FRANKLIN TEMPLETON INVESTMENTS

Prospectus
August 1, 2014

Franklin Mutual Recovery Fund

CLASS A, C & ADVISOR

The principal investment goal of Franklin Mutual Recovery Fund (Fund) is capital appreciation. Franklin Mutual Advisers, LLC, is the Fund's investment manager. The investment manager makes all investment decisions for the Fund and seeks to achieve superior risk adjusted returns with a moderate correlation to the U.S. equity markets. Normally the Fund takes mostly long and some short positions in equity and debt securities of special situation, distressed or restructuring companies. The Fund offers an unlimited amount of its shares, but its shares are not redeemable each business day. Instead, the Fund offers to repurchase as much as 25% of its shares each quarter.

Please read this prospectus before investing, and keep it for future reference. It contains important information about the Fund that you should know before investing in the Fund.

For more information about the Fund, request the Fund's Statement of Additional Information (SAI), dated August 1, 2014, as amended from time to time. The Fund files the SAI with the U.S. Securities and Exchange Commission (SEC) and incorporates it by reference into this prospectus. The SAI's table of contents is at the end of this prospectus.

Investment in the Fund involves significant risk and is suitable only for persons who can bear the economic risk of the loss of their investment. You should carefully consider these risks before investing in the Fund. Please see **"Main Risks."**

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SUPPLEMENT DATED DECEMBER 15, 2014
TO THE CURRENTLY EFFECTIVE PROSPECTUSES
OF
EACH OF THE LISTED FUNDS

Franklin Alternative Strategies Funds
Franklin K2 Alternative Strategies Fund
Franklin Pelagos Commodities Strategy Fund

Franklin California Tax-Free Income Fund

Franklin California Tax-Free Trust
Franklin California Insured Tax-Free Income Fund
Franklin California Intermediate-Term Tax-Free Income Fund
Franklin California Tax-Exempt Money Fund

Franklin Custodian Funds
Franklin DynaTech Fund
Franklin Growth Fund
Franklin Income Fund
Franklin U.S. Government Securities Fund
Franklin Utilities Fund

Franklin Federal Tax-Free Income Fund

Franklin Fund Allocator Series
Franklin Conservative Allocation Fund
Franklin Corefolio Allocation Fund
Franklin Founding Funds Allocation Fund
Franklin Growth Allocation Fund
Franklin Moderate Allocation Fund
Franklin LifeSmart™ 2015 Retirement Target Fund
Franklin LifeSmart™ 2020 Retirement Target Fund
Franklin LifeSmart™ 2025 Retirement Target Fund
Franklin LifeSmart™ 2030 Retirement Target Fund
Franklin LifeSmart™ 2035 Retirement Target Fund
Franklin LifeSmart™ 2040 Retirement Target Fund
Franklin LifeSmart™ 2045 Retirement Target Fund
Franklin LifeSmart™ 2050 Retirement Target Fund
Franklin Multi-Asset Real Return Fund

Franklin Global Trust
Franklin Global Listed Infrastructure Fund
Franklin Global Real Estate Fund
Franklin International Growth Fund
Franklin International Small Cap Growth Fund
Franklin Large Cap Equity Fund
Franklin Emerging Market Debt Opportunities Fund

Franklin Gold and Precious Metals Fund

Franklin High Income Trust
Franklin High Income Fund

Franklin Investors Securities Trust
Franklin Adjustable U.S. Government Securities Fund
Franklin Balanced Fund
Franklin Convertible Securities Fund
Franklin Equity Income Fund
Franklin Floating Rate Daily Access Fund
Franklin Low Duration Total Return Fund
Franklin Real Return Fund
Franklin Total Return Fund

Franklin Managed Trust
Franklin Rising Dividends Fund

Franklin Money Fund

Franklin Municipal Securities Trust
Franklin California High Yield Municipal Fund
Franklin Tennessee Municipal Bond Fund

Franklin Mutual Recovery Fund

Franklin Mutual Series Funds
Franklin Mutual Beacon Fund
Franklin Mutual European Fund
Franklin Mutual Financial Services Fund
Franklin Mutual Global Discovery Fund
Franklin Mutual International Fund
Franklin Mutual Quest Fund
Franklin Mutual Shares Fund

Franklin New York Tax-Free Income Fund

Franklin New York Tax-Free Trust
Franklin New York Intermediate-Term Tax-Free Income Fund

Franklin Real Estate Securities Trust
Franklin Real Estate Securities Fund

Franklin Strategic Mortgage Portfolio

Franklin Strategic Series
Franklin Biotechnology Discovery Fund
Franklin Flex Cap Growth Fund
Franklin Focused Core Equity Fund
Franklin Global Government Bond Fund
Franklin Growth Opportunities Fund
Franklin Natural Resources Fund
Franklin Small Cap Growth Fund
Franklin Small-Mid Cap Growth Fund
Franklin Strategic Income Fund

Franklin Tax-Free Trust
Franklin Alabama Tax-Free Income Fund
Franklin Arizona Tax-Free Income Fund
Franklin Colorado Tax-Free Income Fund
Franklin Connecticut Tax-Free Income Fund
Franklin Double Tax-Free Income Fund
Franklin Federal Intermediate-Term Tax-Free Income Fund
Franklin Federal Limited-Term Tax-Free Income Fund
Franklin Florida Tax-Free Income Fund
Franklin Georgia Tax-Free Income Fund
Franklin High Yield Tax-Free Income Fund
Franklin Insured Tax-Free Income Fund
Franklin Kentucky Tax-Free Income Fund
Franklin Louisiana Tax-Free Income Fund
Franklin Maryland Tax-Free Income Fund
Franklin Massachusetts Tax-Free Income Fund
Franklin Michigan Tax-Free Income Fund
Franklin Minnesota Tax-Free Income Fund
Franklin Missouri Tax-Free Income Fund
Franklin New Jersey Tax-Free Income Fund
Franklin North Carolina Tax-Free Income Fund
Franklin Ohio Tax-Free Income Fund
Franklin Oregon Tax-Free Income Fund
Franklin Pennsylvania Tax-Free Income Fund
Franklin Virginia Tax-Free Income Fund

Franklin Templeton Global Trust
Templeton Hard Currency Fund

Franklin Templeton International Trust
Franklin India Growth Fund
Franklin Global Allocation Fund
Franklin World Perspectives Fund
Templeton Foreign Smaller Companies Fund

Franklin Templeton Money Fund Trust
Franklin Templeton Money Fund

Franklin Value Investors Trust
Franklin All Cap Value Fund
Franklin Balance Sheet Investment Fund
Franklin Large Cap Value Fund
Franklin MicroCap Value Fund
Franklin MidCap Value Fund
Franklin Small Cap Value Fund

Institutional Fiduciary Trust
Money Market Portfolio

Templeton China World Fund

Templeton Developing Markets Trust

Templeton Funds
Templeton Foreign Fund
Templeton World Fund

Templeton Global Investment Trust
Templeton BRIC Fund
Templeton Emerging Markets Balanced Fund
Templeton Emerging Markets Small Cap Fund
Templeton Frontier Markets Fund
Templeton Global Balanced Fund

Templeton Global Opportunities Trust

Templeton Global Smaller Companies Fund

Templeton Growth Fund, Inc.

Templeton Income Trust
Templeton Constrained Bond Fund
Templeton Emerging Markets Bond Fund
Templeton Global Bond Fund
Templeton Global Total Return Fund
Templeton International Bond Fund

Templeton Institutional Funds
Emerging Markets Series
Foreign Equity Series
Foreign Smaller Companies Series
Global Equity Series

The Prospectus is amended as follows:

I. For all Funds except Franklin Emerging Market Debt Opportunities Fund, Money Funds, Tax Free Funds and Templeton Institutional Funds the "Fund Details – Choosing a Share Class – Sales Charge Waivers" section is revised as follows:

Sales Charge Waivers

Class A shares may be purchased without an initial sales charge or contingent deferred sales charge (CDSC) by certain investors. If you would like information about available sales charge waivers, call your investment representative or call Shareholder Services at (800) 632-2301.

Waivers for certain investors. The following investors or investments qualify to buy Class A shares without an initial sales charge or CDSC due to anticipated economies in sales efforts and expenses, including:

- Governments, municipalities, and tax-exempt entities that meet the requirements for qualification under section 501 of the Internal Revenue Code when purchasing direct from the Fund. Please consult your legal and investment advisors to determine if an investment in the Fund is permissible and suitable for you.
- Registered securities dealers and their affiliates, for their investment accounts only.
- Current employees of securities dealers and their affiliates and their family members, as allowed by the internal policies of their employer.
- Current and former officers, trustees, directors, full-time employees (and, in each case, their family members) of both Franklin Templeton Investments and Franklin Templeton funds, consistent with our then-current policies.
- Current partners of law firms that currently provide legal counsel to the funds, Franklin Resources, Inc. or its affiliates.
- Assets held in accounts managed by a subsidiary of Franklin Resources, Inc.: (1) under an advisory agreement (including sub-advisory agreements); and/or (2) as trustee of an inter vivos or testamentary trust.
- Any trust or plan established as part of a qualified tuition program under Section 529 of the Internal Revenue Code, as amended.
- Group annuity separate accounts offered to retirement plans.
- Chilean retirement plans that meet the requirements described under "Retirement plans" below.
- Purchases by a bank, trust company or thrift institution which is acting as a fiduciary exercising investment discretion, provided that appropriate notification of such fiduciary relationship is reported at the time of the investment.
- Advisory Fee Programs. Shares acquired by an investor in connection with a comprehensive fee or other advisory fee arrangement between the investor and a registered broker-dealer or investment advisor, trust company or bank (referred to as the "Sponsor") in which the investor pays that Sponsor a fee for investment advisory services and the Sponsor or a broker-dealer through whom the shares are acquired has an agreement with Distributors authorizing the sale of Fund shares. No minimum initial investment.
- [*For Templeton Growth Fund only*] German insurance companies that maintain variable annuities or unit linked life policies in Germany and that have entered into an agreement with Distributors or Franklin Templeton Investment Services GMbH.
- [*For Templeton Growth Fund only*] Banks and securities institutions investing assets held in a fiduciary, agency, advisory, custodial or similar capacity and over which they have full and exclusive investment discretion and that have entered into an agreement with Distributors or Franklin Templeton Investment Services GMbH. Such purchases are subject to minimum investment requirements, which are available from Distributors or Franklin Templeton Investment Services GMbH.
- [*For Franklin High Income Fund only*] Members of the Assembly of Governmental Employees (AGE).

II. The below "Fund Details – Choosing a Share Class – Sales Charge Waivers" section language still applies to Funds that offer Class C shares to the FT Charitable Giving Fund:

Class C shares may be purchased without limit or CDSC by the Franklin Templeton Charitable Giving Fund.

III. For the Tax Free Funds the "Fund Details – Choosing a Share Class – Sales Charge Waivers" section is revised as follows:

Sales Charge Waivers

Class A shares may be purchased without an initial sales charge or contingent deferred sales charge (CDSC) by certain investors. If you would like information about available sales charge waivers, call your investment representative or call Shareholder Services at (800) 632-2301.

Waivers for certain investors. The following investors or investments qualify to buy Class A shares without an initial sales charge or CDSC due to anticipated economies in sales efforts and expenses, including:

- Governments, municipalities, and tax-exempt entities that meet the requirements for qualification under section 501 of the Internal Revenue Code when purchasing direct from the Fund. Please consult your legal and investment advisors to determine if an investment in the Fund is permissible and suitable for you.
- Registered securities dealers and their affiliates, for their investment accounts only.
- Current employees of securities dealers and their affiliates and their family members, as allowed by the internal policies of their employer.
- Current and former officers, trustees, directors, full-time employees (and, in each case, their family members) of both Franklin Templeton Investments and Franklin Templeton funds, consistent with our then-current policies.
- Current partners of law firms that currently provide legal counsel to the funds, Franklin Resources, Inc. or its affiliates.
- Assets held in accounts managed by a subsidiary of Franklin Resources, Inc.: (1) under an advisory agreement (including sub-advisory agreements); and/or (2) as trustee of an inter vivos or testamentary trust.
- Purchases by a bank, trust company or thrift institution which is acting as a fiduciary exercising investment discretion, provided that appropriate notification of such fiduciary relationship is reported at the time of the investment.
- Advisory Fee Programs. Shares acquired by an investor in connection with a comprehensive fee or other advisory fee arrangement between the investor and a registered broker-dealer or investment advisor, trust company or bank (referred to as the "Sponsor") in which the investor pays that Sponsor a fee for investment advisory services and the Sponsor or a broker-dealer through whom the shares are acquired has an agreement with Distributors authorizing the sale of Fund shares. No minimum initial investment.

IV. For all Funds except Franklin Emerging Markets Debt Opportunities Fund, Money Funds, Tax Free Funds and Templeton Institutional Funds the "Fund Details – Choosing a Share Class – Retirement plans" section is revised as follows:

Retirement plans. Provided that Franklin Templeton Investor Services, LLC is notified, Class A shares at NAV are available for:

- Employer Sponsored Retirement Plans ("Plans" or individually, "Plan") that invest through a record-keeper platform or third party retirement platform; or
- Investors who open an IRA as a spousal rollover or a Qualified Domestic Relations Order (QDRO) if opened with proceeds from an IRA for which FTB&T is trustee.

V. The Franklin Emerging Market Debt Opportunities Fund and Templeton Institutional Funds "Fund Details – Qualified Investors" section bullet points are revised as follows:

- Advisory Fee Programs. Shares acquired by an investor in connection with a comprehensive fee or other advisory fee arrangement between the investor and a registered broker-dealer or investment advisor, trust company or bank (referred to as the "Sponsor") in which the investor pays that Sponsor a fee for investment advisory services and the Sponsor or a broker-dealer through whom the shares are acquired has an agreement with Distributors authorizing the sale of Fund shares. No minimum initial investment.
- Governments, municipalities, and tax-exempt entities that meet the requirements for qualification under section 501 of the Internal Revenue Code when purchasing direct from the Fund. Minimum initial investment: $1 million.
- Current and former officers, trustees, directors, full-time employees (and, in each case, their family members) of both Franklin Templeton Investments and Franklin Templeton funds, consistent with our then-current policies. Minimum initial investment: $1,000 ($50 for accounts with an automatic investment plan).
- Assets held in accounts managed by a subsidiary of Franklin Resources, Inc.: (1) under an advisory agreement (including sub-advisory agreements); and/or (2) as trustee of an inter vivos or testamentary trust.
- Employer Sponsored Retirement Plans ("Plans" or individually, "Plan") that invest through a record-keeper platform or third party retirement platform.
- Plans with aggregate plan assets of $1 million or more invested directly with Franklin Templeton Investment Funds; or
- Any trust or plan established as part of a qualified tuition program under Section 529 of the Internal Revenue Code, provided that Distributors or an affiliate of Distributors has entered into a contract with the state sponsor of the program or one of its service providers to provide certain services relating to the operation of the program or to provide Fund shares for purchase in connection with the program. No initial minimum investment.

- An individual or entity associated with a current customer of Franklin Templeton Institutional, LLC (FTI, LLC) or Franklin Templeton Portfolio Advisors, Inc. (FTPA) if approved by FTI, LLC or FTPA in consultation with its customer.
- Unaffiliated U.S. registered mutual funds, including those that operate as "fund of funds." Minimum initial investment: $1 million in Advisor Class or Class Z shares of any Franklin Templeton fund.
- Assets held in accounts under the recommendation of an investment consultant provided that (1) assets are held with a firm unaffiliated with the investment consultant's firm; (2) the investment consultant is under a retainer or other similar fee arrangement with its clients; (3) the client is not an individual; and (4) a subsidiary of Franklin Resources, Inc. approves the investment.

VI. For all Funds except Franklin Emerging Market Debt Opportunities Fund, Money Funds, Tax Free Funds and Templeton Institutional Funds the "Fund Details – Choosing a Share Class – Reinstatement Privilege" section is revised as follows:

Reinstatement Privilege

If you sell any class of shares of a Franklin Templeton Investment Fund, you may reinvest all or a portion of the proceeds from that sale within 90 days within the same share class without an initial sales charge. If at the time of investment your shares are registered directly with the Fund's transfer agent: Class C or Class R shares will be reinvested in Class A shares if the account does not have an investment representative of record; and, proceeds from the earlier sale of Class Z shares from another fund may also be reinvested in Class A shares.

This Reinstatement Privilege does not apply to: (i) a purchase of Fund shares made through a regularly scheduled automatic investment plan such as a purchase by a regularly scheduled payroll deduction or transfer from a bank account, or (ii) a purchase of Fund shares with proceeds from the sale of Franklin Templeton fund shares that were held indirectly through a non-Franklin Templeton individual or employer sponsored IRA.

Generally, if you paid a CDSC when you sold your Class A or Class C shares, Franklin Templeton Distributors, Inc. (Distributors) will credit back to you the CDSC paid on the amount you are reinvesting within 90 days of the sale by adding it to the amount of your reinvestment. For Class A shares reinvested with a CDSC credit, a new CDSC will apply and the CDSC holding period will begin again. For Class C shares reinvested with a CDSC credit in Class A shares, you will not receive a CDSC credit in the new Class A shares and your reinvestment will not be subject to any otherwise applicable CDSC.

VII. For all Funds that offer Class R6 shares the following bullet point is added to the "Fund Details – Choosing a Share Class – Qualified Investors–Class R6 – section:

- Unaffiliated U.S. registered mutual funds, including those that operate as "fund of funds."

VIII. For all Funds that offer Advisor Class shares (or Class Z shares, as applicable) the "Fund Details – Choosing a Share Class – Qualified Investors–Advisor Class" section bullet point that begins with "Unaffiliated U.S. registered mutual funds..." is revised as follows:

- Unaffiliated U.S. registered mutual funds, including those that operate as "fund of funds."

IX. The Templeton Institutional Funds "Qualified Investors" section bullet point on page 78 that begins with "Unaffiliated U.S. registered mutual funds..." is revised as follows:

- Unaffiliated U.S. registered mutual funds, including those that operate as "fund of funds."

X. For all Funds that offer Advisor Class shares (or Class Z shares, as applicable) except for Franklin Emerging Market Debt Opportunities Fund and Templeton Institutional Funds, the below bullet point is added to the "Fund Details – Choosing a Share Class – Qualified Investors–Advisor Class" section:

- Plans with aggregate plan assets of $1 million or more invested directly with Franklin Templeton Investment Funds.

XI. For all Funds that offer Advisor Class shares (or Class Z shares, as applicable) except for Franklin Emerging Market Debt Opportunities Fund and Templeton Institutional Funds, the "Fund Details – Choosing a Share Class – Qualified Investors–Advisor Class" section bullet point that begins with "Employer Sponsored Retirement Plans..." is revised as follows.

- Employer Sponsored Retirement Plans ("Plans" or individually, the "Plan") that invest through a record-keeper or third party retirement platform.

XII. For all Funds except Franklin Emerging Market Debt Opportunities Fund and Templeton Institutional Funds, the "Fund Details – Buying Shares" section "Minimum Investments" table note that begins with "Please note that you may..." is revised as follows:

Please note that you may only buy shares (including the purchase side of an exchange) of a fund eligible for sale in your state or jurisdiction. The Fund and other Franklin Templeton funds are intended for sale to residents of the United States, and, with very limited exceptions, are not registered or otherwise offered for sale in other jurisdictions.

XIII. For all Funds the "Fund Details – Buying Shares" section paragraph that begins with "In addition, the Fund is not registered..." is revised as follows:

In particular, the Fund is not registered in any provincial or territorial jurisdiction in Canada, and shares of the Fund have not been qualified for sale in any Canadian jurisdiction. The shares offered by this prospectus may not be directly or indirectly offered or sold in any provincial or territorial jurisdiction in Canada or to or for the benefit of residents thereof. Prospective investors may be required to declare that they are not Canadian residents and are not acquiring shares on behalf of any Canadian residents. Similarly, the Fund is not registered, and shares of the Fund have not been qualified for distribution, in any member country of the European Union (EU) or European Economic Area (EEA), and may not be directly or indirectly offered or distributed in any such country. If an investor becomes a Canadian, EU or EEA resident after purchasing shares of the Fund, the investor will not be able to purchase any additional shares of the Fund (other than reinvestment of dividends and capital gains) or exchange shares of the Fund for other U.S. registered Franklin Templeton funds.

XIV. For all Funds the Fund Details "Buying Shares" and "Selling Shares" table references to "by 1:00 p.m." are changed to "prior to 1:00 p.m."

XV. Effective January 1, 2015, for all Funds except Franklin Emerging Market Debt Opportunities Fund, Money Funds and Templeton Institutional Funds, the Fund Details "Account Policies – Dealer Compensation – Other dealer and financial intermediary compensation" section is revised as follows:

Other dealer and financial intermediary compensation. Distributors may make payments (a portion of which may be reimbursable under the terms of the Fund's Rule 12b-1 distribution plans) to certain dealers who have sold shares of Franklin Templeton mutual funds. In the case of any one dealer, marketing support payments will generally not exceed 0.05% of the total assets of Franklin Templeton mutual funds attributable to that dealer, on an annual basis. For a dealer exceeding $50 billion in total assets of Franklin Templeton mutual funds, Distributors may agree to marketing support payments up to 0.06% of such assets, on an annual basis. Marketing support payments made to organizations located outside the U.S., with respect to investments in the Fund by non-U.S. persons, may exceed this limitation. Distributors makes these payments in connection with the qualifying dealers' efforts to educate financial advisors about Franklin Templeton funds. Any assets held on behalf of Employer Sponsored Retirement Plans for which payment is made to a financial intermediary pursuant to the following paragraph will be excluded from the calculation of marketing support payments pursuant to this paragraph.

Distributors and/or its affiliates may also make payments (a portion of which may be reimbursable under the terms of the Fund's Rule 12b-1 distribution plans) to certain financial intermediaries in connection with their activities that are intended to assist in the sale of shares of Franklin Templeton mutual funds, directly or indirectly, to certain Employer Sponsored Retirement Plans. In the case of any one financial intermediary, such payments will not exceed 0.10% of the total assets of Franklin Templeton mutual funds held, directly or indirectly, by such Employer Sponsored Retirement Plans, on an annual basis.

