke Verona Index, Mezzanine Tranche 7-15%	0.40%	Quarterly	CITI	12/20/19	31,000,000	22,032	—	22,032	Non-Investment Grade

**Franklin Strategic Income Fund** (continued)

**Credit Default Swap Contracts** (continued)

Description	Periodic Payment Rate Received (Paid)	Payment Frequency	Counter- party	Maturity Date	Notional Amount <sup>a</sup>	Value	Unamortized Upfront Payments (Receipts)	Unrealized Appreciation (Depreciation)	Rating <sup>b</sup>
<b>OTC Swap Contracts</b> (continued)									
<b>Contracts to Sell Protection<sup>c,d</sup></b> (continued)									
<b>Traded Index</b> (continued)									
MCDX.NA.31 . . . . .	1.00%	Quarterly	CITI	12/20/23	\$23,060,000	\$ 408,980	\$ 193,265	\$ 215,715	Investment Grade
<sup>e</sup> Morgan Stanley Bespoke Pecan Index, Mezzanine Tranche 5-10% . . . . .	3.98%	Quarterly	MSCO	12/20/21	9,000,000	226,534	—	226,534	Non- Investment Grade
<sup>e</sup> Morgan Stanley Bespoke Pecan Index, Mezzanine Tranche 5-10% . . . . .	4.10%	Quarterly	MSCO	12/20/21	9,000,000	267,594	—	267,594	Non- Investment Grade
Total OTC Swap Contracts . . . . .						\$ (34,583,468)	\$ (32,375,905)	\$ (2,207,563)	
Total Credit Default Swap Contracts . . . . .						\$ (36,492,313)	\$ (33,563,378)	\$ (2,928,935)	

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

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

<sup>c</sup>Performance triggers for settlement of contract include default, bankruptcy or restructuring for single name swaps and failure to pay or bankruptcy of the underlying securities for traded index swaps.

<sup>d</sup>The Fund enters contracts to sell protection to create a long credit position.

<sup>e</sup>Represents a custom index comprised of a basket of underlying issuers.

At October 31, 2019, the Fund had the following cross-currency swap contracts outstanding. See Note 1(e).

**Cross-Currency Swap Contracts**

Description	Payment Frequency	Coun- terparty	Maturity Date	Notional Amount	Value/ Unrealized Appreciation (Depreciation)
<b>OTC Swap Contracts</b>					
Receive Floating 3-month USD LIBOR + 2.87% . . . . .	Quarterly			3,834,600 USD	
Pay Fixed 2.50% . . . . .	Annual	CITI	5/04/21	3,300,000 EUR	\$150,513
Receive Floating 3-month USD LIBOR + 1.334% . . . . .	Quarterly			10,976,000 USD	
Pay Floating 3-month EUR LIBOR + 1.12% . . . . .	Quarterly	CITI	7/10/21	9,800,000 EUR	67,904
Total Cross Currency Swap Contracts . . . . .					\$218,417

**Franklin Strategic Income Fund** (continued)

At October 31, 2019, the Fund had the following interest rate swap contracts outstanding. See Note 1(e).

**Interest Rate Swap Contracts**

Description	Payment Frequency	Maturity Date	Notional Amount*	Value/ Unrealized Appreciation (Depreciation)
<b>Centrally Cleared Swap Contracts</b>				
Receive Fixed 2.773% . . . . .	Quarterly			
Pay Floating 3-month CNY CNRR . . . . .	Quarterly	8/23/24	196,750,000 CNY	\$ (417,535)
Receive Fixed 2.765% . . . . .	Quarterly			
Pay Floating 3-month CNY CNRR . . . . .	Quarterly	8/26/24	158,000,000 CNY	(343,035)
Receive Fixed 2.79% . . . . .	Quarterly			
Pay Floating 3-month CNY CNRR . . . . .	Quarterly	8/30/24	236,250,000 CNY	(486,188)
Receive Fixed 1.956% . . . . .	Semi-Annual			
Pay Floating 3-month CAD CABA . . . . .	Semi-Annual	7/17/29	55,000,000 CAD	483,118
Receive Fixed 1.232% . . . . .	Semi-Annual			
Pay Floating 3-month AUD BBSW . . . . .	Semi-Annual	9/06/29	55,000,000 AUD	(136,758)
Total Interest Rate Swap Contracts . . . . .				\$ (900,398)

\*In U.S. dollars unless otherwise indicated.

At October 31, 2019, the Fund had the following total return swap contracts outstanding. See Note 1(e).

**Total Return Swap Contracts**

Underlying Instruments	Financing Rate	Payment Frequency	Counter- party	Maturity Date	Notional Value	Value/ Unrealized Appreciation (Depreciation)
<b>OTC Swap Contracts</b>						
<b>Long<sup>a</sup></b>						
Markit iBoxx USD Liquid Leveraged Loan Index . . . . .	3-month USD LIBOR	Quarterly	MSCO	12/20/19	\$23,600,000	\$ 335,902
Markit iBoxx USD Liquid Leveraged Loan Index . . . . .	3-month USD LIBOR	Quarterly	GSCO	3/20/20	61,400,000	1,011,494
Total Total Return Swap Contracts . . . . .						\$1,347,396

<sup>a</sup>The Fund receives the total return on the underlying instrument and pays a variable financing rate.

See Note 9 regarding other derivative information.

See Abbreviations on page 65.

## Consolidated Statement of Assets and Liabilities

October 31, 2019 (unaudited)

### Franklin Strategic Income Fund

Assets:

Investments in securities:	
Cost - Unaffiliated issuers . . . . .	\$4,463,345,189
Cost - Controlled affiliates (Note 3f and 10) . . . . .	152,217,419
Cost - Non-controlled affiliates (Note 3f and 10) . . . . .	60,465,382
Cost - Unaffiliated repurchase agreements . . . . .	108,109,163
Value - Unaffiliated issuers . . . . .	\$4,360,173,989
Value - Controlled affiliates (Note 3f and 10) . . . . .	126,065,295
Value - Non-controlled affiliates (Note 3f and 10) . . . . .	60,101,712
Value - Unaffiliated repurchase agreements . . . . .	108,109,163
Cash . . . . .	24,337,230
Restricted cash for OTC derivative contracts (Note 1f) . . . . .	1,340,000
Receivables:	
Investment securities sold . . . . .	79,264,872
Capital shares sold . . . . .	3,206,777
Dividends and interest . . . . .	36,166,034
Deposits with brokers for:	
OTC derivative contracts . . . . .	41,930,000
TBA transactions . . . . .	900,000
Futures contracts . . . . .	4,745,144
Centrally cleared swap contracts . . . . .	10,707,747
Variation margin on futures contracts . . . . .	3,123,799
Variation margin on centrally cleared swap contracts . . . . .	829,083
OTC swap contracts (upfront payments \$1,259,100) . . . . .	667,679
Unrealized appreciation on OTC forward exchange contracts . . . . .	2,526,666
Unrealized appreciation on OTC swap contracts . . . . .	3,566,460
FT Subsidiary deferred tax benefit (Note 1h) . . . . .	402,876
Other assets . . . . .	2,555
Total assets . . . . .	4,868,167,081

