



**Annual Report
and Shareholder Letter**

December 31, 2018

Franklin Mutual International Fund

A SERIES OF FRANKLIN MUTUAL SERIES FUNDS



Sign up for electronic delivery at franklintempleton.com/edelivery

Internet Delivery of Fund Reports Unless You Request Paper Copies: Effective January 1, 2021, as permitted by the SEC, paper copies of the Fund's shareholder reports will no longer be sent by mail, unless you specifically request them from the Fund or your financial intermediary. Instead, the reports will be made available on a website, and you will be notified by mail each time a report is posted and provided with a website link to access the report.

If you already elected to receive shareholder reports electronically, you will not be affected by this change and you need not take any action. If you have not signed up for electronic delivery, we would encourage you to join fellow shareholders who have. You may elect to receive shareholder reports and other communications electronically from the Fund by calling (800) 632-2301 or by contacting your financial intermediary.

You may elect to continue to receive paper copies of all your future shareholder reports free of charge by contacting your financial intermediary or, if you invest directly with a Fund, calling (800) 632-2301 to let the Fund know of your request. Your election to receive reports in paper will apply to all funds held in your account.

Franklin Templeton

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

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

Dear Franklin Mutual International Fund Shareholder:

Investors started 2018 seemingly with the wind at their back. The primary tailwinds were strong corporate earnings growth in most developed markets, healthy consumer and business investment spending, and the positive effect of major U.S. tax cuts. In addition, the global economy continued its steady expansion since the financial crisis of 2008–2009. Unemployment continued to decline in the U.S. and other developed markets, while U.S. wage growth showed some signs of accelerating. As a result, equity markets reached new highs. However, volatility and market downturns soon made their mark on 2018. As measured by the EURO STOXX 50[®] Volatility (VSTOXX) Index and the Chicago Board Options Exchange Volatility Index (VIX), volatility surged in February 2018 and moved higher again in October and December. U.S. trade tensions with Europe and China, a slowdown in China's economic growth, the possibility of Brexit without an agreement and a growing belief that corporate earnings and economic growth will likely decelerate in 2019 hindered equity markets. A flattening U.S. Treasury yield curve, wider credit spreads and growing market concern that the U.S. Federal Reserve may raise interest rates too quickly were also important drivers of market turbulence. For the period ended December 31, 2018, U.S. stocks, as measured by the Standard & Poor's[®] 500 Index (S&P 500[®]), had a -4.38% total return.¹ Stocks in global developed markets, as measured by the MSCI World Index (USD), had a -8.20% total return, while investment-grade bonds, as measured by the Bloomberg Barclays Global Aggregate Bond Index, had a -1.20% total return.¹

While equity markets were broadly down for the year, there were pockets of positive performance concentrated in areas of growth and innovation, such as software, information technology services and segments of the health care sector. It is no surprise, therefore, that growth stocks managed to perform better than value stocks during the period. The MSCI World Growth Index (USD) had a -6.42% total return, while the MSCI World Value Index (USD) had a -10.09% total return.¹

The return of volatility is an appropriate reminder that securities markets are dynamic. We believe active, professional investment management serves investors well since market volatility is more the norm than uninterrupted positive returns. Valuation is an essential factor in our analysis and we always ask ourselves if current and potential investments represent an attractive balance of risk and reward. We remain committed to a bottom-up stock-picking process that is disciplined and driven by rigorous fundamental analysis that attempts to limit downside risk. In our view, investing in underappreciated and misunderstood companies with identifiable catalysts for unlocking shareholder value can offer meaningful upside potential as well as a degree of downside protection.

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 will be well positioned for the years ahead.

1. Source: Morningstar.

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

Not FDIC Insured | May Lose Value | No Bank Guarantee

On the following pages, the Fund’s portfolio management team reviews investment decisions that pertain to performance during the past 12 months in light of the economic environment and other factors. 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 continuing to serve your investment needs in the years ahead.

Sincerely,



Peter A. Langerman
Chairman, President and Chief Executive Officer
Franklin Mutual Advisers, LLC

This letter reflects our analysis and opinions as of December 31, 2018, 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.

Contents

Annual Report

Franklin Mutual International Fund	3
Performance Summary	9
Your Fund's Expenses	12
Financial Highlights and Statement of Investments	13
Financial Statements	22
Notes to Financial Statements	26
Report of Independent Registered Public Accounting Firm	39
Tax Information	40
Board Members and Officers	41
Shareholder Information	46

Visit franklintempleton.com for fund updates, to access your account, or to find helpful financial planning tools.

Annual Report

Franklin Mutual International Fund

This annual report for Franklin Mutual International Fund covers the fiscal year ended December 31, 2018.

Your Fund's Goal and Main Investments

The Fund seeks capital appreciation, which may occasionally be short term, with income as a secondary goal. Under normal market conditions, the Fund invests at least 80% of its net assets in securities of non-U.S. issuers, primarily Asian and European companies. The investment manager focuses the Fund's investments on securities believed to be available at market prices less than their intrinsic value. The equity securities in which the Fund invests are primarily common stocks, with a current focus on mid- and large-cap companies. To a lesser extent, the Fund also invests in merger arbitrage securities and the debt and equity of distressed companies. The Geographic Composition bar chart on page 4 lists the leading countries where the Fund invests.

Performance Overview

The Fund's Class Z shares had a -17.52% cumulative total return for the 12 months ended December 31, 2018. In comparison, the Fund's benchmark, the MSCI All Country World Index (ACWI) ex USA Net Return (Local Currency), which is a free float-adjusted,¹ market capitalization-weighted index designed to measure equity market performance in global developed and emerging markets, had a -10.65% total return.² Also for comparison, the Fund's secondary benchmark, the MSCI ACWI ex USA Net Return (USD) had a -14.20% total return.² You can find more of the Fund's performance data in the Performance Summary beginning on page 9.

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

Economic and Market Overview

The global economy expanded during the 12 months under review, despite weakness in certain regions. Global developed and emerging market stocks were aided at certain points during the period by higher crude oil prices, upbeat economic data, easing trade tensions and encouraging corporate earnings reports, as well as indications of a slower pace of interest-rate increases from the U.S. Federal Reserve (Fed).

However, various factors weighed on global markets during the period, including concerns about tighter regulation of technology companies, political uncertainties in the U.S. and the European Union, and major central banks' interest-rate path and unwinding of monetary stimulus measures. Markets were further pressured by U.S. trade disputes with its allies and China, and their impact on global growth and corporate earnings. In this environment, global stocks, as measured by the MSCI All Country World Index (USD), had a -8.93% total return for the 12 months ended December 31, 2018.²

The U.S. economy grew during the 12-month period. After moderating for three consecutive quarters, the economy grew faster in 2018's second quarter, driven by consumer spending, business investment, exports and government spending. However, growth moderated in the third quarter due to declines in exports and housing investment. The unemployment rate declined from 4.1% in December 2017 to 3.9% at period-end.³ Annual inflation, as measured by the Consumer Price Index, decreased from 2.1% in December 2017 to 1.9% at period-end.³ The Fed raised its target range for the federal funds rate four times during the period, to 2.25%–2.50%, and

1. A "free float-adjusted" index means that companies with larger proportions of their shares being actively traded, rather than being held by company insiders, governments or cross held by other companies, receive higher weightings within the index.

2. Source: Morningstar.

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: U.S. Bureau of Labor Statistics.

The dollar value, number of shares or principal amount, and names of all portfolio holdings are listed in the Fund's Statement of Investments (SOI). The SOI begins on page 18.

continued reducing its balance sheet as part of an ongoing plan to normalize monetary policy. At its December meeting, the Fed reduced the projected 2019 rate increases to two, compared to three projected previously.

In Europe, the U.K.'s quarterly economic growth moderated in 2018's first quarter, but accelerated in 2018's second and third quarters. The Bank of England raised its key policy rate once during the review period. After moderating in 2018's first quarter, the eurozone's quarterly growth remained stable in the second quarter, but eased in the third quarter. The bloc's annual inflation rate ended the period higher than in December 2017. The European Central Bank (ECB) kept its benchmark interest rate unchanged during the period. In December 2018, the ECB confirmed its plan to conclude its bond purchase program at the end of 2018 and reiterated it expects key interest rates to remain unchanged through the summer of 2019.

In Asia, Japan's quarterly gross domestic product (GDP) grew in 2018's second quarter, following a contraction in the first quarter, but contracted again in the third quarter. The Bank of Japan left its benchmark interest rate unchanged during the period and continued its monetary stimulus measures.

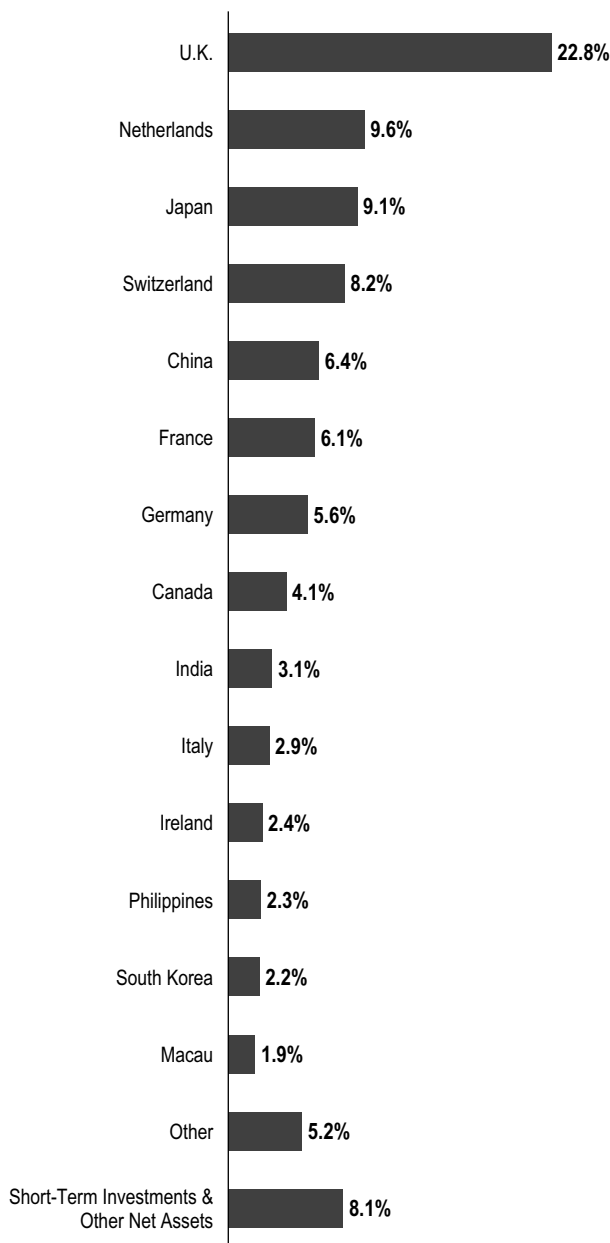
In emerging markets, Brazil's quarterly GDP growth remained stable in 2018's first and second quarters, but accelerated in the third quarter. The Central Bank of Brazil lowered its benchmark interest rate twice during the period. Russia's annual GDP growth rate accelerated in 2018's first and second quarters, but moderated in the third quarter. After lowering its key rate twice early in the period, the Bank of Russia raised it twice in the period's second half to curtail inflation risks. China's annual GDP grew at a stable rate in 2018's first quarter, but it moderated in the second and third quarters. The People's Bank of China left its benchmark interest rate unchanged during the period, but it took measures to improve financial liquidity to mitigate the negative effects of the U.S.-China trade dispute and support economic growth. Overall, emerging market stocks, as measured by the MSCI Emerging Markets Index, had a -14.25% total return during the period.²

Investment Strategy

At Franklin Mutual Series, we are committed to our distinctive value approach to investing, which we believe can generate above-average risk-adjusted returns over time for our shareholders. Our major investment strategy is investing in undervalued stocks in Asia and Europe. We have the ability to invest in emerging markets, although this is unlikely to be a significant focus of our strategy. When selecting undervalued equities, we are attracted to what we believe are fundamentally

Geographic Composition*

Based on Total Net Assets as of 12/31/18



*Figures are stated as a percentage of total and may not equal 100% or may be negative due to rounding, use of any derivatives, unsettled trades or other factors.

strong companies with healthy balance sheets, high-quality assets, substantial free cash flow and shareholder-oriented management teams and whose stocks are trading at discounts to our assessment of the companies' intrinsic or business value. We also look for asset-rich companies whose shares may be trading at depressed levels due to concerns over short-term earnings disappointments, litigation, management strategy or other perceived negatives. This strict value approach is not only intended to improve the likelihood of upside potential, but also

reduces the risk of substantial declines, in our opinion. While the vast majority of our undervalued equity investments are made in publicly traded companies internationally, we may invest occasionally in privately held companies as well.

To a significantly lesser extent, we complement this more traditional investment strategy with two others. One is distressed investing, a highly specialized field that has proven quite profitable during certain periods over the years. Distressed investing is complex and can take many forms. The most common distressed investment the Fund undertakes is the purchase of financially troubled or bankrupt companies' debt at a substantial discount to face value. After the financially distressed company is reorganized, the old debt is typically replaced with new securities issued by the financially stronger company.

