APRIL 30, 2013

ANNUAL REPORT AND SHAREHOLDER LETTER

Franklin Biotechnology Discovery Fund

Franklin Natural Resources Fund

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SECTOR

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

Not part of the annual report

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Shareholder Letter

Dear Shareholder:

During the 12-month period ended April 30, 2013, U.S. gross domestic product growth accelerated as the drag of federal spending cuts and weak overseas demand was largely offset by the lift of encouraging trends in U.S. consumer spending, manufacturing, housing and employment. The growing U.S. economy enabled many companies to report record earnings, and certain U.S. stock indexes overcame periods of volatility to reach all-time high price levels in April.

We remain encouraged as the U.S. shows signs of continued economic expansion. With this positive economic environment, we believe companies generally should continue to deliver healthy earnings and cash flow, which have historically been favorable for stock prices. We also think equities look particularly interesting in an environment of very low interest rates. Keep in mind in all economic environments we remain committed to our long-term perspective and disciplined investment approach. First and foremost for us, this means conducting rigorous, fundamental analysis of securities with a continual emphasis on investment risk management.

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

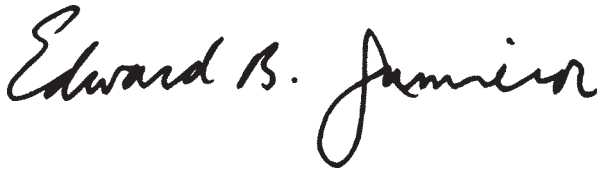
NOT FDIC INSURED | MAY LOSE VALUE | NO BANK GUARANTEE

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

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

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

Sincerely,



Edward B. Jamieson
President and Chief Executive Officer – Investment Management
Franklin Strategic Series

This letter reflects our analysis and opinions as of April 30, 2013. The information is not a complete analysis of every aspect of any market, country, industry, security or fund. Statements of fact are from sources considered reliable.

Annual Report

Economic and Market Overview

The U.S. economy, as measured by gross domestic product, continued to expand during the 12-month period ended April 30, 2013. Increasing job creation helped the unemployment rate decline during the period, and consumer spending remained strong. In the housing sector, accelerating new and existing homes sales accompanied record-low mortgage rates, affordable housing prices, low new-home inventories and a six-year low in U.S. foreclosures. Orders for manufactured goods and manufacturers' inventory reached record levels in March and the sector expanded for the fifth consecutive month through period-end.

Businesses and investors awaited the U.S. election that resulted in an unchanged balance of power in Washington, given the re-election of President Obama and respective control of the House and Senate by Republicans and Democrats. Uncertainty surrounding budget deadlines set for the end of 2012 largely abated when an agreement between Congress and the President resolved many issues, including preserving lower income tax rates for most U.S. households. Concerns remained about the effects of the expired payroll tax cut, far-reaching federal spending cuts and future negotiations regarding the federal debt ceiling.

U.S. stocks generated healthy returns as the Standard & Poor's® 500 Index and Dow Jones Industrial Average reached all-time highs near period-end.[1] Rising corporate profits and generally favorable economic reports bolstered investor confidence, but some caution surrounded the extent to which positive business and market results were dependent on the Federal Reserve Board's accommodative monetary policy.

The foregoing information reflects our analysis and opinions as of April 30, 2013. The information is not a complete analysis of every aspect of any market, country, industry, security or fund. Statements of fact are from sources considered reliable.

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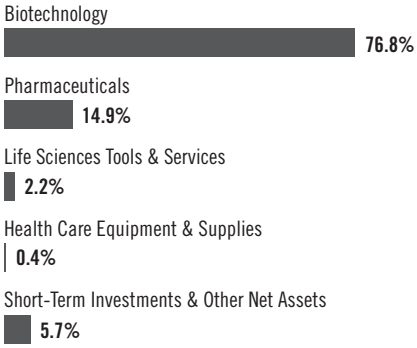
Franklin Biotechnology Discovery Fund

Your Fund's Goal and Main Investments: Franklin Biotechnology Discovery Fund seeks capital appreciation by investing at least 80% of its net assets in securities of biotechnology companies and discovery research firms located in the U.S. and other countries.

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

Portfolio Breakdown
Franklin Biotechnology Discovery Fund
Based on Total Net Assets as of 4/30/13



We are pleased to bring you Franklin Biotechnology Discovery Fund's annual report for the fiscal year ended April 30, 2013.

Performance Overview

Franklin Biotechnology Discovery Fund – Class A delivered a +39.12% cumulative total return for the 12 months under review. In comparison, the NASDAQ Biotechnology Index, which tracks U.S. and international-based biotechnology stocks, generated a +38.12% total return.[1] Also for comparison, the Standard & Poor's 500 Index (S&P 500®), which is a broad measure of the U.S. stock market, generated a +16.89% total return.[1] Finally, domestic and international-based stocks, as measured by the NASDAQ Composite Index, produced a +10.78% total return.[1] You can find the Fund's long-term performance data in the Performance Summary beginning on page 8.

Investment Strategy

The Fund is managed using a bottom-up approach to individual stock selection, with a focus on fundamental analysis and primary research. We look for biotechnology, biopharmaceutical and platform technology companies that possess products with favorable competitive profiles, large market opportunities and strong intellectual property, supported by thoughtful clinical and market development strategies. Our assessment of these products is based on extensive primary research and due diligence and includes, but is not limited to, a thorough review of medical literature, consultation of community and academic physicians, and attendance at scientific meetings and symposia. Additionally, we favor companies with excellent management, strong financial characteristics and attractive valuations.

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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 27.

Manager's Discussion

During the 12 months under review, many biotechnology stocks rallied amid clinical and regulatory successes. The performance of individual stocks in the Fund's portfolio varied greatly, with several holdings reaching all-time highs and delivering triple-digit gains while some other positions posted double-digit declines. Please keep in mind volatility is not uncommon in the biotechnology sector, and the Fund seeks to take advantage of short-term volatility by initiating or adding to securities we believe to be undervalued.

Leading contributors to the Fund's absolute performance included Gilead Sciences, Celgene and Pharmacyclics. Gilead Sciences develops and sells therapeutics and is the world's largest maker of branded treatments for human immunodeficiency virus (HIV). With its acquisition of clinical-stage pharmaceutical company Pharmasset in January 2012, Gilead expanded its development efforts of hepatitis drugs, including acceleration of its timeline to develop the first all-oral hepatitis treatment. During the period, the Food and Drug Administration (FDA) approved Truvada for HIV prevention in uninfected adults at high risk and Stribild, a once-daily tablet used as a complete HIV-1 treatment for adults who have not previously taken HIV-1 medicines. Gilead reported strong 2012 revenues and earnings, driven by increased sales of its antiviral drugs Atripla, Truvada, Viread, Complera/Eviplera and its newest product, Stribild. Increased sales of cardiovascular drugs and higher royalty revenues also contributed to profit growth.

Celgene discovers, develops and sells therapies for treating cancer and immune-inflammatory related diseases. The company's shares rose when Celgene reported better-than-expected earnings results in recent quarters, driven largely by strong sales of Revlimid, Abraxane and Vidaza. Celgene's shares rallied further after the company announced positive trials of a psoriasis drug and provided solid 2013 revenue and earnings growth forecasts and ambitious long-term financial targets. In February, the FDA approved Pomalyst for patients with multiple myeloma and who have received at least two prior therapies.

Pharmacyclics is a clinical-stage biopharmaceutical company focused on developing and selling small-molecule drugs for the treatment of cancer and immune-mediated diseases. The FDA granted Breakthrough Therapy Designation to Ibrutinib for treating various cancers, which allows for a faster development and review process. Pharmacyclics has earned four milestone payments of $50 million each from Johnson & Johnson's Janssen Biotech subsidiary, and it could receive up to an additional $625 million for further development and regulatory milestones.

Top 10 Holdings

Franklin Biotechnology Discovery Fund
4/30/13

Company *Sector/Industry*	% of Total Net Assets
Gilead Sciences Inc. *Biotechnology*	9.7%
Celgene Corp. *Biotechnology*	8.6%
Biogen Idec Inc. *Biotechnology*	6.5%
Amgen Inc. *Biotechnology*	5.5%
Vertex Pharmaceuticals Inc. *Biotechnology*	4.5%
Alexion Pharmaceuticals Inc. *Biotechnology*	3.6%
Medivation Inc. *Biotechnology*	2.9%
ARIAD Pharmaceuticals Inc. *Biotechnology*	2.9%
BioMarin Pharmaceutical Inc. *Biotechnology*	2.5%
Onyx Pharmaceuticals Inc. *Biotechnology*	2.4%

In contrast, key detractors from the Fund's absolute performance included Dendreon, Questcor Pharmaceuticals and ArQule. Shares of Dendreon, a biotechnology company that discovers, develops and sells therapeutics to enhance cancer treatment, began to tumble in May 2012 because of a weaker-than-expected quarterly earnings report and concerns about the sales prospects of its lead product, Provenge. We sold the Fund's position in Dendreon early in the reporting period.

Questcor derives substantially all its revenue from sales of its sole product, H.P. Acthar Gel (Acthar), which is FDA-indicated for exacerbations of multiple sclerosis and infantile spasms and the treatment of several other disorders. Despite strong 2012 sales growth for the drug, negative headlines during the period pressured shares. In September, health insurer Aetna limited reimbursement for Acthar to a small fraction of its users. Although Aetna accounts for only about 5% of Acthar prescriptions, investors feared the precedent such a decision might set, and Questcor shares plunged 48% in a single day. The following week, the company disclosed that the federal government was investigating its marketing practices, leading shares to fall further. Questcor's shares recovered some of the losses as the company initiated a quarterly cash dividend and increased its share buyback program. Seeking to diversify its revenue, in January Questcor acquired Canada-based BioVectra, a supplier of contract manufacturing services to the pharmaceutical and biotechnology industries and Questcor's manufacturing partner for the active pharmaceutical ingredient in Acthar.

ArQule shares fell sharply in early October following the company's announcement that it would discontinue Phase 3 clinical trials for its lead product candidate, experimental cancer drug Tivantinib, citing a lack of statistical significance for efficacy in the treatment of lung cancer. We sold the Fund's ArQule holdings during the period.

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

Evan McCulloch, CFA
Portfolio Manager
Franklin Biotechnology Discovery Fund

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The foregoing information reflects our analysis, opinions and portfolio holdings as of April 30, 2013, the end of the reporting period. The way we implement our main investment strategies and the resulting portfolio holdings may change depending on factors such as market and economic conditions. These opinions may not be relied upon as investment advice or an offer for a particular security. The information is not a complete analysis of every aspect of any market, country, industry, security or the Fund. Statements of fact are from sources considered reliable, but the investment manager makes no representation or warranty as to their completeness or accuracy. Although historical performance is no guarantee of future results, these insights may help you understand our investment management philosophy.

Performance Summary as of 4/30/13

Franklin Biotechnology Discovery Fund

Your dividend income will vary depending on dividends or interest paid by securities in the Fund's portfolio, adjusted for operating expenses of each class. Capital gain distributions are net profits realized from the sale of portfolio securities. The performance table 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.

Price and Distribution Information

Class A (Symbol: FBDIX)		Change	4/30/13	4/30/12
Net Asset Value (NAV)		+$29.73	$105.95	$76.22
Distributions (5/1/12–4/30/13)				
Dividend Income	$0.0692			
Advisor Class (Symbol: FTDZX)		**Change**	**4/30/13**	**4/30/12**
Net Asset Value (NAV)		+$30.21	$106.86	$76.65
Distributions (5/1/12–4/30/13)				
Dividend Income	$0.0692			

Performance

Cumulative total return excludes sales charges. Average annual total returns and value of $10,000 investment include maximum sales charges. ***Class A:*** *5.75% maximum initial sales charge;* ***Advisor Class:*** *no sales charges.*

Class A		1-Year	5-Year	10-Year
Cumulative Total Return[1]		+39.12%	+123.87%	+228.81%
Average Annual Total Return[2]		+31.12%	+16.11%	+11.98%
Value of $10,000 Investment[3]		$13,112	$21,099	$30,992
Avg. Ann. Total Return (3/31/13)[4]		+23.86%	+14.81%	+12.22%
Total Annual Operating Expenses[5]	1.28%			
Advisor Class[6]		**1-Year**	**5-Year**	**10-Year**
Cumulative Total Return[1]		+39.51%	+126.23%	+232.27%
Average Annual Total Return[2]		+39.51%	+17.74%	+12.76%
Value of $10,000 Investment[3]		$13,951	$22,623	$33,227
Avg. Ann. Total Return (3/31/13)[4]		+31.80%	+16.42%	+13.00%
Total Annual Operating Expenses[5]	0.99%			

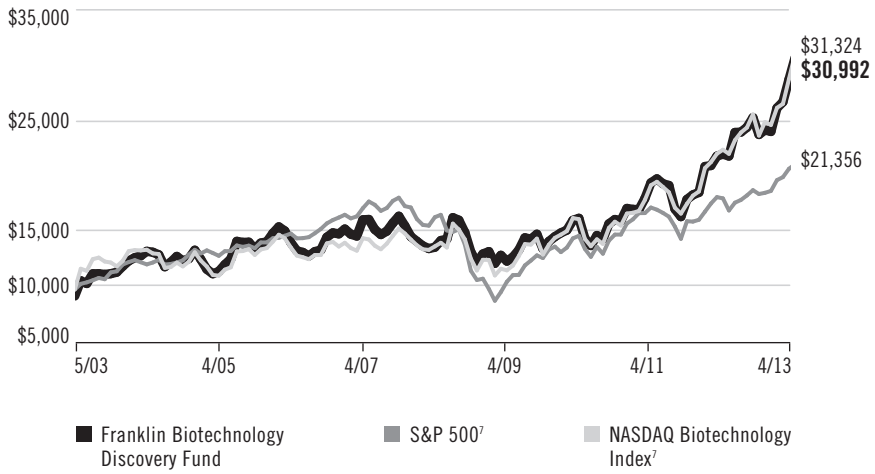
Performance data represent past performance, which does not guarantee future results. Investment return and principal value will fluctuate, and you may have a gain or loss when you sell your shares. Current performance may differ from figures shown. For most recent month-end performance, go to ***franklintempleton.com***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

Performance Summary *(continued)*

Total Return Index Comparison for a Hypothetical $10,000 Investment

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

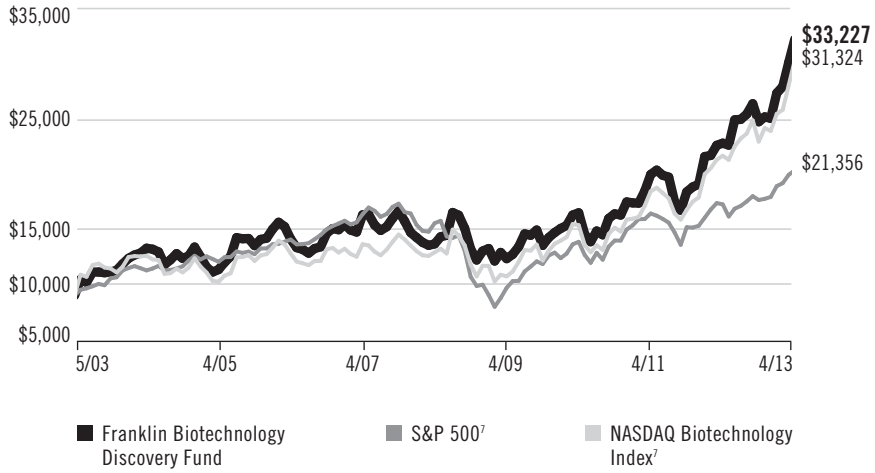
Class A (5/1/03–4/30/13)



Average Annual Total Return

Class A	4/30/13
1-Year	+31.12%
5-Year	+16.11%
10-Year	+11.98%

Advisor Class (5/1/03–4/30/13)



Average Annual Total Return

Advisor Class[6]	4/30/13
1-Year	+39.51%
5-Year	+17.74%
10-Year	+12.76%

Performance Summary *(continued)*

Endnotes

All investments involve risks, including possible loss of principal. The Fund is a nondiversified fund that concentrates in a single sector, which involves risks such as patent considerations, product liability, government regulatory requirements, and regulatory approval for new drugs and medical products. Biotechnology companies often are small and/or relatively new. Smaller companies can be particularly sensitive to changes in economic conditions and have less certain growth prospects than larger, more established companies and can be volatile, especially over the short term. The Fund may also invest in foreign companies, which involve special risks, including currency fluctuations and political uncertainty. 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.