Liabilities:

Payables:	
Investment securities purchased . . . . .	290,711,101
Capital shares redeemed . . . . .	7,600,072
Management fees . . . . .	1,677,025
Distribution fees . . . . .	1,060,058
Transfer agent fees . . . . .	1,273,956
Trustees' fees and expenses . . . . .	9,728
Distributions to shareholders . . . . .	891,449
Deposits from brokers for:	
OTC derivative contracts . . . . .	1,340,000
OTC swap contracts (upfront receipts \$40,626,762) . . . . .	33,043,584
Unrealized depreciation on OTC forward exchange contracts . . . . .	8,975,247
Unrealized depreciation on OTC swap contracts . . . . .	4,208,210
Deferred tax . . . . .	176,786
Accrued expenses and other liabilities . . . . .	415,900
Total liabilities . . . . .	351,383,116
Net assets, at value . . . . .	\$4,516,783,965

Net assets consist of:

Paid-in capital . . . . .	\$5,149,453,749
Total distributable earnings (loss) . . . . .	(632,669,784)
Net assets, at value . . . . .	\$4,516,783,965

## Consolidated Statement of Assets and Liabilities (continued)

October 31, 2019 (unaudited)

### Franklin Strategic Income Fund

**Class A:**

Net assets, at value	\$3,058,165,860
Shares outstanding	319,591,711
Net asset value per share <sup>a</sup>	\$9.57
Maximum offering price per share (net asset value per share ÷ 96.25%)	\$9.94

**Class C:**

Net assets, at value	\$ 636,853,216
Shares outstanding	66,556,353
Net asset value and maximum offering price per share <sup>a</sup>	\$9.57

**Class R:**

Net assets, at value	\$ 77,289,870
Shares outstanding	8,109,810
Net asset value and maximum offering price per share	\$9.53

**Class R6:**

Net assets, at value	\$ 150,506,116
Shares outstanding	15,704,043
Net asset value and maximum offering price per share	\$9.58

**Advisor Class:**

Net assets, at value	\$ 593,968,903
Shares outstanding	61,996,730
Net asset value and maximum offering price per share	\$9.58

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

## Consolidated Statement of Operations

for the six months ended October 31, 2019 (unaudited)

### Franklin Strategic Income Fund

Investment income:

Dividends: (net of foreign taxes)\*

Unaffiliated issuers . . . . .	\$ 1,022
Controlled affiliates (Note 3f and 10) . . . . .	6,785,399
Non-controlled affiliates (Note 3f and 10) . . . . .	591,135

Interest: (net of foreign taxes)~

Unaffiliated issuers . . . . .	116,482,770
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Total investment income . . . . .	<u>123,860,326</u>
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Expenses:

Management fees (Note 3a) . . . . .	10,989,820
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Distribution fees: (Note 3c)

Class A . . . . .	3,961,962
Class C . . . . .	2,231,125
Class R . . . . .	205,568

Transfer agent fees: (Note 3e)

Class A . . . . .	2,495,147
Class C . . . . .	540,380
Class R . . . . .	64,732
Class R6 . . . . .	47,045

Advisor Class . . . . .	479,478
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Custodian fees (Note 4) . . . . .	56,963
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Reports to shareholders . . . . .	246,436
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Registration and filing fees . . . . .	89,437
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Professional fees . . . . .	44,013
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Trustees' fees and expenses . . . . .	39,635
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Other . . . . .	61,431
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Total expenses . . . . .	21,553,172
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Expense reductions (Note 4) . . . . .	(109,444)
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Expenses waived/paid by affiliates (Note 3f and 3g) . . . . .	(663,262)
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Net expenses . . . . .	<u>20,780,466</u>
------------------------	-------------------

Net investment income . . . . .	103,079,860
---------------------------------	-------------

Realized and unrealized gains (losses):	
---	--

Net realized gain (loss) from:

Investments:

Unaffiliated issuers . . . . .	(1,921,083)
--------------------------------	-------------

Controlled affiliates (Note 3f and 10) . . . . .	(10,939,400)
--	--------------

Foreign currency transactions . . . . .	(185,479)
---	-----------

Forward exchange contracts . . . . .	8,502,886
--------------------------------------	-----------

Futures contracts . . . . .	32,221,068
-----------------------------	------------

Swap contracts . . . . .	(26,029,749)
--------------------------	--------------

Net realized gain (loss) . . . . .	<u>1,648,243</u>
------------------------------------	------------------

Net change in unrealized appreciation (depreciation) on:

Investments:

Unaffiliated issuers . . . . .	(6,729,993)
--------------------------------	-------------

Controlled affiliates (Note 3f and 10) . . . . .	(2,136,187)
--	-------------

Non-controlled affiliates (Note 3f and 10) . . . . .	(1,586,927)
--	-------------

Translation of other assets and liabilities	
---	--

denominated in foreign currencies . . . . .	(106,030)
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Forward exchange contracts . . . . .	(9,767,148)
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Futures contracts . . . . .	(5,215,544)
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Swap contracts . . . . .	3,108,805
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## Consolidated Statement of Operations (continued)

for the six months ended October 31, 2019 (unaudited)

### Franklin Strategic Income Fund

Change in FT Subsidiary deferred tax benefit (Note 1h) . . . . .	(129,138)
Change in deferred taxes on unrealized appreciation . . . . .	(96,421)
Net change in unrealized appreciation (depreciation) . . . . .	(22,658,583)
Net realized and unrealized gain (loss) . . . . .	(21,010,340)
Net increase (decrease) in net assets resulting from operations . . . . .	<u>\$ 82,069,520</u>

~Foreign taxes withheld on interest . . . . . \$ 211,623

## Consolidated Statements of Changes in Net Assets

### Franklin Strategic Income Fund

	Six Months Ended October 31, 2019 (unaudited)	Year Ended April 30, 2019
Increase (decrease) in net assets:		
Operations:		
Net investment income . . . . .	\$ 103,079,860	\$ 235,418,024
Net realized gain (loss) . . . . .	1,648,243	(61,378,232)
Net change in unrealized appreciation (depreciation) . . . . .	(22,658,583)	53,626,529
Net increase (decrease) in net assets resulting from operations . . . . .	82,069,520	227,666,321
Distributions to shareholders:		
Class A . . . . .	(67,065,671)	(138,743,800)
Class C . . . . .	(13,030,561)	(34,243,715)
Class R . . . . .	(1,639,078)	(3,918,092)
Class R6 . . . . .	(6,324,753)	(18,669,569)
Advisor Class . . . . .	(13,620,484)	(38,939,889)
Total distributions to shareholders . . . . .	(101,680,547)	(234,515,065)
Capital share transactions: (Note 2)		
Class A . . . . .	(59,388,478)	(160,333,285)
Class C . . . . .	(76,854,488)	(360,085,250)
Class R . . . . .	(7,835,095)	(19,998,642)
Class R6 . . . . .	(156,912,811)	(123,669,688)
Advisor Class . . . . .	(11,802,929)	(322,273,887)
Total capital share transactions . . . . .	(312,793,801)	(986,360,752)
Net increase (decrease) in net assets . . . . .	(332,404,828)	(993,209,496)
Net assets:		
Beginning of period . . . . .	4,849,188,793	5,842,398,289
End of period . . . . .	\$4,516,783,965	\$4,849,188,793



# Notes to Consolidated 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 (1940 Act) as an open-end management investment company, consisting of twelve separate funds and applies the specialized accounting and reporting guidance in U.S. Generally Accepted Accounting Principles (U.S. GAAP). Franklin Strategic Income Fund (Fund) is included in this report. The Fund offers five classes of shares: Class A, Class C, Class R, Class R6, and Advisor Class. Class C shares automatically convert to Class A shares after they have been held for 10 years. Each class of shares may differ by its initial sales load, contingent deferred sales charges, voting rights on matters affecting a single class, its exchange privilege and fees due to differing arrangements for distribution and transfer agent fees.