A number of factors will be considered in determining these payments, including the qualifying dealer or financial intermediary's sales, assets and redemption rates, the nature and quality of any servicing provided by the financial intermediary, and the quality of the dealer or financial intermediary's relationship with Distributors. Distributors will, on an annual basis, determine the advisability of continuing these payments. These payments may be in addition to any shareholder servicing fees paid by the Fund's transfer agent from payments it receives under its agreement with the Fund.

To the extent permitted by SEC and Financial Industry Regulatory Authority rules and other applicable laws and regulations, Distributors may pay or allow other promotional incentives or payments to dealers.

Sales of Fund shares, as well as shares of other funds in Franklin Templeton Investments, is not considered a factor in the selection of broker-dealers to execute the Fund's portfolio transactions. Accordingly, the allocation of portfolio transactions for execution by broker-dealers that sell Fund shares is not considered marketing support payments to such broker-dealers.

You can find further details in the SAI about the payments made by Distributors and the services provided by your financial advisor. Your financial advisor may charge you additional fees or commissions other than those disclosed in this prospectus. You should ask your financial advisor for information about any payments it receives from Distributors and any services it provides, as well as about fees and/or commissions it charges.

XVI. For Franklin Global Government Bond Fund the following is added immediately above the "Fund Details – Principal Investment Policies and Practices – Exclusion of Investment Manager from Commodity Pool Definition" section on page 16:

Portfolio Selection

The investment manager allocates the Fund's assets based upon its assessment of changing market, political and economic conditions. It considers various factors, including evaluation of interest rates, currency exchange rate changes and credit risks. The investment manager uses top-down macroeconomic research, bottom-up sector-specific research and quantitative analysis in order to identify and to seek to exploit market inefficiencies while employing a disciplined risk management process. The investment manager may consider selling a security when it believes the security has become fully valued due to either its price appreciation or changes in the issuer's fundamentals, or when the investment manager believes another security is a more attractive investment opportunity.

XVII. For Franklin Strategic Income Fund, Franklin Low Duration Total Return Fund and Franklin Total Return Fund, the "Fund Summary – Principal Risks – Derivative Instruments" section is revised as follows:

Derivative Instruments The performance of derivative instruments depends largely on the performance of an underlying instrument, such as a currency, security, interest rate or index, and such instruments often have risks similar to the underlying instrument, in addition to other risks. Derivatives involve costs and can create economic leverage in the Fund's portfolio which may result in significant volatility and cause the Fund to participate in losses (as well as gains) in an amount that exceeds the Fund's initial investment. Other risks include illiquidity, mispricing or improper valuation of the derivative instrument, and imperfect correlation between the value of the derivative and the underlying instrument so that the Fund may not realize the intended benefits. When used for hedging, the change in value of the derivative may also not correlate specifically with the currency, security or other risk being hedged. With over-the-counter derivatives, there is the risk that the other party to the transaction will fail to perform.

XVIII. For Franklin Low Duration Total Return Fund, the "Fund Summary – Principal Investment Strategies" section paragraph that begins with "To pursue its investment goal..." is revised as follows:

To pursue its investment goal, the Fund regularly enters into various derivative transactions, including currency and cross currency forwards, currency, currency index, bond and interest rate futures contracts and options on interest rate futures contracts, and swap agreements, including interest rate, fixed income total return, currency and credit default swaps, and options on interest rate and credit default swap agreements. The use of these derivative transactions may allow the Fund to obtain net long or short exposures to select currencies, interest rates, countries, duration or credit risks. These derivatives may be used to enhance Fund returns, increase liquidity, gain exposure to certain instruments or markets in a more efficient or less expensive way and/or hedge risks associated with its other portfolio investments.

XIX. For Franklin Total Return Fund, the "Fund Summary – Principal Investment Strategies" section paragraph that begins with "To pursue its investment goals..." is revised as follows:

To pursue its investment goals, the Fund regularly enters into various derivative transactions, including currency and cross currency forwards, currency, currency index, bond and interest rate futures contracts and options on interest rate futures contracts, and swap agreements, including interest rate, fixed income total return, currency and credit default swaps, and options on interest rate and credit default swap agreements. The use of these derivative transactions may allow the Fund to obtain net long or short exposures to select currencies, interest rates, countries, duration or credit risks. These derivatives may be used to enhance Fund returns, increase liquidity, gain exposure to certain instruments or markets in a more efficient or less expensive way and/or hedge risks associated with its other portfolio investments.

XX. For Franklin Low Duration Total Return Fund, the "Fund Details – Principal Investment Policies and Practices" section paragraph that begins with "For purposes of pursuing its investment goal..." is revised as follows:

For purposes of pursuing its investment goal, the Fund regularly enters into interest rate, credit and currency-related transactions involving certain derivative instruments, including interest rate or bond futures contracts, options on such contracts, swap agreements, which may include interest rate, fixed income total return, currency, inflation index and credit default swaps, futures contracts on credit default swaps on indices (also known as credit index futures), options on interest rate and credit default swaps, currency and cross currency forwards, currency options, and currency and currency index futures contracts. The use of these derivative transactions may allow the Fund to obtain net long or net negative (short) exposures to selected interest rates, countries, duration or credit risks, or currencies. These derivatives may be used to enhance Fund returns, increase liquidity, gain exposure to certain instruments or markets in a more efficient or less expensive way and/or hedge risks associated with its other portfolio investments. The results of such transactions may also represent, from time to time, a significant component of the Fund's investment returns. The investment manager considers various factors, such as availability and cost, in deciding whether, when and to what extent to enter into derivative transactions. Derivatives whose reference securities are investment grade are considered by the Fund to be investment grade.

XXI. For Franklin Total Return Fund, the "Fund Details – Principal Investment Policies and Practices" section paragraph that begins with "To pursue its investment goals..." is revised as follows:

To pursue its investment goals, the Fund regularly enters into interest rate, credit and currency-related transactions involving certain derivative instruments, including currency and cross currency forwards, currency options, currency, currency index, bond and interest rate futures contracts and options on interest rate futures contracts, and swap agreements, including interest rate, fixed income total return, currency, inflation index and credit default swaps, futures contracts on credit default swaps on indices (also known as credit index futures), and options on interest rate and credit default swap agreements. The use of these derivative transactions may allow the Fund to obtain net long or short exposures to select currencies, interest rates, countries, duration or credit risks. These derivatives may be used to enhance Fund returns, increase liquidity, gain exposure to certain instruments or markets in a more efficient or less expensive way and/or hedge risks associated with its other portfolio investments. The results of such transactions may also represent, from time to time, a significant component of the Fund's investment returns.

XXII. For Franklin Strategic Income Fund, the "Fund Summary – Principal Investment Strategies" section paragraph that begins with "For purposes of pursuing its investment goals..." is revised as follows:

For purposes of pursuing its investment goals, the Fund regularly enters into various currency-related transactions involving derivative instruments, including currency and cross currency forwards, currency swaps, and currency and currency index futures contracts. The Fund may also enter into interest rate and credit-related transactions involving derivative instruments, including interest rate, fixed income total return and credit default swaps and bond/interest rate futures contracts. The use of these derivative transactions may allow the Fund to obtain net long or net short exposures to selected currencies, interest rates, durations or credit risks. These derivative instruments may be used for hedging purposes, to enhance Fund returns or to obtain exposure to various market sectors.

XXIII. For Franklin Strategic Income Fund, the "Fund Details – Principal Investment Policies and Practices" section the paragraph that begins with "For purposes of pursuing its investment goals..." is revised as follows:

For purposes of pursuing its investment goals, the Fund regularly enters into currency-related transactions involving derivative instruments, including currency and cross currency forwards, currency swaps, currency and currency index futures contracts, and currency options. The Fund may also enter into interest rate and credit-related transactions involving certain derivative instruments, including interest rate and credit default swaps and interest rate and/or bond futures contracts (including U.S. Treasury futures contracts) and options thereon, and fixed income total return and inflation index swaps. The use of such derivative transactions may allow the Fund to obtain net long or net short exposures to selected currencies, interest rates, countries, durations or credit risks. The Fund may use currency, interest rate or credit-related derivative strategies for the purposes of enhancing Fund returns, increasing liquidity, gaining exposure to particular instruments in more efficient or less expensive ways and/or hedging risks relating to changes in currency exchange rates, credit risks, interest rates and other market factors.

XXIV. For Franklin Strategic Income Fund, Franklin Low Duration Total Return Fund and Franklin Total Return Fund, the "Fund Details – Principal Investment Policies and Practices" section that begins with "Swap agreements, such as interest rate..." is revised as follows:

Swap agreements, such as interest rate, fixed income total return, currency, inflation index and credit default swaps, are contracts between the Fund and another party (the swap counterparty) involving the exchange of payments on specified terms over periods ranging from a few days to multiple years. A swap agreement may be negotiated bilaterally and traded over-the-counter (OTC) between the two parties (for an uncleared swap) or, in some instances, must be transacted through a futures commission merchant (FCM) and cleared through a clearinghouse that serves as a central counterparty (for a cleared swap). In a basic swap transaction, the Fund agrees with the swap counterparty to exchange the returns (or differentials in rates of return) earned or realized on a particular "notional amount" of underlying instruments. The notional amount is the set amount selected by the parties as the basis on which to calculate the obligations that they have agreed to exchange. The parties typically do not actually exchange the notional amount. Instead, they agree to exchange the returns that would be earned or realized if the notional amount were invested in given instruments or at given interest rates.

XXV. For Franklin Low Duration Total Return Fund and Franklin Total Return Fund, the following paragraph is added to the "Fund Details – Principal Investment Policies and Practices" section immediately following the paragraph that begins with "For credit default swaps...":

Credit index futures are exchange-traded contracts whereby a Fund agrees to buy or sell a specified quantity of an underlying credit default swap on an index at a specified price at a specified later date. Although some futures contracts by their terms require the actual delivery or acquisition of the underlying reference asset, credit index futures require cash settlement at maturity. The purchase or sale of credit index futures will therefore allow a Fund to obtain long or short exposure to credit default swaps on indices without having to enter into the underlying swap agreements. Credit index futures generally have the same uses and are subject to the same risks as futures contracts and credit default swaps, described above.

XXVI. For Franklin Strategic Income Fund, Franklin Low Duration Total Return Fund and Franklin Total Return Fund, the following paragraph is added to the "Fund Details – Principal Investment Policies and Practices" section immediately following the paragraph that begins with "An interest rate swap...":

A total return swap is an agreement between two parties, pursuant to which one pays (and the other receives) an amount equal to the total return (including, typically, income and capital gains distributions, principal prepayment or credit losses) of an underlying reference asset (*e.g.*, a note, bond or securities index) in exchange for a regular payment, at a floating rate based on LIBOR, or alternatively at a fixed rate or the total rate of return on another financial instrument. A Fund may take either position in a total return swap (*i.e.*, the Fund may receive or pay the total return on the underlying reference asset).

XXVII. For Franklin Low Duration Total Return Fund and Franklin Total Return Fund, the following paragraph is added to the "Fund Details – Principal Investment Policies and Practices" section immediately following the paragraph that begins with "A currency swap...":

A currency option is a contract, typically negotiated bilaterally and traded OTC between two parties, that grants the holder the right, but not the obligation, to buy or sell a specific currency at a specified exchange rate, called the "strike price," during a specified period of time. Generally, upon exercise, a currency option triggers a spot foreign exchange transaction at the strike price, meaning the parties actually exchange currencies. However, some currency options are U.S. dollar-settled, in which case no delivery or receipt of foreign currency occurs.

Please keep this supplement with your prospectus for future reference.

The Fund engages in a continuous offering of an unlimited number of its shares. Fund shares are offered at a price equal to the next determined public offering price per share (Offering Price) after receipt of a purchase order. The Offering Price is the net asset value (NAV) plus any applicable sales charge. Advisor Class shares are offered at NAV. Class A shares have an initial sales charge ranging between 2% - 5.75% of the Offering Price. Please see "Choosing a Share Class - SALES CHARGE - CLASS A, SALES CHARGE - CLASS C and EARLY WITHDRAWAL CHARGE - CLASS A & C." The price per share will fluctuate, depending upon the Fund's NAV per share, which, as of July 1, 2014, was: $12.88 for Class A; $12.69 for Class C; and $12.98 for Advisor Class.

Fund shares are not listed on an exchange. No secondary market currently exists for Fund shares. Nor is it currently anticipated that a secondary market will develop. Fund shares are not readily marketable. This means that you may not be able to freely sell your shares, except through the Fund's Repurchase Offers.

To provide shareholders a means to sell their shares at NAV, the Fund will make quarterly Repurchase Offers to repurchase shares from shareholders. Each Repurchase Offer will be for a specified percentage (5% to 25%) of the Fund's outstanding shares set by the Fund's board of trustees and will last for three to six weeks. The Fund will send to its shareholders notice of each Repurchase Offer at the beginning of the Repurchase Offer. Early Withdrawal Charges, similar to contingent deferred sales charges, may apply to repurchases of Class A or Class C shares. Please see "Periodic Offers by the Fund to Repurchase Shares From Shareholders."

The proceeds to the Fund of the offering of the 35,859,506 shares currently registered but not yet issued or distributed are estimated at $462,156,057 and, subject to the initial sales charges for Class A shares and the expenses of issuance and distribution, will be invested by the Fund over the course of the continuous offering, subject to any repurchases of the shares by the Fund.

The expenses of issuance and distribution for such shares are estimated at $205,829 which includes, in addition to other expenses, $8,576 for government and self-regulatory organization filing fees and $115,608 for accounting and transfer agent fees. The investment manager and its affiliates may pay from their own resources additional compensation to securities dealers in connection with the sale and distribution of the shares.

For a free copy of the current annual and/or semiannual report to shareholders or for other Fund information, please contact your investment representative or call (800) DIAL BEN/342-5236. You also can view the current annual and semiannual reports and the SAI online through franklintempleton.com.

You also can obtain the SAI, material incorporated by reference and other information about the Fund by visiting the SEC's Public Reference Room in Washington, DC (phone (202) 551-8090) or the EDGAR Database on the SEC's Internet site at http://www.sec.gov. You can obtain copies of this information, after paying a duplicating fee, by writing to the SEC's Public Reference Section, Washington, DC 20549-0102 or by electronic request at the following email address: publicinfo@sec.gov.

Franklin Mutual Recovery Fund

August 1, 2014

P.O. Box 997151, Sacramento, CA 95899-7151

**(800) DIAL BEN®/
342-5236**

Expense Summary

This table is designed to help you understand the costs of investing in the Fund. The Fund's actual expenses may vary.

Shareholder Fees *(fees paid directly from your investment)*

	Class A	Class C	Advisor Class
Maximum sales charge (load) as a percentage of offering price	5.75%[1]	None	None
Maximum deferred sales charge (load)	None[2]	1.00%	None

1. The dollar amount of the sales charge is the difference between the offering price of the shares purchased (which factors in the applicable sales charge in this table) and the net asset value of those shares. Since the offering price is calculated to two decimal places using standard rounding criteria, the number of shares purchased and the dollar amount of the sales charge as a percentage of the offering price and of your net investment may be higher or lower depending on whether there was a downward or upward rounding.
2. There is a 1% Early Withdrawal Charge that applies to investments of $1 million or more (see "Early Withdrawal Charge") and purchases by certain retirement plans without an initial sales charge.

Please see "Choosing a Share Class" for an explanation of how and when these sales charges apply.

Annual Fund Operating Expenses[1]

	Class A	Class C	Advisor Class
Management fees[1]	2.49%	2.49%	2.49%
Distribution and service (12b-1) fees	0.28%	1.00%	None
Other expenses			
Other expenses	0.90%	0.90%	0.90%
Dividend expense and securitiy borrowing fees for securities shold short	0.05%	0.05%	0.05%
Total annual Fund operating expenses	3.72%	4.44%	3.44%
Fee waiver and/or expense reimbursement[2]	-2.19%	-2.19%	-2.19%
Total annual Fund operating expenses after fee waiver and/or expense reimbursement[1]	**1.53%**	**2.25%**	**1.25%**

1. In periods of market volatility, assets may decline significantly, causing total annual fund operating expenses to become higher than the numbers shown in the table above.
2. The investment manager contractually agreed to waive or limit its management fees so that the management fees paid by the Fund do not exceed an annual rate of 0.50%, and effective July 1, 2012, the investment manager and administrator have contractually agreed to waive or limit their respective fees and to assume as their own expense, certain expenses otherwise payable by the Fund so that the expenses (excluding distribution fees and acquired fund fees and expenses) excluding expenses on securities sold short for each class of the Fund do not exceed 1.20% until July 31, 2015. The figures provided are based on 1.20%. Certain non-routine expenses or costs, including those relating to litigation, indemnification, reorganizations, and liquidations may not be included in the waiver on expenses.

Example

This example can help you compare the cost of investing in the Fund with the cost of investing in other mutual funds. It assumes:

FRANKLIN MUTUAL RECOVERY FUND

- You invest $1,000 for the periods shown;
- Your investment has a 5% return each year; and
- The Fund's operating expenses remain the same.

Remember that open-end mutual funds present this Example information with respect to investments of $10,000, rather than investments of $1,000, as presented below for this closed-end mutual fund.

The Example should not be considered a representation of future expenses. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

	1 Year	3 Years	5 Years	10 Years
Class A	$72[1]	$146	$221	$418
Class C	$33	$115	$207	$444
Advisor Class	$13	$85	$160	$357
If you do not sell your shares:				
Class C	$23	$115	$207	$444

1. Assumes an Early Withdrawal Charge will not apply.

Financial Highlights

The Financial Highlights present the Fund's financial performance for the past five years or since its inception. Certain information reflects financial results for a single Fund share. The total returns represent the rate that an investor would have earned or lost on an investment in the Fund assuming reinvestment of dividends and capital gains. This information has been derived from the financial statements audited by Ernst & Young LLP, an independent registered public accounting firm, whose report, along with the Fund's financial statements, are included in the annual report, which is available upon request.

FRANKLIN MUTUAL RECOVERY FUND

Class A
Year Ended March 31,

	2014	2013	2012	2011	2010
Per share operating performance (for a share outstanding throughout the year)					
Net asset value, beginning of year	$10.54	$9.49	$10.20	$9.75	$7.02
Income from investment operations:[a]					
Net investment income[b]	0.47[c]	0.23	0.17	0.16[d]	—[e]
Net realized and unrealized gains (losses)	1.53	0.96	(0.56)	0.81	2.84
Total from investment operations	2.00	1.19	(0.39)	0.97	2.84
Less distributions from net investment income	(0.29)	(0.14)	(0.32)	(0.52)	(0.11)
Net asset value, end of year	**$12.25**	**$10.54**	**$9.49**	**$10.20**	**$9.75**
Total return[f]	19.09%	12.71%	(3.38)%	9.95%	39.86%
Ratios to average net assets					
Expenses before waiver, payments by affiliates, unaffiliated fee reimbursement and expense reduction[g]	3.72%	2.83%	2.75%	3.62%	3.60%
Expenses net of waiver, payments by affiliates, unaffiliated fee reimbursement and expense reduction[g]	1.53%[h]	1.62%	2.25%	3.62%	3.09%[h,i]
Expenses incurred in connection with securities sold short	0.05%	0.04%	0.12%	0.13%	1.26%
Net investment income	4.14%[c]	1.87%	1.81%	1.56%[d]	—%[j]
Supplemental data					
Net assets, end of year (000's)	$24,329	$23,480	$32,629	$65,043	$88,575
Portfolio turnover rate	58.30%	60.11%	91.52%	65.17%	117.59%

a. The amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations in the annual report 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. Net investment income per share includes approximately $0.23 per share received in the form of special dividends paid in connection with certain Fund's holdings. Excluding these non-recurring amounts, the ratio of net investment income to average net assets would have been 2.10%.

d. Net investment income per share includes approximately $0.14 per share received in the form of a special dividend paid in connection with a corporate real estate investment trust (REIT) conversion. Excluding this non-recurring amount, the ratio of net investment income to average net assets would have been 0.09%.

e. Amount rounds to less than $0.01 per share.

f. Total return does not reflect sales commissions or contingent deferred sales charges, if applicable.

g. Includes dividend and interest expense on securities sold short and security borrowing fees, if any. See below for the ratios of such expenses to average net assets for the periods presented.

h. Benefit of expense reduction rounds to less than 0.01%.

i. Includes a one-time unaffiliated fee reimbursement of 0.25% associated with borrowing fees.

j. Rounds to less than 0.01%.

Class C
Year Ended March 31,

	2014	2013	2012	2011	2010
Per share operating performance (for a share outstanding throughout the year)					
Net asset value, beginning of year	$10.41	$9.36	$10.05	$9.60	$6.91
Income from investment operations:[a]					
Net investment income (loss)[b]	0.38[c]	0.11	0.10	0.09[d]	(0.07)
Net realized and unrealized gains (losses)	1.51	1.00	(0.54)	0.79	2.81
Total from investment operations	1.89	1.11	(0.44)	0.88	2.74
Less distributions from net investment income	(0.21)	(0.06)	(0.25)	(0.43)	(0.05)
Net asset value, end of year	**$12.09**	**$10.41**	**$9.36**	**$10.05**	**$9.60**
Total return[e]	18.23%	11.93%	(4.01)%	9.16%	38.78%
Ratios to average net assets					
Expenses before waiver, payments by affiliates, unaffiliated fee reimbursement and expense reduction[f]	4.44%	3.54%	3.45%	4.32%	4.31%
Expenses net of waiver, payments by affiliates, unaffiliated fee reimbursement and expense reduction[f]	2.25%[g]	2.33%	2.95%	4.32%	3.80%[g,h]
Expenses incurred in connection with securities sold short	0.05%	0.04%	0.12%	0.13%	1.26%
Net investment income (loss)	3.42%[c]	1.16%	1.11%	0.86%[d]	(0.71)%
Supplemental data					
Net assets, end of year (000's)	$10,573	$11,615	$16,754	$27,432	$38,893
Portfolio turnover rate	58.30%	60.11%	91.52%	65.17%	117.59%

a. The amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations in the annual report 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. Net investment income per share includes approximately $0.23 per share received in the form of special dividends paid in connection with certain Fund's holdings. Excluding these non-recurring amounts, the ratio of net investment income to average net assets would have been 1.38%.

d. Net investment income per share includes approximately $0.14 per share received in the form of a special dividend paid in connection with a corporate REIT conversion. Excluding this non-recurring amount, the ratio of net investment income to average net assets would have been (0.61%).