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

1. Cumulative total return represents the change in value of an investment over the periods indicated.
2. Average annual total return represents the average annual change in value of an investment over the periods indicated.
3. These figures represent the value of a hypothetical $10,000 investment in the Fund over the periods indicated.
4. In accordance with SEC rules, we provide standardized average annual total return information through the latest calendar quarter.
5. Figures are as stated in the Fund's current prospectus. In periods of market volatility, assets may decline significantly, causing total annual Fund operating expenses to become higher than the figures shown.
6. Effective 9/1/09, the Fund began offering Advisor Class shares, which do not have sales charges or a Rule 12b-1 plan. Performance quotations for this class reflect the following methods of calculation: (a) For periods prior to 9/1/09, a restated figure is used based upon the Fund's Class A performance, excluding the effect of Class A's maximum initial sales charge, but reflecting the effect of the Class A Rule 12b-1 fees; and (b) for periods after 9/1/09, actual Advisor Class performance is used reflecting all charges and fees applicable to that class. Since 9/1/09 (commencement of sales), the cumulative and average annual total returns of Advisor Class shares were +117.10% and +23.59%.
7. Source: © 2013 Morningstar. The S&P 500 is a market capitalization-weighted index of 500 stocks designed to measure total U.S. equity market performance. The NASDAQ Biotechnology Index is a capitalization-weighted index designed to measure performance of all NASDAQ stocks in the biotechnology sector.

Your Fund's Expenses

Franklin Biotechnology Discovery Fund

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

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

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

Actual Fund Expenses

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

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

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

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

Hypothetical Example for Comparison with Other Funds

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

Your Fund's Expenses *(continued)*

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

Class A	Beginning Account Value 11/1/12	Ending Account Value 4/30/13	Expenses Paid During Period* 11/1/12–4/30/13
Actual	$1,000	$1,288.30	$6.98
Hypothetical (5% return before expenses)	$1,000	$1,018.70	$6.16
Advisor Class			
Actual	$1,000	$1,290.30	$5.28
Hypothetical (5% return before expenses)	$1,000	$1,020.18	$4.66

*Expenses are calculated using the most recent six-month expense ratio, annualized for each class (A: 1.23% and Advisor: 0.93%), multiplied by the average account value over the period, multiplied by 181/365 to reflect the one-half year period.

Franklin Natural Resources Fund

Your Fund's Goal and Main Investments: Franklin Natural Resources Fund seeks high total return (total return consists of capital appreciation and current dividend and interest income) by investing at least 80% of its net assets in equity and debt securities of companies that own, produce, refine, process, transport or market natural resources, as well as those that provide related services for natural resources companies.

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

This annual report for Franklin Natural Resources Fund covers the fiscal year ended April 30, 2013.

Performance Overview

For the 12 months under review, Franklin Natural Resources Fund – Class A had a -7.76% cumulative total return. In comparison, the Standard & Poor's (S&P) North American Natural Resources Index, which tracks companies involved in extractive industries (mining), energy, timber and forestry services, and the production of pulp and paper, generated a +3.24% total return.[1] Also in comparison, the S&P 500 Index (S&P 500), which is a broad measure of the U.S. stock market, produced a +16.89% total return.[1] Please note index performance information is provided for reference and we do not attempt to track any index but rather undertake investments on the basis of fundamental research. The Fund's strategy, which focuses on companies with long-term growth potential, differs from the natural resources index's large weighting in income-oriented companies with more limited growth opportunities. This difference may occasionally lead to wide performance discrepancies, especially in periods when investors focus on defensive investments and current income. You can find the Fund's long-term performance data in the Performance Summary beginning on page 20.

Investment Strategy

We use a fundamental, research-driven approach to identify industries in the natural resources sector that we believe offer the strongest underlying attributes including, but not limited to, favorable supply and demand characteristics, barriers to entry, and pricing power. Within those industries, we seek to identify

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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 33.

individual companies that have identifiable growth drivers and that present, in our opinion, the best trade-off between growth potential, business and financial risk, and valuation. The Fund's holdings are typically concentrated in the energy sector but also can include investments in the metals and mining, chemicals, paper and forest products, and other related sectors.

Sector Overview

Commodities and commodity-related equities moved erratically during the 12 months under review as investors reacted to various economic cross-currents and government actions. Global commodity prices fell to a 2012 low in June as market participants focused on European recessionary forces and China's apparent slowing demand for raw materials. In July and August, expectations for stimulus from the U.S. Federal Reserve Board (Fed) and other central banks contributed to a commodity price recovery. However, supply-and-demand imbalances and expectations for further demand pressure in 2013, as the International Monetary Fund lowered its 2013 global economic growth forecast, led to a commodity price retreat beginning in October, resulting in an overall decline for the 12-month period.

Inflation was generally mild with the exception of natural gas and food prices. Crude oil prices reached 12-month lows in June, resulting largely from investor concerns about the potential for weakening global demand as Europe remained mired in a recession and China's economic growth decelerated. A recovery ensued in late summer, driven in part by generally improved U.S. economic data and stimulus efforts implemented by many central banks and governments globally. In this environment, the commodity was generally range bound at healthy levels through period-end. Unrest in the Middle East and sanctions impacting Iranian supplies also played a role in maintaining robust global oil prices. However, crude oil prices were held in check during the period as U.S. oil production was bolstered by the development of unconventional resources, including shale oil, reaching its highest level since 1987. Conversely, U.S. natural gas prices reached a 12-month high near period-end as a combination of stagnating U.S. supply growth and better-than-expected demand — initially driven by utility fuel switching and later by prolonged winter weather — reduced inventories. As producers curtailed spending in response to abundant supply and multi-year price lows for the commodity earlier in the period, the number of rigs drilling for natural gas in the U.S. decreased, reaching an 18-year low near period-end.

Precious metals prices reached 12-month highs in early October as economic uncertainties and the Fed's latest round of quantitative easing supported gold and silver spot prices. However, better-than-expected economic reports, generally mild inflation and a strong U.S. dollar led to a gradual price decline in gold

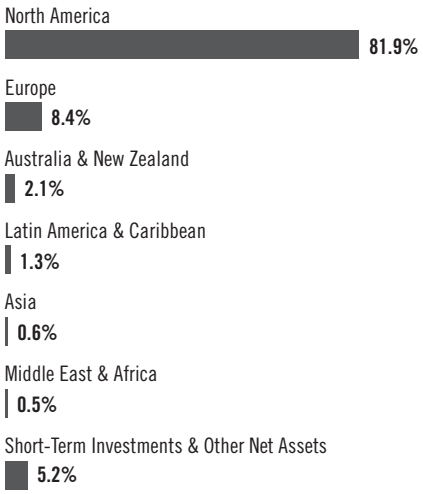
and silver, as well as other metals, until a sharp sell-off in mid-April drove gold and silver prices down to 12-month lows. The sell-off was initially caused by fears that struggling European nations might sell gold to raise cash after reports surfaced that Cyprus may have agreed to sell a large amount of state-owned gold to secure an international bailout. Near period-end, however, gold prices partially recovered as many bargain hunters bought physical gold and some investors believed gold was technically oversold. Industrial metals prices generally declined amid recurring concerns about slowing global economic growth, the potential for weaker demand, high inventories and growing supply. Near period-end, speculation that China's economic deceleration was deepening drove steel, copper and aluminum spot prices to 12-month lows.

Manager's Discussion

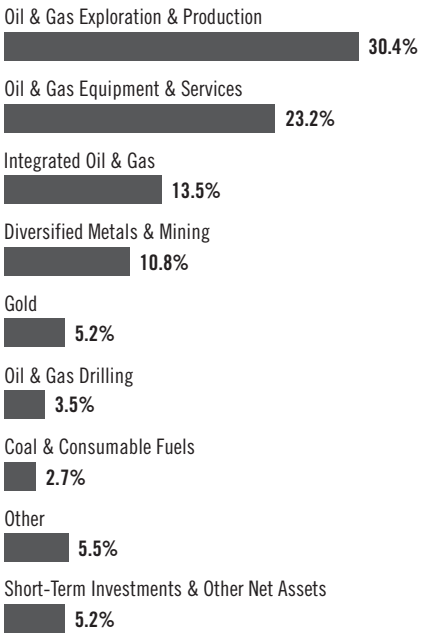
The 12 months under review represented a difficult period for the Fund's strategy as investors generally embraced defensive, income-oriented investments and avoided those facing heightened uncertainty and less immediate prospects for growth. Global economic and geopolitical concerns contributed to heightened volatility in commodity markets, leading prices to shift drastically, reaching peaks and troughs several times during the period as investors reacted to news headlines, economic reports, and shifting supply-and-demand dynamics. This environment was unfavorable for our strategy, which focuses on companies that we believe have healthy long-term growth prospects and could therefore potentially generate a greater level of earnings in future years. These types of investments have often carried a higher degree of operating leverage or potential variability in earnings, and investors have been typically less willing to fully value those earnings during periods of heightened uncertainty. Conversely, relative to the S&P North American Natural Resources Index, we typically underweight dividend-paying companies because of their lower growth characteristics.

The Fund's fiscal year began as concerns about the eurozone financial crisis and fears of an economic hard landing in China resulted in a sharp sell-off of many equities globally, especially commodity-related stocks. In this environment, the Fund's Class A shares reached a period low in late June. Although equities recovered as monetary and fiscal measures undertaken by many central banks and governments gained traction near the end of 2012, the recovery was uneven, with another significant sell-off occurring in October and November. During the first four months of 2013, the S&P 500 rebounded, reaching all-time highs by period-end. Defensive sectors — utilities, health care and consumer staples — led the rally, while the commodity-related materials and energy sectors lagged. Natural resources stocks struggled from mid-February through period-end as

Geographic Breakdown
Franklin Natural Resources Fund
Based on Total Net Assets as of 4/30/13



Portfolio Breakdown
Franklin Natural Resources Fund
Based on Total Net Assets as of 4/30/13



renewed concerns about eurozone stability, ongoing fears of an economic slowdown in China, a stronger U.S. dollar and the potential for growing supply once again led many investors to avoid commodities and commodity-related stocks.

Fund performance varied across different industries. Oil and gas equipment and services contributed to absolute and relative results as the share prices of some of the Fund's largest holdings rose, while diversified metals and mining, as well as oil and gas exploration and production (E&P), weighed on absolute and relative results as many large holdings declined in value.

Oil and gas equipment and services companies, which we favor because of their attractive long-term growth potential, received considerable investor attention and rose strongly during the second half of the period, with shares of many companies posting double-digit gains. Key oil and gas services contributors to relative results included overweighted positions in Halliburton, one of the Fund's top 10 holdings, and companies with exposure to offshore exploration and development such as Cameron International, FMC Technologies, Oceaneering International and Dril-Quip, as well as an off-benchmark investment in RigNet. However, several oil and gas services holdings declined in value and weighed on absolute and relative returns, notably Key Energy Services, which struggled because of soft U.S. onshore spending trends, capacity utilization and pricing, in addition to temporary spending reductions from two large customers. Outside of oil and gas equipment and services, important contributors included a new, off-benchmark position in Netherlands-based specialty chemicals producer LyondellBasell Industries, which benefited from favorable feedstock prices and profitability in the U.S. and the potential for demand and pricing improvement.

Natural gas-focused E&P companies generally performed well as U.S. natural gas fundamentals improved toward the latter half of 2012 and into 2013, aided by a decline in drilling and development activity, as well as higher demand driven by relatively low prices, utility fuel switching and a relatively long, cold winter, which increased demand for natural gas as a heating source. This environment benefited the Fund, as we increased our weightings in natural gas-focused companies beginning last summer when natural gas prices were trading near multi-year lows. As a result, our overweighted positions in Cabot Oil & Gas, a new holding, and Southwestern Energy were among the Fund's key contributors to absolute and relative returns.

Oil-focused E&P companies generally suffered as investors feared that slowing global economic growth would lead to a continued decline in fuel consumption, despite oil prices remaining within a relatively healthy range later in the period. In addition, surging production, a lack of transportation infrastructure and lower demand for natural gas liquids, such as ethane and propane, led to pricing pressure in those markets and weighed on producers' earnings. As a result of

these and other factors, the Fund's positions in U.S.-based independent oil and gas companies Devon Energy and Whiting Petroleum weighed on performance. Although declines were largely widespread, some E&P stocks experienced more pronounced declines resulting from company-specific issues. For example, U.K.-based Tullow Oil's unsuccessful appraisal of a French Guiana offshore well, Brazil-based OGX Petroleo e Gas Participacoes's[2] lower production estimates, and U.K.-based Chariot Oil and Gas's announcement of two unsuccessful exploration wells in Namibia further pressured their share prices, causing these off-benchmark positions to weigh on relative results. The latter two companies, however, represented relatively small positions in the Fund, in keeping with our strategy of moderating risk through position size. Some oil-focused E&P companies performed well, including Anadarko Petroleum, one of the Fund's top 10 holdings, and PDC Energy, as they delivered positive well results and posted strong growth rates in onshore U.S. production, with Anadarko also benefiting from deepwater exploration success, leading the Fund's overweighted positions to boost relative results.

Oil and gas refining and marketing stocks generally performed strongly, with the industry delivering high double-digit gains, as wide oil price differentials in the U.S. market lowered local feedstock prices and drove short-term profitability. Oil and gas refining stocks have traditionally been considered risky and volatile but have recently attracted investors as many refiners were in a position to distribute dividends to shareholders. Although the Fund's oil and gas refiner holdings outperformed the index's and aided absolute returns, its underweighted allocation hindered relative results. The Fund's underweighted position resulted largely from two holdings, ConocoPhillips[2] and Marathon Oil, that each distributed shares in their refining divisions to shareholders in 2012, which significantly increased the index's weighting in oil and gas refiners. Specifically, an underweighting in Phillips 66 detracted, as it benefited from greater inland profitability driven by strong U.S. oil production and resulting lower feedstock costs. The company also filed for an initial public offering of its logistics business, which investors embraced as a value-enhancing maneuver.

Integrated oil and gas companies, as well as oil and gas storage and transportation companies, which pay high dividends and are typically considered conservative investments, performed well. Certain stocks in the integrated oil and gas industry helped absolute returns, particularly two of the Fund's top 10 holdings, Exxon Mobil and Chevron. Our large weightings in these companies were far smaller than the index's, however, and our overall underweighting in the industry offset the benefit of stock selection. The Fund's lack of investment in the oil and gas storage and transportation industry, which outperformed the index, also hindered relative results. Stocks in both of these industries appealed to investors because of their defensive nature and relatively high dividend yields.