The other piece of our investment strategy is participating in arbitrage situations, another highly specialized field. When companies announce proposed mergers or takeovers, commonly referred to as "deals," the target company may trade at a discount to the bid it ultimately accepts. One form of arbitrage involves purchasing the target company's stock when it is trading below the value we believe it would receive in a deal. In keeping with our commitment to a relatively conservative investment approach, we typically focus our arbitrage efforts on announced deals, and avoid rumored deals or other situations we consider relatively risky. In addition, it is our practice to hedge the Fund's currency exposure when we deem it advantageous for our shareholders.

What is meant by "hedge"?

To hedge an investment is to take a position intended to offset potential losses/gains that may be incurred by a companion financial instrument.

Manager's Discussion

In 2018, corporate profits in the U.S. and other developed markets continued their impressive year-over-year growth. In addition, labor markets showed further improvement, consumer spending was solid, and U.S. corporate tax reforms encouraged companies to buy back more stock, raise dividends and increase capital expenditures. Those positive fundamentals were periodically overshadowed by political and economic concerns, particularly in the final three months of the year.

As major U.S. equity markets established new all-time highs in 2018, overall U.S. equity market valuations (e.g., price-to-earnings, price-to-book or price-to-sales) became increasingly unattractive, in our analysis. The equity market

Top 10 Sectors/Industries

Based on Equity Securities as of 12/31/18

	% of Total Net Assets
Insurance	17.2%
Banks	11.6%
Oil, Gas & Consumable Fuels	9.5%
Pharmaceuticals	6.4%
Semiconductors & Semiconductor Equipment	4.1%
Automobiles	3.6%
Capital Markets	3.5%
Hotels, Restaurants & Leisure	3.5%
Interactive Media & Services	3.1%
Auto Components	2.8%

sell-off in the fourth quarter helped to return valuations to more reasonable levels. The sell-off and rise in volatility yielded an opportunity for us to seek out stocks with strong corporate fundamentals and valuations whose risk/reward profiles seemed to us to have become more favorable.

In 2019, policy events may have considerable influence, for better or worse, on economic growth, investor sentiment and financial market performance and volatility. Markets are likely to be particularly sensitive to developments in U.S.-China trade relations, monetary policy moves by the Fed and other major central banks, oil production decisions by OPEC (The Organization of the Petroleum Exporting Countries) and other oil producing countries, the outcome of Brexit, China's response to its slowing economy and potential political discord in Washington, D.C.

Europe's equity market overall was trading at an attractively lower price-to-earnings multiple and higher dividend yield than the U.S. equity market at period-end. We also saw an increase in investor activism, which we viewed as encouraging. However, those favorable factors were offset in part by economic data, which showed increased slowing of economic activity across the region. From an investment standpoint, we are hopeful that 2019 will be a year of potential resolution and clarity. The biggest political event will likely be Brexit, as a resolution to the situation remained unclear as of period-end. The uncertainty around the terms and timing of a deal continued to undermine consumer and corporate confidence. From our perspective, we believe the European Union and the U.K. will ultimately reach an agreement that makes sense for both sides, and we believe the approval of such an agreement would likely have a significantly positive effect on investor, consumer and corporate sentiment in the U.K. We will also pay close attention to structural reform efforts in France, policy decisions from a populist coalition government in Italy and the

political transition in Germany. In December, Chancellor Angela Merkel stepped down as leader of the Christian Democratic Union but stated her intention to remain in office for the remaining three years of her term as Chancellor.

In Asia, economic and financial market weakness in China has been brought on by multiple factors. The U.S.-China trade conflict has disrupted manufacturing activity and supply chains. As trade tensions escalated in 2018, manufacturers accelerated production in order to avoid upcoming tariffs. At year-end, supply chains were filled with inventory, while manufacturing activity was weak. Entering 2019, the near-term question is how long the inventory overhang will last, while the more significant question is to what extent the trade conflict will alter supply chains in the medium to long term. Amid the trade conflict, China has proven resolute in its attempt to dampen the reliance on leverage, which has hindered economic activity as well. While the government has enacted some stimulus measures, such as tax cuts, they may be less impactful than prior stimulus through fiscal spending. Meanwhile, government social policies impacting personal freedoms have had a negative effect on consumer sentiment.

Investment Spotlight

The insurance industry has been an area of significant interest for Mutual Series since the Great Recession. The Top 10 Sectors/Industries table on page 5 lists insurance and also other leading industries in which the Fund currently invests. We were able to find quality insurers trading at discounts to our estimate of intrinsic value during the post-crisis period of financial services recapitalization, followed by the restructuring of the financial services industry in Europe, and finally capital rationalization in the U.S. financials sector. During the past 10 years, insurance industry trends have provided investment opportunities for value investors. The Mutual Series investment process focuses on finding companies trading below our estimate of intrinsic value and with potential catalysts for value creation. With interest rates at secular low levels, insurers have focused on operational efficiencies, cash flow from underwriting, and rational capital structures to maintain acceptable profitability. Life insurance businesses have mainly focused on improving returns through cost savings and capital rationalization, while property casualty businesses have emphasized better underwriting and capital management.

After several years of equity market outperformance, insurers were hurt by increased natural catastrophe losses around the

Top 10 Equity Holdings

12/31/18

Company Sector/Industry, Country	% of Total Net Assets
Novartis AG <i>Pharmaceuticals, Switzerland</i>	3.5%
NN Group NV <i>Insurance, Netherlands</i>	2.9%
GlaxoSmithKline PLC <i>Pharmaceuticals, U.K.</i>	2.9%
Sabre Insurance Group PLC <i>Insurance, U.K.</i>	2.5%
BE Semiconductor Industries NV <i>Semiconductors & Semiconductor Equipment, Netherlands</i>	2.3%
Metro Pacific Investments Corp. <i>Diversified Financial Services, Philippines</i>	2.3%
BP PLC <i>Oil, Gas & Consumable Fuels, U.K.</i>	2.2%
Indiabulls Housing Finance Ltd. <i>Thriffs & Mortgage Finance, India</i>	2.2%
Samsung Electronics Co. Ltd. <i>Technology Hardware, Storage & Peripherals, South Korea</i>	2.2%
Shinsei Bank Ltd. <i>Banks, Japan</i>	2.2%

globe in both 2017 and 2018, jitters regarding global economic growth prospects and a widening of credit spreads. Despite these headwinds, we think valuations at year-end remained attractive, and our holdings have idiosyncratic catalysts that provide attractive return potential. In addition, the large natural catastrophe losses suffered by property and casualty insurers should present an opportunity for them to increase premiums as they adjust risk profiles.

Mutual Series has owned the Netherlands-based NN Group since its 2014 initial public offering (IPO). NN Group was spun out of ING Groep⁴ and consists of life insurance, other insurance and asset management operations in Europe and Japan. The initial investment case revolved around the rationalization of capital and cost efficiencies. In 2017, NN Group acquired Dutch insurer Delta Lloyd at an attractive internal rate of return with the potential for significant synergies from the combined company. Since the IPO, the company has returned a significant amount of capital to shareholders and lowered expenses, while maintaining one of the strongest balance sheets in the industry. We expect additional progress on the integration of Delta Lloyd to

4. Not a Fund holding.

generate increased cash flow in the future. NN Group is listed among the Fund's largest positions in the Top 10 Equity Holdings table on page 6.

Fund Performance

Turning to Fund performance, top positive contributors included Japan-based petroleum refiner JXTG Holdings, Netherlands-based Royal Philips⁵ and global insurer XL Group.

JXTG Holdings, the largest refiner in Japan, benefited from refining industry consolidation in the country. Its profit significantly increased year-over-year, largely driven by a higher refining margin due to a more disciplined industry. Moreover, JXTG became more capital disciplined, and increased dividends and share buybacks. We exited the position in September 2018.

Koninklijke Philips⁵ is near the end of its restructuring efforts. In line with our initial investment thesis, the company has almost fully pivoted its business model from being an industrial conglomerate to becoming a focused health care technology company. In April 2018, Philips reported better-than-expected results, particularly strong order growth overall and sales growth within its diagnostics and treatment business. The positive results increased our confidence in management's ability to deliver on its long-term strategy and targets.

Shares of XL Group, a global insurance and reinsurance company, rallied in early 2018, aided by generally upbeat quarterly results. We exited the position in March, following the announcement of XL Group's acquisition by AXA⁴, another global insurer, at a substantial premium to XL Group's closing price prior to the announcement.

During the period under review, Fund investments that detracted from performance included Japan-based semiconductor manufacturer Renesas Electronics, Canada-based exploration and production company Crescent Point Energy and U.S.-based tire company Toyo Tire.

Renesas Electronics is a Japan-based manufacturer of semiconductors for the automotive, industrial and communication markets. In 2016, an earthquake in Japan caused a chip shortage in the supply chain. Production subsequently accelerated in 2017, as customers double ordered and did not adjust quickly enough to the eventual drop off in demand, leading to excess inventories. In 2018, production and capacity utilization remained below optimal levels, as Renesas

continued to reduce inventories. In addition, investors reacted negatively to Renesas' announced purchase of Integrated Devices Technology (IDT) at a nearly 30% premium to IDT's price before the announcement. While the deal weakens Renesas' balance sheet, we believed the transaction made strategic sense given IDT's complementary product portfolio and cross-selling opportunities in the long run.

Crescent Point Energy has significant exposure to oil production and its shares generally followed lower oil prices during the latter stages of 2018 despite some positive changes at the company. The company hired a new chief executive officer and had some changes to the executive team and the board of directors. The new management team launched a strategic plan targeting cost reduction, asset sales, a stronger balance sheet and better capital allocation, which we believe are the right things to focus on. So far, Crescent Point's new management team delivered solid third-quarter results with good progress on its cost reduction program, which we believe will help build credibility. If management continues to follow through on its strategic plan, we believe the stock's deep valuation discount versus peers may narrow.

Toyo Tire is a niche tire company with a focus on large, specialty tires for sports utility vehicles (SUVs) and pickup trucks in the U.S. A lower share price in the first half of 2018 was driven by exchange rate headwinds, larger losses at its non-core auto parts business and investor pessimism toward the tire industry. However, Toyo's main tire business performed satisfactorily due to its favorable exposure to specialty tires. Shares slid further in the fourth quarter, as management unexpectedly announced a private placement of 21% of new shares to Mitsubishi⁴. While management stated the deal would enable closer cooperation, we believed management did not provide concrete synergies or economic rationale to offset the substantial dilution suffered by existing shareholders. The deal also reflected poorly on corporate governance. We expressed our concerns to Toyo's management and made our concerns public.

During the period, the Fund held currency forwards and futures seeking to hedge most of the currency risk of the portfolio's non-U.S. dollar investments. The hedges had a positive overall impact on the Fund's performance because of the appreciation of the U.S. dollar versus the hedged currencies.

5. Not held at period-end.

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

What is a currency forward?

A currency forward is a direct 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.

What is a future?

A future 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.

As fellow shareholders, we found recent relative and absolute performance disappointing, but it is not uncommon for our strategy to lag the equity markets at times. We remain committed to our disciplined, value investment approach as we seek to generate attractive, long-term, risk-adjusted returns for shareholders.

Thank you for your participation in Franklin Mutual International Fund. We look forward to continuing to serve your investment needs.

The foregoing information reflects our analysis, opinions and portfolio holdings as of December 31, 2018, 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.



Andrew Sleeman, CFA
Co-Portfolio Manager



Timothy Rankin, CFA
Co-Portfolio Manager

CFA® is a trademark owned by CFA Institute.

Performance Summary as of December 31, 2018

The performance table and graphs do not reflect any taxes that a shareholder would pay on Fund dividends, capital gain distributions, if any, or any realized gains on the sale of Fund shares. Total return reflects reinvestment of the Fund's dividends and capital gain distributions, if any, and any unrealized gains or losses. 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 12/31/18¹

*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 5.50% and the minimum is 0%. **Class A:** 5.50% maximum initial sales charge. For other share classes, visit franklintempleton.com.*

Share Class	Cumulative Total Return ²	Average Annual Total Return ³
Z		
1-Year	-17.52%	-17.52%
5-Year	-4.29%	-0.87%
Since Inception (5/1/09)	+75.09%	+5.96%
A⁴		
1-Year	-17.73%	-22.23%
5-Year	-5.56%	-2.25%
Since Inception (5/1/09)	+70.38%	+5.05%

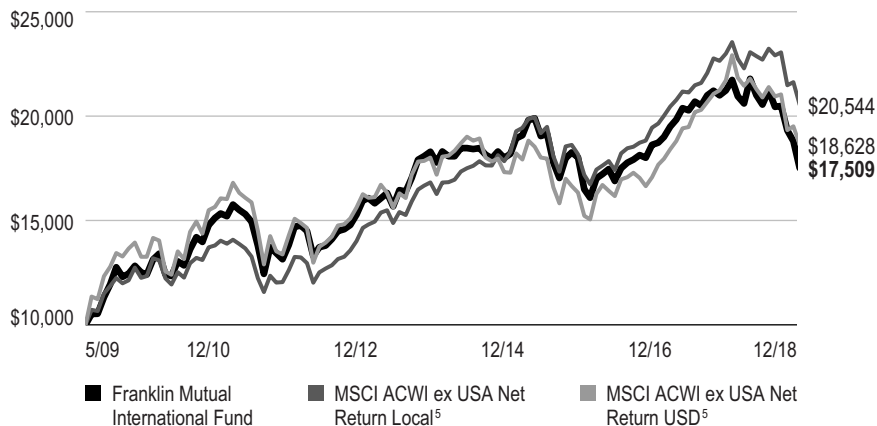
Performance data represent past performance, which does not guarantee future results. Investment return and principal value will fluctuate, and you may have a gain or loss when you sell your shares. Current performance may differ from figures shown. For most recent month-end performance, go to franklintempleton.com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

See page 11 for Performance Summary footnotes.

