



**Annual Report  
and Shareholder Letter**

December 31, 2018

# Franklin Mutual Shares Fund

A SERIES OF FRANKLIN MUTUAL SERIES FUNDS



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Dear Franklin Mutual Shares Fund Shareholder:

Investors started 2018 seemingly with the wind at their back. The primary tailwinds were strong corporate earnings growth in most developed markets, healthy consumer and business investment spending, and the positive effect of major U.S. tax cuts. In addition, the global economy continued its steady expansion since the financial crisis of 2008–2009. Unemployment continued to decline in the U.S. and other developed markets, while U.S. wage growth showed some signs of accelerating. As a result, equity markets reached new highs in August and September. However, volatility and market downturns soon made their mark on 2018. As measured by the Chicago Board Options Exchange Volatility Index (VIX), 2017 was the least volatile year on record for the Standard & Poor's 500® Index (S&P 500®), but the VIX surged in February 2018 and jumped again in October and December 2018. Heightened trade tensions between the U.S. and China, growing market concern that the U.S. Federal Reserve (Fed) may raise interest rates too aggressively, geopolitical events in Europe and a growing belief that corporate earnings and economic growth will likely decelerate in 2019 hindered equity markets. A flattening U.S. Treasury yield curve and wider credit spreads were also important drivers of market turbulence. For the period ended December 31, 2018, U.S. stocks, as measured by the S&P 500, had a -4.38% total return.<sup>1</sup> Stocks in global developed markets, as measured by the MSCI World Index (USD), had a -8.20% total return.<sup>1</sup> The negative performance for the year was the result of a sharp market decline in the fourth quarter, with the S&P 500 and MSCI World Index returning -13.52% and -13.31%, respectively.<sup>1</sup>

While equity markets were broadly down for the year, there were pockets of positive performance concentrated in areas of growth and innovation, such as software, information technology services and segments of the health care sector. It is no surprise, therefore, that growth stocks managed to perform better than value stocks during the period. The Russell 1000® Growth Index had a -1.51% total return, while the Russell 1000® Value Index had a -8.27% total return.<sup>1</sup>

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

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

<sup>1</sup> Source: Morningstar. Frank Russell Company is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes. Russell® is a trademark of Frank Russell Company. See [www.franklintempletondatasources.com](http://www.franklintempletondatasources.com) for additional data provider information.

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On the following pages, the Fund’s portfolio management team reviews investment decisions that pertain to performance during the past 12 months in light of the economic environment and other factors. Please remember all securities markets fluctuate, as do mutual fund share prices.

We thank you for investing with Franklin Templeton, welcome your questions and comments, and look forward to continuing to serve your investment needs in the years ahead.

Sincerely,



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

*This letter reflects our analysis and opinions as of December 31, 2018, unless otherwise indicated. The information is not a complete analysis of every aspect of any market, country, industry, security or fund. Statements of fact are from sources considered reliable.*

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# Annual Report

## Franklin Mutual Shares Fund

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

### Your Fund's Goal and Main Investments

The Fund seeks capital appreciation, which may occasionally be short term, with income as a secondary goal. Under normal market conditions, the Fund invests primarily in equity securities, primarily common stock, of U.S. and foreign companies that the investment manager believes are available at market prices less than their intrinsic value. To a lesser extent, the Fund also invests in merger arbitrage securities and the debt and equity of distressed companies. The Fund may invest up to 35% of its assets in foreign securities, which may include sovereign debt and participations in foreign government debt. The Geographic Composition bar chart on this page lists the leading countries where the Fund invests.

### Performance Overview

The Fund's Class Z shares had a cumulative total return of -8.95% for the 12 months ended December 31, 2018. For comparison, the Fund's benchmark, the Standard & Poor's 500 Index (S&P 500), which is a broad measure of U.S. stock performance, had a total return of -4.38%.<sup>1</sup> You can find more of the Fund's performance data in the Performance Summary beginning on page 10.