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

f. Includes dividend and interest expense on securities sold short and security borrowing fees, if any. See below for the ratios of such expenses to average net assets for the periods presented.

g. Benefit of expense reduction rounds to less than 0.01%.

h. Includes a one-time unaffiliated fee reimbursement of 0.25% associated with borrowing fees.

Advisor Class
Year Ended March 31,

	2014	2013	2012	2011	2010
Per share operating performance (for a share outstanding throughout the year)					
Net asset value, beginning of year	$10.61	$9.56	$10.28	$9.83	$7.08
Income from investment operations:[a]					
Net investment income[b]	0.51[c]	0.15	0.19	0.17[d]	0.02
Net realized and unrealized gains (losses)	1.54	1.08	(0.55)	0.83	2.87
Total from investment operations	2.05	1.23	(0.36)	1.00	2.89
Less distributions from net investment income	(0.32)	(0.18)	(0.36)	(0.55)	(0.14)
Net asset value, end of year	**$12.34**	**$10.61**	**$9.56**	**$10.28**	**$9.83**
Total return	19.46%	13.01%	(3.02)%	10.22%	40.21%
Ratios to average net assets					
Expenses before waiver, payments by affiliates, unaffiliated fee reimbursement and expense reduction[e]	3.44%	2.54%	2.45%	3.32%	3.31%
Expenses net of waiver, payments by affiliates, unaffiliated fee reimbursement and expense reduction[e]	1.25%[f]	1.33%	1.95%	3.32%	2.80%[f,g]
Expenses incurred in connection with securities sold short	0.05%	0.04%	0.12%	0.13%	1.26%
Net investment income	4.42%[c]	2.16%	2.11%	1.86%[d]	0.29%
Supplemental data					
Net assets, end of year (000's)	$26,529	$25,707	$24,496	$29,269	$39,349
Portfolio turnover rate	58.30%	60.11%	91.52%	65.17%	117.59%

a. The amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations in the annual report 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. Net investment income per share includes approximately $0.23 per share received in the form of special dividends paid in connection with certain Fund's holdings. Excluding these non-recurring amounts, the ratio of net investment income to average net assets would have been 2.38%.

d. Net investment income per share includes approximately $0.14 per share received in the form of a special dividend paid in connection with a corporate REIT conversion. Excluding this non-recurring amount, the ratio of net investment income to average net assets would have been 0.39%.

e. Includes dividend and interest expense on securities sold short and security borrowing fees, if any. See below for the ratios of such expenses to average net assets for the periods presented.

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

g. Includes a one-time unaffiliated fee reimbursement of 0.25% associated with borrowing fees.

Information About the Fund

The Fund is a closed-end diversified management investment company. It was formed as a Delaware statutory trust on January 31, 2003, and is registered with the SEC. The Fund's principal business is investing its assets by purchasing and selling securities on an ongoing basis, as described in this prospectus. The Fund does not issue redeemable shares (shares that you may redeem at any time). See "Periodic Offers by the Fund to Repurchase Shares from Shareholders." The Fund offers multiple classes of shares and has adopted distribution plans for its classes of shares pursuant to an order of exemption granted by the SEC (Order). The Order is conditioned on the Fund complying with provisions of the Investment Company Act of 1940 (1940 Act), and rules under the 1940 Act that are applicable to open-end investment companies, particularly with respect to offering multiple classes of shares, adopting distribution plans under Rule 12b-1 and imposing deferred sales charges, like the Early Withdrawal Charges.

Continuous Offering

The Fund began offering its shares on June 2, 2003. The Fund engages in a continuous offering of shares, at a price equal to the Offering Price per share for Class A and NAV per share for Class C and Advisor Class, next determined after a purchase order is received.

Franklin Templeton Distributors, Inc. (Distributors), One Franklin Parkway, San Mateo, CA 94403-1906, and other securities dealers that have entered into selected dealer agreements with Distributors, offer and sell shares of the Fund on a continuous basis.

The minimum initial purchase of Class A and Class C shares is $10,000. Please see "Qualified Investors" for the minimum initial purchase of Advisor Class shares. The Fund reserves the right to waive or modify the initial minimum investment requirements at any time. Any purchase order may be rejected by Distributors or the Fund. Distributors or the Fund also may suspend the continuous offering of shares at any time.

The Fund is designed primarily for long-term investors. It should not be considered a vehicle for short-term trading purposes, given any applicable initial sales charges and/or Early Withdrawal Charges and its lack of a secondary market for its shares.

Periodic Offers to Repurchase Shares from Shareholders

The Fund does not intend to list its shares on any securities exchange or arrange for their quotation on any over-the-counter market. Because a secondary market does not currently exist for the Fund's shares and one is not likely to develop, the shares are not readily marketable. The Fund has, however, adopted a fundamental policy to offer each quarter to repurchase a portion of the shares outstanding. In response to each Repurchase Offer, shareholders may choose to tender their shares to the Fund for repurchase. Repurchase Offers occur at a price per share equal to the NAV per share of the shares determined as of the close of business (1:00 p.m. Pacific time) on the day the Repurchase Offer ends or within a period of fourteen days (or the next business day after that period) after the Repurchase Offer ends. Each Repurchase Offer will last for a period of between three and six weeks. Shareholders will be notified in writing at the beginning of each Repurchase Offer.

Class C shares that have been held for less than 12 months and certain Class A shares that have been held for less than 18 months and that are repurchased by the Fund in a Repurchase Offer will be subject to an Early Withdrawal Charge of 1%. The Early Withdrawal Charge will be imposed against the lesser of the then current NAV or the original purchase price of the tendered shares. Certain waivers of this charge may apply.

Under certain limited circumstances, the Fund may suspend or postpone a quarterly Repurchase Offer for the repurchase of its shares from the Fund's shareholders. (The Fund must meet certain regulatory requirements and must give notice to shareholders in order to suspend or postpone a Repurchase Offer.) In that event, shareholders will likely be unable to sell their shares until the suspension or postponement ends. The Fund, the investment manager and Distributors are prohibited from making a market in the Fund's shares as long as the Fund continues to publicly offer shares.

Investment Manager

Franklin Mutual Advisers, LLC (Franklin Mutual or the investment manager) provides investment management services to the Fund. The investment manager provides similar services to other funds. The investment manager is an indirect, wholly owned subsidiary of Franklin Resources, Inc. (Resources), a publicly owned company engaged in the financial services industry through its subsidiaries. Together, the investment manager and its affiliates manage as of June 30, 2014, over $920 billion in assets, and have been in the investment management business since 1947. See "Management."

Under an agreement with Franklin Mutual, Franklin Templeton Investment Management Limited (FTIML), The Adelphi, 1-11 John Adam Street, London, WC2N 6HT, England, is the Fund's sub-advisor. FTIML provides Franklin Mutual with investment management advice and assistance. For purposes of the Fund's investment strategies, techniques and risks, the term "investment manager" includes any sub-advisor.

Distributions

Income dividends and capital gain distributions, if any, will be distributed at least annually, usually in December. Dividend payments are not guaranteed, are subject to the board's discretion and may vary with each payment. The Fund does not pay "interest" or guarantee any fixed rate of return on an investment in the Fund. You may elect to have distributions automatically reinvested in additional shares. See "Income Dividends and Capital Gain Distributions" and "Tax Considerations."

Use of Proceeds from Sales of Shares

The net proceeds from sales of shares are invested in accordance with the Fund's investment goal and policies as soon as practicable. The Fund's immediate ability to pursue its investment goal will depend on economic and market conditions. If the investment manager determines that market conditions are not suitable for implementing the Fund's investment strategies, the investment manager will initially invest the proceeds in short-term debt obligations. Investments in these short-term investments may reduce the Fund's investment returns.

Goal and Strategies

Investment Goal

The principal investment goal of the Fund is capital appreciation. The Fund seeks to achieve superior risk adjusted returns with a moderate correlation to the U.S. equity markets. Normally, the Fund invests in equity and debt securities in the three categories described below. Such investments can be either long or, to a lesser degree, short positions and can utilize a limited amount of leverage.

Main Investment Strategies

Under normal market conditions, the Fund seeks investments in the following three general categories:

- **Special Situations/Undervalued Securities** - Securities of companies which the investment manager believes are trading at a price substantially below (long opportunity) or above (short opportunity) their intrinsic value and for which the investment manager believes a catalyst for realizing such value exists. Such securities may be acquired in privately negotiated transactions.
- **Distressed Companies** - Securities of companies that are, have been, or are about to be, involved in reorganizations, financial restructurings or bankruptcy or are otherwise experiencing severe financial or operational difficulties, but whose equity or debt securities the investment manager believes are priced substantially below their intrinsic value..
- **Merger Arbitrage Securities** - Securities of companies involved in non-distressed restructurings (such as mergers, acquisitions, consolidations, liquidations, spinoffs, or tender or exchange offers) or that the investment manager believes are cheap relative to an economically equivalent security of the same or another company.

The availability of investments at attractive prices in each of these categories varies with economic and market cycles. Therefore, the percentage of the Fund's assets invested in each of these areas fluctuates as the investment manager attempts to exploit opportunities afforded by cyclical changes. The investment manager does not normally employ a "long-short" investment strategy, but uses long and short positions from time to time as considered desirable to realize value. The Fund has no pre-set limits as to the percentage of its portfolio that may be invested in equity or debt securities or instruments. The Fund does not currently intend to focus its investments in any particular sector or industry but, from time to time, may do so in response to cyclical changes and the investment manager's reallocation of assets among the three general categories.

The Fund invests in equity securities, including securities convertible, or expected to be exchanged, into equity securities. An equity security represents a proportionate share of the ownership of a company; its value is based on the success of the company's business, any income paid to stockholders, the value of its assets, and general market conditions. Common stocks and preferred stocks, and securities convertible into common stock, are examples of equity securities. The Fund may invest in convertible securities without regard to the ratings assigned by ratings services. The Fund also invests in debt securities. Debt securities represent the obligation of the issuer to repay a loan of money to it, and generally pay interest to the holder. Bonds, notes and debentures, as well as loan participations, are examples of debt securities. The extent to which the Fund invests in equity securities and debt securities varies over time. At certain times the Fund may invest a greater percentage of its assets in equity securities than debt securities and at other times the opposite may be true.

The Fund's investments in Distressed Companies typically involve the purchase of bank debt, lower-rated or defaulted debt securities, comparable unrated debt securities, other indebtedness of such companies. The Fund also may purchase loan participation interests, trade claims and other similar direct obligations or claims against Distressed Companies. Such other indebtedness generally represents a specific commercial loan or portion of a loan made to a company by a financial institution such as a bank. Loan participations represent fractional interests in a company's indebtedness and are generally made available by banks or other institutional investors. By purchasing all or a part of a company's direct indebtedness, the Fund, in effect, steps into the shoes of the lender. If the loan is secured, the Fund will have a priority claim to the assets of the company ahead of unsecured creditors and stockholders. The Fund generally makes investments in Distressed Companies to achieve capital appreciation, in addition to generating income.

The Fund may invest without limit in debt securities or instruments in any rating category established by an independent rating agency, including lower-rated (or comparable unrated) or defaulted debt securities.

Investments in the Special Situations/Undervalued Securities and Merger Arbitrage Securities categories generally are in equity securities, but may also include debt and debt convertible into equity securities. In a typical Merger Arbitrage situation relating to an announced merger, acquisition, or other corporate restructuring, the Fund takes a long position in one of the entities participating in the event while taking a short position in the other entity.

The Fund buys stocks "long" that it believes will go up in price and sells stocks "short" that it believes will go down in price. When the Fund takes a long position, it purchases a stock outright. When the Fund takes a short position, it sells a stock it does not own at the current market price and delivers to the buyer a stock that it has borrowed. To close out, or terminate, the short position, the Fund buys the same stock in the market and returns it to the lender. The Fund makes money when the market price of the stock goes down after the short sale. Conversely, if the price of the stock goes up after the sale, the Fund loses money because it will have to pay more to replace the borrowed stock than it received when it sold the stock short. It is anticipated that the Fund's portfolio typically will have a long bias (i.e., will be net long).

In order to take advantage of opportunities to buy more stock, the Fund may borrow money from banks (be leveraged) to a limited extent.

The Fund is not limited to pre-set maximums or minimums governing the size of the companies in which it may invest, and the Fund may invest a significant portion of its assets in smaller capitalization companies. While the Fund generally purchases securities for investment purposes, the investment manager may also be a proponent, in situations where it believes it is appropriate, of shareholder activism in the furtherance of corporate governance or other measures, and may seek to influence or control management of a company in which it invests, or invest in other companies that do so, when the investment manager believes such actions will increase the value of the Fund's portfolio holdings. (The Fund is required to file reports with the SEC (Schedules 13D or 13G or Forms 3, 4 or 5) with respect to its holdings of equity securities in certain of these cases.)

The Fund shares a similar value-oriented approach as that followed by the open-end mutual funds managed by the investment manager. As a closed-end mutual fund, however, the Fund has greater flexibility to invest in illiquid positions and in positions with little or no public float, and to invest proportionately more of its portfolio in distressed, merger arbitrage or other special situations in response to cyclical market changes.

The Fund may invest a significant portion of its assets in foreign securities, which may include sovereign debt and participations in foreign government debt.

For purposes of pursuing its investment goal, the Fund may, from time to time, enter into currency-related transactions involving certain derivative instruments, including currency forwards and currency futures contracts (including currency index futures contracts). The use of derivative currency transactions may allow the Fund to obtain net long or net negative (short) exposure to selected currencies. The Fund may also enter into various other transactions involving derivatives, including put and call options on equity securities and swap agreements (which may include total return and credit default swaps). The use of these derivative transactions may allow the Fund to obtain net long or net negative (short) exposures to selected countries, currencies or issues.

The Fund may use any of the above currency techniques or other derivative transactions for the purposes of enhancing Fund returns, increasing liquidity, gaining exposure to particular instruments in more efficient or less expensive ways and/or hedging risks relating to changes in currency exchange rates, market prices and other market factors. By way of example, when the investment manager believes that the value of a particular foreign currency is expected to increase compared to the U.S. dollar, the Fund could enter into a forward contract to purchase that foreign currency at a future date. If at such future date the value of the foreign currency exceeds the then current amount of U.S. dollars to be paid by the Fund under the contract, the Fund will recognize a gain. When used for hedging purposes, a forward contract or other derivative instrument could be used to protect against possible declines in a currency's value where a security held or to be purchased by the Fund is denominated in that currency.

A currency forward contract is an obligation to purchase or sell a specific quantity of foreign currency at an agreed exchange rate (price) at a future date. Currency forwards are typically individually negotiated and privately traded by currency traders and their customers in the interbank market.

A futures contract is a standard binding agreement that trades on an exchange to buy or sell a specified quantity of an underlying instrument or asset, such as a specific security or currency, at a specified price at a specified later date. A "sale" of a futures contract means the acquisition of a contractual obligation to deliver the underlying instrument called for by the contract at a specified price on a specified date. A "purchase" of a futures contract means the acquisition of a contractual obligation to acquire a specified quantity of the underlying instrument called for by the contract at a specified price on a specified date. The purchase or sale of a futures contract will allow the Fund to increase or decrease its exposure to the underlying instrument or asset. Although most futures contracts by their terms require the actual delivery or acquisition of the underlying instrument or asset, some require cash settlement. The Fund may buy and sell futures contracts that trade on U.S. and foreign exchanges.

Swap agreements, such as total return swaps and credit default swaps, are contracts between the Fund and, typically, a brokerage firm, bank, or other financial institution (the swap counterparty) for periods ranging from a few days to multiple years. In a basic swap transaction, the Fund agrees with its counterparty to exchange the returns (or differentials in rates of return) earned or realized on

a particular "notional amount" of underlying instruments or assets. The notional amount is the set amount selected by the parties as the basis on which to calculate the obligations that they have agreed to exchange. The parties typically do not actually exchange the notional amount. Instead, they agree to exchange the returns that would be earned or realized if the notional amount were invested in given instruments or assets at given interest rates. For credit default swaps, the "buyer" of the credit default swap agreement is obligated to pay the "seller" a periodic stream of payments over the term of the agreement in return for a payment by the "seller" that is contingent upon the occurrence of a credit event with respect to an underlying reference debt obligation. As a "buyer" of the credit default swap, the Fund is purchasing the obligation of its counterparty to offset losses the Fund could experience if there was such a credit event. Generally, a credit event means bankruptcy, failure to timely pay interest or principal, obligation acceleration, or modified restructuring of the reference debt obligation. The contingent payment by the seller generally is the face amount of the debt obligation in exchange for the physical delivery of the reference debt obligation or a cash payment equal to the then current market value of that debt obligation.

A call option gives the purchaser of the option, upon payment of a premium, the right to buy, and the seller the obligation to sell, the underlying instrument at the exercise price. Conversely, a put option gives the purchaser of the option, upon payment of a premium, the right to sell, and the seller of the option the obligation to buy, the underlying instrument at the exercise price.

The investment manager considers various factors, such as availability and cost, in deciding whether to use a particular derivative instrument or strategy. Moreover, investors should bear in mind that the Fund is not obligated to actively engage in any derivative transactions.

Portfolio Selection

The investment manager employs a research driven, fundamental value strategy for the Fund. In choosing equity or debt investments, the investment manager focuses on the market price of a company's securities and debt obligations relative to the investment manager's own evaluation of the company's asset value, including an analysis of book value, cash flow potential, long-term earnings, and multiples of earnings of comparable securities or debt of both public or private companies. The prices of debt obligations of Distressed Companies may be "cheap" relative to the value of the company's assets. The Fund may invest in such securities and debt obligations, for example, if the investment manager believes the market may have overreacted to adverse developments or failed to appreciate positive changes. Similarly, prices of Special Situations/Undervalued Securities are considered "cheap" relative to the company's perceived value and are often out of favor with other investors. The investment manager examines each investment separately and uses no set criteria as to specific value parameters, asset size, earnings or industry type.

Commodity Exchange Act Exclusion

With respect to the Fund, the investment manager has claimed an exclusion from the definition of "commodity pool operator" (CPO) under the Commodity Exchange Act (CEA) and the rules of the Commodity Futures Trading Commission (CFTC) and, therefore, is not subject to CFTC registration or regulation as a CPO. In addition, with respect to the Fund, the investment manager is relying upon a related exclusion from the definition of "commodity trading advisor" (CTA) under the CEA and the rules of the CFTC.

The terms of the CPO exclusion require the Fund, among other things, to adhere to certain limits on its investments in commodity futures, commodity options and swaps, which in turn include non-deliverable foreign currency forwards, as further described in the Fund's Statement of Additional Information. Because the investment manager and the Fund intend to comply with the terms of the CPO exclusion, the Fund may, in the future, need to adjust its investment strategies, consistent with its investment goal, to limit its investments in these types of instruments. The Fund is not intended as a vehicle for trading in the commodity futures, commodity options, or swaps markets. The CFTC has neither reviewed nor approved the investment manager's reliance on these exclusions, or the Fund, its investment strategies or this prospectus.

Temporary Investments

When the investment manager believes market or economic conditions are unfavorable for investors, the investment manager may invest up to 100% of the Fund's assets in a temporary defensive manner by holding all or a substantial portion of its assets in cash, cash equivalents or other high quality short-term investments. Temporary defensive investments generally may include short-term U.S. government securities, high grade commercial paper, bank obligations, repurchase agreements, money market fund shares (including shares of an affiliated money market fund) and other money market instruments. The investment manager also may invest in these types of securities or hold cash while looking for suitable investment opportunities or to maintain liquidity. In these circumstances, the Fund may be unable to achieve its investment goal.

Main Risks

Distressed Assets

Distressed assets are private or public securities of companies (Distressed Companies) that are in, have recently been in, or are about to enter, bankruptcy or are otherwise experiencing severe financial or operational difficulties. Publicly available information concerning distressed assets is often less extensive and less reliable in comparison to other securities. Consequently, the market for distressed assets is often inefficient in comparison to other securities traded on major securities exchanges. Short-term volatility for distressed assets can be extreme and liquidity can vanish almost instantaneously. In addition, the investment manager will frequently take significant positions in distressed assets and seek to exert significant influence in the restructuring of the issuer of such assets. The concentrated nature of such holdings and/or the increased potential for obtaining material, non-public information concerning the issuer heighten the risk that the Fund would be constrained in its ability to trade such positions. See "Liquidity" below.

Although distressed assets may already be trading at substantial discounts to prior market values, there is significant risk that the financial, legal or other status of the issuer may deteriorate even further. Access to financing is more difficult for Distressed Companies, and relationships with customers and vendors often get worse as the issuer's financial condition weakens. Financial restructurings are subject to numerous factors beyond the control or anticipation of any of the parties involved, and the eventual timing and form of restructuring may be far different than anticipated by the investment manager.

Distressed assets can take the form of publicly traded senior and subordinated bonds, but many distressed assets may be debt obligations such as bank loans, trade claims and consumer loans that have no regulated market.

Debt obligations of Distressed Companies typically are unrated, have ratings lower than "investment grade," or are in default or close to default and may become worthless. Please see "Lower-Rated and Unrated Debt Securities" below.

Liquidity

Liquidity risk exists when the market for particular securities or types of securities are or become relatively illiquid so that the Fund is unable, or it becomes more difficult for the Fund, to sell the security at the price at which the Fund has valued the security. Illiquidity may result from political, economic or issuer specific events; changes in a specific market's size or structure, including the number of participants; or overall market disruptions. Securities with reduced liquidity or that become illiquid involve greater risk than securities with more liquid markets.

Market quotations for illiquid securities may be volatile and/or subject to large spreads between bid and ask prices. Reduced liquidity may have an adverse impact on market price and the Fund's ability to sell particular securities when necessary to meet the Fund's liquidity needs or in response to a specific economic event. To the extent that the Fund and its affiliates hold a significant portion of an issuer's outstanding securities, the Fund may be subject to greater liquidity risk than if the issuer's securities were more widely held.