Top 10 Holdings
Franklin Natural Resources Fund
4/30/13

Company *Sector/Industry, Country*	% of Total Net Assets
Schlumberger Ltd. *Oil & Gas Equipment & Services, U.S.*	4.1%
Anadarko Petroleum Corp. *Oil & Gas Exploration & Production, U.S.*	4.0%
Occidental Petroleum Corp. *Integrated Oil & Gas, U.S.*	3.6%
Halliburton Co. *Oil & Gas Equipment & Services, U.S.*	3.2%
Chevron Corp. *Integrated Oil & Gas, U.S.*	2.7%
Exxon Mobil Corp. *Integrated Oil & Gas, U.S.*	2.7%
Devon Energy Corp. *Oil & Gas Exploration & Production, U.S.*	2.5%
Southwestern Energy Co. *Oil & Gas Exploration & Production, U.S.*	2.5%
Noble Energy Inc. *Oil & Gas Exploration & Production, U.S.*	1.9%
BHP Billiton PLC, ADR *Diversified Metals & Mining, U.K.*	1.7%

2. Sold during the period.

Industries such as diversified metals and mining, steel and metallurgical coal, which are generally tied to global infrastructure spending, were hardest hit by fears of slowing global economic growth. Many foreign stocks also performed poorly as risk aversion caused many U.S. investors to favor domestic stocks even as the overall global equity markets began to recover. This factor was particularly acute with the Fund's off-benchmark positions in smaller, foreign-based metals and mining companies, whose share prices declined and hurt relative results. Such holdings included Ivanhoe Australia, U.K.-based Xstrata and Hong Kong-based MMG. Although U.S.-based Freeport-McMoRan Copper & Gold's share price declined and hurt absolute returns, the Fund's underweighted position contributed to relative results. Our off-benchmark positions in steel and steel-related companies, particularly Cliffs Natural Resources, also weighed on relative performance. The share prices of metallurgical coal companies Walter Energy and Alpha Natural Resources declined because of lower demand from the steel industry, causing our overweighted positions to hurt relative results. Both companies' stocks had already declined significantly prior to 2012 and appeared to partially discount further deterioration in the companies' operating fundamentals. However, weak global economic conditions and investor risk aversion led to further stock price declines during the period.

Natural resources-related stocks struggled in the prevailing environment of global economic uncertainty. Most commodity markets did not appear oversupplied at period-end, but in a slow-growth environment, even small supply increases can have an outsized negative price effect, and investors appeared acutely concerned that further economic deceleration could lead to a commodity price collapse. Although this scenario cannot be completely ruled out, we see many reasons why it is unlikely to occur. Economic growth, while more tepid than in the last decade, remained generally healthy and showed signs of potential acceleration. For example, the U.S. housing market continued to recover amid the country's historically low interest rate environment. Governments worldwide implemented measures to revive economic activity — the Fed indicated it would maintain its extraordinarily accommodative monetary policy, the Bank of Japan implemented its version of quantitative easing measures, and the European Central Bank recently lowered benchmark interest rates to historical lows. Although the economies of China and other large emerging market countries slowed, they generally continued to grow at healthy rates that are consistent with growing long-term commodities demand. Meanwhile, many companies in natural resources-related industries experiencing the weakest conditions are reducing their capital expenditures while focusing on bolstering returns and returning cash to shareholders. In this environment, we believe recent trends could be planting the seeds for potentially healthier returns over the longer term. Some markets could remain oversupplied for some time, however, and we are therefore focused on allocating Fund assets to industries we believe have the most robust long-term fundamental outlooks.

An unusual aspect of the past year's market environment was extreme variations in performance between industries, even within broad sectors such as energy and materials. This resulted from various factors, including investor risk aversion, as demonstrated by the outperformance of industries traditionally considered defensive and the deeply discounted valuations of companies facing greater operational uncertainty. In our view, investment horizons have shortened, with many investors focusing on near-term factors, such as dividends, share repurchases and current operating conditions, while becoming more skeptical about future growth opportunities. We have experienced such environments in the past, but the most extreme was nearly the exact opposite — an avoidance of dividend-paying stocks with a supreme focus on growth in the late 1990s. Although it is impossible to know how long such environments could persist, in our view they often present good buying opportunities. Consistent with our opportunistic strategy, we continue to seek stocks we consider to be more attractively valued within our investment universe while remaining cognizant of the risk inherent in a shifting, uncertain economic environment.

At period-end, we believe the Fund's portfolio is well balanced between stable companies with moderate growth profiles and those we think could excel based on potentially stronger growth rates and greater upside potential. In our view, the shortening of investment horizons has created many opportunities to invest in high-quality companies with valuations we consider to be attractive, and we are actively seeking them out.

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

Frederick G. Fromm, CFA
Portfolio Manager
Franklin Natural Resources Fund

The foregoing information reflects our analysis, opinions and portfolio holdings as of April 30, 2013, the end of the reporting period. The way we implement our main investment strategies and the resulting portfolio holdings may change depending on factors such as market and economic conditions. These opinions may not be relied upon as investment advice or an offer for a particular security. The information is not a complete analysis of every aspect of any market, country, industry, security or the Fund. Statements of fact are from sources considered reliable, but the investment manager makes no representation or warranty as to their completeness or accuracy. Although historical performance is no guarantee of future results, these insights may help you understand our investment management philosophy.

Performance Summary as of 4/30/13

Franklin Natural Resources Fund

Your dividend income will vary depending on dividends or interest paid by securities in the Fund's portfolio, adjusted for operating expenses of each class. Capital gain distributions are net profits realized from the sale of portfolio securities. The performance table 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.

Price Information

Class A (Symbol: FRNRX)	Change	4/30/13	4/30/12
Net Asset Value (NAV)	-$2.78	$33.03	$35.81
Class C (Symbol: FNCRX)	**Change**	**4/30/13**	**4/30/12**
Net Asset Value (NAV)	-$2.94	$32.02	$34.96
Advisor Class (Symbol: FNRAX)	**Change**	**4/30/13**	**4/30/12**
Net Asset Value (NAV)	-$2.86	$35.31	$38.17

Performance

Cumulative total return excludes sales charges. Average annual total returns and value of $10,000 investment include maximum sales charges. ***Class A:*** *5.75% maximum initial sales charge;* ***Class C:*** *1% contingent deferred sales charge in first year only;* ***Advisor Class:*** *no sales charges.*

Class A		1-Year	5-Year	10-Year
Cumulative Total Return[1]		-7.76%	-19.04%	+226.44%
Average Annual Total Return[2]		-13.06%	-5.26%	+11.89%
Value of $10,000 Investment[3]		$8,694	$7,631	$30,767
Avg. Ann. Total Return (3/31/13)[4]		-10.84%	-2.45%	+12.49%
Total Annual Operating Expenses[5]	1.03%			
Class C		**1-Year**	**5-Year**	**Inception (9/1/05)**
Cumulative Total Return[1]		-8.41%	-21.83%	+33.17%
Average Annual Total Return[2]		-9.32%	-4.81%	+3.81%
Value of $10,000 Investment[3]		$9,068	$7,817	$13,317
Avg. Ann. Total Return (3/31/13)[4]		-6.98%	-1.98%	+4.45%
Total Annual Operating Expenses[5]	1.73%			
Advisor Class		**1-Year**	**5-Year**	**10-Year**
Cumulative Total Return[1]		-7.49%	-17.83%	+236.52%
Average Annual Total Return[2]		-7.49%	-3.85%	+12.90%
Value of $10,000 Investment[3]		$9,251	$8,217	$33,652
Avg. Ann. Total Return (3/31/13)[4]		-5.15%	-1.00%	+13.50%
Total Annual Operating Expenses[5]	0.73%			

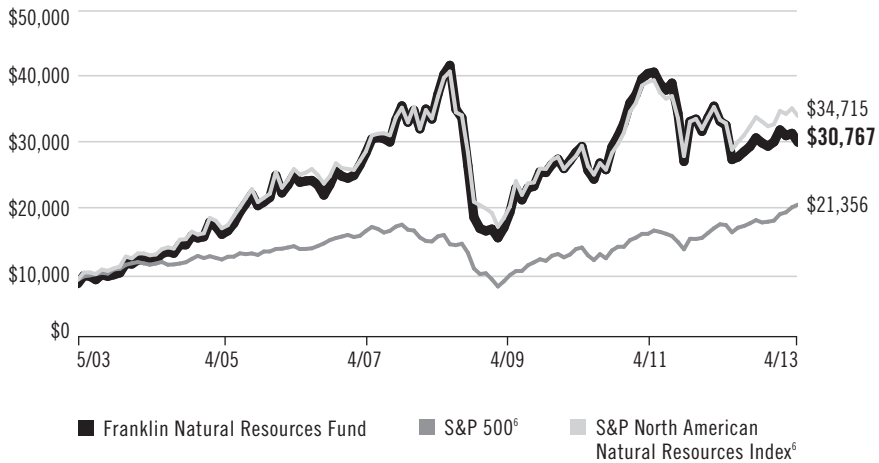
Performance data represent past performance, which does not guarantee future results. Investment return and principal value will fluctuate, and you may have a gain or loss when you sell your shares. Current performance may differ from figures shown. For most recent month-end performance, go to ***franklintempleton.com***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

Performance Summary *(continued)*

Total Return Index Comparison for a Hypothetical $10,000 Investment

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

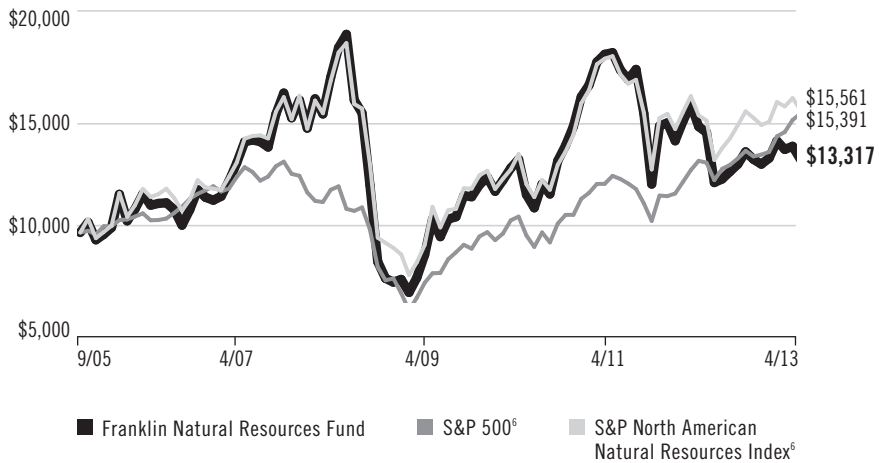
Class A (5/1/03–4/30/13)



Average Annual Total Return

Class A	4/30/13
1-Year	-13.06%
5-Year	-5.26%
10-Year	+11.89%

Class C (9/1/05–4/30/13)



Average Annual Total Return

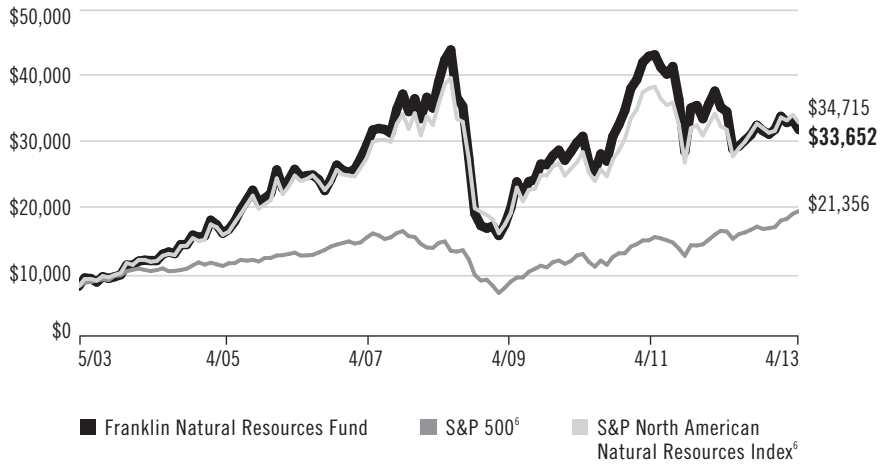
Class C	4/30/13
1-Year	-9.32%
5-Year	-4.81%
Since Inception (9/1/05)	+3.81%

Performance Summary *(continued)*

Average Annual Total Return

Advisor Class	4/30/13
1-Year	-7.49%
5-Year	-3.85%
10-Year	+12.90%

Advisor Class (5/1/03–4/30/13)



Endnotes

All investments involve risks, including possible loss of principal. Investing in a fund concentrating in the natural resources sector involves special risks, including increased susceptibility to adverse economic and regulatory developments affecting the sector. The Fund may also invest in foreign stocks, which involve exposure to currency volatility and political and economic uncertainty. The Fund's holdings in smaller companies involve special risks associated with smaller revenues and market share, and more limited product lines. The prices of such securities can be volatile, particularly over the short term. The Fund is actively managed but there is no guarantee that the manager's investment decisions will produce the desired results. The Fund's prospectus also includes a description of the main investment risks.

Class C: These shares have higher annual fees and expenses than Class A shares.

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

1. Cumulative total return represents the change in value of an investment over the periods indicated.

2. Average annual total return represents the average annual change in value of an investment over the periods indicated.

3. These figures represent the value of a hypothetical $10,000 investment in the Fund over the periods indicated.

4. In accordance with SEC rules, we provide standardized average annual total return information through the latest calendar quarter.

5. Figures are as stated in the Fund's current prospectus. In periods of market volatility, assets may decline significantly, causing total annual Fund operating expenses to become higher than the figures shown.

6. Source: © 2013 Morningstar. The S&P 500 is a market capitalization-weighted index of 500 stocks designed to measure total U.S. equity market performance. The S&P North American Natural Resources Index is a capitalization-weighted index that includes companies involved in extractive industries (mining), energy and forestry services, producers of pulp and paper, and owners and operators of timber tracts or plantations.

Your Fund's Expenses

Franklin Natural Resources Fund

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

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

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

Actual Fund Expenses

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

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

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

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

Hypothetical Example for Comparison with Other Funds

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

Your Fund's Expenses *(continued)*

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

Class A	Beginning Account Value 11/1/12	Ending Account Value 4/30/13	Expenses Paid During Period* 11/1/12–4/30/13
Actual	$1,000	$1,003.00	$5.26
Hypothetical (5% return before expenses)	$1,000	$1,019.54	$5.31
Class C			
Actual	$1,000	$1,000.00	$8.63
Hypothetical (5% return before expenses)	$1,000	$1,016.17	$8.70
Advisor Class			
Actual	$1,000	$1,017.00	$3.80
Hypothetical (5% return before expenses)	$1,000	$1,021.03	$3.81

*Expenses are calculated using the most recent six-month expense ratio, annualized for each class (A: 1.06%; C: 1.74%; and Advisor: 0.76%), multiplied by the average account value over the period, multiplied by 181/365 to reflect the one-half year period.

Franklin Strategic Series

Financial Highlights

Franklin Biotechnology Discovery Fund

Class A	Year Ended April 30, 2013	2012	2011	2010	2009
Per share operating performance (for a share outstanding throughout the year)					
Net asset value, beginning of year	$ 76.22	$77.78	$65.08	$49.73	$54.72
Income from investment operations[a]:					
Net investment income (loss)[b]	(0.76)	(0.75)	(0.80)	(0.51)	(0.21)
Net realized and unrealized gains (losses)	30.56	9.02	13.50	15.86	(4.78)
Total from investment operations	29.80	8.27	12.70	15.35	(4.99)
Less distributions from:					
Net investment income	(0.07)	(0.52)	—	—	—
Net realized gains	—	(9.31)	—	—	—
Total distributions	(0.07)	(9.83)	—	—	—
Redemption fees[c]	—	—	—	—	—[d]
Net asset value, end of year	$105.95	$76.22	$77.78	$65.08	$49.73
Total return[e]	39.12%	13.18%	19.51%	30.87%	(9.12)%
Ratios to average net assets					
Expenses	1.20%	1.26%	1.31%[f]	1.32%[f]	1.32%[f]
Net investment income (loss)	(0.88)%	(1.03)%	(1.24)%	(0.87)%	(0.38)%
Supplemental data					
Net assets, end of year (000's)	$653,718	$434,678	$402,112	$346,127	$274,324
Portfolio turnover rate	33.64%	46.54%	235.14%	41.58%	45.57%

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

[b]Based on average daily shares outstanding.

[c]Effective September 1, 2008, the redemption fee was eliminated.

[d]Amount rounds to less than $0.01 per share.