The following summarizes the Fund's significant accounting policies.

#### a. Financial Instrument Valuation

The Fund's investments in financial instruments are carried at fair value daily. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. The Fund calculates the net asset value (NAV) per share each business day as of 4 p.m. Eastern time or the regularly scheduled close of the New York Stock Exchange (NYSE), whichever is earlier. Under compliance policies and procedures approved by the Trust's Board of Trustees (the Board), the Fund's administrator has responsibility for oversight of valuation, including leading the cross-functional Valuation Committee (VC). The Fund may utilize independent pricing services, quotations from securities and financial instrument dealers, and other market sources to determine fair value.

Equity securities and derivative financial instruments listed on an exchange or on the NASDAQ National Market System are valued at the last quoted sale price or the official closing price of the day, respectively. Foreign equity securities are valued as of the close of trading on the foreign stock exchange on which the security is primarily traded, or as of 4 p.m. Eastern time. The value is then converted into its U.S. dollar equivalent at the foreign exchange rate in effect at 4 p.m. Eastern time on the day that the value of the security is determined. Over-the-counter (OTC) securities are valued within the range of the most recent quoted bid and ask prices. Securities that trade in multiple markets or on multiple

exchanges are valued according to the broadest and most representative market. Certain equity securities are valued based upon fundamental characteristics or relationships to similar securities.

Debt securities generally trade in the OTC market rather than on a securities exchange. The Fund's pricing services use multiple valuation techniques to determine fair value. In instances where sufficient market activity exists, the pricing services may utilize a market-based approach through which quotes from market makers are used to determine fair value. In instances where sufficient market activity may not exist or is limited, the pricing services also utilize proprietary valuation models which may consider market characteristics such as benchmark yield curves, credit spreads, estimated default rates, anticipated market interest rate volatility, coupon rates, anticipated timing of principal repayments, underlying collateral, and other unique security features in order to estimate the relevant cash flows, which are then discounted to calculate the fair value. Securities denominated in a foreign currency are converted into their U.S. dollar equivalent at the foreign exchange rate in effect at 4 p.m. Eastern time on the date that the values of the foreign debt securities are determined.

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

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

The Fund has procedures to determine the fair value of financial instruments for which market prices are not reliable or readily available. Under these procedures, the Fund primarily employs a market-based approach which may use related or comparable assets or liabilities, recent transactions, market multiples, book values, and other relevant information for the investment to determine the fair value of the investment. An income-based valuation approach may also be used in which the anticipated future cash flows of the investment are discounted to calculate fair value. Discounts may also be applied due to the nature or duration of any

## Franklin Strategic Income Fund (continued)

### 1. Organization and Significant Accounting Policies (continued)

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

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.

Trading in securities on foreign securities stock exchanges and OTC markets may be completed before 4 p.m. Eastern time. In addition, trading in certain foreign markets may not take place on every Fund's business day. Occasionally, events occur between the time at which trading in a foreign security is completed and 4 p.m. Eastern time that might call into question the reliability of the value of a portfolio security held by the Fund. As a result, differences may arise between the value of the Fund's portfolio securities as determined at the foreign market close and the latest indications of value at 4 p.m. Eastern time. In order to minimize the potential for these differences, the VC monitors price movements following the close of trading in foreign stock markets through a series of country specific market proxies (such as baskets of American Depositary Receipts, futures contracts and exchange traded funds). These price movements are measured against established trigger thresholds for each specific market proxy to assist in determining if an event has occurred that may call into question the reliability of the values of the foreign securities held by the Fund. If such an event occurs, the securities may be valued using fair value procedures, which may include the use of independent pricing services.

When the last day of the reporting period is a non-business day, certain foreign markets may be open on those days that the Fund's NAV is not calculated, which could result in differences between the value of the Fund's portfolio securities on the last business day and the last calendar day of the reporting period. Any significant security valuation changes due to an open foreign market are adjusted and reflected by the Fund for financial reporting purposes.

#### b. Foreign Currency Translation

Portfolio securities and other assets and liabilities denominated in foreign currencies are translated into U.S. dollars based on the exchange rate of such currencies against U.S. dollars on the date of valuation. The Fund may enter into foreign currency exchange contracts to facilitate

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

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

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

#### c. Joint Repurchase Agreement

The Fund enters into a joint repurchase agreement whereby its uninvested cash balance is deposited into a joint cash account with other funds managed by the investment manager or an affiliate of the investment manager and is used to invest in one or more repurchase agreements. The value and face amount of the joint repurchase agreement are allocated to the funds based on their pro-rata interest. A repurchase agreement is accounted for as a loan by the Fund to the seller, collateralized by securities which are delivered to the Fund's custodian. The fair value, including accrued interest, of the initial collateralization is required to be at least 102% of the dollar amount invested by the funds, with the value of the underlying securities marked to market daily to maintain coverage of at least 100%. Repurchase agreements are subject to the terms of Master Repurchase Agreements (MRAs) with approved counterparties (sellers). The MRAs contain various provisions, including but not limited to events

**Franklin Strategic Income Fund** (continued)

of default and maintenance of collateral for repurchase agreements. In the event of default by either the seller or the Fund, certain MRAs may permit the non-defaulting party to net and close-out all transactions, if any, traded under such agreements. The Fund may sell securities it holds as collateral and apply the proceeds towards the repurchase price and any other amounts owed by the seller to the Fund in the event of default by the seller. This could involve costs or delays in addition to a loss on the securities if their value falls below the repurchase price owed by the seller. The joint repurchase agreement held by the Fund at period end, as indicated in the Consolidated Statement of Investments, had been entered into on October 31, 2019.

**d. Securities Purchased on a When-Issued and TBA Basis**

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

**e. Derivative Financial Instruments**

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

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

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

## Franklin Strategic Income Fund (continued)

### 1. Organization and Significant Accounting Policies (continued)

#### e. Derivative Financial Instruments (continued)

not subject to collateralization or are not fully collateralized, the Fund bears the risk of loss from counterparty non-performance.

The Fund entered into exchange traded futures contracts primarily to manage and/or gain exposure to interest rate risk. A futures contract is an agreement between the Fund and a counterparty to buy or sell an asset at a specified price on a future date. Required initial margins are pledged by the Fund, and the daily change in fair value is accounted for as a variation margin payable or receivable in the Consolidated Statement of Assets and Liabilities.