Illiquid Securities

Certain securities are illiquid due to a limited trading market, financial weakness of the issuer, legal or contractual restrictions on resale or transfer, or that are otherwise illiquid in the sense that they cannot be sold within seven days at approximately the price at which the Fund values them. Securities that are illiquid involve greater risk than securities with more liquid markets. Market quotations for such securities may be volatile and/or subject to large spreads between bid and ask prices. Illiquidity may have an adverse impact on market price and the Fund's ability to sell particular securities when necessary to meet the Fund's liquidity needs or in response to a specific economic event.

Loan Participations and Trade Claims

The Fund may purchase trade claims and other similar direct obligations or claims against companies in bankruptcy. Trade claims are generally purchased from creditors of the bankrupt company and typically represent money due to a supplier of goods or services to the company. When the Fund purchases a trade claim, there is no guarantee that the debtor will ever be able to satisfy the obligation on the trade claim.

The purchase of indebtedness or loan participations of a Distressed Company always involves a risk as to the creditworthiness of the issuer and the possibility that principal invested may be lost. In addition to these risks, purchasers of participations take on the risk as to the creditworthiness of the bank or other financial intermediary issuing the participation. Purchasers of participations must also rely on the financial institution issuing the participation to assert any rights against the borrower with respect to the underlying indebtedness.

Value Style Investing

Value investments may not increase in price as anticipated by the investment manager, and may even decline further in value, if other investors fail to recognize the company's value, or favor investing in faster-growing companies, or if the events or factors that the investment manager believes will increase a security's market value do not occur.

The Fund's bargain-driven focus may result in the Fund choosing securities that are not widely followed by other investors. Securities that are considered "cheaply" priced also may include those of companies reporting poor earnings, companies whose share prices have declined sharply (such as growth companies that have recently stumbled to levels considered "cheap" in the investment manager's opinion), turnarounds, cyclical companies, or companies emerging from bankruptcy. All of these securities may have a higher risk of being ignored or rejected, and therefore undervalued, by the market, or decreasing further in value.

Credit

The Fund could lose money on a debt security if an issuer or borrower is unable or fails to meet its obligations, including failing to make interest payments and/or to repay principal when due. Changes in an issuer's financial strength, the market's perception of the issuer's financial strength or in a security's credit rating, which reflects a third party's assessment of the credit risk presented by a particular issuer, may affect debt securities' values. The Fund may incur substantial losses on debt securities that are inaccurately perceived to present a different amount of credit risk by the market, the investment manager or the rating agencies than such securities actually do.

Merger Arbitrage Securities

A merger or other restructuring or tender, or exchange offer, proposed or pending at the time the Fund invests in Merger Arbitrage Securities may not be completed on the terms or within the time frame contemplated, which may result in losses to the Fund. Such losses would be magnified to the extent that the Fund uses leverage to increase its stake in a Merger Arbitrage Security.

Focus

The greater the Fund's exposure to any single type of investment – including investment in a given industry, sector, region, country, issuer, or type of security – the greater the losses the Fund may experience upon any single economic, business, political, regulatory, or other occurrence. As a result, there may be more fluctuation in the price of the Fund's shares.

Foreign Securities

Investing in foreign securities typically involves more risks than investing in U.S. securities. Certain of these risks also may apply to securities of U.S. companies with significant foreign operations.

Currency exchange rates. Foreign securities may be issued and traded in foreign currencies. As a result, their market values in U.S. dollars may be affected by changes in exchange rates between such foreign currencies and the U.S. dollar, as well as between currencies of countries other than the U.S. For example, if the value of the U.S. dollar goes up compared to a foreign currency, an investment traded in that foreign currency will go down in value because it will be worth fewer U.S. dollars. The Fund accrues additional expenses when engaging in currency exchange transactions, and valuation of the Fund's foreign securities may be subject to greater risk because both the currency (relative to the U.S. dollar) and the security must be considered.

Currency management strategies. Currency management strategies may substantially change the Fund's exposure to currency exchange rates and could result in losses to the Fund if currencies do not perform as the investment manager expects. In addition, currency management strategies, to the extent that they reduce the Fund's exposure to currency risks, may also reduce the Fund's ability to benefit from favorable changes in currency exchange rates. There is no assurance that the investment manager's use of currency management strategies will benefit the Fund or that they will be, or can be, used at appropriate times. Furthermore, there may not be perfect correlation between the amount of exposure to a particular currency and the amount of securities in the portfolio denominated in that currency. Investing in foreign currencies for purposes of gaining from projected changes in exchange rates, as opposed to hedging currency risks applicable to the Fund's holdings, further increases the Fund's exposure to foreign investment losses.

Political and economic developments. The political, economic and social policies or structures of some foreign countries may be less stable and more volatile than those in the United States. Investments in these countries may be subject to greater risks of internal and external conflicts, expropriation, nationalization of assets, foreign exchange controls (such as suspension of the ability to transfer currency from a given country), restrictions on removal of assets, political or social instability, military action or unrest, diplomatic developments, currency devaluations, foreign ownership limitations, and punitive or confiscatory tax increases. It is possible that a government may take over the assets or operations of a company or impose restrictions on the exchange or export of currency or other assets. Some countries also may have different legal systems that may make it difficult or expensive for the Fund to vote proxies, exercise shareholder rights, and pursue legal remedies with respect to its foreign investments. Diplomatic and political developments (including rapid and adverse political changes, social instability, regional conflicts, sanctions imposed by the United States, other nations or other governmental entities [including supranational entities], terrorism and war) could affect the economies, industries and securities and currency markets of the countries in which the Fund is invested. In addition, such developments could contribute to the devaluation of a country's currency, a

downgrade in the credit ratings of issuers in such country, or a decline in the value and liquidity of securities of issuers in that country. An imposition of sanctions upon certain issuers in a country could result in an immediate freeze of that issuer's securities, impairing the ability of the Fund to buy, sell, receive or deliver those securities. These factors would affect the value of the Fund's investments and are extremely difficult, if not impossible, to predict and take into account with respect to the Fund's investments.

Trading practices. Brokerage commissions, withholding taxes, custodial fees, and other fees generally are higher in foreign markets. The policies and procedures followed by foreign stock exchanges, currency markets, trading systems and brokers may differ from those applicable in the United States, with possibly negative consequences to the Fund. The procedures and rules governing foreign trading, settlement and custody (holding of the Fund's assets) also may result in losses or delays in payment, delivery or recovery of money or other property. Foreign government supervision and regulation of foreign securities markets and trading systems may be less than or different from government supervision in the United States, and may increase the Fund's regulatory and compliance burden and/or decrease the Fund's investor rights and protections.

Availability of information. Foreign issuers may not be subject to the same disclosure, accounting, auditing and financial reporting standards and practices as U.S. issuers. Thus, there may be less information publicly available about foreign issuers than about most U.S. issuers.

Limited markets. Certain foreign securities may be less liquid (harder to sell) and their prices may be more volatile than many U.S. securities. Illiquidity tends to be greater, and valuation of the Fund's foreign securities may be more difficult, due to the infrequent trading and/or delayed reporting of quotes and sales.

Regional. Adverse conditions in a certain region or country can adversely affect securities of issuers in other countries whose economies appear to be unrelated. To the extent that the Fund invests a significant portion of its assets in a specific geographic region or a particular country, the Fund will generally have more exposure to the specific regional or country economic risks. In the event of economic or political turmoil or a deterioration of diplomatic relations in a region or country where a substantial portion of the Fund's assets are invested, the Fund may experience substantial illiquidity or reduction in the value of the Fund's investments.

Current political uncertainty surrounding the European Union (EU) and its membership may increase market volatility. The financial instability of some countries in the EU, including Greece, Italy and Spain, together with the risk of that impacting other more stable countries may increase the economic risk of investing in companies in Europe. One or more EU member states might exit the EU, placing the European currency and banking system in jeopardy. Efforts of the EU to further unify the economic and monetary policies of its members may increase the potential interdependence of the economies of the EU members and thereby increase the risk that adverse developments in one country will adversely affect the securities of issues located in other countries.

Developing Markets

The risks of foreign investments typically are greater in less developed countries, sometimes referred to as developing or emerging markets. For example, the political, social, market regulation and economic structures and institutions in these countries, including those supporting the regulatory and legal systems and financial markets, may be less established and more vulnerable to corruption and fraud, and may change rapidly. These countries are more likely to experience high levels of inflation, deflation or currency devaluation, which can harm their economies and securities markets and increase volatility. In fact, short-term volatility in these markets and declines of 50% or more are not uncommon. Investments in less developed markets generally are subject to higher fees and expenses and exhibit greater price volatility and valuation challenges. They may be subject to greater risk of expropriation, nationalization, confiscatory or punitive taxation, and foreign investment and divestment restrictions. In addition, a developing market country may experience a devaluation of its currency, a downgrade in the credit ratings of issuers in the country, or a decline in the value and liquidity of securities of issuers in that country if the United States, other nations or other governmental entities (including supranational entities) impose sanctions on issuers that limit or restrict foreign investment, the movement of assets or other economic activity in the country due to political, military or regional conflicts or due to terrorism or war.

Restrictions on currency trading that may be imposed by developing market countries will have an adverse effect on the value of the securities of companies that trade or operate in such countries. Finally, such securities markets are smaller, relatively less liquid and may not be as efficient or established in terms of settlement, custody and securities registration.

Market

The market values of securities owned by the Fund will go up or down, sometimes rapidly or unpredictably. Securities or other investments may decline in value due to factors affecting individual issuers, securities markets generally or sectors within the securities markets. The value of a security may go up or down due to general market conditions which are not specifically related to a particular issuer,

such as real or perceived adverse economic conditions, changes in interest rates or adverse investor sentiment generally. They may also go up or down due to factors that affect an individual issuer or a particular sector. During a general downturn in the securities markets, multiple asset classes may decline in value. When markets perform well, there can be no assurance that securities held by the Fund will participate in or otherwise benefit from the advance.

Stock prices tend to go up and down more dramatically than those of debt securities. A slower-growth or recessionary economic environment could have an adverse effect on the prices of the various stocks held by the Fund.

Smaller and Midsize Companies

While smaller and midsize companies may offer substantial opportunities for capital growth, they also involve substantial risks and should be considered speculative. Historically, smaller and midsize company securities have been more volatile in price than larger company securities, especially over the short term. Among the reasons for the greater price volatility are the less certain growth prospects of smaller and midsize companies, the lower degree of liquidity in the markets for such securities, and the greater sensitivity of smaller and midsize companies to changing economic conditions.

In addition, smaller and midsize companies may lack depth of management, be unable to generate funds necessary for growth or development, have limited product lines or be developing or marketing new products or services for which markets are not yet established and may never become established. Smaller and midsize companies may be particularly affected by interest rate increases, as they may find it more difficult to borrow money to continue or expand operations, or may have difficulty in repaying any loans which are floating rate.

Short Sales

It is possible that the Fund's long positions will decline in value at the same time that the value of the stocks sold short increases, thereby increasing the potential for loss. The Fund may not always be able to close out a short position at a particular time or at an acceptable price. A lender may request the borrowed securities be returned to it on short notice, and the Fund may have to buy the borrowed securities at an unfavorable price. If this occurs at a time when other short sellers of the same security also want to close out their positions, a "short squeeze" can occur. A short squeeze occurs when demand is greater than supply for the stock sold short. A short squeeze makes it more likely that the Fund will have to cover its short sale at an unfavorable price. If that happens, the Fund will lose some or all of the potential profit from, or even incur a loss as a result of, the short sale. In addition, the Fund may be unable to engage in short selling in certain cases due to rapidly imposed government restrictions.

Until the Fund replaces a borrowed security, it will either maintain a segregated account with a broker or custodian or have the custodian segregate liquid assets by earmarking them as segregated, in a daily mark to market amount as required by law. This segregated amount is required to be maintained in addition to, and does not include, the proceeds received from the short sale of the securities, which proceeds the broker retains as collateral in a brokerage account until the Fund closes out the short sale. The Fund is also required to repay the lender any dividends or interest that accrue on the stock during the period of the loan. Depending on the arrangements made with the broker or custodian, the Fund may or may not receive any payments (including interest) on collateral deposited with the broker or custodian.

In addition, short selling may produce higher than normal portfolio turnover and result in increased transaction costs to the Fund.

Derivative Instruments

The performance of derivative instruments depends largely on the performance of an underlying instrument and such instruments often have risks similar to the underlying instrument in addition to other risks. Derivative instruments involve costs and can create leverage in the Fund's portfolio which may result in significant volatility and cause the Fund to participate in losses (as well as gains) in an amount that significantly exceeds the Fund's initial investment. Certain derivatives have the potential for unlimited loss, regardless of the size of the initial investment. Other risks include illiquidity, mispricing or improper valuation of the derivative instrument, and imperfect correlation between the value of the derivative and the underlying instrument so that the Fund may not realize the intended benefits. Their successful use will usually depend on the investment manager's ability to accurately forecast movements in the market relating to the underlying instrument. Should a market or markets, or prices of particular classes of investments move in an unexpected manner, especially in unusual or extreme market conditions, the Fund may not achieve the anticipated benefits of the transaction, and it may realize losses, which could be significant. If the investment manager is not successful in using such derivative instruments, the Fund's performance may be worse than if the investment manager did not use such derivative instruments at all. To the extent that the Fund uses such instruments for hedging purposes, there is the risk of imperfect correlation between movements in the value of the derivative instrument and the

value of the underlying investment or other asset being hedged. There is also the risk, especially under extreme market conditions, that an instrument, which usually would operate as a hedge, provides no hedging benefits at all.

Use of these instruments could also result in a loss if the counterparty to the transaction (particularly with respect to OTC instruments, such as certain swap agreements and forward currency contracts) does not perform as promised, including because of such counterparty's bankruptcy or insolvency. This risk may be heightened during volatile market conditions. Other risks include the inability to close out a position because the trading market becomes illiquid (particularly in the OTC markets) or the availability of counterparties becomes limited for a period of time. In addition, the presence of speculators in a particular market could lead to price distortions. To the extent that the Fund is unable to close out a position because of market illiquidity, the Fund may not be able to prevent further losses of value in its derivatives holdings and the Fund's liquidity may be impaired to the extent that it has a substantial portion of its otherwise liquid assets marked as segregated to cover its obligations under such derivative instruments. The Fund may also be required to take or make delivery of an underlying instrument that the investment manager would otherwise have attempted to avoid. Some derivatives can be particularly sensitive to changes in interest rates or other market prices. Investors should bear in mind that, while the Fund intends to use derivative strategies on a regular basis, it is not obligated to actively engage in these transactions, generally or in any particular kind of derivative, if the investment manager elects not to do so due to availability, cost or other factors.

The use of derivative strategies may also have a tax impact on the Fund. The timing and character of income, gains or losses from these strategies could impair the ability of the investment manager to utilize derivatives when it wishes to do so.

Risk of Decline in Fund's NAV Due to Repurchases; Inability to Liquidate Shares

The Fund's NAV may decline as a result of the Fund's having to sell portfolio securities to raise cash to repurchase its shares in a Repurchase Offer. Selling portfolio securities may cause the market prices of these securities, and hence the Fund's NAV, to decline. If such a decline occurs, the Fund cannot predict its magnitude or whether such a decline would be temporary or continue until or beyond the date that is the deadline to tender shares for a given Repurchase Offer. Because the price per share to be paid in the Repurchase Offer will depend upon the NAV per share as determined on the actual pricing date, which may occur on the deadline, or as late as the business day that is the 14th day (or the next business day after the 14th day that is not a business day) after the deadline, to tender shares for a Repurchase Offer, the sales proceeds received by tendering shareholders would be reduced if the decline continued until the actual pricing date. In addition, the sale of portfolio securities will increase the Fund's transaction expenses, and the Fund may receive proceeds from the sale of portfolio securities that are less than their valuations by the Fund.

Also, during the Repurchase Offer period, the Fund may be unable to sell liquid portfolio securities it would otherwise choose to sell during the period. The Fund is required to maintain liquid assets equal to at least the Repurchase Offer amount (an amount for each Repurchase Offer that is set by the board between 5% and 25% of the Fund's shares outstanding) from the time the Fund sends the quarterly notice to shareholders until the Repurchase Pricing Date. These liquid assets are required to consist of (1) assets that can be sold or disposed of in the ordinary course of business, at approximately the price at which the Fund has valued the investment, within a period equal to the period between a Repurchase Request Deadline and the Repurchase Payment Deadline, or (2) assets that mature by the next Repurchase Payment Deadline.

Accordingly, because of a Repurchase Offer, the Fund's NAV per share may decline more than it otherwise might, thereby reducing the amount of proceeds received by tendering shareholders and the NAV per share for non-tendering shareholders. In addition, shareholders may not be able to liquidate all shares of the Fund they have tendered during a Repurchase Offer if the total amount of shares tendered by shareholders exceeds the Repurchase Offer amount.

Anti-Takeover Provisions

The Fund's Declaration of Trust contains terms that limit the ability of other entities or persons to acquire control of the Fund or to change its board of trustees. These provisions may limit opportunities for the shares to increase in value through a merger, acquisition or similar change in the Fund because a third party may be discouraged from attempting to institute such changes in the Fund. The terms, at the same time, present advantages, such as potentially increasing the ability of the board of trustees to (i) negotiate to increase the value of such changes for the Fund's shareholders, and (ii) facilitate the continuity of the Fund's management and investment goals and strategies. See "Description of Shares - Certain Anti-Takeover Provisions in the Declaration of Trust."

Effects of Borrowing and Leverage

Although there is no current intent to do so (except to the extent the Fund chooses to participate in the Term Asset-Backed securities loan facility of the Federal Reserve Bank of New York), the Fund is authorized to borrow money to take advantage of opportunities to buy more securities, to meet unfunded commitments in connection with investments or to make repurchases of shares in Repurchase

Offers for its shares. There is a risk that the costs of borrowing may exceed the income and appreciation, if any, on assets acquired with the borrowed funds. If this occurs, the use of leverage will reduce the investment performance of the Fund compared with what it would have been without leverage. When the Fund borrows money, the lender will have the right to receive scheduled interest and principal payments. The lender's right to such payments will be senior to the interests in Fund assets of the holders of Fund shares. The terms of any such borrowing may limit certain activities of the Fund, including the payment of dividends to holders of Fund shares.

Subject to its ability to liquidate the portion of its portfolio securities that is relatively illiquid, the Fund intends to repay the borrowings in the event that the borrowings would impair the Fund's status as a regulated investment company under the Internal Revenue Code of 1986, as amended (Internal Revenue Code). Interest payments and fees paid by the Fund on any borrowings may reduce the amount of income it has available to pay as dividends to the Fund's shareholders.

The Fund also may be required to maintain minimum average balances in connection with borrowings or to pay a commitment or other fee to maintain a line of credit. Either of these requirements will increase the cost of borrowing over the stated interest rate.

Leverage creates certain risks for holders of Fund shares. Leveraging by the Fund creates an opportunity for greater total return, but, at the same time, increases exposure to losses. Also, the NAV of Fund shares may be more volatile than if the Fund were not leveraged.

Management

The Fund is actively managed and could experience losses if the investment manager's judgment about markets, interest rates or the attractiveness, relative values, liquidity, or potential appreciation of particular investments made for the Fund's portfolio prove to be incorrect. There can be no guarantee that these techniques or the investment manager's investment decisions will produce the desired results. Additionally, legislative, regulatory, or tax developments may affect the investment techniques available to the investment manager in connection with managing the Fund and may also adversely affect the ability of the Fund to achieve its investment goal.

General

A description of the Fund's policies and procedures regarding the release of portfolio holdings information is also available in the Fund's SAI. Portfolio holdings information can be viewed online at franklintempleton.com.

Management

Investment manager. Franklin Mutual Advisers, LLC, (Franklin Mutual) 101 John F. Kennedy Parkway, Short Hills, NJ 07078, is the Fund's investment manager. Together, Franklin Mutual and its affiliates manage, as of June 30, 2014, over $920 billion in assets and have been in the investment management business since 1947. The investment manager may delegate certain risk management, compliance and other portfolio monitoring functions to its affiliates.

Under an agreement with Franklin Mutual, Franklin Templeton Investment Management Limited (FTIML), The Adelphi, 1-11 John Adam Street, London, WC2N 6HT, England, is the Fund's sub-advisor. FTIML provides Franklin Mutual with investment management advice and assistance. For purposes of the Fund's investment strategies, techniques and risks, the term "investment manager" includes any sub-advisor.

The Fund is managed by a team of dedicated professionals focused on investments in Distressed Companies, Merger Arbitrage Securities and undervalued securities. The portfolio managers of the team are as follows:

Shawn M. Tumulty Vice President of Franklin Mutual
Mr. Tumulty has been a portfolio manager of the Fund since 2005. He joined Franklin Templeton Investments in 2000.

Christian Correa, CFA Portfolio Manager of FTIML
Mr. Correa has been a portfolio manager of the Fund since 2004. He joined Franklin Templeton Investments in 2003.

Keith Luh, CFA Portfolio Manager of Franklin Mutual
Mr. Luh has been a portfolio manager of the Fund since 2009. He joined Franklin Templeton Investments in 2005.

Shawn Tumulty, Christian Correa and Keith Luh are jointly responsible for the day-to-day management of the Fund. The co-portfolio managers have equal authority over all aspects of the Fund's investment portfolio, including but not limited to, purchases and sales of individual securities, portfolio risk assessment, and the management of daily cash balances in accordance with anticipated investment management requirements. The degree to which each manager may perform these functions, and the nature of these functions, may change from time to time.

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The Fund's SAI provides additional information about portfolio manager compensation, other accounts that they manage and their ownership of Fund shares.

FRANKLIN MUTUAL RECOVERY FUND

A discussion regarding the basis for the board of trustees approving the investment management contract of the Fund is available in the Fund's semiannual report to shareholders for the six-month period ended September 30.

Management fees. The Fund pays Franklin Mutual a fee for managing the Fund's assets. The fee is comprised of two components, a base fee and a performance adjustment to the base fee. The adjustment is based on the Fund's performance relative to the Bloomberg/EFFAS U.S. Government 3-5 Years Total Return Index (Index) over a rolling 12-month period ending with the most recently completed month. The rolling 12-month period is referred to as the Performance Period.