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

### Economic and Market Overview

The global economy expanded during the 12 months under review, despite weakness in certain regions. Global developed and emerging market stocks were aided at certain points during the period by higher crude oil prices, upbeat economic data, easing trade tensions and encouraging corporate earnings

1. Source: Morningstar.

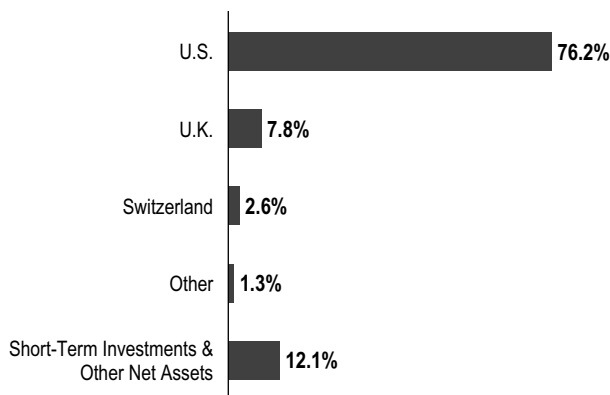
The index is unmanaged and includes reinvestment of any income or distributions. It does not reflect any fees, expenses or sales charges. One cannot invest directly in an index, and an index is not representative of the Fund's portfolio.

2. Source: U.S. Bureau of Labor Statistics.

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

### Geographic Composition\*

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



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

reports, as well as indications of a slower pace of interest-rate increases from the U.S. Federal Reserve (Fed).

However, various factors weighed on global markets during the period, including concerns about tighter regulation of technology companies, political uncertainties in the U.S. and the European Union, and major central banks' interest-rate path and unwinding of monetary stimulus measures. Markets were further pressured by U.S. trade disputes with its allies and China, and their impact on global growth and corporate earnings. In this environment, global stocks, as measured by the MSCI All Country World Index, had a -8.93% total return for the 12 months ended December 31, 2018.<sup>1</sup>

The U.S. economy grew during the 12-month period. After moderating for three consecutive quarters, the economy grew faster in 2018's second quarter, driven by consumer spending, business investment, exports and government spending. However, growth moderated in the third quarter due to declines in exports and housing investment. The unemployment rate declined from 4.1% in December 2017 to 3.9% at period-end.<sup>2</sup> Annual inflation, as measured by the Consumer Price Index, decreased from 2.1% in December 2017 to 1.9% at

period-end.<sup>2</sup> The Fed raised its target range for the federal funds rate four times during the period, to 2.25%–2.50%, and continued reducing its balance sheet as part of an ongoing plan to normalize monetary policy. At its December meeting, the Fed reduced the projected 2019 rate increases to two, compared to three projected previously.

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

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

In emerging markets, Brazil's quarterly GDP growth remained stable in 2018's first and second quarters, but accelerated in the third quarter. The Central Bank of Brazil lowered its benchmark interest rate twice during the period. Russia's annual GDP growth rate accelerated in 2018's first and second quarters, but moderated in the third quarter. After lowering its key rate twice early in the period, the Bank of Russia raised it twice in the period's second half to curtail inflation risks. China's annual GDP grew at a stable rate in 2018's first quarter, but it moderated in the second and third quarters. The People's Bank of China left its benchmark interest rate unchanged during the period, but it took measures to improve financial liquidity to mitigate the negative effects of the U.S.-China trade dispute and support economic growth. Overall, emerging market stocks, as measured by the MSCI Emerging Markets Index, had a -14.25% total return during the period.<sup>1</sup>

## Investment Strategy

At Franklin Mutual Series, we are committed to our distinctive value approach to investing, which we believe can generate above-average risk-adjusted returns over time for our shareholders. Our major investment strategy is investing in undervalued stocks. When selecting undervalued equities, we are attracted to what we believe are fundamentally strong

companies with healthy balance sheets, high-quality assets, substantial free cash flow and shareholder-oriented management teams and whose stocks are trading at discounts to our assessment of the companies' intrinsic or business value. We also look for asset-rich companies whose shares may be trading at depressed levels due to concerns over short-term earnings disappointments, litigation, management strategy or other perceived negatives. This strict value approach is not only intended to improve the likelihood of upside potential, but also reduces the risk of substantial declines, in our opinion. While the vast majority of our undervalued equity investments are made in publicly traded companies globally, we may invest occasionally in privately held companies as well.

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

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

### What is meant by "hedge"?

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

## Manager's Discussion

In 2018, corporate profits in the U.S. and other developed markets continued their impressive year-over-year growth. In addition, labor markets showed further improvement, consumer



spending was solid, and U.S. corporate tax reforms encouraged companies to buy back stock, raise dividends and increase capital expenditures. Those positive fundamentals were periodically overshadowed by political and economic concerns, particularly in the final three months of the year.