[e]Total return does not reflect sales commissions or contingent deferred sales charges, if applicable.

[f]Benefit of expense reduction rounds to less than 0.01%.

Franklin Strategic Series

Financial Highlights *(continued)*

Franklin Biotechnology Discovery Fund

Advisor Class	Year Ended April 30, 2013	2012	2011	2010[a]
Per share operating performance (for a share outstanding throughout the year)				
Net asset value, beginning of year	$ 76.65	$78.15	$65.20	$57.01
Income from investment operations[b]:				
Net investment income (loss)[c]	(0.52)	(0.53)	(0.62)	(0.40)
Net realized and unrealized gains (losses)	30.80	9.05	13.57	8.59
Total from investment operations	30.28	8.52	12.95	8.19
Less distributions from:				
Net investment income	(0.07)	(0.71)	—	—
Net realized gains	—	(9.31)	—	—
Total distributions	(0.07)	(10.02)	—	—
Net asset value, end of year	$106.86	$76.65	$78.15	$65.20
Total return[d]	39.51%	13.51%	19.86%	14.37%
Ratios to average net assets[e]				
Expenses	0.91%	0.97%	1.02%[f]	1.05%[f]
Net investment income (loss)	(0.59)%	(0.74)%	(0.95)%	(0.60)%
Supplemental data				
Net assets, end of year (000's)	$25,744	$9,330	$5,009	$1,596
Portfolio turnover rate	33.64%	46.54%	235.14%	41.58%

[a]For the period September 1, 2009 (effective date) to April 30, 2010.

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

[c]Based on average daily shares outstanding.

[d]Total return is not annualized for periods less than one year.

[e]Ratios are annualized for periods less than one year.

[f]Benefit of expense reduction rounds to less than 0.01%.

Franklin Strategic Series

Statement of Investments, April 30, 2013

Franklin Biotechnology Discovery Fund	Country	Shares/Warrants	Value
Common Stocks and Other Equity Interests 93.6%			
Biotechnology 76.1%			
[a,b] Ablynx NV, STRIP VVPR	Belgium	82,900	$ —
[a,c] Acadia Pharmaceuticals Inc.	United States	407,400	5,251,386
[a] Achillion Pharmaceuticals Inc.	United States	576,149	4,344,163
[a] Alexion Pharmaceuticals Inc.	United States	248,900	24,392,200
[a] Alkermes PLC	United States	207,100	6,339,331
[a] Alnylam Pharmaceuticals Inc.	United States	72,000	1,724,400
[a,c] Amarin Corp. PLC, ADR	United Kingdom	723,500	5,361,135
Amgen Inc.	United States	358,200	37,328,022
[a,c,d] Anthera Pharmaceuticals Inc.	United States	1,950,900	1,073,190
[a,c,e] AP Pharma Inc.	United States	16,588,800	6,038,323
[a,e] AP Pharma Inc., wts., 7/01/16	United States	11,143,769	1,025,227
[a] ARIAD Pharmaceuticals Inc.	United States	1,095,100	19,569,437
[a] Astex Pharmaceuticals	United States	776,800	5,344,384
[a] Biogen Idec Inc.	United States	202,361	44,302,894
[a] BioMarin Pharmaceutical Inc.	United States	257,756	16,908,794
[a] Biospecifics Technologies Corp.	United States	140,450	2,228,941
[a] Celgene Corp.	United States	495,200	58,468,264
[a] Celldex Therapeutics Inc.	United States	1,038,740	13,555,557
[a] ChemoCentryx Inc.	United States	257,608	3,202,067
[a] Chimerix Inc.	United States	78,100	1,556,533
[a,c] Clovis Oncology Inc.	United States	115,200	4,310,784
[a] Curis Inc.	United States	525,100	1,969,125
[a] Dynavax Technologies Corp.	United States	1,113,600	2,616,960
[a] Enanta Pharmaceuticals Inc.	United States	218,600	4,363,256
[a,c] Gentium SpA, ADR	Italy	197,533	1,621,746
[a] Gilead Sciences Inc.	United States	1,301,000	65,882,640
[a] Halozyme Therapeutics Inc.	United States	287,900	1,738,916
[a] Hyperion Therapeutics Inc.	United States	132,000	2,831,400
[a,c] Incyte Corp.	United States	479,700	10,625,355
[a] Infinity Pharmaceuticals Inc.	United States	81,400	3,507,526
[a] InterMune Inc.	United States	648,900	6,054,237
[a,c] Isis Pharmaceuticals Inc.	United States	154,900	3,468,211
KaloBios Pharmaceuticals Inc.	United States	153,800	922,800
[a,c] Keryx Biopharmaceuticals Inc.	United States	868,000	7,074,200
[a] Lexicon Pharmaceuticals Inc.	United States	1,521,400	3,012,372
[a] Lpath Inc., A	United States	276,700	1,377,966
[a] Medivation Inc.	United States	376,100	19,824,231
[a,c] MEI Pharma Inc.	United States	192,165	1,714,112
[a] Neurocrine Biosciences Inc.	United States	607,300	7,008,242
[a] NPS Pharmaceuticals Inc.	United States	299,500	4,022,285
[a] Onyx Pharmaceuticals Inc.	United States	172,600	16,362,480
[a] Orexigen Therapeutics Inc.	United States	697,100	4,238,368
[a,f] OvaScience Inc., 144A	United States	166,654	1,754,867
[a] Pharmacyclics Inc.	United States	170,900	13,928,350
[a] Progenics Pharmaceuticals Inc.	United States	478,401	2,200,645
[a] Puma Biotechnology Inc.	United States	144,555	4,651,780
[a] Regeneron Pharmaceuticals Inc.	United States	61,809	13,297,588

Franklin Strategic Series

Statement of Investments, April 30, 2013 *(continued)*

Franklin Biotechnology Discovery Fund	Country	Shares/Warrants	Value
Common Stocks and Other Equity Interests (continued)			
Biotechnology (continued)			
[a] Seattle Genetics Inc.	United States	158,800	$ 5,867,660
[a] Targacept Inc.	United States	508,486	2,344,120
[a] Threshold Pharmaceuticals Inc.	United States	546,400	2,633,648
[a] Threshold Pharmaceuticals Inc., wts., 3/16/16	United States	190,476	179,809
[a] United Therapeutics Corp.	United States	99,400	6,637,932
[a,c] Verastem Inc.	United States	98,200	964,324
[a] Vertex Pharmaceuticals Inc.	United States	394,300	30,290,126
			517,312,309
Health Care Equipment & Supplies 0.4%			
[a] Cerus Corp.	United States	545,000	2,899,400
Life Sciences Tools & Services 2.2%			
[a] Illumina Inc.	United States	226,800	14,671,692
Pharmaceuticals 14.9%			
Allergan Inc.	United States	99,200	11,264,160
[a] Jazz Pharmaceuticals PLC	United States	214,300	12,504,405
[a] Nektar Therapeutics	United States	564,900	6,123,516
[a] Nuvo Research Inc.	Canada	7,282,400	361,463
[a,g] Nuvo Research Inc., 144A	Canada	3,441,200	170,804
[a,c] Pacira Pharmaceuticals Inc.	United States	416,595	12,027,098
[c] Questcor Pharmaceuticals Inc.	United States	355,300	10,921,922
[a,c] Repros Therapeutics Inc.	United States	585,100	11,900,934
[a] Salix Pharmaceuticals Ltd.	United States	174,500	9,124,605
[a] SciClone Pharmaceuticals Inc.	United States	1,860,460	8,799,976
Shire PLC, ADR	United Kingdom	143,400	13,427,976
[a,c] TherapeuticsMD Inc.	United States	1,471,200	3,707,424
[a] Transcept Pharmaceuticals Inc.	United States	163,881	648,969
			100,983,252
Total Common Stocks and Other Equity Interests (Cost $419,731,777)			635,866,653
Preferred Stocks (Cost $5,065,937) 0.7%			
Biotechnology 0.7%			
[a,f] FibroGen Inc., pfd., E	United States	1,128,271	4,716,173
		Principal Amount*	
Convertible Bonds (Cost $1,480,677) 0.0%			
Biotechnology 0.0%			
[f,h] ConjuChem Biotechnologies Inc., cvt., sub. note, 144A, 8.00%, 12/31/10	Canada	1,500,000 CAD	—
Total Investments before Short Term Investments (Cost $426,278,391)			640,582,826

Franklin Strategic Series

Statement of Investments, April 30, 2013 *(continued)*

Franklin Biotechnology Discovery Fund	Country	Shares	Value
Short Term Investments 15.9%			
Money Market Funds (Cost $38,321,788) 5.6%			
[a,i] Institutional Fiduciary Trust Money Market Portfolio	United States	38,321,788	$ 38,321,788
[j] **Investments from Cash Collateral Received for Loaned Securities (Cost $69,624,575) 10.3%**			
Money Market Funds 10.3%			
[k] BNY Mellon Overnight Government Fund, 0.109%	United States	69,624,575	69,624,575
Total Investments (Cost $534,224,754) 110.2%			748,529,189
Other Assets, less Liabilities (10.2)%			(69,066,283)
Net Assets 100.0%			$679,462,906

See Abbreviations on page 55.

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

[a]Non-income producing.

[b]Security has been deemed illiquid because it may not be able to be sold within seven days.

[c]A portion or all of the security is on loan at April 30, 2013. See Note 1(c).

[d]At April 30, 2013, pursuant to the Fund's policies and the requirements of applicable securities law, the Fund may be restricted from trading this security for a limited or extended period of time due to ownership limits and/or potential possession of material non-public information.

[e]See Note 9 regarding holdings of 5% voting securities.

[f]See Note 8 regarding restricted securities.

[g]Security was purchased pursuant to Rule 144A under the Securities Act of 1933 and may be sold in transactions exempt from registration only to qualified institutional buyers or in a public offering registered under the Securities Act of 1933. This security has been deemed liquid under guidelines approved by the Trust's Board of Trustees. At April 30, 2013, the value of this security was $170,804, representing 0.03% of net assets.

[h]Defaulted Security.

[i]See Note 7 regarding investments in the Institutional Fiduciary Trust Money Market Portfolio.

[j]See Note 1(c) regarding securities on loan.

[k]The rate shown is the annualized seven-day yield at period end.

Franklin Strategic Series

Financial Highlights

Franklin Natural Resources Fund

Class A	Year Ended April 30, 2013	2012	2011	2010	2009
Per share operating performance (for a share outstanding throughout the year)					
Net asset value, beginning of year	$35.81	$44.75	$33.15	$22.55	$45.78
Income from investment operations[a]:					
Net investment income[b]	0.08	0.04	0.03	0.01	0.05
Net realized and unrealized gains (losses)	(2.86)	(8.72)	12.21	11.02	(21.78)
Total from investment operations	(2.78)	(8.68)	12.24	11.03	(21.73)
Less distributions from:					
Net investment income	—	(0.26)	(0.64)	(0.43)	—
Net realized gains	—	—	—	—	(1.50)
Total distributions	—	(0.26)	(0.64)	(0.43)	(1.50)
Redemption fees[c]	—	—	—	—	—[d]
Net asset value, end of year	$33.03	$35.81	$44.75	$33.15	$22.55
Total return[e]	(7.76)%	(19.36)%	37.31%	49.04%	(46.81)%
Ratios to average net assets					
Expenses	1.08%	1.03%	1.00%	1.04%[f]	1.09%[f]
Net investment income	0.26%	0.11%	0.07%	0.02%	0.18%
Supplemental data					
Net assets, end of year (000's)	$628,722	$827,693	$1,153,098	$673,662	$393,713
Portfolio turnover rate	20.40%	26.75%	23.60%	31.18%	46.97%

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

[b]Based on average daily shares outstanding.

[c]Effective September 1, 2008, the redemption fee was eliminated.

[d]Amount rounds to less than $0.01 per share.

[e]Total return does not reflect sales commissions or contingent deferred sales charges, if applicable.

[f]Benefit of expense reduction rounds to less than 0.01%.

Franklin Strategic Series

Financial Highlights *(continued)*

Franklin Natural Resources Fund

Class C	Year Ended April 30, 2013	2012	2011	2010	2009
Per share operating performance (for a share outstanding throughout the year)					
Net asset value, beginning of year	$34.96	$43.87	$32.57	$22.15	$45.35
Income from investment operations[a]:					
Net investment income (loss)[b]	(0.14)	(0.22)	(0.23)	(0.20)	(0.16)
Net realized and unrealized gains (losses)	(2.80)	(8.53)	11.98	10.81	(21.54)
Total from investment operations	(2.94)	(8.75)	11.75	10.61	(21.70)
Less distributions from:					
Net investment income	—	(0.16)	(0.45)	(0.19)	—
Net realized gains	—	—	—	—	(1.50)
Total distributions	—	(0.16)	(0.45)	(0.19)	(1.50)
Redemption fees[c]	—	—	—	—	—[d]
Net asset value, end of year	$32.02	$34.96	$43.87	$32.57	$22.15
Total return[e]	(8.41)%	(19.91)%	36.30%	48.00%	(47.19)%
Ratios to average net assets					
Expenses	1.77%	1.73%	1.70%	1.74%[f]	1.82%[f]
Net investment income (loss)	(0.43)%	(0.59)%	(0.63)%	(0.68)%	(0.55)%
Supplemental data					
Net assets, end of year (000's)	$130,424	$176,036	$241,746	$123,939	$61,360
Portfolio turnover rate	20.40%	26.75%	23.60%	31.18%	46.97%

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

[b]Based on average daily shares outstanding.

[c]Effective September 1, 2008, the redemption fee was eliminated.

[d]Amount rounds to less than $0.01 per share.

[e]Total return does not reflect sales commissions or contingent deferred sales charges, if applicable.

[f]Benefit of expense reduction rounds to less than 0.01%.

Franklin Strategic Series

Financial Highlights *(continued)*

Franklin Natural Resources Fund

Advisor Class	Year Ended April 30, 2013	2012	2011	2010	2009
Per share operating performance (for a share outstanding throughout the year)					
Net asset value, beginning of year	$38.17	$47.58	$35.19	$23.94	$48.27
Income from investment operations[a]:					
Net investment income[b]	0.21	0.16	0.14	0.10	0.14
Net realized and unrealized gains (losses)	(3.07)	(9.27)	12.98	11.71	(22.97)
Total from investment operations	(2.86)	(9.11)	13.12	11.81	(22.83)
Less distributions from:					
Net investment income	—	(0.30)	(0.73)	(0.56)	—
Net realized gains	—	—	—	—	(1.50)
Total distributions	—	(0.30)	(0.73)	(0.56)	(1.50)
Redemption fees[c]	—	—	—	—	—[d]
Net asset value, end of year	$35.31	$38.17	$47.58	$35.19	$23.94
Total return	(7.49)%	(19.10)%	37.70%	49.48%	(46.66)%
Ratios to average net assets					
Expenses	0.78%	0.73%	0.70%	0.74%[e]	0.82%[e]
Net investment income	0.56%	0.41%	0.37%	0.32%	0.45%
Supplemental data					
Net assets, end of year (000's)	$117,087	$235,810	$243,180	$106,773	$52,402
Portfolio turnover rate	20.40%	26.75%	23.60%	31.18%	46.97%

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

[b]Based on average daily shares outstanding.

[c]Effective September 1, 2008, the redemption fee was eliminated.

[d]Amount rounds to less than $0.01 per share.

[e]Benefit of expense reduction rounds to less than 0.01%.