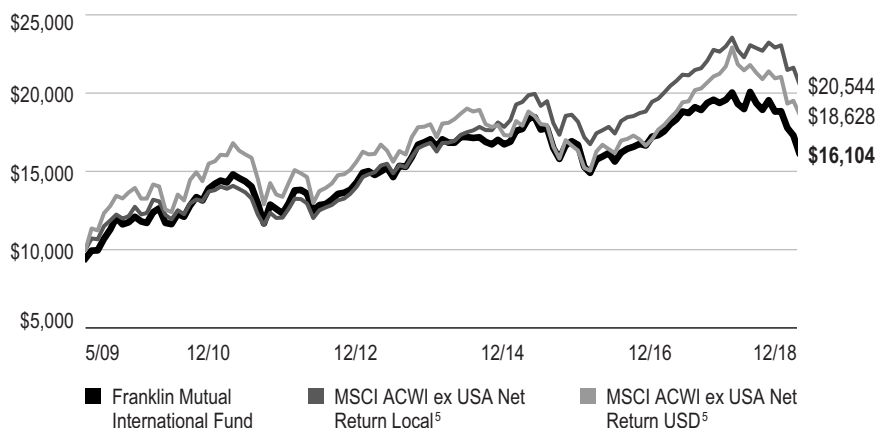
Total Return Index Comparison for a Hypothetical \$10,000 Investment¹

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

Class Z (5/1/09–12/31/18)



Class A (5/1/09–12/31/18)



See page 11 for Performance Summary footnotes.

Distributions (1/1/18–12/31/18)

Share Class	Net Investment Income	Long-Term Capital Gain	Total
Z	\$0.2518	\$0.0922	\$0.3440
A	\$0.2117	\$0.0922	\$0.3039
C	\$0.0359	\$0.0922	\$0.1281
R	\$0.1815	\$0.0922	\$0.2737
R6	\$0.2798	\$0.0922	\$0.3720

Total Annual Operating Expenses⁶

Share Class	With Fee Waiver	Without Fee Waiver
Z	0.97%	1.17%
A	1.22%	1.42%

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. Value securities may not increase in price as anticipated or may decline further in value. Special risks are associated with foreign investing, including currency fluctuations, economic instability and political developments; investments in emerging markets involve heightened risks related to the same factors. Because the Fund may invest its assets in companies in a specific region, including Europe, it is subject to greater risks of adverse developments in that region and/or the surrounding regions than a fund that is more broadly diversified geographically. Current political and financial uncertainty surrounding the European Union may increase market volatility and the economic risk of investing in companies in Europe. Smaller-company stocks have exhibited greater price volatility than larger-company stocks, particularly over the short term. The Fund's investments in companies engaged in mergers, reorganizations or liquidations also involve special risks as pending deals may not be completed on time or on favorable terms. The Fund may invest in lower-rated bonds, which entail higher credit risk. 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 an expense reduction contractually guaranteed through 4/30/19. Fund investment results reflect the expense reduction; without this reduction, the results would have been lower.
2. Cumulative total return represents the change in value of an investment over the periods indicated.
3. Average annual total return represents the average annual change in value of an investment over the periods indicated. Return for less than one year, if any, has not been annualized.
4. Prior to 9/10/18, these shares were offered at a higher initial sales charge of 5.75%, thus actual returns would have differed. Total returns with sales charges have been restated to reflect the current maximum initial sales charge of 5.50%.
5. Source: Morningstar. the MSCI ACWI ex USA Net Return (Local Currency and U.S. dollar) is a free float-adjusted, market capitalization-weighted index designed to measure equity market performance in global developed and emerging markets.
6. 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 Financial Highlights sections in this report. In periods of market volatility, assets may decline significantly, causing total annual Fund operating expenses to become higher than the figures shown. See www.franklintempletondatasources.com for additional data provider information.

Your Fund's Expenses

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

Actual Fund Expenses

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

Hypothetical Example for Comparison with Other Funds

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

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

Share Class	Beginning Account Value 7/1/18	Actual (actual return after expenses)		Hypothetical (5% annual return before expenses)		Net Annualized Expense Ratio ²
		Ending Account Value 12/31/18	Expenses Paid During Period 7/1/18–12/31/18 ^{1,2}	Ending Account Value 12/31/18	Expenses Paid During Period 7/1/18–12/31/18 ^{1,2}	
Z	\$1,000	\$852.00	\$4.53	\$1,020.32	\$ 4.94	0.97%
A	\$1,000	\$850.50	\$5.69	\$1,019.06	\$ 6.21	1.22%
C	\$1,000	\$847.40	\$9.17	\$1,015.27	\$10.01	1.97%
R	\$1,000	\$850.00	\$6.85	\$1,017.80	\$ 7.48	1.47%
R6	\$1,000	\$852.70	\$3.88	\$1,021.02	\$ 4.23	0.83%

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 184/365 to reflect the one-half year period.

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

Financial Highlights

	Year Ended December 31,				
	2018	2017	2016	2015	2014
Class Z					
Per share operating performance					
(for a share outstanding throughout the year)					
Net asset value, beginning of year	\$15.96	\$14.32	\$14.17	\$14.59	\$15.90
Income from investment operations ^a :					
Net investment income ^b	0.31	0.21	0.27 ^c	0.18 ^d	0.30 ^e
Net realized and unrealized gains (losses)	(3.11)	1.78	0.20	(0.17)	(0.57)
Total from investment operations	(2.80)	1.99	0.47	0.01	(0.27)
Less distributions from:					
Net investment income	(0.25)	(0.35)	(0.27)	(0.16)	(0.43)
Net realized gains	(0.09)	—	(0.05)	(0.27)	(0.61)
Total distributions	(0.34)	(0.35)	(0.32)	(0.43)	(1.04)
Net asset value, end of year	\$12.82	\$15.96	\$14.32	\$14.17	\$14.59
Total return	(17.52)%	13.99%	3.34%	0.15%	(1.63)%
Ratios to average net assets					
Expenses before waiver and payments by affiliates ^f	1.21%	1.17%	1.22%	1.24%	1.39%
Expenses net of waiver and payments by affiliates ^{f,g}	0.99%	1.16%	1.17%	1.15%	1.16%
Expenses incurred in connection with securities sold short	—%	—%	—%	—%	—% ^h
Net investment income	2.00%	1.41%	2.07% ^c	1.26% ^d	1.78% ^e
Supplemental data					
Net assets, end of year (000's)	\$52,271	\$86,274	\$40,875	\$49,963	\$19,940
Portfolio turnover rate	28.75%	38.77%	24.87%	28.64%	54.78%

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

^bBased on average daily shares outstanding.

^cNet investment income per share includes approximately \$0.06 per share related to income received in the form of special dividends in connection with certain Fund holdings. Excluding this amount, the ratio of net investment income to average net assets would have been 1.63%.

^dNet investment income per share includes approximately \$0.08 per share related to income received in the form of special dividends in connection with certain Fund holdings. Excluding this amount, the ratio of net investment income to average net assets would have been 0.71%.

^eNet investment income per share includes approximately \$0.08 per share related to income received in the form of special dividends in connection with certain Fund holdings. Excluding this amount, the ratio of net investment income to average net assets would have been 1.27%.

^fIncludes dividend and/or interest expense on securities sold short and security borrowing fees, if any. See below for the ratios of such expenses to average net assets for the periods presented. See Note 1(d).

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

^hRounds to less than 0.01%.

FRANKLIN MUTUAL INTERNATIONAL FUND
FINANCIAL HIGHLIGHTS

	Year Ended December 31,				
	2018	2017	2016	2015	2014
Class A					
Per share operating performance					
(for a share outstanding throughout the year)					
Net asset value, beginning of year	\$15.90	\$14.25	\$14.10	\$14.54	\$15.84
Income from investment operations ^a :					
Net investment income ^b	0.27	0.18	0.24 ^c	0.15 ^d	0.26 ^e
Net realized and unrealized gains (losses)	(3.10)	1.78	0.19	(0.19)	(0.57)
Total from investment operations	(2.83)	1.96	0.43	(0.04)	(0.31)
Less distributions from:					
Net investment income	(0.21)	(0.31)	(0.23)	(0.13)	(0.38)
Net realized gains	(0.09)	—	(0.05)	(0.27)	(0.61)
Total distributions	(0.30)	(0.31)	(0.28)	(0.40)	(0.99)
Net asset value, end of year	\$12.77	\$15.90	\$14.25	\$14.10	\$14.54
Total return ^f	(17.73)%	13.67%	3.14%	(0.20)%	(1.89)%
Ratios to average net assets					
Expenses before waiver and payments by affiliates ^g	1.46%	1.42%	1.47%	1.52%	1.69%
Expenses net of waiver and payments by affiliates ^{g,h}	1.24%	1.41%	1.42%	1.43%	1.46%
Expenses incurred in connection with securities sold short	—%	—%	—%	—%	—% ⁱ
Net investment income	1.75%	1.16%	1.82% ^c	0.98% ^d	1.48% ^e
Supplemental data					
Net assets, end of year (000's)	\$53,082	\$82,965	\$82,626	\$110,591	\$39,810
Portfolio turnover rate	28.75%	38.77%	24.87%	28.64%	54.78%

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

^bBased on average daily shares outstanding.

^cNet investment income per share includes approximately \$0.06 per share related to income received in the form of special dividends in connection with certain Fund holdings. Excluding this amount, the ratio of net investment income to average net assets would have been 1.38%.

^dNet investment income per share includes approximately \$0.08 per share related to income received in the form of special dividends in connection with certain Fund holdings. Excluding this amount, the ratio of net investment income to average net assets would have been 0.43%.

^eNet investment income per share includes approximately \$0.08 per share related to income received in the form of special dividends in connection with certain Fund holdings. Excluding this amount, the ratio of net investment income to average net assets would have been 0.97%.

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

^gIncludes dividend and/or interest expense on securities sold short and security borrowing fees, if any. See below for the ratios of such expenses to average net assets for the periods presented. See Note 1(d).

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

ⁱRounds to less than 0.01%.

FRANKLIN MUTUAL INTERNATIONAL FUND
FINANCIAL HIGHLIGHTS

	Year Ended December 31,				
	2018	2017	2016	2015	2014
Class C					
Per share operating performance					
(for a share outstanding throughout the year)					
Net asset value, beginning of year	\$15.69	\$14.08	\$13.92	\$14.38	\$15.68
Income from investment operations ^a :					
Net investment income ^b	0.16	0.08	0.15 ^c	0.04 ^d	0.15 ^e
Net realized and unrealized gains (losses)	(3.04)	1.72	0.18	(0.18)	(0.56)
Total from investment operations	(2.88)	1.80	0.33	(0.14)	(0.41)
Less distributions from:					
Net investment income	(0.04)	(0.19)	(0.12)	(0.05)	(0.28)
Net realized gains	(0.09)	—	(0.05)	(0.27)	(0.61)
Total distributions	(0.13)	(0.19)	(0.17)	(0.32)	(0.89)
Net asset value, end of year	\$12.68	\$15.69	\$14.08	\$13.92	\$14.38
Total return ^f	(18.39)%	12.79%	2.44%	(0.93)%	(2.58)%
Ratios to average net assets					
Expenses before waiver and payments by affiliates ^g	2.21%	2.17%	2.22%	2.24%	2.39%
Expenses net of waiver and payments by affiliates ^{g,h}	1.99%	2.16%	2.17%	2.15%	2.16%
Expenses incurred in connection with securities sold short	—%	—%	—%	—%	—% ⁱ
Net investment income	1.00%	0.41%	1.07% ^c	0.26% ^d	0.78% ^e
Supplemental data					
Net assets, end of year (000's)	\$13,685	\$29,109	\$25,860	\$34,611	\$14,794
Portfolio turnover rate	28.75%	38.77%	24.87%	28.64%	54.78%

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

^bBased on average daily shares outstanding.

^cNet investment income per share includes approximately \$0.06 per share related to income received in the form of special dividends in connection with certain Fund holdings. Excluding this amount, the ratio of net investment income to average net assets would have been 0.63%.

^dNet investment income per share includes approximately \$0.08 per share related to income received in the form of special dividends in connection with certain Fund holdings. Excluding this amount, the ratio of net investment income to average net assets would have been (0.29)%.

^eNet investment income per share includes approximately \$0.08 per share related to income received in the form of special dividends in connection with certain Fund holdings. Excluding this amount, the ratio of net investment income to average net assets would have been 0.27%.

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

^gIncludes dividend and/or interest expense on securities sold short and security borrowing fees, if any. See below for the ratios of such expenses to average net assets for the periods presented. See Note 1(d).

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

ⁱRounds to less than 0.01%.