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

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

of default has occurred. Such periodic payments are accrued daily as an unrealized appreciation or depreciation until the payments are made, at which time they are realized. Upfront payments and receipts are reflected in the Consolidated Statement of Assets and Liabilities and represent compensating factors between stated terms of the credit default swap agreement and prevailing market conditions (credit spreads and other relevant factors). These upfront payments and receipts are amortized over the term of the contract as a realized gain or loss in the Consolidated Statement of Operations.

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

The Fund entered into interest rate swap contracts primarily to manage interest rate risk. An interest rate swap is an agreement between the Fund and a counterparty to exchange cash flows based on the difference between two interest rates, applied to a notional amount. These agreements may be privately negotiated in the over-the-counter market (OTC interest rate swaps) or may be executed on a registered exchange (centrally cleared interest rate swaps). For centrally cleared interest rate swaps, required initial margins are pledged by the Fund, and the daily change in fair value is accounted for as a variation margin payable or receivable in the Consolidated Statement of Assets and Liabilities. Over the term of the contract, contractually required payments to be paid and to be received are accrued

**Franklin Strategic Income Fund** (continued)

daily and recorded as unrealized depreciation and appreciation until the payments are made, at which time they are realized.

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

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

See Notes 9 regarding other derivative information.

**f. Restricted Cash**

At October 31, 2019, the Fund held restricted cash in connection with investments in certain derivative securities. Restricted cash is held in a segregated account with the Fund's custodian and is reflected in the Consolidated Statement of Assets and Liabilities.

**g. Loan Participation Notes**

The Fund invests in loan participation notes (Participations). Participations are loans originally issued to a borrower by one or more financial institutions (the Lender) and subsequently sold to other investors, such as the Fund. Participations typically result in the Fund having a contractual relationship only with the Lender and not with the borrower. The Fund has the right to receive from the Lender any payments of principal, interest and fees which the Lender received from the borrower. The Fund generally has no rights to either enforce compliance by the borrower with the terms of the loan agreement or to any collateral relating to the original

loan. As a result, the Fund assumes the credit risk of both the borrower and the Lender that is selling the Participation. The Participations may also involve interest rate risk and liquidity risk, including the potential default or insolvency of the borrower and/or the Lender.

**h. FT Holdings Corporation II (FT Subsidiary)**

The Fund invests in certain financial instruments through its investment in FT Subsidiary. FT Subsidiary is a Delaware Corporation, is a wholly-owned subsidiary of the Fund, and is able to invest in certain financial instruments consistent with the investment objective of the Fund. At October 31, 2019, FT Subsidiary's investment, Turtle Bay Resort, as well as any other assets and liabilities of FT Subsidiary are reflected in the Fund's Consolidated Statement of Investments and Consolidated Statement of Assets and Liabilities.

At October 31, 2019, FT Subsidiary, which is a tax paying entity, recognized an unrealized loss on its Turtle Bay investment. An estimated deferred tax asset based on such unrealized loss is reflected as FT Subsidiary deferred tax benefit in the Consolidated Statement of Assets and Liabilities. The estimated benefit was calculated using a federal rate of 21%. When the Turtle Bay investment liquidates, the FT Subsidiary will recognize a capital loss which can be carried-back to offset prior year capital gains, resulting in a tax refund which will relieve the deferred tax asset.

The financial statements have been consolidated and include the accounts of the Fund and FT Subsidiary. All intercompany transactions and balances have been eliminated. At October 31, 2019, the net assets of FT Subsidiary were \$18,481,933, representing less than 1% of the Fund's consolidated net assets. The Fund's investment in FT Subsidiary is limited to 25% of consolidated assets.

**i. Mortgage Dollar Rolls**

The Fund enters into mortgage dollar rolls, typically on a TBA basis. Mortgage dollar rolls are agreements between the Fund and a financial institution where the Fund sells (or buys) mortgage-backed securities for delivery on a specified date and simultaneously contracts to repurchase (or sell) substantially similar (same type, coupon, and maturity) securities at a future date and at a predetermined price. Gains or losses are realized on the initial sale, and the difference between the repurchase price and the sale price is recorded as an unrealized gain or loss to the Fund upon

## Franklin Strategic Income Fund (continued)

### 1. Organization and Significant Accounting Policies (continued)

#### i. Mortgage Dollar Rolls (continued)

entering into the mortgage dollar roll. In addition, the Fund may invest the cash proceeds that are received from the initial sale. During the period between the sale and repurchase, the Fund is not entitled to principal and interest paid on the mortgage backed securities. Transactions in mortgage dollar rolls are accounted for as purchases and sales and may result in an increase to the Fund's portfolio turnover rate. The risks of mortgage dollar roll transactions include the potential inability of the counterparty to fulfill its obligations.

#### j. Senior Floating Rate Interests

The Fund invests in senior secured corporate loans that pay interest at rates which are periodically reset by reference to a base lending rate plus a spread. These base lending rates are generally the prime rate offered by a designated U.S. bank or the London InterBank Offered Rate (LIBOR). Senior secured corporate loans often require prepayment of principal from excess cash flows or at the discretion of the borrower. As a result, actual maturity may be substantially less than the stated maturity. Senior secured corporate loans in which the Fund invests are generally readily marketable, but may be subject to certain restrictions on resale. On July 27, 2017, the United Kingdom's Financial Conduct Authority announced its intention to cease sustaining LIBOR after 2021. There remains uncertainty regarding the future utilization of LIBOR and the nature of any replacement rate. As such, the potential effect of a transition away from LIBOR on the Fund or the Fund's investments that use or may use a floating rate based on LIBOR cannot yet be determined.

#### k. Income and Deferred Taxes

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

The Fund may be subject to foreign taxation related to income received, capital gains on the sale of securities and certain foreign currency transactions in the foreign jurisdictions in which it invests. Foreign taxes, if any, are recorded based on the tax regulations and rates that exist in

the foreign markets in which the Fund invests. When a capital gain tax is determined to apply, the Fund records an estimated deferred tax liability in an amount that would be payable if the securities were disposed of on the valuation date.

The Fund may recognize an income tax liability related to its uncertain tax positions under U.S. GAAP when the uncertain tax position has a less than 50% probability that it will be sustained upon examination by the tax authorities based on its technical merits. As of October 31, 2019, the Fund has determined that no tax liability is required in its financial statements related to uncertain tax positions for any open tax years (or expected to be taken in future tax years). Open tax years are those that remain subject to examination and are based on the statute of limitations in each jurisdiction in which the Fund invests.

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

Security transactions are accounted for on trade date. Realized gains and losses on security transactions are determined on a specific identification basis. Interest income and estimated expenses are accrued daily. Amortization of premium and accretion of discount on debt securities are included in interest income. Paydown gains and losses are recorded as an adjustment to interest income. Facility fees are recognized as income over the expected term of the loan. Dividend income is recorded on the ex-dividend date except for certain dividends from securities where the dividend rate is not available. In such cases, the dividend is recorded as soon as the information is received by the Fund. Distributions to shareholders are recorded on the ex-dividend date. Distributable earnings are determined according to income tax regulations (tax basis) and may differ from earnings recorded in accordance with U.S. GAAP. These differences may be permanent or temporary. Permanent differences are reclassified among capital accounts to reflect their tax character. These reclassifications have no impact on net assets or the results of operations. Temporary differences are not reclassified, as they may reverse in subsequent periods.