Franklin Strategic Series

Statement of Investments, April 30, 2013

Franklin Natural Resources Fund	Country	Shares/Rights	Value
Common Stocks and Other Equity Interests 93.3%			
Agricultural Products 0.4%			
Bunge Ltd.	United States	50,000	$ 3,610,500
Coal & Consumable Fuels 2.7%			
[a] Alpha Natural Resources Inc.	United States	777,000	5,765,340
[a,b] Energy Coal Resources, 144A	United States	199,375	—
Peabody Energy Corp.	United States	659,250	13,224,555
[a] Uranium One Inc.	Canada	1,543,000	4,288,877
			23,278,772
Commodity Chemicals 0.7%			
LyondellBasell Industries NV, A	United States	107,000	6,494,900
Construction & Engineering 0.2%			
Boart Longyear Ltd.	Australia	1,527,715	1,512,950
Diversified Metals & Mining 10.4%			
BHP Billiton PLC, ADR	United Kingdom	262,000	14,810,860
Freeport-McMoRan Copper & Gold Inc., B	United States	484,000	14,728,120
Iluka Resources Ltd.	Australia	215,000	1,995,447
[a] Imperial Metals Corp.	Canada	383,000	4,741,162
[a] Ivanhoe Australia Ltd.	Australia	4,106,290	766,480
[a] MMG Ltd.	China	10,856,000	3,245,566
[a] Molycorp Inc.	United States	933,000	5,448,720
[a] Nautilus Minerals Inc.	Canada	746,000	177,734
[a,c] Nautilus Minerals Inc., 144A	Canada	433,000	103,162
[a] Nautilus Minerals Inc., rts., 5/31/13	Canada	746,000	14,811
[a,c] Nautilus Minerals Inc., rts., 144A, 5/31/13	Canada	433,000	8,597
PanAust Ltd.	Australia	1,382,687	3,326,523
Rio Tinto PLC, ADR	United Kingdom	217,000	9,995,020
[a] Sandfire Resources NL	Australia	557,667	3,244,267
Teck Resources Ltd., B	Canada	390,000	10,362,300
[a] Turquoise Hill Resources Ltd.	Canada	451,100	3,171,233
Walter Energy Inc.	United States	226,250	4,054,400
Xstrata PLC	United Kingdom	714,000	10,697,880
			90,892,282
Fertilizers & Agricultural Chemicals 0.5%			
Potash Corp. of Saskatchewan Inc.	Canada	115,000	4,841,500
Gold 5.2%			
AngloGold Ashanti Ltd., ADR	South Africa	218,000	4,251,000
[a] B2Gold Corp.	Canada	991,600	2,490,443
Barrick Gold Corp.	Canada	278,000	5,479,380
[a] G-Resources Group Ltd.	Hong Kong	31,232,900	1,469,055
[a,c] G-Resources Group Ltd., 144A	Hong Kong	14,340,000	674,489
Goldcorp Inc.	Canada	278,000	8,223,240
[a] Guyana Goldfields Inc.	Canada	106,700	190,659
Newcrest Mining Ltd.	Australia	300,000	5,229,591
[a] Osisko Mining Corp.	Canada	1,021,000	4,307,589
[a,c] Osisko Mining Corp., 144A	Canada	391,000	1,649,625

Franklin Strategic Series

Statement of Investments, April 30, 2013 *(continued)*

Franklin Natural Resources Fund	Country	Shares/Rights	Value
Common Stocks and Other Equity Interests (continued)			
Gold (continued)			
Randgold Resources Ltd., ADR	United Kingdom	90,500	$ 7,401,090
[a] Romarco Minerals Inc.	Canada	3,575,000	1,561,523
[a] Silver Lake Resources Ltd.	Australia	947,600	1,031,794
[a] St. Barbara Ltd.	Australia	2,328,861	1,449,017
			45,408,495
Independent Power Producers & Energy Traders 0.1%			
[a] Alterra Power Corp.	Canada	2,609,800	867,904
Integrated Oil & Gas 13.5%			
BP PLC, ADR	United Kingdom	175,000	7,630,000
Chevron Corp.	United States	194,000	23,669,940
Exxon Mobil Corp.	United States	264,000	23,493,360
Hess Corp.	United States	124,000	8,950,320
Occidental Petroleum Corp.	United States	355,000	31,687,300
Petroleo Brasileiro SA, ADR	Brazil	407,000	7,794,050
Total SA, B, ADR	France	291,700	14,655,008
			117,879,978
Oil & Gas Drilling 3.5%			
Ensco PLC, A	United States	240,519	13,873,136
Noble Corp.	United States	140,000	5,250,000
[a] Pioneer Energy Services Corp.	United States	697,000	4,913,850
[a] Rowan Cos. PLC	United States	215,000	6,993,950
			31,030,936
Oil & Gas Equipment & Services 23.2%			
Baker Hughes Inc.	United States	156,100	7,085,379
[a] C&J Energy Services Inc.	United States	280,000	5,541,200
[a] Cameron International Corp.	United States	225,000	13,848,750
[a] Dresser-Rand Group Inc.	United States	117,000	6,506,370
[a] Dril-Quip Inc.	United States	80,900	6,772,139
[a] FMC Technologies Inc.	United States	255,000	13,846,500
[a] Forum Energy Technologies Inc.	United States	153,700	4,274,397
Halliburton Co.	United States	662,000	28,313,740
[a] Hornbeck Offshore Services Inc.	United States	156,000	7,007,520
[a] Key Energy Services Inc.	United States	1,478,000	8,779,320
National Oilwell Varco Inc.	United States	225,000	14,674,500
Oceaneering International Inc.	United States	103,000	7,227,510
[a] Oil States International Inc.	United States	99,000	8,846,640
[a] PHI Inc., non-voting	United States	126,000	3,499,020
[a] RigNet Inc.	United States	172,800	4,181,760
Schlumberger Ltd.	United States	478,804	35,637,382
[a] Superior Energy Services Inc.	United States	497,000	13,712,230
Tidewater Inc.	United States	98,500	5,166,325
[a] Weatherford International Ltd.	United States	682,000	8,722,780
			203,643,462

Franklin Strategic Series

Statement of Investments, April 30, 2013 *(continued)*

Franklin Natural Resources Fund	Country	Shares/Rights	Value
Common Stocks and Other Equity Interests (continued)			
Oil & Gas Exploration & Production 29.3%			
Anadarko Petroleum Corp.	United States	411,000	$ 34,836,360
Apache Corp.	United States	178,000	13,150,640
Cabot Oil & Gas Corp., A	United States	187,000	12,725,350
Canadian Natural Resources Ltd.	Canada	354,300	10,393,175
[a] Chariot Oil & Gas Ltd.	United Kingdom	1,735,000	545,785
Cimarex Energy Co.	United States	82,000	6,000,760
[a] Cobalt International Energy Inc.	United States	400,000	11,176,000
[a] Concho Resources Inc.	United States	48,600	4,185,918
Devon Energy Corp.	United States	408,000	22,464,480
EnCana Corp.	Canada	640,000	11,808,000
[a] Gran Tierra Energy Inc.	Canada	1,190,000	6,580,700
[a] HRT Participacoes em Petroleo SA	Brazil	361,000	799,216
[a] Kodiak Oil & Gas Corp.	Canada	419,000	3,280,770
[a] Kosmos Energy Ltd.	United States	497,370	5,466,096
Marathon Oil Corp.	United States	283,000	9,245,610
[a] MEG Energy Corp.	Canada	187,600	5,367,183
Noble Energy Inc.	United States	147,600	16,721,604
Pacific Rubiales Energy Corp.	Colombia	117,976	2,494,554
[a] PDC Energy Inc.	United States	135,600	5,871,480
[a] Platino Energy Corp.	Canada	334,400	471,383
QEP Resources Inc.	United States	218,000	6,258,780
[a] Rex Energy Corp.	United States	370,000	5,945,900
SM Energy Co.	United States	190,000	11,590,000
[a] Southwestern Energy Co.	United States	580,000	21,703,600
[a] Triangle Petroleum Corp.	United States	1,392,000	7,642,080
Tullow Oil PLC	United Kingdom	499,100	7,757,145
[a] Whiting Petroleum Corp.	United States	278,289	12,383,861
			256,866,430
Oil & Gas Refining & Marketing 1.5%			
Phillips 66	United States	142,500	8,685,375
Valero Energy Corp.	United States	111,000	4,475,520
			13,160,895
Precious Metals & Minerals 0.8%			
[a] MAG Silver Corp.	Canada	183,300	1,399,292
[a] North American Palladium Ltd.	Canada	1,044,900	1,441,962
[a] Tahoe Resources Inc.	Canada	50,000	868,616
[a,c] Tahoe Resources Inc., 144A	Canada	206,000	3,578,696
			7,288,566
Specialty Chemicals 0.7%			
Celanese Corp., A	United States	117,300	5,795,793
Steel 0.6%			
[d] Cliffs Natural Resources Inc.	United States	238,000	5,078,920
Total Common Stocks and Other Equity Interests (Cost $698,533,876)			817,652,283

Franklin Strategic Series

Statement of Investments, April 30, 2013 *(continued)*

Franklin Natural Resources Fund	Country	Shares/Rights	Value
Convertible Preferred Stocks 1.1%			
Oil & Gas Exploration & Production 1.1%			
[c] Sanchez Energy Corp., 4.875%, cvt. pfd., 144A	United States	140,000	$ 6,925,730
[c] Sanchez Energy Corp., 6.50%, cvt. pfd., B, 144A	United States	60,000	2,956,200
Total Convertible Preferred Stocks (Cost $10,000,000)			9,881,930
Preferred Stocks (Cost $2,376,164) 0.0%			
Coal & Consumable Fuels 0.0%			
[a,b] Energy Coal Resources, 144A, pfd.	United States	29,847	—
		Principal Amount	
Convertible Bonds (Cost $4,453,000) 0.4%			
Diversified Metals & Mining 0.4%			
Molycorp Inc., senior note, cvt., 6.00%, 9/01/17	United States	$4,453,000	3,259,039
Total Investments before Short Term Investments (Cost $715,363,040)			830,793,252
		Shares	
Short Term Investments 5.2%			
Money Market Funds (Cost $40,866,069) 4.7%			
[a,e] Institutional Fiduciary Trust Money Market Portfolio	United States	40,866,069	40,866,069
[f] **Investments from Cash Collateral Received for Loaned Securities (Cost $4,859,000) 0.5%**			
Money Market Funds 0.5%			
[g] BNY Mellon Overnight Government Fund, 0.109%	United States	4,859,000	4,859,000
Total Investments (Cost $761,088,109) 100.0%			876,518,321
Other Assets, less Liabilities (0.0)%[†]			(285,160)
Net Assets 100.0%			$876,233,161

See Abbreviations on page 55.

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

[a]Non-income producing.

[b]See Note 8 regarding restricted securities.

[c]Security was purchased pursuant to Rule 144A under the Securities Act of 1933 and may be sold in transactions exempt from registration only to qualified institutional buyers or in a public offering registered under the Securities Act of 1933. These securities have been deemed liquid under guidelines approved by the Trust's Board of Trustees. At April 30, 2013, the aggregate value of these securities was $15,896,499, representing 1.81% of net assets.

[d]A portion or all of the security is on loan at April 30, 2013. See Note 1(c).

[e]See Note 7 regarding investments in the Institutional Fiduciary Trust Money Market Portfolio.

[f]See Note 1(c) regarding securities on loan.

[g]The rate shown is the annualized seven-day yield at period end.

Franklin Strategic Series

Financial Statements

Statements of Assets and Liabilities

April 30, 2013

	Franklin Biotechnology Discovery Fund	Franklin Natural Resources Fund
Assets:		
Investments in securities:		
Cost - Unaffiliated issuers	$492,186,140	$720,222,040
Cost - Non-controlled affiliated issuers (Note 9)	3,716,826	—
Cost - Sweep Money Fund (Note 7)	38,321,788	40,866,069
Total cost of investments	$534,224,754	$761,088,109
Value - Unaffiliated issuers	$703,143,851	$835,652,252
Value - Non-controlled affiliated issuers (Note 9)	7,063,550	—
Value - Sweep Money Fund (Note 7)	38,321,788	40,866,069
Total value of investments*	748,529,189	876,518,321
Receivables:		
Investment securities sold	—	6,293,240
Capital shares sold	3,672,131	1,584,899
Dividends and interest	108,165	596,024
Other assets	174	700
Total assets	752,309,659	884,993,184
Liabilities:		
Payables:		
Investment securities purchased	813,303	—
Capital shares redeemed	1,634,784	2,856,058
Affiliates	545,025	702,531
Funds advanced by custodian	40,928	—
Payable upon return of securities loaned	69,624,575	4,859,000
Accrued expenses and other liabilities	188,138	342,434
Total liabilities	72,846,753	8,760,023
Net assets, at value	$679,462,906	$876,233,161
Net assets consist of:		
Paid-in capital	$471,539,550	$826,016,042
Distributions in excess of net investment income	(2,017,147)	(9,242,141)
Net unrealized appreciation (depreciation)	214,304,435	115,430,881
Accumulated net realized gain (loss)	(4,363,932)	(55,971,621)
Net assets, at value	$679,462,906	$876,233,161

*Includes securities loaned	$ 67,251,437	$ 4,822,840

Financial Statements *(continued)*

Statements of Assets and Liabilities *(continued)*
April 30, 2013

	Franklin Biotechnology Discovery Fund	Franklin Natural Resources Fund
Class A:		
Net assets, at value	$653,718,460	$628,722,355
Shares outstanding	6,170,018	19,034,444
Net asset value per share[a]	$105.95	$33.03
Maximum offering price per share (net asset value per share ÷ 94.25%)	$112.41	$35.05
Class C:		
Net assets, at value	—	$130,423,770
Shares outstanding	—	4,072,713
Net asset value and maximum offering price per share[a]	—	$32.02
Advisor Class:		
Net assets, at value	$ 25,744,446	$117,087,036
Shares outstanding	240,927	3,316,361
Net asset value and maximum offering price per share	$106.86	$35.31

[a]Redemption price is equal to net asset value less contingent deferred sales charges, if applicable.

Franklin Strategic Series

Financial Statements *(continued)*

Statements of Operations

for the year ended April 30, 2013

	Franklin Biotechnology Discovery Fund	Franklin Natural Resources Fund
Investment income:		
Dividends	$ 795,721	$ 12,996,072
Interest	—	205,472
Income from securities loaned	831,515	36,544
Total investment income	1,627,236	13,238,088
Expenses:		
Management fees (Note 3a)	2,499,999	4,674,669
Administrative fees (Note 3b)	714,993	—
Distribution fees: (Note 3c)		
Class A	1,415,611	2,051,677
Class C	—	1,453,520
Transfer agent fees (Note 3e)		
Class A	1,080,433	1,781,204
Class C	—	377,374
Advisor Class	33,540	394,673
Special servicing agreement fees (Note 10)	—	69,396
Custodian fees (Note 4)	7,305	43,644
Reports to shareholders	96,596	218,291
Registration and filing fees	50,249	68,513
Professional fees	142,084	48,429
Trustees' fees and expenses	5,964	14,300
Other	14,279	30,506
Total expenses	6,061,053	11,226,196
Net investment income (loss)	(4,433,817)	2,011,892
Realized and unrealized gains (losses):		
Net realized gain (loss) from:		
Investments:		
Unaffiliated issuers	3,198,764	(16,072,702)
Non-controlled affiliated issuers	258,357	—
Foreign currency transactions	8,339	55,492
Net realized gain (loss)	3,465,460	(16,017,210)
Net change in unrealized appreciation (depreciation) on:		
Investments	177,139,592	(76,681,690)
Translation of other assets and liabilities denominated in foreign currencies	—	(1,453)
Net change in unrealized appreciation (depreciation)	177,139,592	(76,683,143)
Net realized and unrealized gain (loss)	180,605,052	(92,700,353)
Net increase (decrease) in net assets resulting from operations	$176,171,235	$(90,688,461)

Franklin Strategic Series

Financial Statements *(continued)*

Statements of Changes in Net Assets

	Franklin Biotechnology Discovery Fund		Franklin Natural Resources Fund	
	Year Ended April 30, 2013	Year Ended April 30, 2012	Year Ended April 30, 2013	Year Ended April 30, 2012
Increase (decrease) in net assets:				
Operations:				
Net investment income (loss)	$ (4,433,817)	$ (4,012,951)	$ 2,011,892	$ 759,400
Net realized gain (loss) from investments and foreign currency transactions	3,465,460	(4,236,636)	(16,017,210)	17,078,508
Net change in unrealized appreciation (depreciation) on investments and translation of other assets and liabilities denominated in foreign currencies	177,139,592	57,015,342	(76,683,143)	(336,380,684)
Net increase (decrease) in net assets resulting from operations	176,171,235	48,765,755	(90,688,461)	(318,542,776)
Distributions to shareholders from:				
Net investment income:				
Class A	(387,235)	(2,574,458)	—	(6,089,787)
Class C	—	—	—	(823,620)
Advisor Class	(12,343)	(75,257)	—	(1,572,340)
Net realized gains:				
Class A	—	(46,445,437)	—	—
Advisor Class	—	(987,139)	—	—
Total distributions to shareholders	(399,578)	(50,082,291)	—	(8,485,747)
Capital share transactions: (Note 2)				
Class A	48,927,671	34,313,015	(133,616,540)	(97,793,332)
Class C	—	—	(30,691,809)	(16,678,136)
Advisor Class	10,756,033	3,890,168	(108,309,557)	43,015,995
Total capital share transactions	59,683,704	38,203,183	(272,617,906)	(71,455,473)
Net increase (decrease) in net assets	235,455,361	36,886,647	(363,306,367)	(398,483,996)
Net assets:				
Beginning of year	444,007,545	407,120,898	1,239,539,528	1,638,023,524
End of year	$679,462,906	$444,007,545	$ 876,233,161	$1,239,539,528
Distributions in excess of net investment income included in net assets, end of year	$ (2,017,147)	$ (436,331)	$ (9,242,141)	$ (16,700,597)

Franklin Strategic Series

Notes to Financial Statements

1. Organization and Significant Accounting Policies

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

Class A & Advisor Class	Class A, Class C & Advisor Class
Franklin Biotechnology Discovery Fund	Franklin Natural Resources Fund

The following summarizes the Funds' significant accounting policies.

a. Financial Instrument Valuation

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

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

Debt securities generally trade in the OTC market rather than on a securities exchange. The Funds' 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

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

a. Financial Instrument Valuation *(continued)*

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.