FRANKLIN MUTUAL INTERNATIONAL FUND
FINANCIAL HIGHLIGHTS

	Year Ended December 31,				
	2018	2017	2016	2015	2014
Class R					
Per share operating performance					
(for a share outstanding throughout the year)					
Net asset value, beginning of year	\$15.80	\$14.19	\$14.05	\$14.51	\$15.83
Income from investment operations ^a :					
Net investment income ^b	0.23	0.10	0.20 ^c	0.04 ^d	0.18 ^e
Net realized and unrealized gains (losses)	(3.07)	1.80	0.20	(0.10)	(0.52)
Total from investment operations	(2.84)	1.90	0.40	(0.06)	(0.34)
Less distributions from:					
Net investment income	(0.18)	(0.29)	(0.21)	(0.13)	(0.37)
Net realized gains	(0.09)	—	(0.05)	(0.27)	(0.61)
Total distributions	(0.27)	(0.29)	(0.26)	(0.40)	(0.98)
Net asset value, end of year	\$12.69	\$15.80	\$14.19	\$14.05	\$14.51
Total return	(17.96)%	13.43%	2.90%	(0.38)%	(2.13)%
Ratios to average net assets					
Expenses before waiver and payments by affiliates ^f	1.71%	1.64%	1.72%	1.74%	1.89%
Expenses net of waiver and payments by affiliates ^{f,g}	1.49%	1.63%	1.67%	1.65%	1.66%
Expenses incurred in connection with securities sold short	—%	—%	—%	—%	—% ^h
Net investment income	1.50%	0.94%	1.57% ^c	0.76% ^d	1.28% ^e
Supplemental data					
Net assets, end of year (000's)	\$1,673	\$1,867	\$694	\$662	\$112
Portfolio turnover rate	28.75%	38.77%	24.87%	28.64%	54.78%

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

^bBased on average daily shares outstanding.

^cNet investment income per share includes approximately \$0.06 per share related to income received in the form of special dividends in connection with certain Fund holdings. Excluding this amount, the ratio of net investment income to average net assets would have been 1.13%.

^dNet investment income per share includes approximately \$0.08 per share related to income received in the form of special dividends in connection with certain Fund holdings. Excluding this amount, the ratio of net investment income to average net assets would have been 0.21%.

^eNet investment income per share includes approximately \$0.08 per share related to income received in the form of special dividends in connection with certain Fund holdings. Excluding this amount, the ratio of net investment income to average net assets would have been 0.77%.

^fIncludes dividend and/or interest expense on securities sold short and security borrowing fees, if any. See below for the ratios of such expenses to average net assets for the periods presented. See Note 1(d).

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

^hRounds to less than 0.01%.

FRANKLIN MUTUAL INTERNATIONAL FUND
FINANCIAL HIGHLIGHTS

	Year Ended December 31,				
	2018	2017	2016	2015	2014
Class R6					
Per share operating performance					
(for a share outstanding throughout the year)					
Net asset value, beginning of year	\$15.97	\$14.32	\$14.17	\$14.59	\$15.87
Income from investment operations ^a :					
Net investment income ^b	0.33	0.24	0.33 ^c	0.22 ^d	— ^{e,f}
Net realized and unrealized gains (losses)	(3.11)	1.78	0.17	(0.20)	(0.22)
Total from investment operations	(2.78)	2.02	0.50	0.02	(0.22)
Less distributions from:					
Net investment income	(0.28)	(0.37)	(0.30)	(0.17)	(0.45)
Net realized gains	(0.09)	—	(0.05)	(0.27)	(0.61)
Total distributions	(0.37)	(0.37)	(0.35)	(0.44)	(1.06)
Net asset value, end of year	\$12.82	\$15.97	\$14.32	\$14.17	\$14.59
Total return	(17.40)%	14.11%	3.58%	0.23%	(1.46)%
Ratios to average net assets					
Expenses before waiver and payments by affiliates ^g	1.11%	1.03%	1.06%	1.06%	1.24%
Expenses net of waiver and payments by affiliates ^{g,h}	0.85%	1.01%	1.00%	1.02%	1.00%
Expenses incurred in connection with securities sold short	—%	—%	—%	—%	—% ⁱ
Net investment income	2.14%	1.56%	2.24% ^c	1.39% ^d	1.94% ^e
Supplemental data					
Net assets, end of year (000's)	\$20,128	\$25,697	\$16,687	\$23,793	\$19,398
Portfolio turnover rate	28.75%	38.77%	24.87%	28.64%	54.78%

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

^bBased on average daily shares outstanding.

^cNet investment income per share includes approximately \$0.06 per share related to income received in the form of special dividends in connection with certain Fund holdings. Excluding this amount, the ratio of net investment income to average net assets would have been 1.80%.

^dNet investment income per share includes approximately \$0.08 per share related to income received in the form of special dividends in connection with certain Fund holdings. Excluding this amount, the ratio of net investment income to average net assets would have been 0.84%.

^eNet investment income per share includes approximately \$0.08 per share related to income received in the form of special dividends in connection with certain Fund holdings. Excluding this amount, the ratio of net investment income to average net assets would have been 1.42%.

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

^gIncludes dividend and/or interest expense on securities sold short and security borrowing fees, if any. See below for the ratios of such expenses to average net assets for the periods presented. See Note 1(d).

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

ⁱRounds to less than 0.01%.

Statement of Investments, December 31, 2018

	Country	Shares	Value
Common Stocks 90.4%			
Auto Components 2.8%			
Cie Generale des Etablissements Michelin SCA	France	14,989	\$ 1,489,020
Toyot Tire Corp.	Japan	200,351	2,513,528
			<u>4,002,548</u>
Automobiles 2.1%			
Peugeot SA	France	138,705	2,963,216
Banks 11.6%			
AIB Group PLC	Ireland	516,975	2,173,282
^a Credito Valtellinese SpA	Italy	28,038,943	2,357,520
HSBC Holdings PLC	United Kingdom	338,807	2,795,019
ING Groep NV	Netherlands	176,098	1,898,685
Shinsei Bank Ltd.	Japan	255,900	3,056,324
Standard Chartered PLC	United Kingdom	366,605	2,848,557
Yes Bank Ltd.	India	493,352	1,289,225
			<u>16,418,612</u>
Capital Markets 3.5%			
Credit Suisse Group AG	Switzerland	169,007	1,848,421
Deutsche Bank AG	Germany	288,000	2,296,953
Guotai Junan Securities Co. Ltd.	China	398,064	805,227
			<u>4,950,601</u>
Chemicals 1.4%			
BASF SE	Germany	28,169	1,962,158
Communications Equipment 1.5%			
Nokia OYJ, A	Finland	356,803	2,056,389
Construction Materials 1.7%			
LafargeHolcim Ltd., B	Switzerland	57,170	2,360,421
Consumer Finance 2.4%			
^b Hoist Finance AB, 144A	Sweden	419,206	2,046,577
Sun Hung Kai & Co. Ltd.	Hong Kong	2,877,748	1,359,769
			<u>3,406,346</u>
Diversified Financial Services 2.3%			
Metro Pacific Investments Corp.	Philippines	36,164,200	3,196,226
Diversified Telecommunication Services 1.5%			
Koninklijke KPN NV	Netherlands	743,128	2,179,779
Hotels, Restaurants & Leisure 3.5%			
Accor SA	France	51,000	2,168,553
Sands China Ltd.	Macau	624,400	2,735,064
			<u>4,903,617</u>
Household Durables 2.1%			
^a Cairn Homes PLC	Ireland	1,005,848	1,233,176
^{a,b} Neinor Homes SA, 144A	Spain	115,583	1,721,655
			<u>2,954,831</u>
Independent Power & Renewable Electricity Producers 2.0%			
China Longyuan Power Group Corp.	China	4,208,700	2,864,743
Insurance 17.2%			
ASR Nederland NV	Netherlands	54,769	2,170,044
China Pacific Insurance Group Co. Ltd., H	China	879,045	2,845,769
Direct Line Insurance Group PLC	United Kingdom	739,157	3,004,098
Lancashire Holdings Ltd.	United Kingdom	388,658	2,998,598

FRANKLIN MUTUAL INTERNATIONAL FUND
STATEMENT OF INVESTMENTS

	Country	Shares	Value
Common Stocks (continued)			
Insurance (continued)			
NN Group NV	Netherlands	103,498	\$ 4,126,862
RSA Insurance Group PLC	United Kingdom	389,405	2,550,480
Sabre Insurance Group PLC	United Kingdom	1,028,590	3,580,966
T&D Holdings Inc.	Japan	248,433	2,899,141
			<u>24,175,958</u>
Interactive Media & Services 3.1%			
^a Baidu Inc., ADR	China	16,131	2,558,377
Yahoo Japan Corp.	Japan	734,600	1,836,500
			<u>4,394,877</u>
Oil, Gas & Consumable Fuels 9.5%			
BP PLC	United Kingdom	495,900	3,136,370
Canadian Natural Resources Ltd.	Canada	84,900	2,048,871
Crescent Point Energy Corp.	Canada	585,600	1,776,170
Husky Energy Inc.	Canada	190,100	1,965,135
Royal Dutch Shell PLC, B.	United Kingdom	90,231	2,692,570
Saras SpA	Italy	877,091	1,701,826
			<u>13,320,942</u>
Pharmaceuticals 6.4%			
GlaxoSmithKline PLC	United Kingdom	213,777	4,065,296
Novartis AG	Switzerland	57,144	4,896,957
			<u>8,962,253</u>
Semiconductors & Semiconductor Equipment 4.1%			
BE Semiconductor Industries NV	Netherlands	151,191	3,201,030
^a Renesas Electronics Corp.	Japan	552,862	2,522,180
			<u>5,723,210</u>
Specialty Retail 2.8%			
Dufry AG	Switzerland	25,336	2,414,533
Hornbach Holding AG & Co. KGaA	Germany	31,290	1,476,764
			<u>3,891,297</u>
Technology Hardware, Storage & Peripherals 2.2%			
Samsung Electronics Co. Ltd.	South Korea	88,900	3,089,161
Thrifts & Mortgage Finance 2.2%			
Indiabulls Housing Finance Ltd.	India	252,641	3,100,726
Tobacco 1.3%			
British American Tobacco PLC	United Kingdom	58,254	1,857,210
Trading Companies & Distributors 1.4%			
Rexel SA	France	180,233	1,920,552
Wireless Telecommunication Services 1.8%			
Vodafone Group PLC.	United Kingdom	1,324,860	2,583,288
Total Common Stocks (Cost \$153,702,338)			<u>127,238,961</u>
Preferred Stocks (Cost \$1,772,943) 1.5%			
Automobiles 1.5%			
^c Volkswagen AG, 2.845%, pfd.	Germany	13,606	2,169,647
Total Investments before Short Term Investments (Cost \$155,475,281)			<u>129,408,608</u>

FRANKLIN MUTUAL INTERNATIONAL FUND
STATEMENT OF INVESTMENTS

	Country	Principal Amount	Value
Short Term Investments 8.3%			
U.S. Government and Agency Securities 8.3%			
^d FHLB, 1/02/19	United States	\$ 2,700,000	\$ 2,700,000
^d U.S. Treasury Bill,			
1/02/19	United States	5,000,000	5,000,000
1/24/19	United States	2,000,000	1,997,174
5/09/19	United States	2,000,000	1,982,447
Total U.S. Government and Agency Securities (Cost \$11,678,751)			11,679,621
Total Investments (Cost \$167,154,032) 100.2%			141,088,229
Other Assets, less Liabilities (0.2)%			(249,286)
Net Assets 100.0%			\$140,838,943

^aNon-income producing.

^bSecurity was purchased pursuant to Rule 144A under the Securities Act of 1933 and may be sold in transactions exempt from registration only to qualified institutional buyers or in a public offering registered under the Securities Act of 1933. These securities have been deemed liquid under guidelines approved by the Trust's Board of Trustees. At December 31, 2018, the aggregate value of these securities was \$3,768,232, representing 2.7% of net assets.

^cVariable rate security. The rate shown represents the yield at period end.

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

At December 31, 2018, the Fund had the following futures contracts outstanding. See Note 1(c).

Futures Contracts

Description	Type	Number of Contracts	Notional Amount*	Expiration Date	Value/ Unrealized Appreciation (Depreciation)
Currency Contracts					
EUR/USD	Short	135	\$19,444,219	3/18/19	\$ 2,898
GBP/USD	Short	68	5,435,750	3/18/19	11,234
Total Futures Contracts					\$14,132

*As of period end.

FRANKLIN MUTUAL INTERNATIONAL FUND
STATEMENT OF INVESTMENTS

At December 31, 2018, the Fund had the following forward exchange contracts outstanding. See Note 1(c).