The first component of the fee is a base fee equal to an annual rate of 1.50% of the Fund's average daily net assets during the month that ends on the last day of the Performance Period.

The second component is a performance adjustment that either increases or decreases the base fee, depending on how the Fund has performed relative to the Index over the Performance Period. The performance adjustment is equal to a:

- monthly upward adjustment of an annual rate of 0.20% for each percentage point by which the Fund's investment performance exceeds the investment record of the Index over the Performance Period by at least 1.00%, or
- monthly downward adjustment of an annual rate of 0.20% for each percentage point by which the investment record of the Index exceeds the Fund's investment performance over the Performance Period by at least 1.00%, with
- no performance adjustment if the relative performance of the Fund or index does not exceed the 1.00% threshold, described above, over the performance of the index or Fund, as applicable.

The performance adjustment is subject to the following:

- a pro rata portion of the 0.20% rate adjustment, in increments of 0.01%, is applied for each 0.05% change in the differential between investment performance of the Fund and the Index;
- the maximum annual fee is 2.50% of average daily net assets over each fiscal year of the Fund and the minimum annual fee is 0.50% of average daily net assets over each fiscal year of the Fund;

- the minimum and maximum annual management fee is measured at least monthly, calculated by annualizing the ratio of the total management fee (base fee plus performance adjustment) to average daily net assets for the fiscal year to date as of the last calculated net asset value, with any required adjustment recorded to Fund assets no later than the next calculated net asset value; and
- the annual rate of the adjustment is multiplied by the average daily net assets of the Fund averaged over the Performance Period to determine the dollar amount of the adjustment for each day of the month that ends on the last day of the Performance Period.

Performance Adjustment Schedule

Reflecting Performance Adjustment after twelve months of operation

% Performance Difference Between Fund and Index	Investment Management Fee (annual rate)	
6% or more	1.00%	Outperformance
5%	0.80%	
4%	0.60%	
3%	0.40%	
2%	0.20%	
1%	0.00%	No performance adjustment to advisory fee in this zone
0%	0.00%	
-1%	0.00%	
-2%	-0.20%	Underperformance
-3%	-0.40%	
-4%	-0.60%	
-5%	-0.80%	
-6% or less	-1.00%	

The investment manager contractually agreed to waive or limit its management fees so that the management fees paid by the Fund do not exceed an annual rate of 0.50%, and effective July 1, 2012, the investment manager and administrator have contractually agreed to waive or limit their respective fees and to assume as their own expense, certain expenses otherwise payable by the Fund so that the expenses (excluding distribution fees and acquired fund fees and expenses) excluding expenses on securities sold short for each class of the Fund do not exceed 1.20% until July 31, 2015. Certain non-routine expenses or costs, including those relating to litigation, indemnification, reorganizations, and liquidations may not be included

in the waiver on expenses. Management fees before and after such waivers for the fiscal year ended March 31, 2014, were 2.49% and 0.50%. The after waiver amount is based on the 1.20% fee waiver.

The Board of Trustees (Board). The Board oversees the management of the Fund and elects its officers. The officers are responsible for the Fund's day-to-day operations.

Please see "Management and Other Services" and "Miscellaneous Information" in the SAI for information on securities transactions.

Administrative services. Franklin Templeton Services, LLC (FT Services) has an agreement with the Fund to provide certain administrative services and facilities for the Fund. FT Services is an indirect, wholly owned subsidiary of Resources and is an affiliate of the Fund's investment manager and principal underwriter.

The administrative services FT Services provides include preparing and maintaining books, records, and tax and financial reports, and monitoring compliance with regulatory requirements.

The Fund pays FT Services a monthly fee equal to an annual rate of 0.20% of the Fund's average daily net assets.

Shareholder servicing and transfer agent. Franklin Templeton Investor Services, LLC (Investor Services), an indirect wholly owned subsidiary of Resources, is the Fund's shareholder servicing agent and acts as the Fund's transfer agent and dividend-paying agent.

Custodian. The Bank of New York Mellon, Mutual Funds Division, 100 Church Street, New York, NY 10286, acts as custodian of the securities and other assets of the Fund. The custodian does not participate in decisions relating to the purchase and sale of portfolio securities.

Portfolio Transactions

The investment manager tries to obtain the best execution on all transactions. If the investment manager believes more than one broker or dealer can provide the best execution, it may consider research and related services, when selecting a broker or dealer.

The Fund engages in trading when the manager has concluded that the sale of a security owned by the Fund and/or the purchase of another security can enhance the value of the Fund's portfolio. A security may be sold to avoid any prospective decline in market value, or a security may be purchased in anticipation of a market rise. Consistent with the Fund's investment goal, a security also may be sold and a comparable security purchased at the same time in order to take advantage of what is believed to be a disparity in the normal yield and price relationship between the two securities.

The Fund's annual portfolio turnover rate is not expected to exceed 100%. The rate may vary greatly from year to year and will not be a limiting factor when the investment manager deems portfolio changes appropriate. For example, an increase in the Fund's participation in Merger Arbitrage situations would increase the Fund's portfolio turnover rate, potentially resulting in an annual rate in excess of 100%. Although the Fund generally does not intend to trade for short-term profits, the securities held by the Fund will be sold whenever the investment manager believes it is appropriate to do so. Sales will be made without regard to the length of time the security may have been held. Large share repurchases by the Fund of its shares during the quarterly or discretionary Repurchase Offers may require the Fund to liquidate portions of its securities holdings for cash to repurchase the shares. The liquidation of such holdings may result in a higher than expected annual portfolio turnover rate. A 100% annual portfolio turnover rate would occur if the lesser of the value of purchases or sales of the Fund's securities for a year (excluding purchases of U.S. Treasury and other securities with a maturity at the date of purchase of one year or less) were equal to 100% of the average monthly value of the securities, excluding short-term investments, held by the Fund during such year. Higher portfolio turnover involves correspondingly greater brokerage commissions and other transaction costs that the Fund will bear directly.

FRANKLIN MUTUAL RECOVERY FUND

Performance

From time to time, the Fund advertises its performance. Performance information may include total return for specific time periods.

Total return is the change in value of an investment over a given period. Total return assumes any dividends and capital gains are reinvested.

Performance figures are always based on the Fund's past performance and do not guarantee future results. The Fund's total return will vary, depending on market conditions, the securities that the Fund owns, the Fund's operating expenses and the amount of capital gains or losses during the period. For a more detailed description of how the Fund calculates its performance figures, please see "Performance" in the SAI.

Distributions and Taxes

Income and Capital Gain Distributions

As a regulated investment company, the Fund generally pays no federal income tax on the income and gains it distributes to you. The Fund intends to pay income dividends at least annually from its net investment income. Capital gains, if any, may be paid at least annually. The Fund may distribute income dividends and capital gains more frequently, if necessary, in order to reduce or eliminate federal excise or income taxes on the Fund. The amount of any distribution will vary, and there is no guarantee the Fund will pay either income dividends or capital gain distributions. Your income dividends and capital gain distributions will be automatically reinvested in additional shares at net asset value (NAV) unless you elect to receive them in cash.

Annual statements. After the close of each calendar year, you will receive tax information from the Fund with respect to the federal income tax treatment of the Fund's distributions and any taxable sales or exchanges of Fund shares occurring during the prior calendar year. If the Fund finds it necessary to reclassify its distributions or adjust the cost basis of any covered shares sold or exchanged after you receive your tax information, the Fund will send you revised tax information. Distributions declared in December to shareholders of record in such month and paid in January are taxable as if they were paid in December. Additional tax information about the Fund's distributions is available at franklintempleton.com.

Avoid "buying a dividend." At the time you purchase your Fund shares, the Fund's net asset value may reflect undistributed income, undistributed capital gains, or net unrealized appreciation in the value of the portfolio securities held by the Fund. For taxable investors, a subsequent distribution to you of such amounts, although constituting a return of your investment, would be taxable. Buying shares in the Fund just before it declares an income dividend or capital gain distribution is sometimes known as "buying a dividend."

Tax Considerations

If you are a taxable investor, Fund distributions are generally taxable to you as ordinary income, capital gains or some combination of both. This is the case whether you reinvest your distributions in additional Fund shares or receive them in cash.

Dividend income. Income dividends are generally subject to tax at ordinary rates. Income dividends reported by the Fund to shareholders as qualified dividend income may be subject to tax by individuals at reduced long-term capital gains tax rates provided certain holding period requirements are met. A return-of-capital distribution is generally not taxable but will reduce the cost basis of your shares, and will result in a higher capital gain or a lower capital loss when you later sell your shares.

FRANKLIN MUTUAL RECOVERY FUND

Capital gains. Fund distributions of short-term capital gains are also subject to tax at ordinary rates. Fund distributions of long-term capital gains are taxable at the reduced long-term capital gains rates no matter how long you have owned your Fund shares. For individuals in the 10% and 15% tax brackets, the long-term capital gains tax rate is 0%. For individuals in higher tax brackets, the long-term capital gains rate is 15% (20% for certain high income taxpayers). An additional 3.8% Medicare tax may also be imposed as discussed below.

Sales of Fund shares. When you sell your shares in the Fund, or exchange them for shares of a different Franklin Templeton fund, you will generally recognize a taxable capital gain or loss. If you have owned your Fund shares for more than one year, any net long-term capital gains will qualify for the reduced rates of taxation on long-term capital gains. An exchange of your shares in one class of the Fund for shares of another class of the same Fund is not taxable and no gain or loss will be reported on the transaction.

Cost basis reporting. If you acquire shares in the Fund on or after January 1, 2012, generally referred to as "covered shares," and sell or exchange them after that date, the Fund is generally required to report cost basis information to you and the IRS annually. The Fund will compute the cost basis of your covered shares using the average cost method, the Fund's "default method," unless you contact the Fund to select a different method, or choose to specifically identify your shares at the time of each sale or exchange. If your account is held by your financial advisor or other broker-dealer, that firm may select a different default method. In these cases, please contact the firm to obtain information with respect to the available methods and elections for your account. Shareholders should carefully review the cost basis information provided by the Fund and make any additional basis, holding period or other adjustments that are required when reporting these amounts on their federal and state income tax returns. Additional information about cost basis reporting is available at franklintempleton.com/costbasis.

Medicare tax. An additional 3.8% Medicare tax will be imposed on certain net investment income (including ordinary dividends and capital gain distributions received from the Fund and net gains from redemptions or other taxable dispositions of Fund shares) of U.S. individuals, estates and trusts to the extent that such person's "modified adjusted gross income" (in the case of an individual) or "adjusted gross income" (in the case of an estate or trust) exceeds a threshold amount. Any liability for this additional Medicare tax will be reported on, and paid with, your federal income tax return.

Backup withholding. A shareholder may be subject to backup withholding on any distributions of income, capital gains, or proceeds from the sale or exchange of Fund shares if the shareholder (1) has provided either an incorrect tax identification number or no number at all, (2) is subject to backup withholding by the IRS for failure to properly report payments of interest or dividends, (3) has failed to certify that the shareholder is not subject to backup withholding, or (4) has not certified that the shareholder is a U.S. person (including a U.S. resident alien). The backup withholding rate is currently 28%. State backup withholding may also apply.

State and local taxes. Distributions of ordinary income and capital gains, and gains from the sale of your Fund shares, are generally subject to state and local taxes.

Non-U.S. investors. Non-U.S. investors may be subject to U.S. withholding tax at 30% or a lower treaty rate on Fund dividends of ordinary income. Non-U.S. investors may be subject to U.S. estate tax on the value of their shares. They are subject to special U.S. tax certification requirements to avoid backup withholding, claim any exemptions from withholding and claim any treaty benefits. An exemption from U.S. withholding tax is provided for capital gain dividends paid by the Fund from long-term capital gains, if any. The exemptions from U.S. withholding for interest-related dividends paid by the Fund from its qualified net interest income from U.S. sources and short-term capital gain dividends have expired for taxable years of the Fund that begin on or after January 1, 2014. It is unclear as of the date of this prospectus whether Congress will reinstate the exemptions for interest-related and short-term capital gain dividends or, if reinstated, whether such exemptions would have retroactive effect. However, notwithstanding such exemptions from U.S. withholding tax at source, any such dividends and distributions of income and capital gains will be subject to backup withholding at a rate of 28% if you fail to properly certify that you are not a U.S. person.

Other reporting and withholding requirements. Payments to a shareholder that is either a foreign financial institution (FFI) or a non-financial foreign entity (NFFE) within the meaning of the Foreign Account Tax Compliance Act (FATCA) may be subject to a 30% withholding tax on: (a) income dividends paid by the Fund after June 30, 2014, and (b) certain capital gain distributions and the proceeds arising from the sale of Fund shares paid by the Fund after December 31, 2016. FATCA withholding tax generally can be avoided: (a) by an FFI, subject to any applicable intergovernmental agreement or other exemption, if it enters into a valid agreement with the IRS to, among other requirements, report required information about certain direct and indirect ownership of foreign financial accounts held by U.S. persons with the FFI and (b) by an NFFE, if it: (i) certifies

that it has no substantial U.S. persons as owners or (ii) if it does have such owners, reports information relating to them. The Fund may disclose the information that it receives from its shareholders to the IRS, non-U.S. taxing authorities or other parties as necessary to comply with FATCA. Withholding also may be required if a foreign entity that is a shareholder of the Fund fails to provide the Fund with appropriate certifications or other documentation concerning its status under FATCA.

Other tax information. This discussion of “Distributions and Taxes” is for general information only and is not tax advice. You should consult your own tax advisor regarding your particular circumstances, and about any federal, state, local and foreign tax consequences before making an investment in the Fund. Additional information about the tax consequences of investing in the Fund may be found in the SAI.

Description of Shares

The Fund is authorized to issue an unlimited number of its shares of beneficial interest. The Fund's shares may be offered in multiple classes. Although the Board does not currently intend to do so, it may classify and reclassify any unissued shares at any time. For example, the Board is permitted, subject to shareholder approval where applicable, to set or change the preferences, conversion or other rights, voting powers, restrictions, dividend limitations or, to a certain extent, the terms and conditions of repurchase of the Fund's shares. The description of shares and the discussion under "Certain Anti-Takeover Provisions of the Declaration of Trust" below are subject to the terms of the Fund's Declaration of Trust and Bylaws and, regarding repurchases of Fund shares, its fundamental investment restrictions, applicable regulations and the conditions of an exemptive order granted by the SEC to the Fund.

Shares

The Fund currently offers three classes of shares, Class A, Class C and Advisor Class. The Fund may offer additional classes of shares in the future. The full title of each class is:

- Franklin Mutual Recovery Fund - Class A
- Franklin Mutual Recovery Fund - Class C
- Franklin Mutual Recovery Fund - Advisor Class

Shares of each class represent proportionate interests in the Fund's assets. On matters that affect the Fund as a whole, each class has the same voting and other rights and preferences as any other class. On matters that affect only one class, only shareholders of that class may vote. Each class votes separately on matters affecting only that class, or matters expressly required to be voted on separately by state or federal law.

The Fund has noncumulative voting rights. This gives holders of more than 50% of the shares voting the ability to elect all of the members of the Board nominated for election at a meeting. If this happens, holders of the remaining shares voting will not be able to elect anyone to the Board.

The Board has approved the offer and sale of shares pursuant to this prospectus. Shares will usually be held in book-entry form. However, a shareholder may request physical share certificates by writing to the Fund. See "Description of Shares - Share Certificates" below.

FRANKLIN MUTUAL RECOVERY FUND

Certain Anti-Takeover Provisions in the Declaration of Trust

The Declaration of Trust includes provisions that may limit (i) the ability of other entities or persons to acquire control of the Fund, and (ii) the Fund's freedom to engage in certain transactions. These terms may be regarded as "anti-takeover" provisions.

Under the Declaration of Trust, the affirmative vote of a majority of trustees present at a meeting at which quorum is present and the holders of at least 75% (which is higher than the vote required under the 1940 Act) of the Fund's shares entitled to vote is usually required to approve the Fund's: (a) dissolution; (b) merger or consolidation with or into one or more statutory trusts or other business entities; (c) conversion into another business entity, the conversion of its shares into beneficial interests in another statutory trust or any lawful exchange of its shares; (d) sale, conveyance, or transfer of all or substantially all of its assets to another trust, statutory trust, partnership, limited partnership, limited liability company, corporation or other association; (e) conversion from a "closed-end company" to an "open-end company" (as those terms are defined in the 1940 Act); (f) issuance of any of its securities to a "Principal Holder" (as that term is defined in the Declaration of Trust) for cash; and (g) exchange of any of its securities to a Principal Holder for the sale, lease or exchange to the Fund of a certain level of assets of the Principal Holder. However, if the transaction receives the approval of two-thirds (66 2/3%) of the Board, only the affirmative "vote of a majority of the outstanding voting securities" (as defined in the 1940 Act) is required. These voting requirements also apply to a vote of a series of the Fund where the series is involved in transactions similar to those in (a), (c) and (d) above, to the extent applicable.

The provisions of the Declaration of Trust described above and the Fund's right to make a Repurchase Offer for its shares may deprive shareholders of opportunities to increase the value of their shares. This is because a third party will be discouraged from attempting to obtain control of the Fund by making a tender or exchange offer for shares of the Fund in connection with a merger, acquisition or similar transaction. The overall impact of these provisions is to reduce the possibility of one of the above transactions occurring, including the possibility of a Principal Holder assuming control of the Fund either directly or indirectly through affiliates. These terms, at the same time, present advantages. The provisions likely will (i) require persons seeking control of the Fund to negotiate with its management regarding the price to be paid; and (ii) facilitate the continuity of the Fund's management and investment goal and policies. The Board has considered these anti-takeover provisions and concluded that they are in the best interest of the Fund and its shareholders.

The Declaration of Trust is on file with the SEC and you may request a copy from the SEC for a more detailed explanation of these terms.

Share Certificates

We will credit your shares to your Fund account. We do not issue share certificates unless you specifically request them. This eliminates the costly problem of replacing lost, stolen or destroyed certificates. If a certificate is lost, stolen or destroyed, you may have to pay an insurance premium of up to 2% of the value of the certificate to replace it.

Any outstanding share certificates must be returned to the Fund if you want to sell or exchange the shares. The certificates should be properly endorsed. You can do this either by signing the back of the certificate or by completing a share assignment form. For your protection, you may prefer to complete a share assignment form and to send the certificate and assignment form in separate envelopes.

Net Asset Value and Shares Outstanding

The following table sets forth, for each of the Fund's fiscal quarters ending on the dates set forth below during the two most recent fiscal years of the Fund and since the beginning of the current fiscal year, the high and low NAV per share for shares during the periods:

FRANKLIN MUTUAL RECOVERY FUND

Quarterly Period Ending	High	Low
Class A		
September 30, 2012	$9.80	$9.14
December 31, 2012	$9.84	$9.37
March 31, 2013	$10.64	$9.96
June 30, 2013	$11.07	$10.39
September 30, 2013	$11.47	$10.88
December 31, 2013	$12.11	$11.32
March 31, 2014	$12.38	$11.82
June 30, 2014	$12.87	$12.22
Class C		
September 30, 2012	$9.63	$9.00
December 31, 2012	$9.74	$9.20
March 31, 2013	$10.51	$9.86
June 30, 2013	$10.92	$10.25
September 30, 2013	$11.29	$10.73
December 31, 2013	$11.98	$11.60
March 31, 2014	$12.23	$11.68
June 30, 2014	$12.68	$12.06
Advisor Class		
September 30, 2012	$9.88	$9.22
December 31, 2012	$9.90	$9.45
March 31, 2013	$10.71	$10.02
June 30, 2013	$11.15	$10.46
September 30, 2013	$11.56	$10.97
December 31, 2013	$12.20	$11.42
March 31, 2014	$12.47	$11.90
June 30, 2014	$12.97	$12.31

As of July 1, 2014, the NAV per share was: $12.88 for Class A; $12.69 for Class C, and $12.98 for Advisor Class.

The following table sets forth certain information with respect to shares as of July 1, 2014:

(1) Title of Class	(2) Amount Authorized	(3) Amount Held By Fund for Own Account	(4) Amount Outstanding Exclusive of Amount Shown Under (3)
Shares of beneficial interest	Unlimited	N/A	4,662,949.525

Your Account

Choosing a Share Class

Each class has its own sales charge and expense structure, allowing you to choose the class that best meets your situation. Your investment representative (financial advisor) can help you decide. Investors may purchase Class C shares only for Fund accounts on which they have appointed an investment representative (financial advisor) of record. Investors who have not appointed an investment representative (financial advisor) to existing Class C share Fund accounts may not make additional purchases to those accounts but may exchange their shares for shares of a Franklin Templeton fund that offers Class C shares. Dividend and capital gain distributions may continue to be reinvested in existing Class C share Fund accounts. These provisions do not apply to Employer Sponsored Retirement Plans.

Class A	Class C	Advisor Class
Initial sales charge of 5.75% or less	No initial sales charge	See “Qualified Investors - Advisor Class” below.
Early Withdrawal Charge of 1% on purchases of $1 million or more sold within 18 months	Early Withdrawal Charge of 1% on shares you sell within 12 months	
Lower annual expenses than Class C due to lower distribution fees	Higher annual expenses than Class A due to higher distribution fees	

Class A & C

Sales Charges - Class A

when you invest this amount	the sales charge makes up this % of the offering price[1]	which equals this % of your net investment[1]
Under $50,000	5.75	6.10
$50,000 but under $100,000	4.50	4.71
$100,000 but under $250,000	3.50	3.63
$250,000 but under $500,000	2.50	2.56
$500,000 but under $1 million	2.00	2.04

1. The dollar amount of the sales charge is the difference between the offering price of the shares purchased (which factors in the applicable sales charge in this table) and the net asset value of those shares. Since the offering price is calculated to two decimal places using standard rounding criteria, the number of shares purchased and the dollar amount of the sales charge as a percentage of the offering price and of your net investment may be higher or lower depending on whether there was a downward or upward rounding.