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

**Franklin Strategic Income Fund** (continued)

Realized and unrealized gains and losses and net investment income, excluding class specific expenses, are allocated daily to each class of shares based upon the relative proportion of net assets of each class. Differences in per share distributions by class are generally due to differences in class specific expenses.

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

**m. Accounting Estimates**

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and

liabilities at the date of the financial statements and the amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

**n. Guarantees and Indemnifications**

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

**2. Shares of Beneficial Interest**

At October 31, 2019, there were an unlimited number of shares authorized (without par value). Transactions in the Fund's shares were as follows:

	Six Months Ended October 31, 2019		Year Ended April 30, 2019	
	Shares	Amount	Shares	Amount
<b>Class A Shares:</b>				
Shares sold <sup>a</sup>	27,232,491	\$ 262,936,069	50,096,209	\$ 476,428,245
Shares issued in reinvestment of distributions	6,448,330	62,161,494	13,459,738	127,947,689
Shares redeemed	(39,889,454)	(384,486,041)	(80,356,291)	(764,709,219)
Net increase (decrease)	(6,208,633)	\$ (59,388,478)	(16,800,344)	\$(160,333,285)
<b>Class C Shares:</b>				
Shares sold	3,491,163	\$ 33,707,242	4,597,179	\$ 43,711,512
Shares issued in reinvestment of distributions	1,246,108	12,011,110	3,342,536	31,796,374
Shares redeemed <sup>a</sup>	(12,706,695)	(122,572,840)	(45,752,627)	(435,593,136)
Net increase (decrease)	(7,969,424)	\$ (76,854,488)	(37,812,912)	\$(360,085,250)
<b>Class R Shares:</b>				
Shares sold	553,936	\$ 5,327,740	1,437,455	\$ 13,630,121
Shares issued in reinvestment of distributions	168,887	1,621,363	405,340	3,838,586
Shares redeemed	(1,538,695)	(14,784,198)	(3,962,132)	(37,467,349)
Net increase (decrease)	(815,872)	\$ (7,835,095)	(2,119,337)	\$ (19,998,642)

**Franklin Strategic Income Fund** (continued)

**2. Shares of Beneficial Interest** (continued)

	Six Months Ended October 31, 2019		Year Ended April 30, 2019	
	Shares	Amount	Shares	Amount
<b>Class R6 Shares:</b>				
Shares sold . . . . .	3,030,290	\$ 29,302,033	10,323,576	\$ 98,464,071
Shares issued in reinvestment of distributions . . . . .	612,574	5,919,604	1,882,797	17,913,831
Shares redeemed . . . . .	(19,861,754)	(192,134,448)	(25,303,121)	(240,047,590)
Net increase (decrease) . . . . .	(16,218,890)	\$(156,912,811)	(13,096,748)	\$(123,669,688)
<b>Advisor Class Shares:</b>				
Shares sold . . . . .	6,170,061	\$ 59,613,722	18,952,628	\$ 180,567,542
Shares issued in reinvestment of distributions . . . . .	1,331,661	12,850,411	3,899,671	37,096,165
Shares redeemed . . . . .	(8,713,443)	(84,267,062)	(56,752,457)	(539,937,594)
Net increase (decrease) . . . . .	(1,211,721)	\$ (11,802,929)	(33,900,158)	\$(322,273,887)

<sup>a</sup>May include a portion of Class C shares that were automatically converted to Class A.

**3. Transactions with Affiliates**

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



**Franklin Strategic Income Fund** (continued)

For the period ended October 31, 2019, the annualized gross effective investment management fee rate was 0.455% of the Fund's average daily net assets.

**b. Administrative Fees**

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

**c. Distribution Fees**

The Board has adopted distribution plans for each share class, with the exception of Class R6 and Advisor Class shares, pursuant to Rule 12b-1 under the 1940 Act. Under the Fund's Class A reimbursement distribution plan, the Fund reimburses Distributors for costs incurred in connection with the servicing, sale and distribution of the Fund's shares up to the maximum annual plan rate. Under the Class A reimbursement distribution plan, costs exceeding the maximum for the current plan year cannot be reimbursed in subsequent periods. In addition, under the Fund's Class C and R compensation distribution plans, the Fund pays Distributors for costs incurred in connection with the servicing, sale and distribution of the Fund's shares up to the maximum annual plan rate for each class. The plan year, for purposes of monitoring compliance with the maximum annual plan rates, is February 1 through January 31.

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 brokers/dealers . . . . .	\$68,187
CDSC retained . . . . .	\$14,020

**e. Transfer Agent Fees**

Each class of shares pays transfer agent fees to Investor Services for its performance of shareholder servicing obligations. The fees are based on an annualized asset based fee of 0.02% plus a transaction based fee. In addition, each class reimburses Investor Services for out of pocket expenses incurred and, except for Class R6, reimburses shareholder servicing fees paid to third parties. These fees are allocated daily based upon their relative proportion of such classes' aggregate net assets. Class R6 pays Investor Services transfer agent fees specific to that class.

For the period ended October 31, 2019, the Fund paid transfer agent fees of \$3,626,782, of which \$1,445,182 was retained by Investor Services.

**Franklin Strategic Income Fund** (continued)

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

**f. Investments in Affiliated Management Investment Companies**

The Fund invests in one or more affiliated management investment companies for purposes other than exercising a controlling influence over the management or policies. Management fees paid by the Fund are waived on assets invested in the affiliated management investment companies, as noted in the Consolidated Statement of Operations, in an amount not to exceed the management and administrative fees paid directly or indirectly by each affiliate. During the period ended October 31, 2019, the Fund held investments in affiliated management investment companies as follows:

	Value at Beginning of Period	Purchases	Sales	Realized Gain (Loss)	Net Change in Unrealized Appreciation (Depreciation)	Value at End of Period	Number of Shares Held at End of Period	Dividend Income
<b>Controlled Affiliates</b>								
Franklin Floating Rate Income Fund <sup>a</sup>	\$194,101,482	\$ —	\$ (54,960,600)	\$ (10,939,400)	\$ (2,136,187)	\$126,065,295	15,243,687	\$6,785,399
<b>Non-Controlled Affiliates</b>								
Institutional Fiduciary Trust Money Market Portfolio, 1.56% . . . . .	63,183,777	51,479,267	(55,883,771)	—	—	58,779,273	58,779,273	591,135
<b>Total Affiliated Securities</b> . . . . .	<b>\$257,285,259</b>	<b>\$51,479,267</b>	<b>\$ (110,844,371)</b>	<b>\$ (10,939,400)</b>	<b>\$ (2,136,187)</b>	<b>\$184,844,568</b>		<b>\$7,376,534</b>

<sup>a</sup>Effective May 31, 2019, Franklin Middle Tier Floating Rate Fund was renamed Franklin Floating Rate Income Fund.