As major U.S. equity markets established new all-time highs in 2018, overall U.S. equity market valuations (e.g., price-to-earnings, price-to-book or price-to-sales) became increasingly unattractive, in our analysis. The equity market sell-off in the fourth-quarter helped to return valuations to more reasonable levels. The sell-off and rise in volatility yielded an opportunity for us to seek out stocks with strong corporate fundamentals and valuations whose risk/reward profiles seemed to us to have become more favorable.

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

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

### Top 10 Sectors/Industries

Based on Equity Securities as of 12/31/18

	% of Total Net Assets
Banks	9.5%
Insurance	8.2%
Oil, Gas & Consumable Fuels	8.1%
Pharmaceuticals	7.1%
Media	4.8%
Health Care Equipment & Supplies	3.7%
Technology Hardware, Storage & Peripherals	3.2%
Food & Staples Retailing	2.9%
Tobacco	2.9%
Household Durables	2.6%

Developments in Asia also weighed on U.S. equity markets, as the U.S.-China trade conflict has disrupted manufacturing activity and supply chains. Amid the trade conflict, China has proven resolute in its attempt to dampen the reliance on leverage, which has hindered economic activity as well. While the government has enacted some stimulus measures, such as tax cuts, they may be less impactful than prior stimulus through fiscal spending.

### Investment Spotlight

In all market environments, we seek to invest prudently in securities that we believe represent good value. We do this by seeking securities that trade at a discount to our estimate of intrinsic value, taking into account the quality of the asset, the sustainability of returns, and the growth potential of the business. We also believe the potential to deliver the best risk-adjusted return over a full market cycle requires us to be focused on applying our cross-asset approach: owning equities and debt—in certain cases multiple securities across the capital structure of a company—across geographies and sectors with an emphasis on corporate actions as catalysts. Our health care sector positions are a good example of our investment process. They have been carefully selected over a number of years, and in 2018, many of our long-standing sector investments appreciated significantly. Collectively our sector exposure outperformed the health care sector within the MSCI World Index (USD).

Within the health care sector, our investment process has generally been focused on finding innovative companies that are market leaders and that invest substantial amounts of capital into research and development (R&D) as a means to sustain and grow market positions. In addition, many of our positions have been in diversified pharmaceutical companies that also have long-duration cash flows through their leading positions

in animal health, vaccine, and over-the-counter medicine businesses. These businesses can offer downside protection in years when pharmaceutical R&D is less successful or in years when important products lose patent protection. These businesses are attractive and have been undervalued by the market. This undervaluation allowed us to build positions, and in 2018, some of this undervaluation was reversed.

Eli Lilly and Merck are quintessential examples of our investment process. They are leading innovation-driven pharmaceutical companies that invest substantial amounts of capital into R&D to develop transformative medicines. Both companies have introduced innovative new products in the past many years like Trulicity for diabetes and Keytruda for oncology that we believe will continue to offer substantial long-term revenue growth. The management teams at both companies take a long-term view and focus on enhancing their market positions through both internal and external innovation. Acquiring late stage innovation can be expensive, which is why Lilly and Merck take a prudent approach to generally focusing on early stage assets. Competition is typically less intense for early stage assets, and they can add value through their own development process and pass along that value to shareholders. Shareholder focus also comes through at both companies by their return of excess capital to shareholders through large dividends and share buybacks.

In our view, both companies also have strong, long-duration assets. Lilly and Merck are the fourth and third largest players in animal health, respectively. In September 2018, Lilly sold some shares of Elanco<sup>3</sup>, its animal health division, through an initial public offering to create additional shareholder value, while Merck started providing segment level profit disclosures so investors could better appreciate the contribution and value of their animal health business. Merck is also the second largest player in vaccines, a highly attractive business that is underappreciated, in our opinion.

Another common feature between Lilly and Merck is their strong balance sheets. Both companies also generate substantial amounts of free cash flows, with a significant proportion returned to shareholders in the form of dividends and share buybacks. In addition, the two companies are focused on managing their business more efficiently and improving their operating margins, which we believe will lead to additional earnings growth over the next several years. The Top 10

Sectors/Industries table on page 5 lists pharmaceuticals and also other leading industries in which the Fund currently invests.