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

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

In addition, certain foreign markets may be open on days that the NYSE is closed, which could result in differences between the value of the Funds' 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 Funds for financial reporting purposes.

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

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

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

c. Securities Lending

The Funds participate in an agency based securities lending program. The fund receives cash collateral against the loaned securities in an amount equal to at least 102% of the market value of the loaned securities. Collateral is maintained over the life of the loan in an amount not less than 100% of the market 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 invested in a non-registered money fund as indicated on the Statements of Investments. The fund receives income from the investment of cash collateral, in addition to lending fees and rebates paid by the borrower. 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. The securities lending agent has agreed to indemnify the fund in the event of default by a third party borrower.

d. Income and Deferred Taxes

It is each fund's policy to qualify as a regulated investment company under the Internal Revenue Code. Each 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.

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

d. Income and Deferred Taxes *(continued)*

The Funds 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 Funds invest. When a capital gain tax is determined to apply the Funds record an estimated deferred tax liability in an amount that would be payable if the securities were disposed of on the valuation date.

Each fund recognizes the tax benefits of uncertain tax positions only when the position is "more likely than not" to be sustained upon examination by the tax authorities based on the technical merits of the tax position. As of April 30, 2013, and for all open tax years, each fund has determined that no liability for unrecognized tax benefits is required in each fund's financial statements related to uncertain tax positions taken on a tax return (or expected to be taken on future tax returns). Open tax years are those that remain subject to examination and are based on each tax jurisdiction statute of limitation.

e. 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. Dividend income is recorded on the ex-dividend date except that certain dividends from foreign securities are recognized as soon as the Funds are notified of the ex-dividend date. Distributions to shareholders are recorded on the ex-dividend date and are determined according to income tax regulations (tax basis). Distributable earnings determined on a tax basis may differ from earnings recorded in accordance with accounting principles generally accepted in the United States of America. These differences may be permanent or temporary. Permanent differences are reclassified among capital accounts to reflect their tax character. These reclassifications have no impact on net assets or the results of operations. Temporary differences are not reclassified, as they may reverse in subsequent periods.

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

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

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

f. Accounting Estimates

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

g. Guarantees and Indemnifications

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

2. Shares of Beneficial Interest

At April 30, 2013, there were an unlimited number of shares authorized (without par value). Transactions in the Funds' shares were as follows:

	Franklin Biotechnology Discovery Fund		Franklin Natural Resources Fund	
	Shares	Amount	Shares	Amount
Class A Shares:				
Year ended April 30, 2013				
Shares sold	2,920,895	$ 258,879,692	3,751,622	$ 122,605,579
Shares issued in reinvestment of distributions	4,248	360,364	—	—
Shares redeemed	(2,457,896)	(210,312,385)	(7,827,491)	(256,222,119)
Net increase (decrease)	467,247	$ 48,927,671	(4,075,869)	$(133,616,540)
Year ended April 30, 2012				
Shares sold	1,663,413	$ 121,399,936	6,695,798	$ 253,646,629
Shares issued in reinvestment of distributions	716,369	45,374,819	176,180	5,824,506
Shares redeemed	(1,846,761)	(132,461,740)	(9,532,091)	(357,264,467)
Net increase (decrease)	533,021	$ 34,313,015	(2,660,113)	$ (97,793,332)

2. Shares of Beneficial Interest *(continued)*

	Franklin Biotechnology Discovery Fund		Franklin Natural Resources Fund	
	Shares	Amount	Shares	Amount
Class C Shares:				
Year ended April 30, 2013				
Shares sold			619,977	$ 19,772,196
Shares redeemed			(1,582,017)	(50,464,005)
Net increase (decrease)			(962,040)	$ (30,691,809)
Year ended April 30, 2012				
Shares sold			1,242,615	$ 46,255,660
Shares issued in reinvestment of distributions			24,218	783,437
Shares redeemed			(1,742,378)	(63,717,233)
Net increase (decrease)			(475,545)	$ (16,678,136)
Advisor Class Shares:				
Year ended April 30, 2013				
Shares sold	149,576	$ 13,375,042	1,454,171	$ 50,960,731
Shares issued in reinvestment of distributions	111	9,479	—	—
Shares redeemed	(30,479)	(2,628,488)	(4,315,230)	(159,270,288)
Net increase (decrease)	119,208	$ 10,756,033	(2,861,059)	$(108,309,557)
Year ended April 30, 2012				
Shares sold	74,251	$ 5,188,078	2,989,554	$ 118,050,042
Shares issued in reinvestment of distributions	12,374	787,335	41,534	1,461,580
Shares redeemed	(28,998)	(2,085,245)	(1,964,281)	(76,495,627)
Net increase (decrease)	57,627	$ 3,890,168	1,066,807	$ 43,015,995

3. Transactions with Affiliates

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

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

3. Transactions with Affiliates *(continued)*

a. Management Fees

The Funds pay an investment management fee to Advisers based on the average daily net assets of each of the Funds as follows:

Annualized Fee Rate	Net Assets
0.625%	Up to and including $100 million
0.500%	Over $100 million, up to and including $250 million
0.450%	Over $250 million, up to and including $7.5 billion
0.440%	Over $7.5 billion, up to and including $10 billion
0.430%	Over $10 billion, up to and including $12.5 billion
0.420%	Over $12.5 billion, up to and including $15 billion
0.400%	In excess of $15 billion

b. Administrative Fees

The Franklin Biotechnology Discovery Fund pays an administrative fee to FT Services based on the fund's average daily net assets as follows:

Annualized Fee Rate	Net Assets
0.150%	Up to and including $200 million
0.135%	Over $200 million, up to and including $700 million
0.100%	Over $700 million, up to and including $1.2 billion
0.075%	In excess of $1.2 billion

FT Services, under terms of an agreement, provides administrative services to the Franklin Natural Resources Fund and is not paid by the Fund for the services.

c. Distribution Fees

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

3. Transactions with Affiliates *(continued)*

c. Distribution Fees *(continued)*

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

	Franklin Biotechnology Discovery Fund	Franklin Natural Resources Fund
Reimbursement Plans:		
Class A	0.35%	0.35%
Compensation Plan:		
Class C	—	1.00%

The Board has set the current rate at 0.30% 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 Funds. 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 Funds of the following commission transactions related to the sales and redemptions of the Funds' shares for the year:

	Franklin Biotechnology Discovery Fund	Franklin Natural Resources Fund
Sales charges retained net of commissions paid to unaffiliated broker/dealers	$408,830	$268,438
CDSC retained	$ 1,735	$ 41,184

e. Transfer Agent Fees

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

For the year ended April 30, 2013, the Funds paid transfer agent fees as noted in the Statements of Operations of which the following amounts were retained by Investor Services:

	Franklin Biotechnology Discovery Fund	Franklin Natural Resources Fund
Transfer agent fees	$580,929	$1,273,990

4. Expense Offset Arrangement

The Funds have entered into an arrangement with their custodian whereby credits realized as a result of uninvested cash balances are used to reduce a portion of the Funds' custodian expenses. During the year ended April 30, 2013, there were no credits earned.

5. Income Taxes

For tax purposes, capital losses may be carried over to offset future capital gains. Capital loss carryforwards with no expiration, if any, must be fully utilized before those losses with expiration dates.

At April 30, 2013, the capital loss carryforwards were as follows:

	Franklin Natural Resources Fund
Capital loss carryforwards subject to expiration:	
2018	$20,161,920
Capital loss carryforwards not subject to expiration:	
Short term	4,287,147
Long term	12,272,356
Total capital loss carryforwards	$36,721,423

For tax purposes, the Funds may elect to defer any portion of a late-year ordinary loss to the first day of the following fiscal year. At April 30, 2013, the Franklin Biotechnology Discovery Fund deferred late-year ordinary losses of $2,017,147.

The tax character of distributions paid during the years ended April 30, 2013 and 2012, was as follows:

	Franklin Biotechnology Discovery Fund		Franklin Natural Resources Fund	
	2013	2012	2013	2012
Distributions paid from:				
Ordinary income	$399,578	$ 2,784,984	$ —	$8,485,747
Long term capital gain	—	47,297,307	—	—
	$399,578	$50,082,291	$ —	$8,485,747

5. Income Taxes *(continued)*

At April 30, 2013, the cost of investments, net unrealized appreciation (depreciation) and undistributed ordinary income for income tax purposes were as follows:

	Franklin Biotechnology Discovery Fund	Franklin Natural Resources Fund
Cost of investments	$538,588,686	$ 791,101,313
Unrealized appreciation	$237,719,475	$ 220,393,965
Unrealized depreciation	(27,778,972)	(134,976,957)
Net unrealized appreciation (depreciation)	$209,940,503	$ 85,417,008
Distributable earnings – undistributed ordinary income	$ —	$ 1,520,869

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, passive foreign investment company shares, corporate actions and wash sales.

6. Investment Transactions

Purchases and sales of investments (excluding short term securities) for the year ended April 30, 2013, were as follows:

	Franklin Biotechnology Discovery Fund	Franklin Natural Resources Fund
Purchases	$201,371,834	$197,042,687
Sales	$163,260,995	$487,477,501

7. Investments in Institutional Fiduciary Trust Money Market Portfolio

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

8. Restricted Securities

The Funds invest in securities that are restricted under the Securities Act of 1933 (1933 Act) or which are subject to legal, contractual, or other agreed upon restrictions on resale. Restricted securities are often purchased in private placement transactions, and cannot be sold without prior registration unless the sale is pursuant to an exemption under the 1933 Act. Disposal of these securities may require greater effort and expense, and prompt sale at an acceptable price

8. Restricted Securities *(continued)*

may be difficult. The Funds may have registration rights for restricted securities. The issuer generally incurs all registration costs.

At April 30, 2013, the Funds held investments in restricted securities, excluding certain securities exempt from registration under the 1933 Act deemed to be liquid, as follows:

Principal Amount*/ Shares	Issuer	Acquisition Dates	Cost	Value
Franklin Biotechnology Discovery Fund				
1,500,000 CAD	ConjuChem Biotechnologies Inc., cvt., sub. note, 144A, 8.00%, 12/31/10	12/12/07	$1,480,677	$ —
1,128,271	FibroGen Inc., pfd., E	5/19/00	5,065,937	4,716,173
166,654	OvaScience Inc., 144A	3/12/13	1,499,886	1,754,867
	Total Restricted Securities (0.95% of Net Assets)		$8,046,500	$6,471,040
Franklin Natural Resources Fund				
199,375	Energy Coal Resources, 144A	11/16/05 - 5/05/06	$ 741,939	$ —
29,847	Energy Coal Resources, 144A, pfd	3/17/09	2,376,164	—
	Total Restricted Securities (Value is 0.00% of Net Assets)		$3,118,103	$ —

*In U.S. dollars unless otherwise indicated.

9. Holdings of 5% Voting Securities of Portfolio Companies

The 1940 Act defines "affiliated companies" to include investments in portfolio companies in which a fund owns 5% or more of the outstanding voting securities. Investments in "affiliated companies" for the Franklin Biotechnology Discovery Fund for the year ended April 30, 2013, were as shown below.

Name of Issuer	Number of Shares/ Warrants Held at Beginning of Year	Gross Additions	Gross Reductions	Number of Shares/ Warrants Held at End of Year	Value at End of Year	Investment Income	Realized Capital Gain (Loss)
Franklin Biotechnology Discovery Fund							
Non-Controlled Affiliates							
AP Pharma Inc.	10,893,203	6,104,497	408,900	16,588,800	$6,038,323	$ —	$258,357
AP Pharma Inc., wts., 7/01/16	10,903,203	240,566	—	11,143,769	1,025,227	—	—
Total Affiliated Securities (1.04% of Net Assets)					$7,063,550	$ —	$258,357

10. Special Servicing Agreement

The Franklin Natural Resources Fund, which is an eligible underlying investment of one or more of the Franklin Templeton Fund Allocator Series Funds (Allocator Funds), participates in a Special Servicing Agreement (SSA) with the Allocator Funds and certain service providers of the fund and

10. Special Servicing Agreement *(continued)*

the Allocator Funds. Under the SSA, the fund may pay a portion of the Allocator Funds' expenses (other than any asset allocation, administrative and distribution fees), to the extent such payments are less than the amount of the benefits realized or expected to be realized by the fund (e.g., due to reduced costs associated with servicing accounts) from the investment in the fund by the Allocator Funds. The Allocator Funds are either managed by Franklin Advisers, Inc. or administered by FT Services. For the year ended April 30, 2013, the fund was held by one or more of the Allocator Funds and the amount of expenses borne by the fund is noted in the Statements of Operations. At April 30, 2013, the fund was no longer held by any of the Allocator Funds. Effective May 1, 2013, the SSA was discontinued until further notice and approval by the Board.

11. Credit Facility

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

Under the terms of the Global Credit Facility, the Funds shall, in addition to interest charged on any borrowings made by the Funds and other costs incurred by the Funds, pay their share of fees and expenses incurred in connection with the implementation and maintenance of the Global Credit Facility, based upon their relative share of the aggregate net assets of all of the Borrowers, including an annual commitment fee of 0.07% based upon the unused portion of the Global Credit Facility. These fees are reflected in other expenses on the Statements of Operations. During the year ended April 30, 2013, the Funds did not use the Global Credit Facility.

12. Fair Value Measurements

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

12. Fair Value Measurements

The inputs or methodology used for valuing financial instruments are not an indication of the risk associated with investing in those financial instruments.