Sales Charge Reductions

Quantity discounts. You may combine your current purchase of Class A Fund shares with other existing Franklin Templeton fund share holdings that might enable you to qualify for a lower sales charge with your current purchase. You can qualify for a lower sales charge when you reach certain "sales charge breakpoints." This information is available free of charge at franklintempleton.com/retail/jsp_cm/fund_perf/pub/quantity_discount.jsp. This web page can also be reached at franklintempleton.com by clicking the "Funds" tab and then choosing "Quantity Discounts."

Cumulative quantity discount - lets you combine certain existing holdings of Franklin Templeton fund shares - referred to as "cumulative quantity discount eligible shares" - with your current purchase of Class A shares to determine if you qualify for a sales charge breakpoint.

Cumulative quantity discount eligible shares are Franklin Templeton fund shares registered to (or held by a financial intermediary for):

- You, individually;
- Your spouse or domestic partner, as recognized by applicable state law, and your children under the age of 21 (each a "family member");
- You jointly with one or more family members;
- You jointly with another person(s) who is (are) not family members if that other person has not included the value of the shares as cumulative quantity discount eligible shares for purposes of that person's separate investments in Franklin Templeton fund shares;
- A Coverdell Education Savings account for which you or a family member is the identified responsible person;
- A trustee/custodian of an IRA (which includes a Roth IRA and an employer sponsored IRA such as a SIMPLE IRA) or your non-ERISA covered 403(b) plan account, if the shares are registered/recorded under your or a family member's Social Security number;
- A 529 college savings plan over which you or a family member has investment discretion and control;
- Any entity over which you or a family member has (have) individual or shared authority, as principal, has investment discretion and control (for example, an UGMA/UTMA account for a child on which you or a family member is the custodian, a trust on which you or a family member is the trustee, a business account [not to include retirement plans] for your solely owned business [or the solely owned business of a family member] on which you or a family member is the authorized signer);
- A trust established by you or a family member as grantor.

Franklin Templeton fund shares held through an administrator or trustee/custodian of an Employer Sponsored Retirement Plan (see definition below) such as a 401(k) plan do not qualify for a cumulative quantity discount.

Franklin Templeton fund assets held in multiple Employer Sponsored Retirement Plans may be combined in order to qualify for sales charge breakpoints at the plan level if the plans are sponsored by the same employer.

If you believe there are cumulative quantity discount eligible shares that can be combined with your current purchase to achieve a sales charge breakpoint (for example, shares held in a different broker-dealer's brokerage account or with a bank or an investment advisor), it is your responsibility to specifically identify those shares to your financial advisor at the time of your purchase (including at the time of any future purchase). It may be necessary for you to provide your financial advisor with information and records (including account statements) of all relevant accounts invested in the Franklin Templeton funds. If you have not designated a financial advisor associated with your Franklin Templeton fund shares, it is your responsibility to specifically identify any cumulative quantity discount eligible shares to the Fund's transfer agent at the time of any purchase.

If there are cumulative quantity discount eligible shares that would qualify for combining with your current purchase and you do not tell your financial advisor or the Franklin Templeton funds' transfer agent at the time of any purchase, you may not receive the benefit of a reduced sales charge that might otherwise be available since your financial advisor and the Fund generally will not have that information.

The value of cumulative quantity discount eligible shares equals the cost or current value of those shares, whichever is higher. The current value of shares is determined by multiplying the number of shares by their highest current public offering price. It is your responsibility to retain any records necessary to substantiate historical share costs because neither your current financial advisor nor the Franklin Templeton funds may have or maintain this information.

An "Employer Sponsored Retirement Plan" is a Qualified Retirement Plan, ERISA covered 403(b) plan and certain non-qualified deferred compensation arrangements that operate in a similar manner to a Qualified Retirement Plan, such as 457 plans and executive deferred compensation arrangements, but not including employer sponsored IRAs. A "Qualified Retirement Plan" is an employer sponsored pension or profit sharing plan that qualifies under section 401(a) of the Internal Revenue Code, including 401(k), money purchase pension, profit sharing and defined benefit plans.

To sign up for these programs, complete the appropriate section of your account application.

Franklin Templeton funds include all of the U.S. registered mutual funds of Franklin Templeton Investments and the Franklin Mutual Recovery Fund. They do not include the funds in the Franklin Templeton Variable Insurance Products Trust.

Sales Charge Waivers

Class A shares may be purchased without an initial sales charge or contingent deferred sales charge (CDSC) by certain investors or for certain payments. If you would like information about available sales charge waivers, call your investment representative or call Shareholder Services at (800) 632-2301.

Waivers for investments from certain payments. Class A shares may be purchased without an initial sales charge or CDSC by investors who reinvest within 90 days:

- Dividend and capital gain distributions from any Franklin Templeton fund. The distributions generally must be reinvested in the same share class. Certain exceptions apply, however, to Class C shareholders who chose to reinvest their distributions in Class A shares of the Fund before November 17, 1997, and to Advisor Class or Class Z shareholders of a Franklin Templeton fund who may reinvest their distributions in the Fund's Class A shares.
- Annuity payments received under either an annuity option or from death benefit proceeds, if the annuity contract offers as an investment option the Franklin Templeton Variable Insurance Products Trust. You should contact your tax advisor for information on any tax consequences that may apply.
- Redemption proceeds from the sale of Class A shares of any of the Franklin Templeton Investment Funds if you are a qualified investor.
- If you paid a Contingent Deferred Sales Charge when you redeemed your Class A shares from a Franklin Templeton Investment Fund, an Early Withdrawal Charge will apply to your purchase of Fund shares and the Early Withdrawal Charge holding period will begin again. Distributors will, however, credit your Fund account with additional shares based on the Contingent Deferred Sales Charge you previously paid and the amount of the redemption proceeds that you reinvest.
- If you immediately placed your redemption proceeds in a Franklin Templeton money fund, you may reinvest them as described above. The proceeds must be reinvested within 90 days from the date they are redeemed from the money fund.

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Waivers for certain investors. The following investors or investments qualify to buy Class A shares without an initial sales charge or Early Withdrawal Plan due to anticipated economies in sales efforts and expenses, including:

- Governments, municipalities, and tax-exempt entities that meet the requirements for qualification under section 501 of the Internal Revenue Code when purchasing direct from the Fund. Please consult your legal and investment advisors to determine if an investment in the Fund is permissible and suitable for you.
- Registered securities dealers and their affiliates, for their investment accounts only.
- Current employees of securities dealers and their affiliates and their family members, as allowed by the internal policies of their employer.
- Current and former officers, trustees, directors, full-time employees (and, in each case, their family members) of both Franklin Templeton Investments and Franklin Templeton funds, consistent with our then-current policies.
- Current partners of law firms that currently provide legal counsel to the funds, Franklin Resources, Inc. or its affiliates.
- Assets held in accounts managed by a subsidiary of Franklin Resources, Inc.: (1) under an advisory agreement (including sub-advisory agreements); and/or (2) as trustee of an inter vivos or testamentary trust.
- Certain unit investment trusts and their holders reinvesting distributions from the trusts.
- Any trust or plan established as part of a qualified tuition program under Section 529 of the Internal Revenue Code, as amended.
- Group annuity separate accounts offered to retirement plans.
- Chilean retirement plans that meet the requirements described under "Retirement plans" below.
- Assets held in accounts managed by a state or federally regulated trust company or bank (Trust Company) either as discretionary trustee of an inter vivos or testamentary trust or as investment manager under an advisory agreement (including sub-advisory) or other agreement that grants the Trust Company investment discretion over those assets (Trust Company Managed Assets) if (i) the aggregate value of Trust Company Managed Assets invested in Franklin Templeton funds at the time of purchase equals at least $1 million; and (ii) the

purchased shares are registered directly to the Trust Company in its corporate capacity (not as trustee of an individual trust) and held solely as Trust Company Managed Assets.

- Advisory Fee Programs. Shares acquired by an investor in connection with a comprehensive fee or other advisory fee arrangement between the investor and a registered broker-dealer or investment advisor, trust company or bank (referred to as the "Sponsor") in which the investor pays that Sponsor a fee for investment advisory services and the Sponsor or a broker-dealer through whom the shares are acquired has an agreement with Distributors authorizing the sale of Fund shares. No minimum initial investment.

Retirement plans. Provided that Franklin Templeton Investor Services, LLC is notified, Class A shares at NAV are available for:

- Plans that invest indirectly in Fund shares through Fund omnibus accounts registered to a financial intermediary; or
- Employer Sponsored Retirement Plans ("Plans" or individually, "Plan") that invest directly in Fund shares if the employer sponsors one or more Plans with aggregate Plan assets of $1 million or more; or
- Investors who open an IRA with proceeds rolled over directly from a Plan if the IRA is a "Common Platform IRA." An IRA is a Common Platform IRA if (i) the IRA custodian or recordkeeper, or one of its affiliates, is the recordkeeper for the Plan at the time the IRA is opened; and (ii) Fund shares transferred in-kind to a "Common Platform IRA" opened by a direct rollover to that IRA from an Employer Sponsored Retirement Plan; or
- The portion of any direct rollover from a participant's Plan account or direct transfer from a 403(b) plan account to a Franklin Templeton IRA with Franklin Templeton Bank & Trust (FTB&T) as the custodian that is funded by the sale immediately prior to the rollover/transfer of Franklin Templeton fund shares held in the Plan account, provided that documentation accompanies the rollover/transfer instruction that reasonably supports this funding source requirement; or
- Investors who open an IRA as a spousal rollover or a Qualified Domestic Relations Order (QDRO) if opened with proceeds from a "Former DCS Plan" and/or a plan for which FTB&T is trustee; or
- Investors who open a Franklin Templeton IRA prior to November 1, 2012 with proceeds rolled over directly from a "Former DCS Plan."

FRANKLIN MUTUAL RECOVERY FUND

A "Former DCS Plan" is an Employer Sponsored Retirement Plan that transferred participant level recordkeeping from the DCS Division of Franklin Templeton Investor Services, LLC to Great-West Retirement Services® (GWRS) on November 2, 2007 and is a recordkeeping client of GWRS at the time of the rollover.

Investments of $1 Million or More

If you invest $1 million or more, either as a lump sum or through our cumulative quantity discount program, you can buy Class A shares without an initial sales charge. However, there is a 1% Early Withdrawal Charge on any shares you sell within 18 months of purchase. The way we calculate the Early Withdrawal Charge is the same for each class (please see "Early Withdrawal Charge").

Distribution and Service Fees

Class A has a distribution plan that allows the Fund to pay distribution fees of up to 0.35% per year to those who sell and distribute Class A shares and provide other services to shareholders. Because these fees are paid out of Class A's assets on an ongoing basis, over time these fees will increase the cost of your investment and may cost you more than paying other types of sales charges. The board of trustees has set the current amount payable under the Class A plan at 0.30% until further notice.

Sales Charges - Class C

With Class C shares, there is no initial sales charge.

We place any investment of $1 million or more in Class A shares, since Class A's annual expenses are lower.

Early Withdrawal Charge

There is a 1% Early Withdrawal Charge on any Class C shares you sell within 12 months of purchase. The way we calculate the Early Withdrawal Charge is the same for each class (please see Early Withdrawal Charge).

Distribution and Service Fees

Class C has a distribution plan that allows the Fund to pay distribution and other fees of up to 1% per year for the sale of Class C shares and for services provided to shareholders. Because these fees are paid out of Class C's assets on an ongoing basis, over time these fees will increase the cost of your investment and may cost you more than paying other types of sales charges.

Early Withdrawal Charge - Class A & C

The Early Withdrawal Charge for each class is based on the current value of the tendered shares on the Repurchase Pricing Date or the NAV per share when purchased, whichever is less. There is no Early Withdrawal Charge on shares you acquire by reinvesting your dividends or capital gains distributions.

The holding period for the Early Withdrawal Charge begins on the day you buy your shares. Your shares will age one month on that same date the next month and each following month. For example, if you buy shares on the 18th of the month, they will age one month on the 18th day of the next month and each following month.

To keep your Early Withdrawal Charge as low as possible, each time you place a request to sell shares we will first sell any shares in your account that are not subject to an Early Withdrawal Charge. If there are not enough of these to meet your request, we will sell the shares in the order they were purchased. We will use this same method if you exchange your shares into another Franklin Templeton fund (please see "Exchanging Shares").

Reinstatement Privilege

If you sell shares of a Franklin Templeton fund that were held indirectly for your benefit in an account with your investment representative's firm or your bank's trust department or that were registered to you directly by the Fund's transfer agent (or to an affiliated custodian or trustee of the Fund's transfer agent), you may reinvest all or a portion of the proceeds from that sale within 90 days of the sale without an initial sales charge. This Reinstatement Privilege does not apply to: (i) a purchase of Fund shares made through a regularly scheduled automatic investment plan such as a purchase by a regularly scheduled payroll deduction or transfer from a bank account, or (ii) a purchase of Fund shares with proceeds from the sale of Franklin Templeton fund shares that were held indirectly through a non-Franklin Templeton individual or employer sponsored IRA.

In order to take advantage of this Reinstatement Privilege, you must inform your investment representative or the Fund's transfer agent of this privilege at the time of your investment. The proceeds from the earlier sale must also be invested within the same share class as that of the sold shares, except proceeds will be reinvested in Class A shares if the proceeds are from the sale of (i) Class B shares; or (ii) Class C shares if at the time of investment you have not appointed an investment representative (financial advisor) of record for the Fund account(s) in which the purchased shares will be held. Proceeds from the earlier sale of Advisor Class shares may also be invested in Class A shares under this Reinstatement Privilege.

The proceeds from the earlier sale must also be invested within the same share class as that of the sold shares, with the following exceptions:

- Class C shares will be reinvested in Class A shares if at the time of investment you have not appointed an investment representative (financial advisor) of record for the Fund account(s) in which the purchased shares will be held

Proceeds from the earlier sale of Class Z shares from another fund may also be invested in Class A shares under this Reinstatement Privilege.

If you paid an Early Withdrawal Charge when you sold your Class A or C shares, Distributors will credit back to you the Early Withdrawal Charge paid on the amount you are reinvesting within 90 days of the sale by adding it to the amount of your reinvestment (for example, if you are reinvesting $10,000 within 90 days of an earlier $10,000 sale on which you paid a $100 Early Withdrawal Charge, the amount of your reinvestment will equal $10,100). The new shares issued with your reinvestment WILL BE subject to any otherwise applicable Early Withdrawal Charge. If, however, you (except Employer Sponsored Retirement Plans) paid an Early Withdrawal Charge when you sold (1) Class C shares held at the time of sale in a Franklin Templeton fund account without an investment representative (financial advisor) appointed by you and invest the proceeds from that sale in Class A shares within 90 days of the sale, you will not be credited with any Early Withdrawal Charge paid at the time of sale. In this case, the new Class A shares issued with your reinvestment WILL NOT BE subject to any otherwise applicable Early Withdrawal Charge.

- Class C shares held at the time of sale in a Franklin Templeton fund account without an investment representative (financial advisor) appointed by you

This privilege does not apply to shares you buy and sell under our exchange program. Shares purchased with the proceeds from a money fund may be subject to a sales charge.

Qualified Investors - Advisor Class

The following investors or investments qualify to buy Advisor Class shares of the Fund:

- Advisory Fee Programs. Shares acquired by an investor in connection with a comprehensive fee or other advisory fee arrangement between the investor and a registered broker-dealer or investment advisor, trust company or bank (referred to as the "Sponsor") in which the investor pays that Sponsor a fee for investment advisory services and the Sponsor or a broker-dealer through whom the shares are acquired has an agreement with Distributors authorizing the sale of Fund shares. No minimum initial investment.
- Governments, municipalities, and tax-exempt entities that meet the requirements for qualification under section 501 of the Internal Revenue Code when purchasing direct from the Fund. Minimum initial investment: $1 million in Advisor Class or Class Z shares of any Franklin Templeton fund.

- Current and former officers, trustees, directors, full-time employees (and, in each case, their family members) of both Franklin Templeton Investments and Franklin Templeton funds, consistent with our then-current policies. Minimum initial investment: $1,000 ($50 for accounts with an automatic investment plan).
- Assets held in accounts managed by a subsidiary of Franklin Resources, Inc.: (1) under an advisory agreement (including sub-advisory agreements); and/or (2) as trustee of an inter vivos or testamentary trust.
- Assets held in accounts managed by a state or federally regulated trust company or bank (Trust Company) either as discretionary trustee of an inter vivos or testamentary trust or as investment manager under an advisory agreement (including sub-advisory) or other agreement that grants the Trust Company investment discretion over those assets (Trust Company Managed Assets) if (i) the aggregate value of Trust Company Managed Assets invested in Franklin Templeton funds at the time of purchase equals at least $1 million; and (ii) the purchased shares are registered directly to the Trust Company in its corporate capacity (not as trustee of an individual trust) and held solely as Trust Company Managed Assets.
- Employer Sponsored Retirement Plans ("Plans" or individually, "Plan") that invest directly in Fund shares if the employer sponsors one or more Plans with aggregate Plan assets of $1 million or more.
- Plans that invest indirectly in Fund shares through Fund omnibus accounts registered to a financial intermediary.
- Any trust or plan established as part of a qualified tuition program under Section 529 of the Internal Revenue Code, provided that Distributors or an affiliate of Distributors has entered into a contract with the state sponsor of the program or one of its service providers to provide certain services relating to the operation of the program or to provide Fund shares for purchase in connection with the program. No initial minimum investment.
- An individual or entity associated with a current customer of Franklin Templeton Institutional, LLC (FTI, LLC) if approved by FTI, LLC in consultation with its customer.
- Unaffiliated U.S. registered mutual funds, including those that operate as "fund of funds." Minimum initial investment: $1 million in Advisor Class or Class Z shares of any Franklin Templeton fund.

FRANKLIN MUTUAL RECOVERY FUND

- Assets held in accounts under the recommendation of an investment consultant provided that (1) assets are held with a firm unaffiliated with the investment consultant's firm; (2) the investment consultant is under a retainer or other similar fee arrangement with its clients; (3) the client is not an individual; and (4) a subsidiary of Franklin Resources, Inc. approves the investment.

Buying Shares

Minimum Investment - Class A & C

Initial
$10,000

Please note that you may only buy shares of a fund eligible for sale in your state or jurisdiction.

In addition, the Fund is not registered in any provincial or territorial jurisdiction in Canada and shares of the Fund have not been qualified for sale in any Canadian jurisdiction. The shares offered by this prospectus may not be directly or indirectly offered or sold in any provincial or territorial jurisdiction in Canada or to or for the benefit of residents thereof. Prospective investors may be required to declare that they are not Canadian residents and are not acquiring shares on behalf of any Canadian residents. If an investor becomes a Canadian resident after purchasing shares of the Fund, the investor will not be able to purchase any additional shares of the Fund.

FRANKLIN MUTUAL RECOVERY FUND

Account Application

If you are opening a new account, please complete and sign the enclosed account application. Make sure you indicate the share class you have chosen. If you do not indicate a class, we will place your purchase in Class A shares. To save time, you can sign up now for services you may want on your account by completing the appropriate sections of the application (see "Investor Services"). For example, if you would like to link one of your bank accounts to your Fund account so that you may use electronic funds transfer to and from your bank account to buy and sell shares, please complete the bank information section of the application. We will keep your bank information on file for future purchases and repurchases. We do not accept cash, credit card convenience checks, non-bank money orders or travelers checks as forms of payment to purchase shares.

Franklin Templeton Investor Services
P.O. Box 997151
Sacramento, CA 95899-7151
Call toll-free: (800) 632-2301
(Monday through Friday
5:30 a.m. to 5:00 p.m., Pacific time)
or visit us online 24 hours a day,
7 days a week, at franklintempleton.com

Buying Shares

	Opening an account	Adding to an account
Through your investment representative	Contact your investment representative	Contact your investment representative
By Phone/Online (800) 632-2301 franklintempleton.com *Note: certain account types are not available for online account access.*	If you have another Franklin Templeton fund account with your bank account information on file, you may open a new identically registered account by phone. At this time, a new account may not be opened online. To make a same day investment, your phone order must be received and accepted by us by 1:00 p.m. Pacific time or the close of the New York Stock Exchange, whichever is earlier.	Before requesting a telephone or online purchase into an existing account, please make sure we have your bank account information on file. If we do not have this information, you will need to send written instructions with your bank's name and address and a voided check or savings account deposit slip. If there is a difference between the Fund account owner(s) and the bank account owner(s), your written request must be signed by **all** Fund **and** bank account owners, and each individual must have his or her signature guaranteed. If the Fund account is registered to FTB&T as custodian/trustee for a retirement plan or education savings account, or as a custodial account for a minor (UGMA/UTMA) and there is at least one common owner on the Fund account and the bank account, signature guarantees are not required. To make a same day investment, your phone or online order must be received and accepted by us by 1:00 p.m. Pacific time or the close of the New York Stock Exchange, whichever is earlier.
By Mail	Make your check payable to the Fund. Mail the check and your signed application to Investor Services.	Make your check payable to the Fund. Include your account number on the check. Fill out the deposit slip from your account statement. If you do not have a slip, include a note with your name, the Fund name, and your account number. Mail the check and deposit slip or note to Investor Services.
By Wire (800) 632-2301 or (650) 312-2000 collect	Call to receive a wire control number and wire instructions. Wire the funds and mail your signed application to Investor Services. Please include the wire control number or your new account number on the application. To make a same day wire investment, the wired funds must be received and accepted by us by 1:00 p.m. Pacific time or the close of the New York Stock Exchange, whichever is earlier.	Call to receive a wire control number and wire instructions. To make a same day wire investment, the wired funds must be received and accepted by us by 1:00 p.m. Pacific time or the close of the New York Stock Exchange, whichever is earlier.
By Exchange franklintempleton.com	Call Shareholder Services at (800) 632-2301, or send signed written instructions. You also may place an online exchange order. (Please see "Exchanging Shares" for more information on exchanges.)	Call Shareholder Services at (800) 632-2301, or send signed written instructions. You also may place an online exchange order. (Please see "Exchanging Shares" for more information on exchanges.)

For Investors Outside the U.S.

The distribution of this prospectus and the offering of Fund shares may be limited in many jurisdictions. An investor who wishes to buy shares of the Fund should determine, or have a broker-dealer determine, the applicable laws and regulations of the relevant jurisdiction. Investors are responsible for compliance with tax, currency exchange or other regulations applicable to sale and purchase transactions in any jurisdiction to which they may be subject. Investors should consult appropriate tax and legal advisors to obtain information on the rules applicable to these transactions.