### **Mergers and Acquisitions**

In health care and elsewhere, merger and acquisition (M&A) activity remained healthy in 2018. The market received some clarity regarding the regulatory environment when a federal judge ruled in favor of AT&T and Time Warner<sup>4</sup>, and against the U.S. Department of Justice, in its antitrust lawsuit. However, economic, financial market and geopolitical uncertainty that arose in the second half of the year caused the pace of activity to slow. In our view, it was notable that health care has become one of the busier sectors for M&A as it is relatively more insulated from economic uncertainty. The strength and path of M&A activity in 2019 will likely depend in large part on how the uncertainties carrying over from 2018 play out and how they affect equity markets. From our experience, ups and downs in equity market performance and levels of deal activity have tended to move in a similar direction.

### **Credit Markets**

Finding mispriced risk in credit markets was challenging in 2018. Low interest rates kept credit widely available, default rates remained at historically low levels and we continued to witness a loosening in debt covenant terms, which include restrictions on financial activities by the borrower or parameters for specific financial metrics. Liberal interpretations of credit agreements and bond indentures in order to shift valuable assets beyond the reach of creditors were an ongoing challenge. In such an environment, we found more opportunities investing in short-term mispriced risk rather than long-term restructurings.

However, we are hopeful that more opportunities may emerge in 2019, especially if we are starting to enter latter stages of the business cycle. U.S. monetary policy is becoming less accommodative, economic growth appears to be downshifting into a slower pace, earnings growth is set to slow, and geopolitical uncertainty is on the rise. These dynamics have already contributed to a general rise in financial market volatility. At the same time, the amount of lower-rated investment-grade credit stands at a historically high level on an absolute basis and relative to corporate debt markets overall.

3. Not a Fund holding.

4. Not held at period-end.

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We believe default rates and the pace of corporate downgrades could begin to pick up in 2019. As a result, 2019 could bring a rise in fallen-angel opportunities (bonds downgraded from investment-grade to junk status) and idiosyncratic opportunities in out-of-favor industries. We will continue to look for opportunities across the capital structures of companies with liquidity-enhancing events, such as asset sales, the ability to issue secured debt within existing agreements, and free cash flow that could buy time for a company to weather its financial storm.

### Fund Performance

Turning to Fund performance, top positive contributors included U.S.-based pharmaceutical company Eli Lilly, global research-driven pharmaceutical company Merck and multinational software company Microsoft. Eli Lilly and Merck are listed among the Fund's largest positions in the Top 10 Equity Holdings table on this page.

Shares of Eli Lilly were boosted in large part by a series of strong quarterly results during 2018. Attractive corporate fundamentals and fewer investor concerns regarding the direct impact on the pharmaceutical industry from the Trump administration's efforts to lower prescription drug prices helped push the stock higher. We believe Eli Lilly continues to have a strong product growth story and room for further margin expansion, in addition to having solid research and development capabilities.

Merck is a global research-driven pharmaceutical company with strong market positions in oncology, diabetes, vaccines and animal health. Investors remained upbeat about its future prospects, particularly its Keytruda oncology drug. Merck released clinical trial results, which showed that for the first-line treatment of metastatic nonsquamous non-small lung cancer patients, Keytruda combined with chemotherapy substantially extended survival of patients compared with chemotherapy alone. The Keytruda results set a high bar for competition and appeared to enhance Keytruda's prospects to gain share in the sizeable market for lung cancer treatment. Results from a competitor, Bristol-Myers Squibb<sup>3</sup>, were less compelling in a different clinical trial in lung cancer. In October 2018, Merck raised its dividend and authorized a new large share buyback plan.

Microsoft continued to reap the rewards of its rapidly growing cloud computing business and its efforts to move Microsoft Office software clients to a subscription-based service. In 2018, Microsoft reported solid quarterly growth in revenues and earnings per share. In April 2018, it also increased its operating margin estimate for the fiscal year ended June 30, 2018. We

### Top 10 Equity Holdings

12/31/18

Company Sector/Industry, Country	% of Total Net Assets
Medtronic PLC <i>Health Care Equipment &amp; Supplies, U.S.</i>	3.7%
Novartis AG <i>Pharmaceuticals, Switzerland</i>	2.6%
Merck & Co. Inc. <i>Pharmaceuticals, U.S.</i>	2.5%
The Walt Disney Co. <i>Entertainment, U.S.</i>	2.4%
Eli Lilly & Co. <i>Pharmaceuticals, U.S.</i>	2.3%
JPMorgan Chase & Co. <i>Banks, U.S.</i>	2.2%
Cisco Systems Inc. <i>Communications Equipment, U.S.</i>	2.0%
Charter Communications Inc. <i>Media, U.S.</i>	2.0%
Royal Dutch Shell PLC <i>Oil, Gas &amp; Consumable Fuels, U.K.</i>	1.9%
Wells Fargo & Co. <i>Banks, U.S.</i>	1.9%

believe Microsoft's cloud computing and subscription-based services can continue to grow at a strong pace, which may likely further lift its operating margin. We exited the position as the stock price reached our estimate of fair value.