Forward Exchange Contracts

Currency	Counterparty ^a	Type	Quantity	Contract Amount	Settlement Date	Unrealized Appreciation	Unrealized Depreciation
OTC Forward Exchange Contracts							
Euro	BOFA	Buy	1,451,149	\$ 1,655,795	1/14/19	\$ 8,998	\$ —
Euro	BONY	Sell	3,723,755	4,421,736	1/14/19	149,756	—
Euro	HSBK	Buy	2,219,586	2,534,428	1/14/19	11,931	—
Euro	HSBK	Sell	197,620	233,836	1/14/19	7,122	—
Euro	SSBT	Buy	686,857	784,115	1/14/19	3,863	—
Euro	SSBT	Sell	13,983,121	16,613,947	1/14/19	572,181	—
Euro	UBSW	Buy	1,257,874	1,435,095	1/14/19	7,968	—
Euro	UBSW	Sell	148,209	174,110	1/14/19	4,081	—
Swiss Franc	HSBK	Buy	47,237	47,762	1/14/19	396	—
Swiss Franc	UBSW	Buy	296,258	299,486	1/14/19	2,547	—
Swiss Franc	UBSW	Sell	2,155,417	2,163,964	1/14/19	—	(33,472)
British Pound	BOFA	Buy	528,462	669,810	1/16/19	4,679	—
British Pound	HSBK	Buy	187,094	236,744	1/16/19	2,049	—
British Pound	SSBT	Sell	2,936,461	3,913,554	1/16/19	165,679	—
British Pound	UBSW	Buy	75,334	95,204	1/16/19	947	—
South Korean Won	BONY	Sell	233,809,059	208,833	1/18/19	—	(1,213)
South Korean Won	HSBK	Buy	406,270,942	360,096	1/18/19	4,883	—
South Korean Won	HSBK	Sell	748,940,399	668,912	1/18/19	—	(3,908)
South Korean Won	UBSW	Sell	2,823,946,484	2,521,831	1/18/19	—	(15,095)
Swedish Krona	BONY	Buy	10,817,845	1,199,382	1/31/19	24,893	—
Swedish Krona	BONY	Sell	28,922,111	3,193,810	1/31/19	—	(79,355)
Philippine Peso	BONY	Sell	164,610,098	3,129,470	2/04/19	—	(3,624)
British Pound	BOFA	Sell	300,000	397,914	2/14/19	14,477	—
British Pound	HSBK	Sell	189,744	251,491	2/14/19	8,974	—
British Pound	UBSW	Sell	5,325,697	6,865,702	2/14/19	58,799	—
Japanese Yen	HSBK	Buy	49,328,591	446,315	2/19/19	5,530	—
Japanese Yen	UBSW	Buy	29,946,527	271,675	2/19/19	2,632	—
Japanese Yen	UBSW	Sell	931,126,799	8,292,531	2/19/19	—	(236,511)
Euro	BONY	Sell	619,305	716,040	2/20/19	3,381	—
Euro	SSBT	Sell	619,306	716,094	2/20/19	3,434	—
Euro	UBSW	Sell	117,435	134,970	4/18/19	—	(839)
British Pound	BONY	Sell	230,531	301,302	4/24/19	5,684	—
British Pound	UBSW	Sell	3,722,872	4,877,576	4/24/19	103,619	—
Euro	HSBK	Sell	274,646	316,282	5/07/19	—	(1,862)
Euro	HSBK	Sell	1,138,655	1,321,003	5/07/19	2,009	—
Euro	SSBT	Sell	16,109	18,807	5/07/19	147	—
Euro	SSBT	Sell	1,260,725	1,468,052	5/21/19	5,874	—
British Pound	BOFA	Sell	7,465,829	9,667,726	5/28/19	78,709	—
British Pound	HSBK	Sell	27,252	35,237	5/28/19	235	—
British Pound	SSBT	Sell	185,000	238,211	5/28/19	599	—
Total Forward Exchange Contracts						\$ 1,266,076	\$ (375,879)
Net unrealized appreciation (depreciation)						\$ 890,197	

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

See Note 9 regarding other derivative information.

See Abbreviations on page 38.

Financial Statements

Statement of Assets and Liabilities

December 31, 2018

Assets:

Investments in securities:

Cost - Unaffiliated issuers	\$167,154,032
Value - Unaffiliated issuers	\$141,088,229
Cash	101,156
Foreign currency, at value (cost \$32,830)	32,829

Receivables:

Capital shares sold	416,961
Dividends	542,509
European Union tax reclaims	48,563
Affiliates	9,339
Deposits with brokers for:	
Futures contracts	481,060
Unrealized appreciation on OTC forward exchange contracts	1,266,076
Other assets	25
Total assets	143,986,747

Liabilities:

Payables:

Capital shares redeemed	2,542,406
Management fees	55,213
Distribution fees	51,922
Trustees' fees and expenses	2,899
Variation margin on futures contracts	33,062
Unrealized depreciation on OTC forward exchange contracts	375,879
Accrued expenses and other liabilities	86,423
Total liabilities	3,147,804
Net assets, at value	\$140,838,943

Net assets consist of:

Paid-in capital	\$169,187,591
Total distributable earnings (loss)	(28,348,648)
Net assets, at value	\$140,838,943

FRANKLIN MUTUAL INTERNATIONAL FUND
FINANCIAL STATEMENTS

Statement of Assets and Liabilities (continued)

December 31, 2018

Class Z:

Net assets, at value	\$52,270,864
Shares outstanding	4,077,294
Net asset value and maximum offering price per share	\$12.82

Class A:

Net assets, at value	\$53,081,844
Shares outstanding	4,155,906
Net asset value per share ^a	\$12.77
Maximum offering price per share (net asset value per share ÷ 94.50%)	\$13.51

Class C:

Net assets, at value	\$13,684,904
Shares outstanding	1,078,950
Net asset value and maximum offering price per share ^a	\$12.68

Class R:

Net assets, at value	\$ 1,673,403
Shares outstanding	131,886
Net asset value and maximum offering price per share	\$12.69

Class R6:

Net assets, at value	\$20,127,928
Shares outstanding	1,570,140
Net asset value and maximum offering price per share	\$12.82

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

FRANKLIN MUTUAL INTERNATIONAL FUND
FINANCIAL STATEMENTS

Statement of Operations

for the year ended December 31, 2018

Investment income:	
Dividends: (net of foreign taxes)*	
Unaffiliated issuers	\$ 5,582,595
Interest:	
Unaffiliated issuers	207,564
Income from securities loaned:	
Unaffiliated issuers (net of fees and rebates)	6,629
Non-controlled affiliates (Note 3f)	679
Other income (Note 1f)	46,160
Total investment income	<u>5,843,627</u>
Expenses:	
Management fees (Note 3a)	1,710,684
Distribution fees: (Note 3c)	
Class A	178,557
Class C	232,026
Class R	9,902
Transfer agent fees: (Note 3e)	
Class Z	141,571
Class A	135,360
Class C	43,919
Class R	3,727
Class R6	19,765
Custodian fees (Note 4)	34,279
Reports to shareholders	44,465
Registration and filing fees	79,067
Professional fees	82,662
Trustees' fees and expenses	12,042
Other	30,250
Total expenses	2,758,276
Expense reductions (Note 4)	(2,379)
Expenses waived/paid by affiliates (Note 3f and 3g)	(440,885)
Net expenses	<u>2,315,012</u>
Net investment income	<u>3,528,615</u>
Realized and unrealized gains (losses):	
Net realized gain (loss) from:	
Investments:#	
Unaffiliated issuers	6,026,036
Foreign currency transactions	(32,809)
Forward exchange contracts	2,367,152
Futures contracts	1,559,890
Net realized gain (loss)	<u>9,920,269</u>
Net change in unrealized appreciation (depreciation) on:	
Investments:	
Unaffiliated issuers	(50,995,072)
Translation of other assets and liabilities	
denominated in foreign currencies	(18,751)
Forward exchange contracts	3,845,145
Futures contracts	396,088
Change in deferred taxes on unrealized appreciation	244,572
Net change in unrealized appreciation (depreciation)	<u>(46,528,018)</u>
Net realized and unrealized gain (loss)	<u>(36,607,749)</u>
Net increase (decrease) in net assets resulting from operations	<u>\$(33,079,134)</u>

*Foreign taxes withheld on dividends \$ 511,074
#Net of foreign taxes \$ 119,767

Statements of Changes in Net Assets

	Year Ended December 31,	
	2018	2017
Increase (decrease) in net assets:		
Operations:		
Net investment income	\$ 3,528,615	\$ 2,319,028
Net realized gain (loss)	9,920,269	(1,282,671)
Net change in unrealized appreciation (depreciation)	(46,528,018)	22,778,947
Net increase (decrease) in net assets resulting from operations	(33,079,134)	23,815,304
Distributions to shareholders: (Note 1g)		
Class Z	(1,369,385)	(1,857,997)
Class A	(1,270,437)	(1,574,566)
Class C	(150,699)	(348,684)
Class R	(35,634)	(35,346)
Class R6	(566,278)	(569,536)
Total distributions to shareholders	(3,392,433)	(4,386,129)
Capital share transactions: (Note 2)		
Class Z	(20,389,727)	39,322,326
Class A	(16,207,014)	(7,963,782)
Class C	(11,485,192)	226,100
Class R	206,051	1,060,015
Class R6	(724,964)	7,095,104
Total capital share transactions	(48,600,846)	39,739,763
Net increase (decrease) in net assets	(85,072,413)	59,168,938
Net assets:		
Beginning of year	225,911,356	166,742,418
End of year (Note 1g)	\$140,838,943	\$225,911,356

Notes to Financial Statements

1. Organization and Significant Accounting Policies

Franklin Mutual Series Funds (Trust) is registered under the Investment Company Act of 1940 (1940 Act) as an open-end management investment company, consisting of seven separate funds and applies the specialized accounting and reporting guidance in U.S. Generally Accepted Accounting Principles (U.S. GAAP). Franklin Mutual International Fund (Fund) is included in this report. The Fund offers five classes of shares: Class Z, Class A, Class C, Class R and Class R6. Beginning on October 19, 2018, Class C shares automatically convert to Class A shares after they have been held for 10 years. Each class of shares may differ by its initial sales load, contingent deferred sales charges, voting rights on matters affecting a single class, its exchange privilege and fees due to differing arrangements for distribution and transfer agent fees.

The following summarizes the Fund's significant accounting policies.

a. Financial Instrument Valuation

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

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

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

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

Investments in open-end mutual funds are valued at the closing NAV.

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

The Fund has procedures to determine the fair value of financial instruments for which market prices are not reliable or readily available. Under these procedures, the Fund primarily employs a market-based approach which may use related or comparable assets or liabilities, recent transactions, market multiples, book values, and other relevant information for the investment to determine the fair value of the investment. An income-based valuation approach may also be used in which the anticipated future cash flows of the investment are discounted to calculate fair value. Discounts may also be applied due to the nature or duration of any restrictions on the disposition of the 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. At December 31, 2018, a market event occurred resulting in a portion of the securities held by the Fund being valued using fair value procedures.

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 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. 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 Statement of Assets and Liabilities. Realized gain and loss and unrealized appreciation and depreciation on these contracts for the period are included in the Statement of Operations.

Derivative counterparty credit risk is managed through a formal evaluation of the creditworthiness of all potential counterparties. The Fund attempts to reduce its exposure to counterparty credit risk on OTC derivatives, whenever possible, by entering into International Swaps and Derivatives Association (ISDA) master agreements with certain counterparties. These agreements contain various provisions, including but not limited to collateral requirements, events of default, or early termination. Termination events applicable to

1. Organization and Significant Accounting Policies (continued)

c. Derivative Financial Instruments (continued)

the counterparty include certain deteriorations in the credit quality of the counterparty. Termination events applicable to the Fund include failure of the Fund to maintain certain net asset levels and/or limit the decline in net assets over various periods of time. In the event of default or early termination, the ISDA master agreement gives the non-defaulting party the right to net and close-out all transactions traded, whether or not arising under the ISDA agreement, to one net amount payable by one counterparty to the other. However, absent an event of default or early termination, OTC derivative assets and liabilities are presented gross and not offset in the Statement of Assets and Liabilities. Early termination by the counterparty may result in an immediate payment by the Fund of any net liability owed to that counterparty under the ISDA agreement.

Collateral requirements differ by type of derivative. Collateral or initial margin requirements are set by the broker or exchange clearing house for exchange traded and centrally cleared derivatives. Initial margin deposited is held at the exchange and can be in the form of cash and/or securities. For OTC derivatives traded under an ISDA master agreement, posting of collateral is required by either the Fund or the applicable counterparty if the total net exposure of all OTC derivatives with the applicable counterparty exceeds the minimum transfer amount, which typically ranges from \$100,000 to \$250,000, and can vary depending on the counterparty and the type of the agreement. Generally, collateral is determined at the close of Fund business each day and any additional collateral required due to changes in derivative values may be delivered by the Fund or the counterparty the next business day, or within a few business days. Collateral pledged and/or received by the Fund for OTC derivatives, if any, is held in segregated accounts with the Fund's custodian/counterparty broker and can be in the form of cash and/or securities. Unrestricted cash may be invested according to the Fund's investment objectives. To the extent that the amounts due to the Fund from its counterparties are not subject to collateralization or are not fully collateralized, the Fund bears the risk of loss from counterparty non-performance.

The Fund entered into exchange traded futures contracts primarily to manage exposure to certain foreign currencies. 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 Statement of Assets and Liabilities.

The Fund entered into OTC forward exchange contracts primarily to manage 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.