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

A summary of inputs used as of April 30, 2013, in valuing the Funds' assets carried at fair value, is as follows:

	Level 1	Level 2	Level 3	Total
Franklin Biotechnology Discovery Fund				
Assets:				
Investments in Securities:				
Equity Investments:[a]				
Biotechnology	$514,352,406	$ 1,205,036	$6,471,040[b]	$522,028,482
Other Equity Investments[c]	118,554,344	—	—	118,554,344
Convertible Bonds	—	—	—[b]	—
Short Term Investments	38,321,788	69,624,575	—	107,946,363
Total Investments in Securities	$671,228,538	$70,829,611	$6,471,040	$748,529,189
Franklin Natural Resources Fund				
Assets:				
Investments in Securities:				
Equity Investments:[a]				
Oil & Gas Exploration & Production	$256,866,430	$ 9,881,930	$ —	$266,748,360
Other Equity Investments[c]	560,785,853	—	—[b]	560,785,853
Convertible Bonds	—	3,259,039	—	3,259,039
Short Term Investments	40,866,069	4,859,000	—	45,725,069
Total Investments in Securities	$858,518,352	$17,999,969	$ —[b]	$876,518,321

[a]Includes common, preferred and convertible preferred stocks as well as other equity investments.

[b]Includes securities determined to have no value at April 30, 2013.

[c]For detailed categories, see the accompanying Statement of Investments.

12. Fair Value Measurements *(continued)*

A reconciliation of assets in which Level 3 inputs are used in determining fair value is presented when there are significant Level 3 investments at the end of the period. At April 30, 2013, the reconciliation of assets, is as follows:

	Balance at Beginning of Year	Purchases (Sales)	Transfers into (Out of) Level 3	Cost Basis Adjustments	Net Realized Gain (Loss)	Net Unrealized Gain (Loss)	Balance at End of Year	Net Change in Unrealized Appreciation (Depreciation) on Assets Held at Year End
Franklin Biotechnology Discovery Fund								
Assets								
Investments in Securities:								
Equity Investments:[a]								
Biotechnology	$4,625,911[b]	$1,499,886	$ —	$ —	$ —	$345,243	$6,471,040[b]	$345,243

[a]Includes common and preferred stocks as well as other equity investments.

[b]Includes securities determined to have no value.

Significant unobservable valuation inputs developed by the VLOC for material Level 3 investments and impact to fair value as a result of changes in unobservable valuation inputs as of April 30, 2013, are as follows:

Description	Fair Value at End of Period	Valuation Technique	Unobservable Inputs	Amount/Range	Impact to Fair Value if Input Increases[a]
Assets:					
Investments in Securities:					
Equity Investments					
Biotechnology	$6,471,040	Discounted Cash Flow Model	Free cash flow	$0 - 950 (mil)	Increase[b]
			Cost of equity capital	14%	Decrease[b]
			Discount for lack of marketability	35%	Decrease[c]
		Market Comparables	Discount for lack of marketability	10%	Decrease[c]

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

[b]Represents a significant impact to fair value and net assets.

[c]Represents a significant impact to fair value but not net assets.

13. New Accounting Pronouncements

In December 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-11, Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities. The amendments in the ASU enhance disclosures about offsetting of financial assets and liabilities to enable investors to understand the effect of these arrangements on a fund's financial position. In January 2013, FASB issued ASU No. 2013-01, Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities. The amendments in ASU No. 2013-01 clarify the intended scope of disclosures required by ASU No. 2011-11. These ASUs are effective for interim and annual reporting periods beginning on or after January 1, 2013. The Funds believe the adoption of these ASUs will not have a material impact on their financial statements.

14. Subsequent Events

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

Abbreviations

Currency

CAD - Canadian Dollar

Selected Portfolio

ADR - American Depositary Receipt

Franklin Strategic Series

Report of Independent Registered Public Accounting Firm

To the Board of Trustees and Shareholders of Franklin Strategic Series

In our opinion, the accompanying statements of assets and liabilities, including the statements of investments, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of Franklin Biotechnology Discovery Fund and Franklin Natural Resources Fund (separate portfolios of Franklin Strategic Series, hereafter referred to as the "Funds") at April 30, 2013, the results of each of their operations for the year then ended, the changes in each of their net assets for each of the two years in the period then ended and the financial highlights for the periods presented, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Funds' management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at April 30, 2013 by correspondence with the custodian, transfer agent and brokers, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

San Francisco, California
June 19, 2012

Franklin Strategic Series

Tax Information (unaudited)

Under Section 854(b)(1)(A) of the Internal Revenue Code (Code), the Franklin Biotechnology Discovery Fund hereby reports 100.00% of the ordinary income dividends as income qualifying for the dividends received deduction for the fiscal year ended April 30, 2013.

Under Section 854(b)(1)(B) of the Code, the Funds hereby report the maximum amount allowable but no less than the following amounts as qualified dividends for purposes of the maximum rate under Section 1(h)(11) of the Code for the fiscal year ended April 30, 2013:

Franklin Biotechnology Discovery Fund	Franklin Natural Resources Fund
$795,721	$12,197,022

Distributions, including qualified dividend income, paid during calendar year 2013 will be reported to shareholders on Form 1099-DIV by mid-February 2014. Shareholders are advised to check with their tax advisors for information on the treatment of these amounts on their individual income tax returns.

Franklin Strategic Series

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 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
Harris J. Ashton (1932) One Franklin Parkway San Mateo, CA 94403-1906	Trustee	Since 1991	135	Bar-S Foods (meat packing company) (1981-2010).
Principal Occupation During at Least the Past 5 Years: Director of various companies; and **formerly,** Director, RBC Holdings, Inc. (bank holding company) (until 2002); and President, Chief Executive Officer and Chairman of the Board, General Host Corporation (nursery and craft centers) (until 1998).				
Sam Ginn (1937) One Franklin Parkway San Mateo, CA 94403-1906	Trustee	Since 2007	109	ICO Global Communications (Holdings) Limited (satellite company) (2006-2010), Chevron Corporation (global energy company) (1989-2009), Hewlett-Packard Company (technology company) (1996-2002), Safeway, Inc. (grocery retailer) (1991-1998) and TransAmerica Corporation (insurance company) (1989-1999).
Principal Occupation During at Least the Past 5 Years: Private investor; Chairman, First Responder Network Authority (FirstNet) (interoperable wireless broadband network) (August 2012); and **formerly,** Chairman of the Board, Vodafone AirTouch, PLC (wireless company) (1999-2000); Chairman of the Board and Chief Executive Officer, AirTouch Communications (cellular communications) (1993-1998) and Pacific Telesis Group (telephone holding company) (1988-1994).				
Edith E. Holiday (1952) One Franklin Parkway San Mateo, CA 94403-1906	Trustee	Since 1998	135	Hess Corporation (exploration and refining of oil and gas), H.J. Heinz Company (processed foods and allied products), RTI International Metals, Inc. (manufacture and distribution of titanium), Canadian National Railway (railroad) and White Mountains Insurance Group, Ltd. (holding company).
Principal Occupation During at Least the Past 5 Years: Director or Trustee of various companies and trusts; and **formerly,** Assistant to the President of the United States and Secretary of the Cabinet (1990-1993); General Counsel to the United States Treasury Department (1989-1990); and Counselor to the Secretary and Assistant Secretary for Public Affairs and Public Liaison – United States Treasury Department (1988-1989).				

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
J. Michael Luttig (1954) One Franklin Parkway San Mateo, CA 94403-1906	Trustee	Since 2009	135	Boeing Capital Corporation (aircraft financing).
Principal Occupation During at Least the Past 5 Years: Executive Vice President, General Counsel and member of Executive Council, The Boeing Company (aerospace company); and **formerly,** Federal Appeals Court Judge, U.S. Court of Appeals for the Fourth Circuit (1991-2006).				
Frank A. Olson (1932) One Franklin Parkway San Mateo, CA 94403-1906	Trustee	Since 2007	135	Hess Corporation (exploration and refining of oil and gas).
Principal Occupation During at Least the Past 5 Years: Chairman Emeritus, The Hertz Corporation (car rental) (since 2000) (Chairman of the Board (1980-2000) and Chief Executive Officer (1977-1999)); and **formerly,** Chairman of the Board, President and Chief Executive Officer, UAL Corporation (airlines).				
Larry D. Thompson (1945) One Franklin Parkway San Mateo, CA 94403-1906	Trustee	Since 2007	145	Cbeyond, Inc. (business communications provider), The Southern Company (energy company) (2010-2012) and The Washington Post Company (education and media organization).
Principal Occupation During at Least the Past 5 Years: Executive Vice President – Government Affairs, General Counsel and Corporate Secretary, PepsiCo, Inc. (consumer products) (June 2012); and **formerly,** John A. Sibley Professor of Corporate and Business Law, University of Georgia School of Law (2011-2012); Senior Vice President – Government Affairs, General Counsel and Secretary, PepsiCo, Inc. (2004-2011); Senior Fellow of The Brookings Institution (2003-2004); Visiting Professor, University of Georgia School of Law (2004); and Deputy Attorney General, U.S. Department of Justice (2001-2003).				
John B. Wilson (1959) One Franklin Parkway San Mateo, CA 94403-1906	Lead Independent Trustee	Trustee since 2006 and Lead Independent Trustee since 2008	109	None
Principal Occupation During at Least the Past 5 Years: President, Staples Europe (office supplies) (October 2012); President and Founder, Hyannis Port Capital, Inc. (real estate and private equity investing); serves on private and non-profit boards; and **formerly,** Chief Operating Officer and Executive Vice President, Gap, Inc. (retail) (1996-2000); Chief Financial Officer and Executive Vice President – Finance and Strategy, Staples, Inc. (1992-1996); Senior Vice President – Corporate Planning, Northwest Airlines, Inc. (airlines) (1990-1992); and Vice President and Partner, Bain & Company (consulting firm) (1986-1990).				

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
****Charles B. Johnson (1933)** 300 S.E. 2nd Street Fort Lauderdale, FL 33301-1923	Trustee and Chairman of the Board	Trustee since 1991 and Chairman of the Board since 1993	135	None
Principal Occupation During at Least the Past 5 Years: Chairman of the Board, Member – Office of the Chairman and Director, Franklin Resources, Inc.; and officer and/or director or trustee, as the case may be, of some of the other subsidiaries of Franklin Resources, Inc. and of 42 of the investment companies in Franklin Templeton Investments.				
****Rupert H. Johnson, Jr. (1940)** One Franklin Parkway San Mateo, CA 94403-1906	Trustee	Since 1991	50	None
Principal Occupation During at Least the Past 5 Years: Vice Chairman, Member – Office of the Chairman and Director, Franklin Resources, Inc.; Director, Franklin Advisers, Inc.; Senior Vice President, Franklin Advisory Services, LLC; and officer and/or director or trustee, as the case may be, of some of the other subsidiaries of Franklin Resources, Inc. and of 25 of the investment companies in Franklin Templeton Investments.				
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 47 of the investment companies in Franklin Templeton Investments.				
Laura F. Fergerson (1962) One Franklin Parkway San Mateo, CA 94403-1906	Chief Executive Officer – Finance and Administration	Since 2009	Not Applicable	Not Applicable
Principal Occupation During at Least the Past 5 Years: Senior Vice President, Franklin Templeton Services, LLC; and officer of 47 of the investment companies in Franklin Templeton Investments.				
Gaston Gardey (1967) One Franklin Parkway San Mateo, CA 94403-1906	Treasurer, Chief Financial Officer and Chief Accounting Officer	Since 2009	Not Applicable	Not Applicable
Principal Occupation During at Least the Past 5 Years: Director, Fund Accounting, Franklin Templeton Investments; and officer of 28 of the investment companies in Franklin Templeton Investments.				

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
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; officer of 47 of the investment companies in Franklin Templeton Investments; and **formerly,** Litigation Associate, Steefel, Levitt & Weiss, LLP (2000-2004).				
Steven J. Gray (1955) 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; Vice President, Franklin Templeton Distributors, Inc.; and officer of 47 of the investment companies in Franklin Templeton Investments.				
Selena L. Holmes (1965) 100 Fountain Parkway St. Petersburg, FL 33716-1205	Vice President – AML Compliance	Since 2012	Not Applicable	Not Applicable
Principal Occupation During at Least the Past 5 Years: Director, Global Compliance Monitoring; and officer of 47 of the investment companies in Franklin Templeton Investments.				
Edward B. Jamieson (1948) One Franklin Parkway San Mateo, CA 94403-1906	President and Chief Executive Officer – Investment Management	Since 2010	Not Applicable	Not Applicable
Principal Occupation During at Least the Past 5 Years: President, Chief Investment Officer and Director, Franklin Advisers, Inc.; Executive Vice President, Franklin Templeton Institutional, LLC; and officer and/or trustee, as the case may be, of some of the other subsidiaries of Franklin Resources, Inc. and of 10 of the investment companies in Franklin Templeton Investments.				
Christopher J. Molumphy (1962) One Franklin Parkway San Mateo, CA 94403-1906	Vice President	Since 2000	Not Applicable	Not Applicable
Principal Occupation During at Least the Past 5 Years: Director and Executive Vice President, Franklin Advisers, Inc.; Executive Vice President, Franklin Templeton Institutional, LLC; and officer of some of the other subsidiaries of Franklin Resources, Inc. and of 23 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 March 2013	Not Applicable	Not Applicable
Principal Occupation During at Least the Past 5 Years: Senior Corporate Counsel, Franklin Templeton Investments; Vice President, Fiduciary Trust International of the South and Templeton Investment Counsel, LLC; Assistant Secretary, Franklin Resources, Inc.; and officer of 47 of the investment companies in Franklin Templeton Investments.				

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 March 2013	Not Applicable	Not Applicable
Principal Occupation During at Least the Past 5 Years: Director, Global Compliance, Franklin Templeton Investments; Vice President, Secretary and Trust Officer, Fiduciary Trust International of the South; and officer of 47 of the investment companies in Franklin Templeton Investments.				
Karen L. Skidmore (1952) One Franklin Parkway San Mateo, CA 94403-1906	Vice President and Secretary	Since 2006	Not Applicable	Not Applicable
Principal Occupation During at Least the Past 5 Years: Senior Associate General Counsel, Franklin Templeton Investments; and officer of 47 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.; officer of some of the other subsidiaries of Franklin Resources, Inc. and of 47 of the investment companies in Franklin Templeton Investments; and **formerly,** Partner, Shearman & Sterling, LLP (2004-2005); and General Counsel, Investment Company Institute (ICI) (1997-2004).				
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 47 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.

**Charles B. Johnson and Rupert H. Johnson, Jr. are considered to be interested persons of the Fund under the federal securities laws due to their positions as officers and directors and major shareholders of Franklin Resources, Inc., which is the parent company of the Fund's investment manager and distributor.

Note 1: Charles B. Johnson and Rupert H. Johnson, Jr. are brothers.

Note 2: Officer information is current as of the date of this report. It is possible that after this date, information about officers may change.

The Sarbanes-Oxley Act of 2002 and Rules adopted by the Securities and Exchange Commission require the Fund to disclose whether the Fund's Audit Committee includes at least one member who is an audit committee financial expert within the meaning of such Act and Rules. The Fund's Board has determined that there is at least one such financial expert on the Audit Committee and has designated John B. Wilson as its audit committee financial expert. The Board believes that Mr. Wilson qualifies as such an expert in view of his extensive business background and experience, including service as chief financial officer of Staples, Inc. from 1992 to 1996. Mr. Wilson has been a Member and Chairman of the Fund's Audit Committee since 2006. As a result of such background and experience, the Board believes that Mr. Wilson has acquired an understanding of generally accepted accounting principles and financial statements, the general application of such principles in connection with the accounting estimates, accruals and reserves, and analyzing and evaluating financial statements that present a breadth and level of complexity of accounting issues generally comparable to those of the Fund, as well as an understanding of internal controls and procedures for financial reporting and an understanding of audit committee functions. Mr. Wilson is an independent Board member as that term is defined under the relevant Securities and Exchange Commission Rules and Releases.