**g. Waiver and Expense Reimbursements**

Investor Services has contractually agreed in advance to waive or limit its fees so that the Class R6 transfer agent fees do not exceed 0.03% based on the average net assets of the class until August 31, 2020.

Prior to September 1, 2019, the Class R6 transfer agent fees were limited to 0.02% based on the average net assets of the class.

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

**5. Income Taxes**

For tax purposes, capital losses may be carried over to offset future capital gains.

At April 30, 2019, the capital loss carryforwards were as follows:

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

**Franklin Strategic Income Fund** (continued)

At October 31, 2019, the cost of investments and net unrealized appreciation (depreciation) for income tax purposes were as follows:

Cost of investments . . . . .	<u>\$4,781,112,776</u>
Unrealized appreciation . . . . .	\$ 96,524,884
Unrealized depreciation . . . . .	<u>(266,813,547)</u>
Net unrealized appreciation (depreciation) . . . . .	<u>\$ (170,288,663)</u>

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

**6. Investment Transactions**

Purchases and sales of investments (excluding short term securities) for the period ended October 31, 2019, aggregated \$2,575,195,636 and \$2,983,127,411, respectively.

**7. Credit Risk and Defaulted Securities**

At October 31, 2019, the Fund had 33.6% of its portfolio invested in high yield, senior secured floating rate loans, or other securities rated below investment grade and unrated securities, if any. These securities may be more sensitive to economic conditions causing greater price volatility and are potentially subject to a greater risk of loss due to default than higher rated securities.

The Fund held defaulted securities and/or other securities for which the income has been deemed uncollectible. At October 31, 2019, the aggregate value of these securities was \$5,350,000, representing 0.1% of the Fund's net assets. The Fund discontinues accruing income on securities for which income has been deemed uncollectible and provides an estimate for losses on interest receivable. The securities have been identified in the accompanying Statement of Investments.

**8. Restricted Securities**

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

At October 31, 2019, investments in restricted securities, excluding securities exempt from registration under the 1933 Act were as follows:

Principal Amount/ Shares/ Units	Issuer	Acquisition Date	Cost	Value
331,326	<sup>a</sup> Appvion Operations Inc. . . . .	4/12/19	\$4,481,262	\$4,417,403
125,940,079	<sup>b</sup> K2016470219 South Africa Ltd., A . . . . .	2/08/13 - 2/01/17	977,122	83,322
12,532,821	<sup>b</sup> K2016470219 South Africa Ltd., B . . . . .	2/01/17	9,305	8,292
124,500	<sup>c</sup> Remington Outdoor Co. Inc., Litigation Units . . . . .	4/12/19	—	—

**Franklin Strategic Income Fund** (continued)

**8. Restricted Securities** (continued)

Principal Amount/ Shares/ Units	Issuer	Acquisition Date	Cost	Value
1,500,000	Sociedad Quimica y Minera de Chile SA, senior note, 144A, 3.625%, 4/03/23	8/28/17	\$1,507,138	\$1,539,750
<b>Total Restricted Securities</b> (Value is 0.1% of Net Assets)			<b>\$6,974,827</b>	<b>\$6,048,767</b>

<sup>a</sup>The Fund also invests in unrestricted securities or other investments in the issuer, valued at \$7,561,816 as of October 31, 2019.

<sup>b</sup>The Fund also invests in unrestricted securities or other investments in the issuer, valued at \$23,299 as of October 31, 2019.

<sup>c</sup>The Fund also invests in unrestricted securities or other investments in the issuer, valued at \$1,322,439 as of October 31, 2019

**9. Other Derivative Information**

At October 31, 2019, investments in derivative contracts are reflected in the Consolidated Statement of Assets and Liabilities as follows:

Derivative Contracts Not Accounted for as Hedging Instruments	Asset Derivatives		Liability Derivatives	
	Consolidated Statement of Assets and Liabilities Location	Fair Value	Consolidated Statement of Assets and Liabilities Location	Fair Value
Interest rate contracts	Variation margin on futures contracts	\$ 431,962 <sup>a</sup>	Variation margin on futures contracts	\$ 1,801,946 <sup>a</sup>
	Variation margin on centrally cleared swap contracts	483,118 <sup>a</sup>	Variation margin on centrally cleared swap contracts	1,383,516 <sup>a</sup>
	Unrealized appreciation on OTC swap contracts	1,565,813	Unrealized depreciation on OTC swap contracts	—
Foreign exchange contracts	Unrealized appreciation on OTC forward exchange contracts	2,526,666	Unrealized depreciation on OTC forward exchange contracts	8,975,247
Credit contracts	Variation margin on centrally cleared swap contracts	—	Variation margin on centrally cleared swap contracts	721,372 <sup>a</sup>
	OTC swap contracts (upfront payments)	667,679	OTC swap contracts (upfront receipts)	33,043,584
	Unrealized appreciation on OTC swap contracts	2,000,647	Unrealized depreciation on OTC swap contracts	4,208,210
Value recovery instruments	Investments in securities, at value	9,411,080 <sup>b</sup>		
Totals		<u>\$17,086,965</u>		<u>\$50,133,875</u>

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

<sup>b</sup>VRI are included in investments in securities, at value in the Consolidated Statement of Assets and Liabilities.

**Franklin Strategic Income Fund** (continued)

For the period ended October 31, 2019, the effect of derivative contracts in the Consolidated Statement of Operations was as follows:

Derivative Contracts Not Accounted for as Hedging Instruments	Consolidated Statement of Operations Location	Net Realized Gain (Loss) for the Period	Consolidated Statement of Operations Location	Net Change in Unrealized Appreciation (Depreciation) for the Period
	Net realized gain (loss) from:		Net change in unrealized appreciation (depreciation) on:	
Interest rate contracts . . . . .	Futures contracts	\$ 32,221,068	Futures contracts	\$ (5,215,544)
	Swap contracts	8,458,265	Swap contracts	(9,756,943)
Foreign exchange contracts . . .	Forward exchange contracts	8,502,886	Forward exchange contracts	(9,767,148)
Credit contracts . . . . .	Swap contracts	(34,488,014)	Swap contracts	12,865,748
Value recovery instruments . . .	Investments	—	Investments	3,005,042 <sup>a</sup>
Totals . . . . .		<u>\$ 14,694,205</u>		<u>\$ (8,868,845)</u>

<sup>a</sup>VRI are included in net change in unrealized appreciation (depreciation) on investments in the Consolidated Statement of Operations.