Investor Services

Automatic Investment Plan

This plan offers a convenient way for you to invest in the Fund by automatically transferring money from your checking or savings account each month to buy shares. To sign up, visit us online at franklintempleton.com or complete the appropriate section of your account application and mail it to Investor Services. If you are opening a new account, please include your minimum initial investment with your application.

Automated Telephone System

Our automated system offers around-the-clock access to information about your account or any Franklin Templeton fund. This service is available by dialing any of the following numbers from a touch-tone phone:

Shareholder Services	(800) 632-2301
Advisor Services	(800) 524-4040
Retirement Services	(800) 527-2020

Distribution Options

You may reinvest distributions you receive from the Fund in an existing account in the same share class* of the Fund or another Franklin Templeton fund. Initial sales charges and Early Withdrawal Charges will not apply to reinvested distributions. You also can have your distributions deposited in a bank account, or mailed by check. Deposits to a bank account may be made by electronic funds transfer.

*Class C shareholders may reinvest their distributions in Class A shares of any Franklin Templeton money fund. Advisor Class shareholders may reinvest in Advisor Class or Class A shares of another Franklin Templeton fund. To reinvest your distributions in Advisor Class shares of another Franklin Templeton fund, you must be a current shareholder in Advisor Class or otherwise qualify to buy that fund's Advisor Class shares.

If you received a distribution and chose to return it to purchase additional shares in Class A shares of another Franklin Templeton fund, you will not be charged an initial sales charge if you invest the distribution within 90 days of the distribution date.

Please indicate on your application the distribution option you have chosen, otherwise we will reinvest your distributions in the same share class of the Fund.

Retirement Plans

Retirement plan investors should be aware of the following features of the Fund which may impact their decision as to whether the Fund is an appropriate investment for a retirement plan. Shares of the Fund are not liquid; unlike open-end mutual fund shares, they are not redeemable on each day that the Fund is open for business; and unlike traditional closed-end funds, shares of the Fund do not trade on any exchange and thus cannot readily be sold. Although the Fund has adopted policies to provide quarterly Repurchase Offers, these Repurchase Offers may not provide shareholders with the degree of liquidity they desire or may require for tax purposes. Additionally, even during a Repurchase Offer shareholders may not be able to have all of the shares they wish to tender be repurchased by the Fund. If the number of shares tendered by all shareholders exceeds the repurchase amount authorized by the Board, the Fund may not be able to repurchase all shares submitted and thus may repurchase shares on a pro rata basis. The Fund also imposes an Early Withdrawal Charge as described under "Choosing a Share Class - Sales Charges - Class A, Sales Charges - Class C, and Early Withdrawal Charge - Class A & C".

The features described above could result in a retirement plan paying an Early Withdrawal Charge and/or not being able to comply with mandatory distribution requirements. Accordingly, retirement plan investors may wish to limit the percentage of plan assets, for example, to 10%, that is invested in the Fund.

The Fund does not monitor retirement plan requirements for any investor. Please consult your legal, tax or retirement plan specialist before choosing a retirement plan or electing to invest in the Fund through a retirement plan. Your investment representative or advisor can help you make investment decisions within your plan.

For retirement plans for which Franklin Templeton Bank & Trust is the trustee or custodian, special forms may be needed to receive distributions in cash. Please call (800) 527-2020 for information.

Telephone/Online Privileges

You will automatically receive telephone/online privileges when you open your account, allowing you to obtain or view your account information, and conduct a number of transactions by phone or online, including: buy, sell, or exchange shares of most funds; use electronic funds transfer to buy or sell shares of most funds; change your address; and add or change account services (including distribution options, and automatic investment plans). Online sell and exchange privileges are not available for this Fund except in connection with a Repurchase Offer.

To view your account information or request online transactions, you will first need to register for these services at the shareholder section of our website at franklintempleton.com. You will be asked to accept the terms of an online agreement(s) and establish a password for online services. If you are registered for online services, you may enroll online in Franklin Templeton's electronic delivery program for your shareholder documents. This will allow you to receive electronic delivery (through our website) of most Franklin Templeton funds' prospectuses, annual/semiannual reports to shareholders, and proxy statements, as well as your account(s) statements and trade confirmations, and discontinue receiving your paper copies through the U.S. mail. Using our shareholder website means you are consenting to sending and receiving personal financial information over the Internet, so you should be sure you are comfortable with the risks.

As long as we follow reasonable security procedures and act on instructions we reasonably believe are genuine, we will not be responsible for any losses that may occur from unauthorized requests. We will request passwords or other information, and also may record calls. To help safeguard your account, keep your password confidential and verify the accuracy of your confirmation statements immediately after you receive them. Contact us immediately if you believe someone has obtained unauthorized access to your account or password. For transactions done over the Internet, we recommend the use of an Internet browser with 128-bit encryption. Certain methods of contacting us (such as by phone or by Internet) may be unavailable or delayed during periods of unusual market activity. Of course, you can decline telephone buy, sell, or exchange privileges on your account application, or choose not to register for online privileges. If you have telephone/online privileges on your account and want to discontinue them, please contact us for instructions. You may reinstate these privileges at any time in writing, including online registration with respect to online privileges.

Note: We discourage you from including confidential or sensitive information in any Internet communication to us. If you do choose to send email (encrypted or not) to us over the Internet, you are accepting the associated risks of lack of confidentiality.

Franklin Templeton VIP Services®

You may be eligible for Franklin Templeton VIP Services® if you are currently eligible for the $250,000 sales charge breakpoint based solely on shares registered directly with the Franklin Templeton funds' transfer agent and excluding shares held indirectly through brokerage accounts. Franklin Templeton VIP Services® shareholders enjoy enhanced service and transaction capabilities. Please contact Shareholder Services at (800) 632-2301 for additional information on this program.

Periodic Offers by the Fund to Repurchase Shares from Shareholders

The Fund is not aware of any currently existing secondary market for Fund shares and does not anticipate that a secondary market will develop for shares. A secondary market is a market, exchange facility or system for quoting bid and asking prices where securities such as the shares can be readily bought and sold among holders of the securities after they are initially distributed. Without a secondary market, shares are not liquid, which means that they are not readily marketable. However, the Fund has taken action to provide a measure of liquidity to shareholders. The Fund has adopted share repurchase policies as fundamental policies. This means the policies may not be changed without the vote of the holders of a majority of the Fund's outstanding voting securities. These policies provide that the Fund will make Repurchase Offers, which are quarterly offers by the Fund to repurchase a designated percentage of the outstanding shares owned by the Fund's shareholders. Once every two years the Board may determine in its sole discretion to have one additional Repurchase Offer in addition to the regular quarterly Repurchase Offers. The Fund will suspend or delay a Repurchase Offer only if certain regulatory requirements (described in the notice of the Repurchase Offer) are met. See "Suspension or Postponement of Repurchase Offer." The price of the repurchase of shares will be the NAV per share determined as of the close of business (1:00 p.m. Pacific time) or a date within a maximum of 14 days (or the next business day after that period) after the date the Repurchase offer ends as described below.

Repurchase procedures. At the beginning of each Repurchase Offer, the Fund will send to its shareholders a written notification about the Repurchase Offer, how they may request that the Fund repurchase their Fund shares and the deadline for shareholders to provide their repurchase requests to Investor Services (Repurchase Request Deadline), which is the date the Repurchase Offer ends. The time between the notification to the shareholders and the Repurchase Request Deadline may vary from no more than six weeks to no less than three weeks. For each Repurchase Offer the Fund will establish the Repurchase Request Deadline based on factors, such as market conditions, liquidity of the Fund's assets and shareholder servicing considerations. The repurchase price of the shares will be the NAV as of the close of the New York Stock Exchange on the date on which the repurchase price of the shares will be determined (Repurchase Pricing Date). The Fund has determined that the Repurchase Pricing Date may occur no later than the 14th day after the Repurchase Request Deadline or the next business day if the 14th day is not a business day. Within such 14-day period, the Fund may use an earlier Repurchase Pricing Date under certain circumstances and most often uses the Repurchase Request Deadline itself, as the Repurchase Pricing Date.

FRANKLIN MUTUAL RECOVERY FUND

The Board may establish other policies for repurchases of shares that are consistent with the 1940 Act, and other pertinent laws. Shares tendered by shareholders by any Repurchase Request Deadline will be repurchased subject to the aggregate repurchase amounts established for that Repurchase Request Deadline. Repurchase proceeds will be paid to shareholders, in cash, within seven days after each Repurchase Pricing Date. The end of the seven days is referred to as the "Repurchase Payment Deadline."

Repurchase amounts. The Board, in its sole discretion, will determine the number of shares that the Fund will offer to repurchase (Repurchase Offer Amount) for a given Repurchase Request Deadline. The Repurchase Offer Amount will be at least 5% and no more than 25% of the total number of Fund shares outstanding on the Repurchase Request Deadline. All classes of Fund shares are considered to be a single class for the purposes of allocating repurchases under each Repurchase Offer. A Repurchase Offer is expected to conclude near the end of every calendar quarter each year.

If shareholders tender more than the Repurchase Offer Amount for a given Repurchase Offer, the Fund may repurchase an additional amount of shares not exceeding 2% of the Fund shares outstanding on the Repurchase Request Deadline. If Fund shareholders tender more shares than the Fund decides to repurchase, whether the Repurchase Offer Amount or the Repurchase Offer Amount plus the 2% additional shares, the Fund will repurchase the shares on a pro rata basis, rounded down to the nearest full share. The Fund may, however, accept all Fund shares tendered by shareholders who own less than one hundred shares and who tender all their shares, before accepting on a pro rata basis shares tendered by other shareholders. Based on the treatment of all classes of Fund shares as a single class for the Repurchase Offer, the shares of a given class might not be repurchased pro rata as to the number of shares of such class outstanding compared to the total number of Fund shares outstanding.

Notices to shareholders. Notice of each quarterly Repurchase Offer (and any additional discretionary Repurchase Offers) will be sent to each beneficial owner of Fund shares between 21 and 42 days before each Repurchase Request Deadline. The notice will include detailed instructions on how to tender shares. The notice will state the Repurchase Offer Amount. The notice will also identify the dates of the Repurchase Request Deadline, latest Repurchase Pricing Date, and latest Repurchase Payment Deadline. The notice will state that the NAV may fluctuate between the Repurchase Request Deadline and the Repurchase Pricing

Date, if such dates do not coincide, and the possibility that the Fund may use an earlier Repurchase Pricing Date than the latest possible Repurchase Pricing Date under certain circumstances. The notice will describe (i) the procedures for you to tender your shares, (ii) the procedures for the Fund to repurchase shares on a pro rata basis, (iii) the circumstances in which the Fund may suspend or postpone a Repurchase Offer, and (iv) the procedures that will enable you to withdraw or modify your tenders of shares prior to the Repurchase Request Deadline.

Repurchase price. The current NAV of the shares is computed daily, including the five business days before a Repurchase Request Deadline. The Board has determined that the time at which the NAV will be computed will be as of the close of the New York Stock Exchange. You may call Fund Information at (800) DIAL BEN/342-5236 to learn the NAV per share. The notice of the Repurchase Offer will give the NAV per share as of a recent date, and a toll-free number for information regarding the Repurchase Offer. During the period from notification to shareholders of a Repurchase Offer until the Repurchase Pricing Date, the Fund will maintain liquid assets equal to 100% of the Repurchase Offer Amount based on each day's NAV.

Suspension or postponement of repurchase offer. The Fund will not suspend or postpone a Repurchase Offer except if a majority of the Board, including a majority of the Board members who are not "interested persons" of the Fund, as defined in the 1940 Act (Independent Trustees), vote to do so, and only (a) if the Repurchase Offer would cause the Fund to lose its status as a regulated investment company under Subchapter M of the Internal Revenue Code; (b) for any period during which the New York Stock Exchange or any market in which the securities owned by the Fund are principally traded is closed, other than customary weekend and holiday closings, or during which trading in such market is restricted; (c) for any period during which any emergency exists as a result of which disposal by the Fund of securities owned by it is not reasonably practicable, or during which it is not reasonably practicable for the Fund to fairly determine its NAV; or (d) for such other periods as the SEC may by order permit for the protection of shareholders of the Fund. The Fund will send to its shareholders notice of any suspension or postponement and notice of any renewed Repurchase Offer after a suspension or postponement.

Special considerations of repurchases.

Because there likely will not be a secondary market for shares, quarterly and any additional discretionary Repurchase Offers will provide the only source of liquidity for shareholders. If a secondary market were to develop for shares, however, the market price per share of the shares could, at times, vary from the NAV per share. A number of factors could cause these differences, including relative demand and

supply of shares and the performance of the Fund. Repurchase Offers for shares at NAV would be expected to reduce any spread or gap that might develop between NAV and market price. However, there is no guarantee that these actions would cause shares to trade at a market price that equals or approximates NAV per share.

Although the Board believes that Repurchase Offers will generally benefit shareholders, the Fund's repurchase of shares will decrease the Fund's total assets. The Fund's expense ratio also may increase as a result of Repurchase Offers (assuming the repurchases are not offset by the issuance of additional shares). Such Repurchase Offers also may result in less investment flexibility for the Fund depending on the number of shares repurchased and the success of the Fund's continuous offering of shares. In addition, when the Fund borrows money for the purpose of financing the repurchase of shares in a Repurchase Offer, interest on the borrowings will reduce the Fund's net investment income. It is the Board's announced policy (which the Board may change) not to repurchase shares in a Repurchase Offer over the minimum amount required by the Fund's fundamental policies regarding Repurchase Offers if the Board determines that the repurchase is not in the Fund's best interest. Also, the size of any particular Repurchase Offer may be limited (above the minimum amount required for the Fund's fundamental policies) for the reasons discussed above or as a result of liquidity concerns.

To complete a Repurchase Offer for the repurchase of shares, the Fund may be required to sell portfolio securities. This may cause the Fund to realize gains or losses at a time when the investment manager would otherwise not do so.

The Board will consider other means of providing liquidity for shareholders if Repurchase Offers are ineffective in enabling the Fund to repurchase the amount of shares tendered by shareholders. These actions may include an evaluation of any secondary market that may exist for shares, and a determination of whether that market provides liquidity for shareholders. If the Board determines that a secondary market (if any) has failed to provide liquidity for shareholders, the Board may consider other available options to provide liquidity. One possibility that the Board may consider is listing the shares on a major domestic stock exchange or arranging for the quotation of shares on an over-the-counter market. Alternatively, the Fund might repurchase shares periodically in open market or private transactions, provided the Fund can do so on favorable investment terms. The Board will cause the Fund to take action the Board deems necessary or appropriate to provide liquidity for the shareholders in light of the specific facts and circumstances.

The Fund's repurchase of tendered shares is a taxable event to shareholders. The Fund will pay all costs and expenses associated with the making of any Repurchase Offer. An Early Withdrawal Charge will be imposed on certain shares that have been accepted for repurchase pursuant to a Repurchase Offer, subject to certain waivers. For Early Withdrawal Charge and waiver information, please see "Choosing a Share Class - Sales Charges - Class A, Sales Charges - Class C, and Early Withdrawal Charge - Class A & C".

In accordance with applicable rules of the SEC in effect at the time of the offer, the Fund also may make other offers to repurchase shares that it has issued.

Selling shares in writing. Generally, in a Repurchase Offer, requests to tender shares with a value of $100,000 or less can be made over the phone at (800) 632-2301 provided that you do not hold share certificates and you have not changed your address by phone or online within the last 15 days. You may not tender over the phone more than $100,000 in shares during any single Repurchase Offer period. If your shares are held in street or nominee name, please contact your Securities Dealer to tender your shares by telephone. Otherwise, written instructions with respect to your tender of shares in a Repurchase Offer must be completed in the manner described, and on the appropriate forms included, in the notification to shareholders of the Repurchase Offer. The amount may be higher for members of Franklin Templeton VIP Services®. Please see "Franklin Templeton VIP Services® under "Investor Services" for more information regarding eligibility.

If you qualify for a waiver from the Early Withdrawal Charge, please notify our representative when you request to tender shares over the phone. If you do not indicate that you qualify for this waiver, the Fund cannot guarantee that you will receive the waiver.

Sometimes, however, to protect you and the Fund we will need written instructions signed by all registered owners, with a signature guarantee for each owner, if:

- you are selling more than $100,000 worth of shares
- you want your proceeds paid to someone who is not a registered owner
- you want to send your proceeds somewhere other than the address of record, or preauthorized bank or brokerage firm account

We also may require a signature guarantee when: we receive instructions from an agent, not the registered owners; you want to send your proceeds to a bank account that was added or changed on your account without a signature guarantee within the last 15 days; you want to send proceeds to your address that was changed without a signature guarantee within the last 15 days; or we believe it would protect the Fund against potential claims based on the instructions received.

A **signature guarantee** helps protect your account against fraud. You can obtain a signature guarantee at most banks and securities dealers.

A notary public CANNOT provide a signature guarantee.

Selling recently purchased shares. If you sell shares recently purchased, we may delay sending you the proceeds until your check, draft or wire/electronic funds transfer has cleared, which may take seven business days.

Repurchase proceeds. Your repurchase check will be sent within seven days after the Repurchase Pricing Date described above assuming we receive your request in proper form by the Repurchase Request Deadline. We are not able to receive or pay out cash in the form of currency.

Retirement plans. You may need to complete additional forms to sell shares in a Franklin Templeton Bank & Trust retirement plan. For participants under the age of 59½, tax penalties may apply. Call Retirement Services at (800) 527-2020 for details.

Exchanging Shares

Exchange Privilege

Class A & C

You can exchange shares between most Franklin Templeton funds within the same class,* generally without paying any additional sales charges. If you exchange shares from a money fund and those shares were not charged a sales charge previously, however, a sales charge may apply.

*Class Z shareholders of Franklin Mutual Series Funds may exchange into Class A without any sales charge. Advisor Class shareholders of another Franklin Templeton fund also may exchange into Class A without any sales charge. If you exchange into Class A shares and you later decide you would like to exchange into a fund that offers an Advisor Class or Class Z, you may exchange your Class A shares for Advisor Class or Class Z shares if you are a current shareholder in Advisor Class or Class Z or you otherwise qualify to buy the fund's Advisor Class or Class Z shares.

Any Early Withdrawal Charge will continue to be calculated from the date of your initial investment and will not be charged at the time of the exchange. The purchase price for determining an Early Withdrawal Charge on exchanged shares will be the price you paid for the original shares.

You may request an exchange into another Franklin Templeton fund in conjunction with submitting your shares for repurchase by the Fund during a quarterly or discretionary Repurchase Offer. You may exchange your shares for shares of another Franklin Templeton fund only in conjunction with Repurchase Offers. Shareholders of another Franklin Templeton Fund may, however, exchange their shares for shares of the Fund on a continuous basis each business day.

Advisor Class

You can exchange your Advisor Class shares for Advisor Class shares of other Franklin Templeton funds. You also may exchange your Advisor Class shares for Class A shares of a fund that does not currently offer an Advisor Class (without any sales charge)* or for Class Z shares of Franklin Mutual Series Funds.

*If you exchange into Class A shares and you later decide you would like to exchange into a fund that offers an Advisor Class, you may exchange your Class A shares for Advisor Class shares if you are a current shareholder in Advisor Class or you otherwise qualify to buy the fund's Advisor Class shares.

All Classes

The remainder of the "Exchanging Shares" section applies to all classes.

Generally exchanges may only be made between identically registered accounts, unless you send written instructions with a signature guarantee.

An **exchange** is really two transactions: a sale of one fund and the purchase of another. In general, the same policies that apply to purchases and sales also apply to exchanges, including minimum investment amounts (except exchanges of an entire account balance). Exchanges also generally have the same tax consequences as ordinary sales and purchases.

Rejected exchanges. If the Fund rejects an exchange request involving the sale of Fund shares, the rejected exchange request will also mean rejection of the request to purchase shares of another fund with the proceeds of the sale.

Exchanges through financial intermediaries. If you are investing indirectly in the Fund through a financial intermediary such as a broker-dealer, a bank, an insurance company separate account, an investment advisor, an administrator or trustee of an IRS-recognized tax-deferred savings plan such as a 401(k) retirement plan and a 529 college savings plan that maintains a master account (an Omnibus Account) with the Fund for trading on behalf of its customers, different exchange and/or transfer limit guidelines and restrictions may apply. The financial intermediary through whom you are investing may choose to adopt different trading restrictions designed to discourage short-term or excessive trading. Consult with your financial intermediary (or in the case of a 401(k) retirement plan, your plan sponsor) to determine what trading restrictions, including exchange/transfer limitations, may be applicable to you.

Fund exchange privilege changes/waiver. The Fund may terminate or modify (temporarily or permanently) this exchange privilege in the future. You will receive at least 60 days' notice of any material changes, unless otherwise provided by law.

Other funds' exchange privileges. If there is a conflict between the exchange privileges of two funds involved in an exchange transaction, the stricter policy will apply to the transaction. Other Franklin Templeton funds may have different exchange restrictions. Check each fund's prospectus for details.

Frequent Trading Policy

The Fund's board of trustees has adopted the following policies and procedures with respect to frequent trading in Fund shares (Frequent Trading Policy).

The Fund discourages and does not intend to accommodate short-term or frequent purchases shortly before or after a repurchase or repurchases of Fund shares, often referred to as "market timing." This type of trading activity can harm the Fund by, for example, interfering with the efficient management of the Fund's portfolio or materially increasing the Fund's transaction costs, administrative costs or taxes.

The advantages of market timing generally accrue from trading into and out of a fund in a short time period. Open-end funds, which issue shares that may be purchased and redeemed each business day, allow for the timing of such trading to a much greater extent than closed-end funds such as the Fund, whose shares are not redeemable and may be repurchased only in limited circumstances. Consequently, the Fund is less likely to encounter market timing for its shares than are other Franklin Templeton funds that are open-end funds. The ability of shareholders of the Fund to engage in market timing with respect to shares of the Fund is very limited because shareholders may have their shares repurchased by the Fund only on the four days a year that are the dates of the quarterly Repurchase Request Deadlines and pricing for the repurchases may occur several days after the request deadline. These dates are selected by the Fund's board of trustees, which further prevents the shareholders from timing when they have their shares repurchased. The Fund, however, has adopted the market-timing trading policy described in this section to correspond to the market timing policy of the other Franklin Templeton funds (most of which are open-end funds) that engage in continuous offerings of their shares, particularly with respect to exchanges of shares. This policy, however, has more limited applicability to the Fund.