See Note 9 regarding other derivative information.

d. Securities Sold Short

The Fund is engaged in selling securities short, which obligates the Fund to replace a borrowed security with the same security at current fair value. The Fund incurs a loss if the price of the security increases between the date of the short sale and the date on which the Fund replaces the borrowed security. The Fund realizes a gain if the price of the security declines between those dates. Gains are limited to the price at which the Fund sold the security short, while losses are potentially unlimited in size.

The Fund is required to establish a margin account with the broker lending the security sold short. While the short sale is outstanding, the broker retains the proceeds of the short sale to the extent necessary to meet margin requirements until the short position is closed out. A deposit must also be maintained with the Fund's custodian/counterparty broker consisting of cash and/or securities having a value equal to a specified percentage of the value of the securities sold short. The Fund is obligated to pay fees for borrowing the securities sold short and is required to pay the counterparty any dividends and/or interest due on securities sold short. Such dividends and/or interest and any security borrowing fees are recorded as an expense to the Fund. At December 31, 2018, the Fund had no securities sold short.

e. Securities Lending

The Fund participates in an agency based securities lending program to earn additional income. The Fund receives cash collateral against the loaned securities in an amount equal to at least 102% of the fair value of the loaned securities. Collateral is maintained over the life of the loan in an amount not less than 100% of the fair value of loaned securities, as determined at the close of Fund business each day; any additional collateral required due to changes in security values is delivered to the Fund on the next business day. The collateral is deposited into a

joint cash account with other funds and is used to invest in a money market fund managed by Franklin Advisers, Inc., an affiliate of the Fund, and/or a joint repurchase agreement. The Fund may receive income from the investment of cash collateral, in addition to lending fees and rebates paid by the borrower. Income from securities loaned, net of fees paid to the securities lending agent and/or third-party vendor, is reported separately in the Statement of Operations. The Fund bears the market risk with respect to the collateral investment, securities loaned, and the risk that the agent may default on its obligations to the Fund. If the borrower defaults on its obligation to return the securities loaned, the Fund has the right to repurchase the securities in the open market using the collateral received. The securities lending agent has agreed to indemnify the Fund in the event of default by a third party borrower. At December 31, 2018, the Fund had no securities on loan.

f. 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.

As a result of several court cases, in certain countries across the European Union, the Fund filed additional tax reclaims for previously withheld taxes on dividends earned in those countries (EU reclaims). These additional filings are subject to various administrative proceedings by the local jurisdictions' tax authorities within the European Union, as well as a number of related judicial proceedings. Income recognized, if any, for EU reclaims is reflected as other income in the Statement of Operations and any related receivable, if any, is reflected as European Union tax reclaims in the Statement of Assets and Liabilities. When uncertainty exists as to the ultimate resolution of these proceedings, the likelihood of receipt of these EU

reclaims, and the potential timing of payment, no amounts are reflected in the financial statements. For U.S. income tax purposes, EU reclaims received by the Fund, if any, reduce the amounts of foreign taxes Fund shareholders can use as tax credits in their individual income tax returns.

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 December 31, 2018, 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.

g. 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. 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.

1. Organization and Significant Accounting Policies (continued)

g. Security Transactions, Investment Income, Expenses and Distributions (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.

h. 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.

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

For the year ended December 31, 2017, distributions to shareholders were as follows:

Distributions from net investment income :	
Class Z	\$(1,857,997)
Class A	(1,574,566)
Class C	(348,684)
Class R	(35,346)
Class R6	(569,536)

For the year ended December 31, 2017, distributions in excess of net investment income included in net assets was \$(2,125,110).

2. Shares of Beneficial Interest

At December 31, 2018, there were an unlimited number of shares authorized (without par value). Transactions in the Fund's shares were as follows:

	Year Ended December 31,			
	2018		2017	
	Shares	Amount	Shares	Amount
Class Z Shares:				
Shares sold	2,069,714	\$ 29,602,759	3,534,237	\$ 54,797,744
Shares issued in reinvestment of distributions	104,086	1,342,966	114,066	1,815,700
Shares redeemed	(3,501,255)	(51,335,452)	(1,098,953)	(17,291,118)
Net increase (decrease)	(1,327,455)	\$(20,389,727)	2,549,350	\$ 39,322,326

	Year Ended December 31,			
	2018		2017	
	Shares	Amount	Shares	Amount
Class A Shares:				
Shares sold ^a	1,021,682	\$ 15,233,084	1,959,536	\$ 30,501,176
Shares issued in reinvestment of distributions	97,868	1,258,830	98,350	1,558,023
Shares redeemed	(2,182,962)	(32,698,928)	(2,635,900)	(40,022,981)
Net increase (decrease)	(1,063,412)	\$(16,207,014)	(578,014)	\$ (7,963,782)
Class C Shares:				
Shares sold	222,976	\$ 3,422,701	572,952	\$ 8,653,851
Shares issued in reinvestment of distributions	11,409	150,533	22,302	348,313
Shares redeemed ^a	(1,010,609)	(15,058,426)	(577,334)	(8,776,064)
Net increase (decrease)	(776,224)	\$(11,485,192)	17,920	\$ 226,100
Class R Shares:				
Shares sold	50,432	\$ 776,090	113,248	\$ 1,751,799
Shares issued in reinvestment of distributions	2,782	35,634	2,245	35,346
Shares redeemed	(39,495)	(605,673)	(46,246)	(727,130)
Net increase (decrease)	13,719	\$ 206,051	69,247	\$ 1,060,015
Class R6 Shares:				
Shares sold	360,960	\$ 5,502,994	685,257	\$ 10,863,178
Shares issued in reinvestment of distributions	44,003	566,278	35,752	569,536
Shares redeemed	(443,682)	(6,794,236)	(277,679)	(4,337,610)
Net increase (decrease)	(38,719)	\$ (724,964)	443,330	\$ 7,095,104

^aMay 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 Fund are also officers and/or directors of the following subsidiaries:

Subsidiary	Affiliation
Franklin Mutual Advisers, LLC (Franklin Mutual)	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 Franklin Mutual of 0.875% per year of the average daily net assets of the Fund.

b. Administrative Fees

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

3. Transactions with Affiliates (continued)

c. Distribution Fees

The Board has adopted distribution plans for each share class, with the exception of Class Z and Class R6 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	0.35%
Class C	1.00%
Class R	0.50%

The Board has set the current rate at 0.25% per year for Class A shares until further notice and approval by the Board.

d. Sales Charges/Underwriting Agreements

Front-end sales charges and contingent deferred sales charges (CDSC) do not represent expenses of the Fund. These charges are deducted from the proceeds of sales of Fund shares prior to investment or from redemption proceeds prior to remittance, as applicable. Distributors has advised the Fund of the following commission transactions related to the sales and redemptions of the Fund’s shares for the year:

Sales charges retained net of commissions paid to unaffiliated brokers/dealers	\$15,376
CDSC retained	\$ 1,741

Effective September 10, 2018, the Board approved changes to certain front-end sales charges and dealer commissions on Class A shares. Further details are disclosed in the Fund’s Prospectus.

e. Transfer Agent Fees

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

For the year ended December 31, 2018, the Fund paid transfer agent fees of \$344,342, of which \$165,784 was retained by Investor Services.

f. Investments in Affiliated Management Investment Companies

The Fund invests in one or more affiliated management investment companies for purposes other than exercising a controlling influence over the management or policies. Management fees paid by the Fund are waived on assets invested in the affiliated management investment companies, as noted in the Statement of Operations, in an amount not to exceed the management and administrative fees paid directly or indirectly by each affiliate. During the year ended December 31, 2018, the Fund held investments in affiliated management investment companies as follows:

	Number of Shares Held at Beginning of Year	Gross Additions	Gross Reductions	Number of Shares Held at End of Year	Value at End of Year	Income from securities loaned	Realized Gain (Loss)	Net Change in Unrealized Appreciation (Depreciation)
Non-Controlled Affiliates								
Institutional Fiduciary Trust Money Market Portfolio, 1.99%	—	1,357,000	(1,357,000)	—	\$ —	\$679	\$ —	\$ —

g. Waiver and Expense Reimbursements

Franklin Mutual and Investor Services have contractually agreed in advance to waive or limit their respective fees and to assume as their own expense certain expenses otherwise payable by the Fund so that the expenses (excluding distribution fees, acquired fund fees and expenses and certain non-routine expenses or costs, including those relating to litigation, indemnification, reorganizations, and liquidations) for each class of the Fund do not exceed 0.97% and Class R6 does not exceed 0.83% based on the average net assets of each class until April 30, 2019. Total expenses waived or paid are not subject to recapture subsequent to the Fund’s fiscal year end.

Prior to May 1, 2018, the expenses (excluding certain fees and expenses as previously disclosed) for Class R6 were limited to 0.81% based on the average net assets of the class.

Prior to February 1, 2018, the expenses (excluding certain fees and expenses as previously disclosed) for each class of the Fund were limited to 1.17% and expenses for Class R6 were limited to 1.01% based on the average net assets of each class.

h. Other Affiliated Transactions

At December 31, 2018, one or more of the funds in Franklin Fund Allocator Series owned 9.4% of the Fund’s outstanding shares.

4. Expense Offset Arrangement

The Fund has entered into an arrangement with its custodian whereby credits realized as a result of uninvested cash balances are used to reduce a portion of the Fund’s custodian expenses. During the year ended December 31, 2018, the custodian fees were reduced as noted in the Statement of Operations.

5. Independent Trustees’ Retirement Plan

On January 1, 1993, the Trust adopted an Independent Trustees’ Retirement Plan (Plan). The Plan is an unfunded defined benefit plan that provides benefit payments to Trustees whose length of service and retirement age meets the eligibility requirements of the Plan. Benefits under the Plan are based on years of service and fees paid to each trustee at the time of retirement. Effective in December 1996, the Plan was closed to new participants.

During the year ended December 31, 2018, the Fund’s projected benefit obligation and benefit payments under the Plan were as follows:

^aProjected benefit obligation at December 31, 2018 \$2,899

5. Independent Trustees' Retirement Plan (continued)

^b Increase in projected benefit obligation	\$2,801
Benefit payments made to retired trustees	\$ (217)

^aThe projected benefit obligation is included in trustees' fees and expenses in the Statement of Assets and Liabilities.

^bThe increase in projected benefit obligation is included in trustees' fees and expenses in the Statement of Operations.

6. Income Taxes

During the year ended December 31, 2018 the Fund utilized \$13,950,672 of capital loss carryforwards.

For tax purposes, the Fund may elect to defer any portion of a post-October capital loss or late-year ordinary loss to the first day of the following fiscal year. At December 31, 2018, the Fund deferred post-October capital losses of \$1,395,980 and late-year ordinary losses of \$217,602.

The tax character of distributions paid during the years ended December 31, 2018 and 2017, was as follows:

	2018	2017
Distributions paid from:		
Ordinary income	\$2,390,052	\$ 4,386,129
Long term capital gain	1,002,381	—
	<u>\$3,392,433</u>	<u>\$ 4,386,129</u>

At December 31, 2018, the cost of investments, net unrealized appreciation (depreciation) and undistributed long term capital gains for income tax purposes were as follows:

Cost of investments	<u>\$168,992,098</u>
Unrealized appreciation	\$ 5,793,363
Unrealized depreciation	(32,792,185)
Net unrealized appreciation (depreciation)	<u>\$ (26,998,822)</u>
Distributable earnings:	
Undistributed long term capital gains	<u>\$ 278,184</u>

Differences between income and/or capital gains as determined on a book basis and a tax basis are primarily due to differing treatments of foreign currency transactions and passive foreign investment company shares.

The Fund utilized a tax accounting practice to treat a portion of the proceeds from capital shares redeemed as a distribution from realized capital gains.

7. Investment Transactions

Purchases and sales of investments (excluding short term securities) for the year ended December 31, 2018, aggregated \$52,576,950 and \$92,892,733, respectively.

8. Concentration of Risk

Investing in foreign securities may include certain risks and considerations not typically associated with investing in U.S. securities, such as fluctuating currency values and changing local and regional economic, political and social conditions, which may result in greater market volatility. Current political and financial uncertainty surrounding the European Union may increase market volatility and the economic risk of investing in securities in Europe. In addition, certain foreign securities may not be as liquid as U.S. securities.

9. Other Derivative Information

At December 31, 2018, the Fund's investments in derivative contracts are reflected in the Statement of Assets and Liabilities as follows:

Derivative Contracts Not Accounted for as Hedging Instruments	Asset Derivatives		Liability Derivatives	
	Statement of Assets and Liabilities Location	Fair Value	Statement of Assets and Liabilities Location	Fair Value
Foreign exchange contracts	Variation margin on futures contracts	\$ 14,132 ^a	Variation margin on futures contracts	\$ —
	Unrealized appreciation on OTC forward exchange contracts	1,266,076	Unrealized depreciation on OTC forward exchange contracts	375,879
Totals		<u>\$1,280,208</u>		<u>\$375,879</u>

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

For the year ended December 31, 2018, the effect of derivative contracts in the Fund's Statement of Operations was as follows:

Derivative Contracts Not Accounted for as Hedging Instruments	Statement of Operations Location	Net Realized Gain (Loss) for the Year	Statement of Operations Location	Net Change in Unrealized Appreciation (Depreciation) for the Year
	Net realized gain (loss) from:		Net change in unrealized appreciation (depreciation) on:	
Foreign exchange contracts . . .	Forward exchange contracts	\$2,367,152	Forward exchange contracts	\$3,845,145
	Futures contracts	1,559,890	Futures contracts	396,088
Totals		<u>\$3,927,042</u>		<u>\$4,241,233</u>

For the year ended December 31, 2018, the average month end notional amount of futures contracts represented \$25,919,681. The average month end contract value of forward exchange contracts was \$122,720,122.