For the period ended October 31, 2019, the average month end notional amount of futures contracts and swap contracts, the average month end contract value for forward exchange contracts and average month end fair value of VRI, were as follows:

Futures contracts . . . . .	\$1,002,417,414
Swap contracts . . . . .	573,922,210
Forward exchange contracts . . . . .	641,327,870
VRI . . . . .	7,994,712

At October 31, 2019, the Fund's OTC derivative assets and liabilities are as follows:

**Gross Amounts of  
Assets and Liabilities Presented  
in the Consolidated Statement of Assets and Liabilities**

	Assets <sup>a</sup>	Liabilities <sup>a</sup>
<b>Derivatives</b>		
Forward exchange contracts . . . . .	\$2,526,666	\$ 8,975,247
Swap contracts . . . . .	4,234,139	37,251,794
Total . . . . .	<u>\$6,760,805</u>	<u>\$46,227,041</u>

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

**Franklin Strategic Income Fund** (continued)

**9. Other Derivative Information** (continued)

At October 31, 2019, OTC derivative assets, which may be offset against OTC derivative liabilities and collateral received from the counterparty, are as follows:

Counterparty	Gross Amounts of Assets Presented in the Consolidated Statement of Assets and Liabilities	Amounts Not Offset in the Consolidated Statement of Assets and Liabilities			Net Amount (Not less than zero)
		Financial Instruments Available for Offset	Financial Instruments Collateral Received <sup>a,b</sup>	Cash Collateral Received	
BNDP .....	\$ 161,122	\$ —	\$(161,122)	\$ —	\$ —
BZWS .....	736,119	(736,119)	—	—	—
CITI .....	1,495,374	(1,495,374)	—	—	—
DBAB .....	36,944	—	(36,944)	—	—
GSCO .....	1,011,494	—	—	(920,000)	91,494
JPHQ .....	2,489,722	(2,489,722)	—	—	—
MSCO .....	830,030	—	—	(420,000)	410,030
Total .....	\$6,760,805	\$(4,721,215)	\$(198,066)	\$(1,340,000)	\$501,524

At October 31, 2019, OTC derivative liabilities, which may be offset against OTC derivative assets and collateral pledged to the counterparty, are as follows:

Counterparty	Gross Amounts of Liabilities Presented in the Consolidated Statement of Assets and Liabilities	Amounts Not Offset in the Consolidated Statement of Assets and Liabilities			Net Amount (Not less than zero)
		Financial Instruments Available for Offset	Financial Instruments Collateral Pledged	Cash Collateral Pledged <sup>b</sup>	
BNDP .....	\$ —	\$ —	\$ —	\$ —	\$ —
BZWS .....	899,023	(736,119)	—	(162,904)	—
CITI .....	32,278,847	(1,495,374)	—	(30,210,000)	573,473
DBAB .....	—	—	—	—	—
GSCO .....	—	—	—	—	—
JPHQ .....	13,049,171	(2,489,722)	—	(10,559,449)	—
MSCO .....	—	—	—	—	—
Total .....	\$46,227,041	\$(4,721,215)	\$ —	\$(40,932,353)	\$573,473

<sup>a</sup>At October 31, 2019, the Fund received U.S. Treasury Bonds and Notes as collateral for derivatives.

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

See Note 1(e) regarding derivative financial instruments.

See Abbreviations on page 65.

**Franklin Strategic Income Fund** (continued)

**10. Holdings of 5% Voting Securities of Portfolio Companies**

The 1940 Act defines "affiliated companies" to include investments in portfolio companies in which a fund owns 5% or more of the outstanding voting securities. During the period ended October 31, 2019, investments in "affiliated companies" were as follows:

Name of Issuer	Value at Beginning of Period	Purchases	Sales	Realized Gain (Loss)	Net Change in Unrealized Appreciation (Depreciation)	Value at End of Period	Number of Shares/Units Held at End of Period	Dividend Income
<b>Non-Controlled Affiliates</b>								
Remington Outdoor Co. Inc. . . . .	\$2,909,366	\$ —	\$ —	\$ —	\$(1,586,927)	\$1,322,439	1,322,439	\$ —
Remington Outdoor Co. Inc., Litigation Units . . . . .	—	—	—	—	—	—	124,500	—
<b>Total Affiliated Securities</b> (Value is —%† of Net Assets) . . . . .	<b>\$2,909,366</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$(1,586,927)</b>	<b>\$1,322,439</b>		<b>\$ —</b>

†Rounds to less than 0.1% of net assets.

**11. Credit Facility**

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

Under the terms of the Global Credit Facility, the Fund shall, in addition to interest charged on any borrowings made by the Fund and other costs incurred by the Fund, pay its share of fees and expenses incurred in connection with the implementation and maintenance of the Global Credit Facility, based upon its relative share of the aggregate net assets of all of the Borrowers, including an annual commitment fee of 0.15% based upon the unused portion of the Global Credit Facility. These fees are reflected in other expenses in the Consolidated Statement of Operations. During the period ended October 31, 2019, the Fund did not use the Global Credit Facility.

**12. Fair Value Measurements**

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

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

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

**Franklin Strategic Income Fund** (continued)

**12. Fair Value Measurements** (continued)

A summary of inputs used as of October 31, 2019, in valuing the Fund's assets and liabilities carried at fair value, is as follows:

	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Investments in Securities: <sup>a</sup>				
Equity Investments: <sup>b</sup>				
Commercial & Professional Services . . . . .	\$ —	\$ —	\$ 1,322,439	\$ 1,322,439
Consumer Services . . . . .	—	—	122,759	122,759
Energy . . . . .	1,363,782	3,711,653	44,015 <sup>c</sup>	5,119,450
Materials . . . . .	576,735	—	4,417,403	4,994,138
Media & Entertainment . . . . .	2,315,683	—	23,659	2,339,342
Retailing . . . . .	—	—	91,614	91,614
Software & Services . . . . .	—	—	750,000	750,000
All Other Equity Investments . . . . .	126,065,295	—	—	126,065,295
Corporate Bonds:				
Retailing . . . . .	—	5,141,000	23,299	5,164,299
All Other Corporate Bonds . . . . .	—	1,378,103,819	—	1,378,103,819
Senior Floating Rate Interests:				
Household & Personal Products . . . . .	—	—	43,305,423	43,305,423
Software & Services . . . . .	—	1,853,302	20,023,463	21,876,765
All Other Senior Floating Rate Interests . . . . .	—	198,133,617	—	198,133,617
Foreign Government and Agency Securities . . . . .	—	548,352,663	—	548,352,663
U.S. Government and Agency Securities . . . . .	—	280,182,622	—	280,182,622
Asset-Backed Securities and Commercial				
Mortgage-Backed Securities . . . . .	—	1,360,569,782	—	1,360,569,782
Mortgage-Backed Securities . . . . .	—	424,469,656	—	424,469,656
Municipal Bonds . . . . .	—	86,463,040	—	86,463,040
Escrows and Litigation Trusts . . . . .	—	135,000	— <sup>c</sup>	135,000
Short Term Investments . . . . .	58,779,273	108,109,163	—	166,888,436
Total Investments in Securities . . . . .	\$ 189,100,768	\$ 4,395,225,317	\$ 70,124,074	\$ 4,654,450,159
Other Financial Instruments:				
Futures Contracts . . . . .	\$ 431,962	\$ —	\$ —	\$ 431,962
Forward Exchange Contracts . . . . .	—	2,526,666	—	2,526,666
Swap Contracts . . . . .	—	4,049,578	—	4,049,578
Total Other Financial Instruments . . . . .	\$ 431,962	\$ 6,576,244	\$ —	\$ 7,008,206



**Franklin Strategic Income Fund** (continued)

	Level 1	Level 2	Level 3	Total
<b>Liabilities:</b>				
Investments in Securities: <sup>a</sup>				
Other Financial Instruments:				
Futures Contracts . . . . .	\$ 1,801,946	\$ —	\$ —	\$ 1,801,946
Forward Exchange Contracts . . . . .	—	8,975,247	—	8,975,247
Swap Contracts . . . . .	—	6,313,098	—	6,313,098
Total Other Financial Instruments . . . . .	\$ 1,801,946	\$ 15,288,345	\$ —	\$ 17,090,291

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

<sup>b</sup>Includes common stocks and management investment companies as well as other equity investments.