In addition, since the Fund may invest in foreign securities, it may be vulnerable to a form of short-term trading that is sometimes referred to as "time-zone arbitrage." Time-zone arbitrage occurs when an investor seeks to take advantage of delays between changes in the value of a mutual fund's portfolio holdings and the reflection of those changes in the Fund's net asset value per share. These delays are more likely to occur in the case of foreign investments, due to differences between the times during which the Fund's international portfolio securities trade on foreign markets and the time as of which the Fund's NAV is calculated (generally as of the close of the NYSE - please see "Account Policies - Calculating Share Price"). Time-zone arbitrage traders seek to purchase or redeem shares of a fund based on events occurring after foreign market closing prices are established, but before calculation of the fund's NAV. This can result in the value of the Fund's shares being diluted. One of the objectives of the Fund's fair value pricing procedures is to minimize the possibility of this type of arbitrage (please see "Account Policies - Security Valuation - Foreign Securities - Potential Impact of Time Zones and Market Holidays"); however, there can be no assurance that the Fund's valuation procedures will be successful in eliminating it.

Since the Fund may invest in securities that are, or may be, restricted, unlisted, traded infrequently, thinly traded, or relatively illiquid ("relatively illiquid securities"), it may be particularly vulnerable to arbitrage short-term trading. Such arbitrage traders may seek to take advantage of a possible differential between the last available market prices for one or more of those relatively illiquid securities that are used to calculate the Fund's NAV and the latest indications of market values for those securities. One of the objectives of the Fund's fair value pricing procedures is to minimize the possibilities of this type of arbitrage (please see "Account Policies - Fair Valuation - Individual Securities"); however, there can be no assurance that the Fund's valuation procedures will be successful in eliminating it.

FRANKLIN MUTUAL RECOVERY FUND

Through its transfer agent, the Fund performs ongoing monitoring of trading in Fund shares in order to try and identify shareholder trading patterns that suggest an ongoing short-term trading strategy. The size of an investor's investments in and/or requests for the Fund to repurchase Fund shares may also be a factor in evaluating a shareholder's trading patterns. If and when a pattern of short-term trading is identified, the transfer agent will seek to restrict or reject further short-term trading and/or take other action as described below, if in the judgment of the Fund's investment manager or transfer agent such trading may be detrimental to the Fund.

Through its transfer agent, the Fund performs ongoing monitoring of shareholder trading in shares of the Fund and other Franklin Templeton funds in order to try and identify shareholder trading patterns that suggest an ongoing short-term trading strategy. If shareholder trading patterns identified by the transfer agent through monitoring or from other information regarding the shareholder's trading activity in non-Franklin Templeton funds leads the transfer agent to reasonably conclude that such trading may be detrimental to the Fund as described in this Frequent Trading Policy, the transfer agent, on behalf of the Fund, may temporarily or permanently bar future purchases into the Fund or, alternatively, may limit the amount, number or frequency of any future purchases and/or the method by which you may request future purchases and redemptions (including purchases and/or redemptions by an exchange or transfer between the Fund and any other mutual fund).

In considering an investor's trading patterns, the Fund may consider, among other factors, the investor's trading history both directly and, if known, through financial intermediaries, in the Fund, in other Franklin Templeton funds, in non-Franklin Templeton mutual funds, or in accounts under common control or ownership (see, for example, "Buying and Selling Shares - Investment by asset allocators and large shareholders" in the SAI). The transfer agent may also reject any purchase or redemption request, whether or not it represents part of any ongoing trading pattern, if the Fund's investment manager or transfer agent reasonably concludes that the amount of the requested transaction may disrupt or otherwise interfere with the efficient management of the Fund's portfolio. In determining what actions should be taken, the Fund's transfer agent may consider a variety of factors, including the potential impact of such remedial actions on the Fund and its shareholders. If the Fund is a "fund of funds," the Fund's transfer agent may take into account the impact of the trading activity and of any proposed remedial action on both the Fund and the underlying funds in which the Fund invests.

Frequent trading through financial intermediaries. You are an investor subject to this Frequent Trading Policy whether you are a direct shareholder of the Fund or you are investing indirectly in the Fund through a financial intermediary, such as a broker-dealer, bank, trust company, insurance company product such as an annuity contract, investment advisor, or an administrator or trustee of an IRS-recognized tax-deferred savings plan such as a 401(k) retirement plan and a 529 college savings plan.

Some financial intermediaries maintain master accounts with the Fund on behalf of their customers ("omnibus accounts"). The Fund has entered into "information sharing agreements" with these financial intermediaries, which permit the Fund to obtain, upon request, information about the trading activity of the intermediary's customers that invest in the Fund. If the Fund's transfer agent identifies omnibus account level trading patterns that have the potential to be detrimental to the Fund, the transfer agent may, in its sole discretion, request from the financial intermediary information concerning the trading activity of its customers. Based upon its review of the information, if the transfer agent determines that the trading activity of any customer may be detrimental to the Fund, it may, in its sole discretion, request the financial intermediary to restrict or limit further trading in the Fund by that customer. There can be no assurance that the transfer agent's monitoring of omnibus account level trading patterns will enable it to identify all short-term trading by a financial intermediary's customers.

Revocation of trades. While the Fund reserves the right to reject any purchase order for any reason, the Fund may also revoke executed purchase orders that the transfer agent reasonably concludes in its sole discretion may have been contrary to the objectives of the Fund's Frequent Trading Policy.

Account Policies

Calculating Share Price

Class A & C

When you buy shares, you pay the "offering price" for the shares. The "offering price" is determined by dividing the NAV per share by an amount equal to 1 minus the sales charge applicable to the purchase (expressed in decimals), calculated to two decimal places using standard rounding criteria. The number of Fund shares you will be issued will equal the amount invested divided by the applicable offering price for those shares, calculated to three decimal places using standard rounding criteria. For example, if the NAV per share is $10.25 and the applicable sales charge for the purchase is 5.75%, the offering price would be calculated as follows: 10.25 divided by 1.00 minus 0.0575 [10.25/0.9425] equals 10.87533, which, when rounded to two decimal points, equals 10.88. The offering price per share would be $10.88.

When you sell shares, you receive the NAV minus any applicable Early Withdrawal Charge.

All Classes

The value of a mutual fund is determined by deducting the fund's liabilities from the total assets of the portfolio. The NAV per share is determined by dividing the total net asset value of each fund's share class by the applicable number of shares outstanding per share class.

The Fund calculates the NAV per share each business day as of 1 p.m. Pacific time which normally coincides with the close of trading on the New York Stock Exchange (NYSE). The Fund does not calculate the NAV on days the NYSE is closed for trading, which include New Year's Day, Martin Luther King Jr. Day, President's Day, Good Friday, Memorial Day, Independence Day, Labor Day, Thanksgiving Day and Christmas Day. If the NYSE has a scheduled early close or unscheduled early close, the Fund's share price would still be determined as of 1 p.m. Pacific time/4 p.m. Eastern time. The Fund's NAV per share for each class is readily available online at https://www.franklintempleton.com/retail/app/product/views/price_performance.jsf?menu=true.

When determining its NAV, the Fund values cash and receivables at their realizable amounts, and records interest as accrued and dividends on the ex-dividend date. The Fund generally utilizes two independent pricing services to assist in determining a current market value for each security. If market quotations are readily available for portfolio securities listed on a securities exchange, the Fund values those securities at the last quoted sale price or the official closing price of the day, respectively, or, if there is no reported sale, within the range of the most recent quoted bid and ask prices. The Fund values over-the-counter portfolio securities within the range of the most recent bid and ask prices. If portfolio securities trade both in the over-the-counter market and on a stock exchange, the Fund values them according to the broadest and most representative market.

Requests to buy and sell shares are processed at the NAV next calculated after we or an approved financial intermediary receive your request in proper form.

Generally, trading in corporate bonds, U.S. government securities and money market instruments is substantially completed each day at various times before the close of the NYSE. The value of these securities used in computing the NAV is determined as of such times. Occasionally, events affecting the values of these securities may occur between the times at which they are determined and the close of the NYSE that will not be reflected in the computation of the NAV. The Fund relies on third-party pricing vendors to provide evaluated prices that reflect current fair market value at the close of the NYSE.

Fair Valuation – Individual Securities

Since the Fund may invest in securities that are restricted, unlisted, traded infrequently, thinly traded, or relatively illiquid, there is the possibility of a differential between the last available market prices for one or more of those securities and the latest indications of market values for those securities. The Fund has procedures, approved by the board of trustees, to determine the fair value of individual securities and other assets for which market prices are not readily available (such as certain restricted or unlisted securities and private placements) or which may not be reliably priced (such as in the case of trade suspensions or halts, price movement limits set by certain foreign markets, and thinly traded or illiquid securities). Some methods for valuing these securities may include: fundamental analysis (earnings multiple, etc.), matrix pricing, discounts from market prices of similar securities, or discounts applied due to the nature and duration of restrictions on the disposition of the securities. The board of trustees oversees the application of fair value pricing procedures.

The application of fair value pricing procedures represents a good faith determination based upon specifically applied procedures. There can be no assurance that the Fund could obtain the fair value assigned to a security if it were able to sell the security at approximately the time at which the Fund determines its NAV per share.

Security Valuation – Corporate Debt Securities

Corporate debt securities generally trade in the over-the-counter market rather than on a securities exchange. The Fund may value these portfolio securities by utilizing quotations from bond dealers, information with respect to bond and note

transactions and may rely on independent pricing services to assist in determining a current market value for each security. The Fund's pricing services may utilize independent quotations from bond dealers and bond market activity to determine current value.

Security Valuation – Foreign Securities – Computation of U.S. Equivalent Value

The Fund generally determines the value of a foreign security as of the close of trading on the foreign stock exchange on which the security is primarily traded, or as of the close of trading on the NYSE, if 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 (generally 1:00 p.m. Pacific time) on the day that the value of the foreign security is determined. If no sale is reported at that time, the foreign security will be valued within the range of the most recent quoted bid and ask prices. Occasionally events (such as repatriation limits or restrictions) 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 of trustees.

Security Valuation – Foreign Securities – Potential Impact of Time Zones and Market Holidays

Trading in securities on foreign securities stock exchanges and over-the-counter markets, such as those in Europe and Asia, may be completed well before the close of business on the NYSE on each day that the NYSE is open. 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 availability (including the reliability) of the value of a foreign portfolio security held by the Fund. As a result, the Fund may be susceptible to what is referred to as "time-zone arbitrage." Certain investors in the Fund may seek to take advantage of discrepancies in the value of the Fund's portfolio securities as determined by the foreign market at its close and the latest indications of value attributable to the portfolio securities at the time the Fund's NAV is computed. Trading by these investors, often referred to as "arbitrage market timers," may dilute the value of the Fund's shares, if such discrepancies in security values actually exist. To attempt to minimize the possibilities for time-zone arbitrage, and in accordance with procedures established and approved by the Fund's board of trustees, the investment manager 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 might call into question the availability (including the reliability) of the values of foreign securities between the times at which they are determined and the close of the NYSE. If such an event occurs, the foreign securities may be valued using fair value procedures established and approved by the board of trustees. In certain circumstances these procedures include the use of independent pricing services. The intended effect of applying fair value pricing is to compute an NAV that accurately reflects the value of the Fund's portfolio at the time that the NAV is calculated, to discourage potential arbitrage market timing in Fund shares, to mitigate the dilutive impact of such attempted arbitrage market timing and to be fair to purchasing, redeeming and existing shareholders. However, the application of fair value pricing procedures may, on occasion, worsen rather than mitigate the potential dilutive impact of shareholder trading.

In addition, trading in foreign portfolio securities generally, or in securities markets in a particular country or countries, may not take place on every NYSE business day. Furthermore, trading takes place in various foreign markets on days that are not business days for the NYSE, and on which the Fund's NAV is not calculated (in which case, the net asset value of the Fund's shares may change on days when shareholders will not be able to purchase or redeem Fund shares). Thus, the calculation of the Fund's NAV does not take place contemporaneously with the determination of the prices of many of the foreign portfolio securities used in the calculation. If events affecting the last determined values of these foreign securities occur (determined through the monitoring process described above), the securities will be valued at fair value determined in good faith in accordance with the Fund's fair value procedures established and approved by the board of trustees.

Statements, Reports and Prospectuses

You will receive quarterly account statements that show all your account transactions during the quarter. You also will receive written notification after each transaction affecting your account (except for distributions and transactions made through automatic investment programs, which will be reported on your quarterly statement).

You also will receive the Fund's financial reports every six months as well as an annual updated prospectus. To reduce Fund expenses, we try to identify related shareholders in a household and send only one copy of the financial reports and 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 and financial reports on our website.

If you choose, you may receive your statements, financial reports and prospectuses through electronic delivery (please see "Investor Services - Telephone/Online Privileges").

Investment Representative Account Access

If there is a dealer or other investment representative of record on your account, he or she will be able to obtain your account information, conduct transactions for your account, and also will receive copies of all notifications and statements and other information about your account directly from the Fund.

Street or Nominee Accounts

You may transfer your shares from the street or nominee name account of one dealer to another, as long as both dealers have an agreement with Distributors. We will process the transfer after we receive authorization in proper form from your delivering securities dealer.

Joint Accounts

Unless you specify a different registration, shares issued to two or more owners are registered as "joint tenants with rights of survivorship" (shown as "Jt Ten" on your account statement). To make any ownership changes to jointly owned shares, or to sever a joint tenancy in jointly owned shares, all owners must agree in writing.

Joint Account Risk with Telephone/Online Privileges

You will automatically receive telephone/online privileges when you open your account. If your account has more than one registered owner, telephone/online privileges allow the Fund to accept online registration for online services (including electronic delivery of shareholder documents) and transaction instructions online or by telephone from only one registered owner. This means that *any one registered owner on your account, acting alone and without the consent of any other registered owner*, may give the Fund instructions by telephone, online or in writing (subject to any limitations in telephone or online privileges) to:

- Exchange shares from a jointly registered Fund account requiring all registered owner signatures into an identically registered money fund account that only requires one registered owner's signature to redeem shares;
- Redeem Fund shares and direct the redemption proceeds to a pre-established bank account that may or may not be owned by you and, if owned by you jointly with someone else, only requires one person to withdraw funds by check or otherwise; and
- Purchase Fund shares by debiting a pre-established bank account that may be owned by you.

If you do NOT want another registered owner on your account to be able to issue these kinds of instructions to the Fund without your consent, you must instruct the Fund to deny/terminate online privileges and the ability to issue such instructions by telephone so that these types of instructions will only be accepted in writing signed by all account owners. This decision will apply to any other fund into which you may exchange your jointly owned Fund shares. Any later decision to permit these types of instructions by telephone and/or online will need to be given to the Fund in a written instruction signed by all registered owners.

Additional Policies

Please note that the Fund maintains additional policies and reserves certain rights, including:

- The Fund may restrict, reject or cancel any purchase orders, including an exchange request.
- The Fund may modify, suspend, or terminate telephone/online privileges at any time.
- The Fund may make material changes to or discontinue the exchange privilege on 60 days' notice or as otherwise provided by law.
- The Fund may stop offering shares completely or may offer shares only on a limited basis, for a period of time or permanently.
- In unusual circumstances, we may temporarily suspend redemptions or postpone the payment of proceeds, as allowed by federal securities laws.
- You may only buy shares of a fund (including the purchase side of an exchange) eligible for sale in your state or jurisdiction.
- To permit investors to obtain the current price, dealers are responsible for transmitting all orders to the Fund promptly.

Dealer Compensation

Class A & C

Qualifying dealers who sell Fund shares may receive sales commissions and other payments. These are paid by Distributors from sales charges received from purchasing or redeeming shareholders, from distribution and service fees from the Fund and from Distributors' other financial resources. Dealers may also receive shareholder servicing fees for servicing investors who indirectly hold Franklin Templeton fund shares through dealer-maintained brokerage accounts as more fully described under "Shareholder servicing and transfer agent" of the "Management and Other Services" section in the SAI. These fees are paid by the Fund's transfer agent from payments it receives under its agreement with the Fund.

FRANKLIN MUTUAL RECOVERY FUND

No dealer commission will be paid on Class A NAV purchases by Employer Sponsored Retirement Plans.

If any dealer commissions are paid in connection with a purchase which is subsequently rejected or results in any trading restriction placed on the purchaser as a result of a determination by the Fund's investment manager or transfer agent that the purchase may be connected with trading activity that may be detrimental to the Fund as described in the Fund's "Frequent Trading Policy," the dealer shall, upon demand, refund such commissions to Distributors.

	Class A	Class C
Commission (%)		1.00[1]
Investment under $50,000	5.00	
$50,000 but under $100,000	3.75	
$100,000 but under $250,000	2.80	
$250,000 but under $500,000	2.00	
$500,000 but under $1 million	1.60	
$1 million or more	up to 1.00	
Distribution fee to dealer	0.25[2]	1.00[3]

1. Commission includes advance of the first year's 0.25% distribution service fee. Distributors may pay a prepaid commission. However, Distributors does not pay a prepaid commission on any purchases by Employer Sponsored Retirement Plans.
2. For purchases at NAV where Distributors paid a prepaid commission, dealers may start to receive the distribution fee in the 13th month after purchase. For purchases at NAV where Distributors did not pay a prepaid commission, dealers may start to receive the distribution fee at the time of purchase.
3. Dealers may be eligible to receive up to 0.25% at the time of purchase and may be eligible to receive 1% starting in the 13th month. During the first 12 months, the full distribution fee will be paid to Distributors to partially offset the commission and the prepaid service fee paid at the time of purchase. For purchases at NAV where Distributors did not pay a prepaid commission, dealers may start to receive the distribution fee at the time of purchase.

Other dealer and financial intermediary compensation. Distributors may make payments (a portion of which may be reimbursable under the terms of the Fund's Rule 12b-1 distribution plans) to certain dealers who have sold shares of the Franklin Templeton mutual funds. In the case of any one dealer, marketing support payments will not exceed the sum of 0.08% of that dealer's current year's total sales of Franklin Templeton mutual funds, and 0.05% (or 0.03%) of the total assets of equity (or fixed income) funds attributable to that dealer, on an annual basis. Marketing support payments made to organizations located outside the U.S., with respect to investments in the Fund by non-U.S. persons, may exceed this limitation. Distributors makes these payments in connection with the qualifying dealers' efforts to educate financial advisors about the Franklin Templeton funds. Any current year sales to, or assets held on behalf of, Employer Sponsored Retirement

Plans for which payment is made to a financial intermediary pursuant to the following paragraph will be excluded from the calculation of marketing support payments pursuant to this paragraph.

Distributors and/or its affiliates may also make payments (a portion of which may be reimbursable under the terms of the Fund's Rule 12b-1 distribution plans) to certain financial intermediaries in connection with their activities that are intended to assist in the sale of shares of the Franklin Templeton mutual funds, directly or indirectly, to certain Employer Sponsored Retirement Plans. In the case of any one financial intermediary, such payments will not exceed 0.10% of the total assets of Franklin Templeton mutual funds held, directly or indirectly, by such Employer Sponsored Retirement Plans, on an annual basis.

A number of factors will be considered in determining these payments, including the qualifying dealer or financial intermediary's sales, assets and redemption rates, the nature and quality of any servicing provided by the financial intermediary, and the quality of the dealer or financial intermediary's relationship with Distributors. Distributors will, on an annual basis, determine the advisability of continuing these payments. These payments may be in addition to any shareholder servicing fees paid by the Fund's transfer agent from payments it receives under its agreement with the Fund.

To the extent permitted by SEC and Financial Industry Regulatory Authority rules and other applicable laws and regulations, Distributors may pay or allow other promotional incentives or payments to dealers.

Sale of Fund shares, as well as shares of other funds in Franklin Templeton Investments, is not considered a factor in the selection of broker-dealers to execute the Fund's portfolio transactions. Accordingly, the allocation of portfolio transactions for execution by broker-dealers that sell Fund shares is not considered marketing support payments to such broker-dealers.

You can find further details in the SAI about the payments made by Distributors and the services provided by your financial advisor. Your financial advisor may charge you additional fees or commissions other than those disclosed in this prospectus. You should ask your financial advisor for information about any payments it receives from Distributors and any services it provides, as well as about fees and/or commissions it charges.

FRANKLIN MUTUAL RECOVERY FUND

Questions

If you have any questions about the Fund or your account, you can write to us at P.O. Box 997151, Sacramento, CA 95899-7151. You also can call us at one of the following numbers. For your protection and to help ensure we provide you with quality service, all calls may be monitored or recorded.

Department Name	Telephone Number	Hours (Pacific time, Monday through Friday)
Shareholder Services	(800) 632-2301	5:30 a.m. to 5:00 p.m.
Fund Information	(800) DIAL BEN (800) 342-5236	5:30 a.m. to 5:00 p.m.
Retirement Services	(800) 527-2020	5:30 a.m. to 5:00 p.m.
Advisor Services	(800) 524-4040	5:30 a.m. to 5:00 p.m.
Hearing Impaired Assistance	For hearing impaired assistance, please contact us via a Relay Service.	
Automated Telephone System	(800) 632-2301 (800) 524-4040 (800) 527-2020	(around-the-clock access)

Additional General Information

Legal matters. Certain legal matters in connection with the shares offered by this prospectus will be passed on for the Fund by Stradley, Ronon, Stevens & Young, LLP.

Fund expenses. The Fund is responsible for certain fees and expenses which it pays out of Fund assets, including certain transfer agency, investment advisory, trustee and brokerage fees, administrative and operating expenses, and taxes, if any.

Further information. Further information concerning shares and the Fund may be found in the Fund's Registration Statement, filed electronically with the SEC.

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FRANKLIN MUTUAL RECOVERY FUND

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2288

10% Total Recycled Fiber

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