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

Franklin Strategic Series

Shareholder Information

Board Review of Investment Management Agreement

At a meeting held April 16, 2013, the Board of Trustees (Board), including a majority of non-interested or independent Trustees, approved renewal of the investment management agreement for each of the separate funds within the Trust (Fund(s)). In reaching this decision, the Board took into account information furnished throughout the year at regular Board meetings, as well as information prepared specifically in connection with the annual renewal review process. Information furnished and discussed throughout the year included investment performance reports and related financial information for each Fund, along with periodic reports on expenses, shareholder services, legal and compliance matters, pricing, brokerage commissions and execution and other services provided by the Investment Manager (Manager) and its affiliates, as well as a third-party survey of transfer agent fees charged funds within the Franklin Templeton Investments complex in comparison with those charged other fund complexes deemed comparable. Information furnished specifically in connection with the renewal process included a report for each Fund prepared by Lipper, Inc. (Lipper), an independent organization, as well as additional material, including a Fund profitability analysis prepared by management. The Lipper reports compared each Fund's investment performance and expenses with those of other mutual funds deemed comparable to the Fund as selected by Lipper. The Fund profitability analysis discussed the profitability to Franklin Templeton Investments from its overall U.S. fund operations, as well as on an individual fund-by-fund basis. Additional material accompanying such profitability analysis included information on a fund-by-fund basis listing portfolio managers and other accounts they manage, as well as information on management fees charged by the Manager and its affiliates to U.S. mutual funds and other accounts, including management's explanation of differences where relevant. Such material also included a memorandum prepared by management describing project initiatives and capital investments relating to the services provided to the Funds by the Franklin Templeton Investments organization, as well as a memorandum relating to economies of scale and an analysis concerning transfer agent fees charged by an affiliate of the Manager.

In considering such materials, the independent Trustees received assistance and advice from and met separately with independent counsel. While the investment management agreements for all Funds were considered at the same Board meeting, the Board dealt with each Fund separately. In approving continuance of the investment management agreement for each Fund, the Board, including a majority of independent Trustees, determined that the existing management fee structure was fair and reasonable and that continuance of the investment management agreement was in the best interests of each Fund and its shareholders. While attention was given to all information furnished, the following discusses some primary factors relevant to the Board's decision.

NATURE, EXTENT AND QUALITY OF SERVICE. The Board was satisfied with the nature and quality of the overall services provided by the Manager and its affiliates to the Funds and their shareholders. In addition to investment performance and expenses discussed later, the Board's opinion was based, in part, upon periodic reports furnished it showing that the investment policies and restrictions for each Fund were consistently complied with as well as other reports periodically furnished the Board covering matters such as the compliance of portfolio managers and other

Board Review of Investment Management Agreement *(continued)*

management personnel with the code of ethics adopted throughout the Franklin Templeton fund complex, the adherence to fair value pricing procedures established by the Board, and the accuracy of net asset value calculations. The Board also noted the extent of benefits provided Fund shareholders from being part of the Franklin Templeton family of funds, including the right to exchange investments between the same class of funds without a sales charge, the ability to reinvest Fund dividends into other funds and the right to combine holdings in other funds to obtain a reduced sales charge. Favorable consideration was given to management's continuous efforts and expenditures in establishing back-up systems and recovery procedures to function in the event of a natural disaster, it being noted that such systems and procedures had functioned well during the Florida hurricanes and blackouts experienced in previous years, and that those operations in the New York/New Jersey area ran smoothly during the more recent Hurricane Sandy. Among other factors taken into account by the Board were the Manager's best execution trading policies, including a favorable report by an independent portfolio trading analytical firm, which also covered FOREX transactions. Consideration was also given to the experience of each Fund's portfolio management team, the number of accounts managed and general method of compensation. In this latter respect, the Board noted that a primary factor in management's determination of a portfolio manager's bonus compensation was the relative investment performance of the funds he or she managed and that a portion of such bonus was required to be invested in a predesignated list of funds within such person's fund management area so as to be aligned with the interests of shareholders. The Board also took into account the quality of transfer agent and shareholder services provided Fund shareholders by an affiliate of the Manager, and the continuous enhancements to the Franklin Templeton website. Particular attention was given to management's conservative approach and diligent risk management procedures, including continuous monitoring of counterparty credit risk and attention given to derivatives and other complex instruments, including expanded collateralization requirements. The Board also took into account, among other things, management's efforts in establishing a global credit facility for the benefit of the Funds and other accounts managed by Franklin Templeton Investments to provide a source of cash for temporary and emergency purposes or to meet unusual redemption requests as well as the strong financial position of the Manager's parent company and its commitment to the mutual fund business as evidenced by its subsidization of money market funds.

INVESTMENT PERFORMANCE. The Board placed significant emphasis on the investment performance of the Funds in view of its importance to shareholders. While consideration was given to performance reports and discussions with portfolio managers at Board meetings throughout the year, particular attention in assessing performance was given to the Lipper reports furnished for the agreement renewals. The Lipper reports prepared for each such individual Fund showed the investment performance of its Class A shares in comparison to a performance universe selected by Lipper. Comparative performance for each Fund was shown for the one-year period ended January 31, 2013, and previous periods ended that date of up to 10 years depending on when a particular Fund commenced operations. The following summarizes the performance results for each of these Funds and the Board's view of such performance.

Board Review of Investment Management Agreement *(continued)*

Franklin Biotechnology Discovery Fund – The performance universe for this Fund consisted of the Fund and all retail and institutional health/biotechnology funds as selected by Lipper. The Lipper report showed the Fund's total return for the one-year period to be in the second-highest performing quintile of its performance universe, and on an annualized basis to also be in the second-highest performing quintile of such universe for each of the previous three-, five- and 10-year periods. The Board was satisfied with the Fund's investment performance as set forth in the Lipper report.

Franklin Natural Resources Fund – The performance universe for this Fund consisted of the Fund and all retail and institutional global natural resources funds as selected by Lipper. The Lipper report comparison for the Fund showed its total return for the one-year period to be in the second-lowest performing quintile of its performance universe, and on an annualized basis to be in the second-highest performing quintile of such universe for each of the previous three- and five-year periods, and the second-lowest performing quintile of such universe for the previous 10-year period. The Board discussed with management reasons for the Fund's underperformance for the one-year period, but found the Fund's overall performance as set forth in the Lipper report to be acceptable, noting its annualized return for the 10-year period as shown in such report exceeded 13 percent.

COMPARATIVE EXPENSES. Consideration was given to a comparative analysis of the management fees and total expense ratio of each Fund compared with those of a group of other funds selected by Lipper as its appropriate Lipper expense group. Lipper expense data is based upon information taken from each fund's most recent annual report, which reflects historical asset levels that may be quite different from those currently existing, particularly in a period of market volatility. While recognizing such inherent limitation and the fact that expense ratios generally increase as assets decline and decrease as assets grow, the Board believed the independent analysis conducted by Lipper to be an appropriate measure of comparative expenses. In reviewing comparative costs, Lipper provides information on each Fund's contractual investment management fee in comparison with the investment management fee that would have been charged by other funds within its Lipper expense group assuming they were similar in size to the Fund, as well as the actual total expense ratio of the Fund in comparison with those of its Lipper expense group. The Lipper contractual investment management fee analysis includes administrative charges as being part of the investment management fee, and actual total expenses, for comparative consistency, are shown by Lipper for Fund Class A shares. The results of such expense comparisons showed the contractual investment management fee rates and actual total expense ratio for each of Franklin Natural Resources Fund and Franklin Biotechnology Discovery Fund to be in the least expensive quintile of its respective Lipper expense group. The Board was satisfied with the contractual management fee rate and total expense ratio of each of these Funds in comparison to its respective expense group as shown in the Lipper reports.

Board Review of Investment Management Agreement *(continued)*

MANAGEMENT PROFITABILITY. The Board also considered the level of profits realized by the Manager and its affiliates in connection with the operation of each Fund. In this respect, the Board reviewed the Fund profitability analysis that addresses the overall profitability of Franklin Templeton's U.S. fund business, as well as its profits in providing management and other services to each of the individual funds during the 12-month period ended September 30, 2012, being the most recent fiscal year-end for Franklin Resources, Inc., the Manager's parent. In reviewing the analysis, attention was given to the methodology followed in allocating costs to each Fund, it being recognized that allocation methodologies are inherently subjective and various allocation methodologies may each be reasonable while producing different results. In this respect, the Board noted that, while being continuously refined and reflecting changes in the Manager's own cost accounting, the allocation methodology was consistent with that followed in profitability report presentations for the Funds made in prior years and that the Funds' independent registered public accounting firm had been engaged by the Manager to periodically review the reasonableness of the allocation methodologies solely for use by the Funds' Board in reference to the profitability analysis. In reviewing and discussing such analysis, management discussed with the Board its belief that costs incurred in establishing the infrastructure necessary for the type of mutual fund operations conducted by the Manager and its affiliates may not be fully reflected in the expenses allocated to each Fund in determining its profitability, as well as the fact that the level of profits, to a certain extent, reflected operational cost savings and efficiencies initiated by management. The Board also took into account management's expenditures in improving shareholder services provided the Funds, as well as the need to implement systems and meet additional regulatory and compliance requirements resulting from statutes such as the Sarbanes-Oxley and Dodd Frank Acts and recent SEC and other regulatory requirements. In addition, the Board considered a third-party study comparing the profitability of the Manager's parent on an overall basis to other publicly held managers broken down to show profitability from management operations exclusive of distribution expenses, as well as profitability including distribution expenses. The Board also considered the extent to which the Manager and its affiliates might derive ancillary benefits from fund operations, including revenues generated from transfer agent services and potential benefits resulting from allocation of fund brokerage and the use of commission dollars to pay for research. Based upon its consideration of all these factors, the Board determined that the level of profits realized by the Manager and its affiliates from providing services to each Fund was not excessive in view of the nature, quality and extent of services provided.

ECONOMIES OF SCALE. The Board also considered whether economies of scale are realized by the Manager as the Funds grow larger and the extent to which this is reflected in the level of management fees charged. While recognizing that any precise determination is inherently subjective, the Board noted that based upon the Fund profitability analysis, it appears that as some funds get larger, at some point economies of scale do result in the Manager realizing a larger profit margin on management services provided such a fund. The Board noted that economies of scale were shared with each Fund and its shareholders through management fee breakpoints so that as a Fund grows in size, its effective management fee rate declines. The fee structure under the investment management agreements for all of the Funds contains breakpoints that continued to asset levels that

Board Review of Investment Management Agreement *(continued)*

exceeded their asset sizes at December 31, 2012. In view of such fee structure and the favorable expense comparisons of each of the Funds within its respective expense group, the Board believed that to the extent economies of scale may be realized by the Manager of these Funds and its affiliates, that there was a sharing of benefits with each Fund and its shareholders.

Proxy Voting Policies and Procedures

The Trust's investment manager has established Proxy Voting Policies and Procedures (Policies) that the Trust uses to determine how to vote proxies relating to portfolio securities. Shareholders may view the Trust'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 Trust'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 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 each 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 householded, please call us at (800) 632-2301. At any time you may view current prospectuses/summary prospectuses and financial reports on our website. If you choose, you may receive these documents through electronic delivery.

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Franklin Templeton Funds

Literature Request. *To receive a summary prospectus and/or prospectus, please call us at (800) DIAL BEN/342-5236 or visit* ***franklintempleton.com****. Investors should carefully consider a fund's investment goals, risks, charges and expenses before investing. The prospectus contains this and other information. Please carefully read a prospectus before investing. To ensure the highest quality of service, we may monitor, record and access telephone calls to or from our service departments. These calls can be identified by the presence of a regular beeping tone.*

VALUE
Franklin All Cap Value Fund
Franklin Balance Sheet Investment Fund
Franklin Large Cap Value Fund
Franklin MicroCap Value Fund[1]
Franklin MidCap Value Fund
Franklin Small Cap Value Fund
Mutual Beacon Fund
Mutual Quest Fund
Mutual Recovery Fund[2]
Mutual Shares Fund

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

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

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

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

INTERNATIONAL
Franklin India Growth Fund
Franklin International Growth Fund
Franklin International Small Cap Growth Fund[3]
Mutual European Fund
Mutual International Fund
Templeton Asian Growth Fund
Templeton BRIC Fund
Templeton China World Fund
Templeton Developing Markets Trust
Templeton Emerging Markets Small Cap Fund
Templeton Foreign Fund
Templeton Foreign Smaller Companies Fund
Templeton Frontier Markets Fund

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

ASSET ALLOCATION
Franklin Templeton Corefolio® Allocation Fund
Franklin Templeton Founding Funds Allocation Fund
Franklin Templeton Conservative Allocation Fund
Franklin Templeton Growth Allocation Fund
Franklin Templeton Moderate Allocation Fund
Franklin LifeSmart™ 2015 Retirement Target Fund[4]
Franklin LifeSmart™ 2020 Retirement Target Fund
Franklin LifeSmart™ 2025 Retirement Target Fund[4]
Franklin LifeSmart™ 2030 Retirement Target Fund
Franklin LifeSmart™ 2035 Retirement Target Fund[4]
Franklin LifeSmart™ 2040 Retirement Target Fund
Franklin LifeSmart™ 2045 Retirement Target Fund[4]
Franklin LifeSmart™ 2050 Retirement Target Fund
Franklin Templeton Global Allocation Fund
Franklin Templeton Multi-Asset Real Return Fund

FIXED INCOME
Franklin Adjustable U.S. Government Securities Fund[5]
Franklin Floating Rate Daily Access Fund
Franklin High Income Fund
Franklin Limited Maturity U.S. Government Securities Fund[5]
Franklin Low Duration Total Return Fund
Franklin Real Return Fund
Franklin Strategic Income Fund
Franklin Strategic Mortgage Portfolio
Franklin Templeton Hard Currency Fund
Franklin Total Return Fund
Franklin U.S. Government Securities Fund[5]
Templeton Emerging Markets Bond Fund
Templeton Global Bond Fund
Templeton Global Total Return Fund
Templeton International Bond Fund

TAX-FREE INCOME[6]
National
Double Tax-Free Income Fund[7]
Federal Tax-Free Income Fund
High Yield Tax-Free Income Fund
Insured Tax-Free Income Fund[8, 9]

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

State-Specific
Alabama
Arizona
California (4 funds)[9]
Colorado
Connecticut
Florida
Georgia
Kentucky
Louisiana
Maryland
Massachusetts
Michigan
Minnesota
Missouri
New Jersey
New York (2 funds)
North Carolina
Ohio
Oregon
Pennsylvania
Tennessee
Virginia

INSURANCE FUNDS
Franklin Templeton Variable Insurance Products Trust[10]

1. The fund is closed to new investors. Existing shareholders and select retirement plans can continue adding to their accounts.
2. The fund is a continuously offered, closed-end fund. Shares may be purchased daily; there is no daily redemption. However, each quarter, pending board approval, the fund will authorize the repurchase of 5%–25% of the outstanding number of shares. Investors may tender all or a portion of their shares during the tender period.
3. Effective 6/3/13, the fund closed to new investors, with limited exceptions.
4. Effective 5/1/13, the Franklin Templeton Retirement Target Funds changed their names to Franklin LifeSmart Retirement Target Funds. The funds' investment goals and principal investment strategies remained unchanged.
5. An investment in the fund is neither insured nor guaranteed by the U.S. government or by any other entity or institution.
6. For investors subject to the alternative minimum tax, a small portion of fund dividends may be taxable. Distributions of capital gains are generally taxable.
7. The fund is closed to all new investments (other than reinvestment of dividends and capital gains distributions).
8. The fund invests primarily in insured municipal securities.
9. Effective at the close of market 3/1/13, Franklin Insured Tax-Free Income Fund and Franklin California Insured Tax-Free Income Fund closed to all new investments (other than reinvestment of dividends and capital gains distributions).
10. The funds of the Franklin Templeton Variable Insurance Products Trust are generally available only through insurance company variable contracts.

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

< GAIN FROM OUR PERSPECTIVE® >

Annual Report and Shareholder Letter

Franklin Strategic Series

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Shareholder Services
(800) 632-2301

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

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

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