<sup>c</sup>Includes securities determined to have no value at October 31, 2019.

A reconciliation of assets in which Level 3 inputs are used in determining fair value is presented when there are significant Level 3 financial instruments at the beginning and/or end of the period. At October 31, 2019, the reconciliation of assets is as follows:

	Balance at Beginning of Period	Purchases (Sales)	Transfer Into Level 3 <sup>a</sup>	Transfer Out of Level 3 <sup>b</sup>	Cost Basis Adjustments <sup>c</sup>	Net Realized Gain (Loss)	Net Unrealized Appreciation (Depreciation)	Balance at End of Period	Net Change in Unrealized Appreciation (Depreciation) on Assets Held at Period End
<b>Assets:</b>									
Investments in Securities:									
Equity Investments: <sup>d</sup>									
Commercial & Professional Services . . . . .	\$ —	\$ —	\$1,322,439	\$—	\$ —	\$—	\$ —	\$ 1,322,439	\$ —
Consumer Services . . . . .	122,759	—	—	—	—	—	—	122,759	—
Energy . . . . .	2	—	138,516 <sup>e</sup>	—	—	—	(94,503)	44,015 <sup>e</sup>	(94,503)
Materials . . . . .	4,615,489	—	—	—	—	—	(198,086)	4,417,403	(198,086)
Media & Entertainment . . . . .	—	24,605	—	—	—	—	(946)	23,659	(946)
Retailing . . . . .	96,878	—	—	—	—	—	(5,264)	91,614	(5,264)
Software & Services . . . . .	750,000	—	—	—	—	—	—	750,000	—
Corporate Bonds:									
Retailing . . . . .	90,006	—	—	—	8,097	—	(74,804)	23,299	(74,804)
Senior Floating Rate Interests:									
Household & Personal Products . . . . .	42,108,964	—	—	—	1,079,090	—	117,369	43,305,423	117,369
Software & Services . . . . .	19,883,394	—	—	—	—	—	140,069	20,023,463	140,069
Escrows and Litigation Trusts . . . . .	— <sup>e</sup>	—	—	—	—	—	—	— <sup>e</sup>	—
Total Investments in Securities . . . . .	\$67,667,492	\$24,605	\$1,460,955	\$—	\$1,087,187	\$—	\$(116,165)	\$70,124,074	\$(116,165)

<sup>a</sup>The investments were transferred into Level 3 as a result of the unavailability of a quoted market price in an active market for identical securities and other significant observable valuation inputs. May include amounts related to a corporate action.

<sup>b</sup>The investment was transferred out of Level 3 as a result of the availability of a quoted price in an active market for identical securities and other significant observable valuation inputs. May include amounts related to a corporate action.

<sup>c</sup>May include accretion, amortization, partnership adjustments, and/or other cost basis adjustments.

<sup>d</sup>Includes common stocks as well as other equity investments.

<sup>e</sup>Includes securities determined to have no value.

**Franklin Strategic Income Fund** (continued)

**12. Fair Value Measurements** (continued)

Significant unobservable valuation inputs for material Level 3 financial instruments and impact to fair value as a result of changes in unobservable valuation inputs as of October 31, 2019, are as follows:

Description	Fair Value at End of Period	Valuation Technique	Unobservable Inputs	Amount/Range (Weighted Average <sup>a</sup> )	Impact to Fair Value if Input Increases <sup>b</sup>
<b>Assets:</b>					
Investments in Securities:					
Senior Floating Rate Interests:					
Household & Personal Products . . . . .	\$43,305,423	Discounted cash flow	Free cash flow	\$20.0 - \$33.9 mil (\$29.2) mil	Increase <sup>c</sup>
			Discount rate	10.8% - 13.3% (11.7%)	Decrease <sup>d</sup>
Software & Services . . . . .	\$20,023,463	Discounted cash flow	Free cash flow	\$26.6 mil	Increase <sup>c</sup>
			Discount rate	19.0%	Increase <sup>d</sup>
All Other Investments <sup>f</sup> . . . . .	6,795,188 <sup>f</sup>				
<b>Total . . . . .</b>	<b>\$70,124,074<sup>f</sup></b>				

<sup>a</sup>Weighted based on the relative fair value of the financial instruments.

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

<sup>c</sup>Represents a significant impact to fair value and net assets.

<sup>d</sup>Represents a significant impact to fair value but not net assets.

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

<sup>f</sup>Includes securities determined to have no value at October 31, 2019.

**13. Subsequent Events**

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

**Franklin Strategic Income Fund** (continued)

**Abbreviations**

<b>Counterparty</b>		<b>Currency</b>		<b>Selected Portfolio</b>	
<b>BNDP</b>	BNP Paribas	<b>BRL</b>	Brazilian Real	<b>ARM</b>	Adjustable Rate Mortgage
<b>BZWS</b>	Barclays Bank PLC	<b>CAD</b>	Canadian Dollar	<b>BBSW</b>	Bank Bill Swap Rate
<b>CITI</b>	Citigroup, Inc.	<b>CNY</b>	Chinese Yuan	<b>BZDIOVRA</b>	Brazil Cetip DI Interbank Deposit Rate
<b>DBAB</b>	Deutsche Bank AG	<b>COP</b>	Colombian Peso	<b>CABA</b>	Canada Banker's Acceptance
<b>GSCO</b>	The Goldman Sachs Group, Inc.	<b>DOP</b>	Dominican Peso	<b>CLO</b>	Collateralized Loan Obligation
<b>JPHQ</b>	JP Morgan Chase & Co.	<b>EUR</b>	Euro	<b>CME</b>	Chicago Mercantile Exchange
<b>MSCO</b>	Morgan Stanley	<b>IDR</b>	Indonesian Rupiah	<b>CMT</b>	Constant Maturity Treasury Index
		<b>USD</b>	United States Dollar	<b>CNRR</b>	China Reverse Repo Rate
		<b>UYU</b>	Uruguayan Peso	<b>FRN</b>	Floating Rate Note
		<b>ZAR</b>	South African Rand	<b>GDP</b>	Gross Domestic Product
				<b>GO</b>	General Obligation
				<b>LIBOR</b>	London InterBank Offered Rate
				<b>MBS</b>	Mortgage-Backed Security
				<b>PIK</b>	Payment-In-Kind
				<b>RDA</b>	Redevelopment Agency/Authority
				<b>SF</b>	Single Family
				<b>T-Note</b>	Treasury Note
				<b>VRI</b>	Value Recovery Instruments

**Index**

<b>CDX.EM.30</b>	CDX Emerging Markets Index
<b>MCDX.NA.31</b>	MCDX North America Index

## Shareholder Information

### Proxy Voting Policies and Procedures

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

### Quarterly Statement of Investments

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

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



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