At December 31, 2018, the Fund's OTC derivative assets and liabilities are as follows:

	Gross Amounts of Assets and Liabilities Presented in the Statement of Assets and Liabilities	
	Assets ^a	Liabilities ^a
Derivatives		
Forward exchange contracts	\$1,266,076	\$375,879

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

9. Other Derivative Information (continued)

At December 31, 2018, the Fund's OTC derivative assets, which may be offset against the Fund's OTC derivative liabilities and collateral received from the counterparty, are as follows:

	Gross Amounts of Assets Presented in the Statement of Assets and Liabilities	Amounts Not Offset in the Statement of Assets and Liabilities			Net Amount (Not less than zero)
		Financial Instruments Available for Offset	Financial Instruments Collateral Received ^{a,b}	Cash Collateral Received	
Counterparty					
BOFA	\$ 106,863	\$ —	\$(106,863)	\$ —	\$ —
BONY	183,714	(84,192)	(99,522)	—	—
HSBK	43,129	(5,770)	(26,251)	—	11,108
SSBT	751,777	—	(751,777)	—	—
UBSW	180,593	(180,593)	—	—	—
Total	\$1,266,076	\$(270,555)	\$(984,413)	\$ —	\$11,108

At December 31, 2018, the Fund's OTC derivative liabilities, which may be offset against the Fund's OTC derivative assets and collateral pledged to the counterparty, are as follows:

	Gross Amounts of Liabilities Presented in the Statement of Assets and Liabilities	Amounts Not Offset in the Statement of Assets and Liabilities			Net Amount (Not less than zero)
		Financial Instruments Available for Offset	Financial Instruments Collateral Pledged	Cash Collateral Pledged	
Counterparty					
BOFA	\$ —	\$ —	\$ —	\$ —	\$ —
BONY	84,192	(84,192)	—	—	—
HSBK	5,770	(5,770)	—	—	—
SSBT	—	—	—	—	—
UBSW	285,917	(180,593)	—	—	105,324
Total	\$375,879	\$(270,555)	\$ —	\$ —	\$105,324

^aAt December 31, 2018, the Fund received U.K. Treasury Bonds and U.S. Treasury Bills, Bonds and Notes as collateral for derivatives.

^bIn some instances, the collateral amounts disclosed in the table above were adjusted due to the requirement to limit the 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(c) regarding derivative financial instruments.

See Abbreviations on page 38.

10. 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 matured on February 8, 2019. 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. Effective February 8, 2019, the Borrowers renewed the Global Credit Facility for a one year term, maturing February 7, 2020, for a total of \$2 billion.

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 Statement of Operations. During the year ended December 31, 2018, the Fund did not use the Global Credit Facility.

11. Fair Value Measurements

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

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

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

A summary of inputs used as of December 31, 2018, in valuing the Fund's assets and liabilities carried at fair value, is as follows:

	Level 1	Level 2	Level 3	Total
Assets:				
Investments in Securities: ^a				
Equity Investments: ^b				
Automobiles	\$ 2,963,216	\$ 2,169,647	\$ —	\$ 5,132,863
Banks	11,887,810	4,530,802	—	16,418,612
Capital Markets	805,227	4,145,374	—	4,950,601
Chemicals	—	1,962,158	—	1,962,158
Construction Materials	—	2,360,421	—	2,360,421
Consumer Finance	1,359,769	2,046,577	—	3,406,346
Oil, Gas & Consumable Fuels	11,619,116	1,701,826	—	13,320,942
Pharmaceuticals	4,065,296	4,896,957	—	8,962,253
Specialty Retail	—	3,891,297	—	3,891,297
All Other Equity Investments	69,003,115	—	—	69,003,115
Short Term Investments	8,979,621	2,700,000	—	11,679,621
Total Investments in Securities	\$ 110,683,170	\$ 30,405,059	\$ —	\$ 141,088,229
Other Financial Instruments:				
Futures Contracts	\$ 14,132	\$ —	\$ —	\$ 14,132
Forward Exchange Contracts	—	1,266,076	—	1,266,076
Total Other Financial Instruments	\$ 14,132	\$ 1,266,076	\$ —	\$ 1,280,208
Liabilities:				
Other Financial Instruments:				
Forward Exchange Contracts	\$ —	\$ 375,879	\$ —	\$ 375,879

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

^bIncludes common and preferred stocks.

12. New Accounting Pronouncements

In August 2018, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2018-14, Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans. The amendments in the ASU modify the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. The ASU is effective for annual reporting periods ending after December 15, 2020. Management is currently evaluating the impact, if any, of applying this provision.

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 other than those already disclosed in the financial statements.

Abbreviations

Counterparty	Currency	Selected Portfolio
BOFA Bank of America Corp.	EUR Euro	ADR American Depositary Receipt
BONY The Bank of New York Mellon Corp.	GBP British Pound	FHLB Federal Home Loan Bank
HSBK HSBC Bank PLC	USD United States Dollar	
SSBT State Street Bank and Trust Co., N.A.		
UBSW UBS AG		

Report of Independent Registered Public Accounting Firm

To the Board of Trustees of Franklin Mutual Series Funds and Shareholders of Franklin Mutual International Fund:

Opinion on the Financial Statements

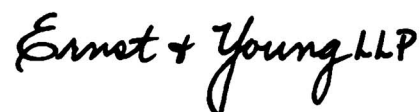
We have audited the accompanying statement of assets and liabilities of Franklin Mutual International Fund (the "Fund") (one of the funds constituting Franklin Mutual Series Funds), including the schedule of investments, as of December 31, 2018, and the related statement of operations for the year then ended, the statements of changes in net assets for each of the two years in the period then ended, the financial highlights for each of the five years in the period then ended and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of Franklin Mutual International Fund (one of the funds constituting Franklin Mutual Series Funds) at December 31, 2018, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended and its financial highlights for each of the five years in the period then ended, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

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

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Fund is not required to have, nor were we engaged to perform, an audit of the Fund's internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of December 31, 2018, by correspondence with the custodian and brokers. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.



We have served as the auditor of one or more Franklin investment companies since 1987.

Boston, Massachusetts
February 20, 2019

Tax Information (unaudited)

Under Section 852(b)(3)(C) of the Internal Revenue Code, the Fund hereby reports the maximum amount allowable but no less than \$1,220,154 as a long term capital gain dividend for the fiscal year ended December 31, 2018.

Under Section 854(b)(1)(B) of the Internal Revenue Code, the Fund hereby reports the maximum amount allowable but no less than \$4,887,764 as qualified dividends for purposes of the maximum rate under Section 1(h)(11) of the Internal Revenue Code for the fiscal year ended December 31, 2018. Distributions, including qualified dividend income, paid during calendar year 2018 will be reported to shareholders on Form 1099-DIV by mid-February 2019. Shareholders are advised to check with their tax advisors for information on the treatment of these amounts on their individual income tax returns.

At December 31, 2018, more than 50% of the Fund's total assets were invested in securities of foreign issuers. In most instances, foreign taxes were withheld from income paid to the Fund on these investments. As shown in the table below, the Fund hereby reports to shareholders the foreign source income and foreign taxes paid, pursuant to Section 853 of the Internal Revenue Code. This written statement will allow shareholders of record on December 20, 2018, to treat their proportionate share of foreign taxes paid by the Fund as having been paid directly by them. The shareholder shall consider these amounts as foreign taxes paid in the tax year in which they receive the Fund distribution.

The following table provides a detailed analysis of foreign tax paid, foreign source income and foreign source qualified dividends as reported by the Fund, to Class Z, Class A, Class C, Class R and Class R6 shareholders of record.

Class	Foreign Tax Paid Per Share	Foreign Source Income Per Share	Foreign Source Qualified Dividends Per Share
Class Z	\$0.0555	\$0.3726	\$0.2986
Class A	\$0.0555	\$0.3314	\$0.2653
Class C	\$0.0555	\$0.1490	\$0.1193
Class R	\$0.0555	\$0.3000	\$0.2403
Class R6	\$0.0555	\$0.4013	\$0.3214

Foreign Tax Paid Per Share (Column 1) is the amount per share available to you, as a tax credit (assuming you held your shares in the Fund for a minimum of 16 days during the 31-day period beginning 15 days before the ex-dividend date of the Fund's distribution to which the foreign taxes relate), or, as a tax deduction.

Foreign Source Income Per Share (Column 2) is the amount per share of income dividends attributable to foreign securities held by the Fund, plus any foreign taxes withheld on these dividends. The amounts reported include foreign source qualified dividends that have not been adjusted for the rate differential applicable to such dividend income.¹

Foreign Source Qualified Dividends Per Share (Column 3) is the amount per share of foreign source qualified dividends, plus any foreign taxes withheld on these dividends. These amounts represent the portion of the Foreign Source Income reported to you in column 2 that were derived from qualified foreign securities held by the Fund.¹

By mid-February 2019, shareholders will receive Form 1099-DIV which will include their share of taxes paid and foreign source income distributed during the calendar year 2018. The Foreign Source Income reported on Form 1099-DIV has not been adjusted for the rate differential on foreign source qualified dividend income. Shareholders are advised to check with their tax advisors for information on the treatment of these amounts on their 2018 individual income tax returns.

¹Qualified dividends are taxed at reduced long term capital gains tax rates. In determining the amount of foreign tax credit that may be applied against the U.S. tax liability of individuals receiving foreign source qualified dividends, adjustments may be required to the foreign tax credit limitation calculation to reflect the rate differential applicable to such dividend income. The rules however permit certain individuals to elect not to apply the rate differential adjustments for capital gains and/or dividends for any taxable year. Please consult your tax advisor and the instructions to Form 1116 for more information.

Board Members and Officers

The name, year of birth and address of the officers and board members, as well as their affiliations, positions held with the Trust, principal occupations during at least the past five years and number of U.S. registered portfolios overseen in the Franklin Templeton Investments fund complex, are shown below. Generally, each board member serves until that person's successor is elected and qualified.

Independent Board Members

Name, Year of Birth and Address	Position	Length of Time Served	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years
Edward I. Altman, Ph.D. (1941) c/o Franklin Mutual Advisers, LLC 101 John F. Kennedy Parkway Short Hills, NJ 07078-2716	Trustee	Since 1987	14	None
Principal Occupation During at Least the Past 5 Years: Max L. Heine Professor of Finance, Emeritus and Director of The Credit and Debt Markets Research Program, Salomon Center, Stern School of Business, New York University; editor and author of numerous financial publications; financial consultant; an adviser to numerous financial and publishing organizations; and formerly , Vice Director, Salomon Center, Stern School of Business, New York University.				
Ann Torre Bates (1958) c/o Franklin Mutual Advisers, LLC 101 John F. Kennedy Parkway Short Hills, NJ 07078-2716	Trustee	Since 1995	38	Ares Capital Corporation (specialty finance company) (2010-present), United Natural Foods, Inc. (distributor of natural, organic and specialty foods) (2013-present), Allied Capital Corporation (financial services) (2003-2010), SLM Corporation (Sallie Mae) (1997-2014) and Navient Corporation (loan management, servicing and asset recovery) (2014-2016).
Principal Occupation During at Least the Past 5 Years: Director of various companies; and formerly , Executive Vice President and Chief Financial Officer, NHP Incorporated (manager of multifamily housing) (1995-1997); and Vice President and Treasurer, US Airways, Inc. (until 1995).				
Burton J. Greenwald (1929) c/o Franklin Mutual Advisers, LLC 101 John F. Kennedy Parkway Short Hills, NJ 07078-2716	Trustee and Vice Chairman	Trustee since 2002 and Vice Chairman since 2015	14	Franklin Templeton Emerging Markets Debt Opportunities Fund PLC (1999-present) and Fiduciary International Ireland Limited (1999-2015).
Principal Occupation During at Least the Past 5 Years: Managing Director, B.J. Greenwald Associates (management consultants to the financial services industry); and formerly , Chairman, Fiduciary Trust International Funds; Executive Vice President, L.F. Rothschild Fund Management, Inc.; President and Director, Merit Mutual Funds; President, Underwriting Division and Director, National Securities & Research Corporation; Governor, Investment Company Institute; and Chairman, ICI Public Information Committee.				
Jan Hopkins Trachtman (1947) c/o Franklin Mutual Advisers, LLC 101 John F. Kennedy Parkway Short Hills, NJ 07078-2716	Trustee	Since 2009	14	FinTech Acquisition Corp. III (special purpose fintech acquisition company) (2018-present)
Principal Occupation During at Least the Past 5 Years: President and Founder, The Jan Hopkins Group (communications consulting firm); serves on Advisory Board of Knight Bagehot Fellowship; and formerly , President, Economic Club of New York (2007-2015); Anchor/Correspondent, CNN Financial News (until 2003); Managing Director and Head of Client Communications, Citigroup Private Bank (until 2005); Off-Air reporter, ABC News' World News Tonight; and Editor, CBS Network News.				
Keith Mitchell (1954) c/o Franklin Mutual Advisers, LLC 101 John F. Kennedy Parkway Short Hills, NJ 07078-2716	Trustee	Since 2009	14	None
Principal Occupation During at Least the Past 5 Years: Director of various boards of asset management firms; and formerly , Managing Member, Mitchell, Hartley & Bechtel Advisers, LLC (formerly, Mitchell Advisers, LLC) (advisory firm) (2003-2015) and Managing Director, Putman Lovell NBF.				

Independent Board Members (continued)

Name, Year of Birth and Address	Position	Length of Time Served	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years
David W. Niemiec (1949) c/o Franklin Mutual Advisers, LLC 101 John F. Kennedy Parkway Short Hills, NJ 07078-2716	Trustee	Since 2015	38	Hess Midstream Partners LP (oil and gas midstream infrastructure) (2017-present).
Principal Occupation During at Least the Past 5 Years: Advisor, Saratoga Partners (private equity fund); and formerly , Managing Director, Saratoga Partners (1998-2001) and SBC Warburg Dillon Read (investment banking) (1997-1998); Vice Chairman, Dillon, Read & Co. Inc. (investment banking) (1991-1997); and Chief Financial Officer, Dillon, Read & Co. Inc. (1982-1997).				
Charles Rubens II (1930) c/o Franklin Mutual Advisers, LLC 101 John F. Kennedy Parkway Short Hills, NJ 07078-2716	Trustee	Since 1998	14	None
Principal Occupation During at Least the Past 5 Years: Private investor and president of non-profit organizations; and formerly , an executive of Time, Inc.; and Trustee of Colorado College.				
Robert E. Wade (1946) c/o Franklin Mutual Advisers, LLC 101 John F. Kennedy Parkway Short Hills, NJ 07078-2716	Trustee and Chairman of the Board	Trustee since 1993 and Chairman of the Board since 2005	38	El Oro Ltd (investments) (2003-present).
Principal Occupation During at Least the Past 5 Years: Attorney at law engaged in private practice as a sole practitioner (1972-2008) and member of various boards.				
Gregory H. Williams (1943) c/o Franklin Mutual Advisers, LLC 101 John F. Kennedy Parkway Short Hills, NJ 07078-2716	Trustee	Since 2015	14	None
Principal Occupation During at Least the Past 5 Years: Private investor; Consultant; and formerly , President, University of Cincinnati (2009-2012); President, The City College of New York (2001-2009); Dean, College of Law, Ohio State University (1993-2001); and Associate Vice President, Academic Affairs and Professor of Law, University of Iowa (1977-1993).				

Interested Board Members and Officers

Name, Year of Birth and Address	Position	Length of Time Served	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years
**Gregory E. Johnson (1961) One Franklin Parkway San Mateo, CA 94403-1906	Trustee	Since 2007	150	None
Principal Occupation During at Least the Past 5 Years: Chairman of the Board, Member – Office of the Chairman, Director and Chief Executive Officer, Franklin Resources, Inc.; officer and/or director or trustee, as the case may be, of some of the other subsidiaries of Franklin Resources, Inc. and of 42 of the investment companies in Franklin Templeton Investments; Vice Chairman, Investment Company Institute; and formerly , President, Franklin Resources, Inc. (1994-2015).				
**Peter A. Langerman (1955) c/o Franklin Mutual Advisers, LLC 101 John F. Kennedy Parkway Short Hills, NJ 07078-2716	Trustee, President, and Chief Executive Officer – Investment Management	Trustee since 2007, President, and Chief Executive Officer – Investment Management since 2005	7	American International Group, Inc. (AIG) Credit Facility Trust (2010-2011).
Principal Occupation During at Least the Past 5 Years: Chairman of the Board, Chief Executive Officer and President, Franklin Mutual Advisers, LLC; President and Chief Investment Officer, Franklin Advisory Services, LLC; and officer and/or director, as the case may be, of three of the investment companies in Franklin Templeton Investments.				

Interested Board Members and Officers (continued)

Name, Year of Birth and Address	Position	Length of Time Served	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years
Alison E. Baur (1964) One Franklin Parkway San Mateo, CA 94403-1906	Vice President	Since 2012	Not Applicable	Not Applicable
Principal Occupation During at Least the Past 5 Years: Deputy General Counsel, Franklin Templeton Investments; and officer of some of the other subsidiaries of Franklin Resources, Inc. and of 44 of the investment companies in Franklin Templeton Investments.				
Aliya S. Gordon (1973) One Franklin Parkway San Mateo, CA 94403-1906	Vice President	Since 2009	Not Applicable	Not Applicable
Principal Occupation During at Least the Past 5 Years: Senior Associate General Counsel, Franklin Templeton Investments; and officer of 44 of the investment companies in Franklin Templeton Investments.				
Steven J. Gray (1955) One Franklin Parkway San Mateo, CA 94403-1906	Vice President and Secretary	Vice President since 2009 and Secretary since 2005	Not Applicable	Not Applicable
Principal Occupation During at Least the Past 5 Years: Senior Associate General Counsel, Franklin Templeton Investments; Vice President, Franklin Templeton Distributors, Inc. and FASA, LLC; and officer of 44 of the investment companies in Franklin Templeton Investments.				
Matthew T. Hinkle (1971) One Franklin Parkway San Mateo, CA 94403-1906	Chief Executive Officer – Finance and Administration	Since 2017	Not Applicable	Not Applicable
Principal Occupation During at Least the Past 5 Years: Senior Vice President, Franklin Templeton Services, LLC; officer of 44 of the investment companies in Franklin Templeton Investments; and formerly , Vice President, Global Tax (2012-April 2017) and Treasurer/Assistant Treasurer, Franklin Templeton Investments (2009-2017).				
Robert G. Kubilis (1973) 300 S.E. 2nd Street Fort Lauderdale, FL 33301-1923	Chief Financial Officer, Chief Accounting Officer and Treasurer	Since 2012	Not Applicable	Not Applicable
Principal Occupation During at Least the Past 5 Years: Treasurer, U.S. Fund Administration & Reporting, Franklin Templeton Investments; and officer of 16 of the investment companies in Franklin Templeton Investments.				
Robert Lim (1948) One Franklin Parkway San Mateo, CA 94403-1906	Vice President – AML Compliance	Since 2016	Not Applicable	Not Applicable
Principal Occupation During at Least the Past 5 Years: Vice President, Franklin Templeton Companies, LLC; Chief Compliance Officer, Franklin Templeton Distributors, Inc. and Franklin Templeton Investor Services, LLC; and officer of 44 of the investment companies in Franklin Templeton Investments.				
Kimberly H. Novotny (1972) 300 S.E. 2nd Street Fort Lauderdale, FL 33301-1923	Vice President	Since 2013	Not Applicable	Not Applicable
Principal Occupation During at Least the Past 5 Years: Associate General Counsel, Franklin Templeton Investments; Vice President and Corporate Secretary, Fiduciary Trust International of the South; Vice President, Templeton Investment Counsel, LLC; Assistant Secretary, Franklin Resources, Inc.; and officer of 44 of the investment companies in Franklin Templeton Investments.				

Interested Board Members and Officers (continued)

Name, Year of Birth and Address	Position	Length of Time Served	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years
Robert C. Rosselot (1960) 300 S.E. 2nd Street Fort Lauderdale, FL 33301-1923	Chief Compliance Officer	Since 2013	Not Applicable	Not Applicable
Principal Occupation During at Least the Past 5 Years: Director, Global Compliance, Franklin Templeton Investments; Vice President, Franklin Templeton Companies, LLC; officer of 44 of the investment companies in Franklin Templeton Investments; and formerly , Senior Associate General Counsel, Franklin Templeton Investments (2007-2013); and Secretary and Vice President, Templeton Group of Funds (2004-2013).				
Navid J. Tofigh (1972) One Franklin Parkway San Mateo, CA 94403-1906	Vice President	Since 2015	Not Applicable	Not Applicable
Principal Occupation During at Least the Past 5 Years: Associate General Counsel, Franklin Templeton Investments; and officer of 44 of the investment companies in Franklin Templeton Investments.				
Craig S. Tyle (1960) One Franklin Parkway San Mateo, CA 94403-1906	Vice President	Since 2005	Not Applicable	Not Applicable
Principal Occupation During at Least the Past 5 Years: General Counsel and Executive Vice President, Franklin Resources, Inc.; and officer of some of the other subsidiaries of Franklin Resources, Inc. and of 44 of the investment companies in Franklin Templeton Investments.				
Lori A. Weber (1964) 300 S.E. 2nd Street Fort Lauderdale, FL 33301-1923	Vice President	Since 2011	Not Applicable	Not Applicable
Principal Occupation During at Least the Past 5 Years: Senior Associate General Counsel, Franklin Templeton Investments; Assistant Secretary, Franklin Resources, Inc.; Vice President and Secretary, Templeton Investment Counsel, LLC; and officer of 44 of the investment companies in Franklin Templeton Investments.				

*We base the number of portfolios on each separate series of the U.S. registered investment companies within the Franklin Templeton Investments fund complex. These portfolios have a common investment manager or affiliated investment managers.

**Gregory E. Johnson is considered to be an interested person of the Fund under the federal securities laws due to his position as an officer and director of Franklin Resources, Inc. (Resources), which is the parent company of the Fund's investment manager and distributor. Peter A. Langerman is considered to be an interested person of the Fund under the federal securities laws due to his position as an officer of Franklin Mutual Advisers, LLC, which is the Fund's investment manager.

Note 1: Officer information is current as of the date of this report. It is possible that after this date, information about officers may change.

The Sarbanes-Oxley Act of 2002 and Rules adopted by the U.S. Securities and Exchange Commission require the Fund to disclose whether the Fund's Audit Committee includes at least one member who is an audit committee financial expert within the meaning of such Act and Rules. The Fund's Board has determined that there is at least one such financial expert on the Audit Committee and has designated each of Edward I. Altman, Ph.D., Ann Torre Bates and David W. Niemiec as an audit committee financial expert. The Board believes that Messrs. Altman and Niemiec and Ms. Bates qualify as such an expert in view of their extensive business background and experience. Mr. Altman has served as a member of the Fund Audit Committee since 1987. He currently serves as a Max L. Hine Professor of Finance, Emeritus and Director of The Credit and Debt Markets Research Program, Salomon Center, Stern School of Business, New York University. Ms. Bates has served as a member of the Fund Audit Committee since 1995. She currently serves as a director of Ares Capital Corporation (2010-present) and United Natural Foods, Inc. (2013-present) and was formerly a director of Navient Corporation from 2014 to 2016, SLM Corporation from 1997 to 2014 and Allied Capital Corporation from 2003 to 2010, Executive Vice President and Chief Financial Officer of NHP Incorporated from 1995 to 1997 and Vice President and Treasurer of US Airways, Inc. until 1995. Mr. Niemiec has served as a member of the Fund Audit Committee since 2015, currently serves as an Advisor to Saratoga Partners and was formerly its Managing Director from 1998 to 2001 and serves as a director of Hess Midstream Partners LP (2017-present). Mr. Niemiec was formerly a director of Emeritus Corporation from 1999 to 2010 and OSI Pharmaceuticals, Inc. from 2006 to 2010, Managing Director of SBC Warburg Dillon Read from 1997 to 1998, and was Vice Chairman from 1991 to 1997 and Chief Financial Officer from 1982 to 1997 of Dillon, Read & Co. Inc. As a result of such background and experience, the Board believes that Messrs. Altman and Niemiec and Ms. Bates have each acquired an understanding of generally accepted accounting principles and financial statements, the general application of such principles in connection with the accounting estimates, accruals and reserves, and analyzing and evaluating financial statements that present a breadth and level of complexity of accounting issues generally comparable to those of the Fund, as well as an understanding of internal controls and procedures for financial reporting and an understanding of audit committee functions. Messrs. Altman and Niemiec and Ms. Bates are independent Board members as that term is defined under the applicable U.S. Securities and Exchange Commission Rules and Releases.

The Statement of Additional Information (SAI) includes additional information about the board members and is available, without charge, upon request. Shareholders may call (800) DIAL BEN/342-5236 to request the SAI.

Shareholder Information

Proxy Voting Policies and Procedures

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

Quarterly Statement of Investments

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

Householding of Reports and Prospectuses

You will receive the Fund's financial reports every six months as well as an annual updated summary prospectus (prospectus available upon request). To reduce Fund expenses, we try to identify related shareholders in a household and send only one copy of the financial reports and summary prospectus. This process, called "householding," will continue indefinitely unless you instruct us otherwise. If you prefer not to have these documents househanded, please call us at (800) 632-2301. At any time you may view current prospectuses/summary prospectuses and financial reports on our website. If you choose, you may receive these documents through electronic delivery.

This page intentionally left blank.

This page intentionally left blank.



**FRANKLIN
TEMPLETON**

**Annual Report and Shareholder Letter
Franklin Mutual International Fund**

Investment Manager

Franklin Mutual Advisers, LLC

Distributor

Franklin Templeton Distributors, Inc.

(800) DIAL BEN® / 342-5236

franklintempleton.com

Shareholder Services

(800) 632-2301 - (Class A, C, R & R6)

(800) 448-FUND - (Class Z)

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

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