During the period under review, Fund investments that detracted from performance included U.K.-based British American Tobacco, U.S.-based insurer American International Group (AIG) and U.S.-based industrials company General Electric (GE).

Shares of British American Tobacco faced downward pressure due to potential additional U.S. regulation and concerns regarding next generation products. In March 2018, the U.S. Food and Drug Administration (FDA) issued an Advance Notice of Proposed Rulemaking, which started the process of examining the possibility of regulating nicotine levels in combustible cigarettes. The process may not result in regulation, but if it does, many experts believe the review could take seven to 10 years. Meanwhile, JUUL, produced by JUUL Labs<sup>3</sup>, has emerged as a popular e-cigarette for young U.S. consumers. It is unclear to what degree JUUL is cannibalizing the combustible market, but it has hurt investor sentiment toward the industry. In November, shares of British American Tobacco and industry peers dropped, as the FDA revisited the possibility of banning menthol as a flavor in cigarettes, which would take years with many steps to complete, and in our

opinion, an FDA proposal would face litigation from the industry. Industry experts have suggested that it might not survive legal challenges.

Shares of AIG slipped in early 2018 as investors reacted negatively to the price AIG paid to acquire Validus Holdings<sup>3</sup>, a provider of insurance and reinsurance products. The acquisition price represented a significant premium to Validus' stock price immediately prior to the announcement. However, we believe the acquisition made strategic sense as Validus gives AIG a complementary group of profitable insurance and reinsurance businesses. The stock price slipped further in October 2018, due to larger-than-expected catastrophe-related losses announced ahead of quarterly results. The losses were due to multiple typhoons in Japan, Hurricane Florence and wildfires in California. Investors tend to look beyond uncharacteristic weather-related losses. However, we believe AIG's series of operating challenges and negative surprises in prior years, such as additional commercial reserves and increases in loss estimates on current business, likely factored into the stock's significant decline.

GE is a multi-industrial company with a diverse set of businesses in power generation, health care and aviation. During 2018, the stock suffered a number of setbacks starting in January with a greater-than-expected charge related to long-term care policies in its insurance subsidiary. In June, the stock was removed from the Dow Jones Industrial Average and in September, GE stated that fan blades in some of its power-plant turbines were experiencing oxidation problems. In October, S&P Global Ratings, a bond rating agency, cut GE's debt rating, while GE cut its dividend and stated that the Securities and Exchange Commission was expanding an ongoing investigation to include an accounting write-down related to its power-generation division. Amid the negative events in 2018, management took the first steps in what amounts to a breakup of GE, announcing in May 2018 the merger of its transportation operations into Wabtec<sup>3</sup> and plans to spin-off its health care division and divest its stake in oil-services firm Baker Hughes. In October 2018, GE unexpectedly replaced chief executive officer (CEO) John Flannery, who spent his entire career at GE, with Larry Culp, a former CEO of Danaher<sup>3</sup>, an industrial company. We believe Culp made some prudent initial moves, and that his plan to reduce debt and strengthen GE's balance sheet is a step in the right direction to restoring investor confidence in the company.

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

impact on the Fund's performance because of the appreciation of the U.S. dollar versus the hedged currencies.

#### **What is a currency forward?**

A currency forward is a direct agreement between the Fund and a counterparty to buy or sell a foreign currency in exchange for another currency at a specific exchange rate on a future date.

#### **What is a future?**

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

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

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



*Peter A. Langerman*

Peter A. Langerman  
Co-Portfolio Manager



*F. David Segal*

F. David Segal, CFA  
Co-Portfolio Manager



*Debbie Turner*

Debbie A. Turner, CFA  
Assistant Portfolio Manager

*The foregoing information reflects our analysis, opinions and portfolio holdings as of December 31, 2018, the end of the reporting period. The way we implement our main investment strategies and the resulting portfolio holdings may change depending on factors such as market and economic conditions. These opinions may not be relied upon as investment advice or an offer for a particular security. The information is not a complete analysis of every aspect of any market, country, industry, security or the Fund. Statements of fact are from sources considered reliable, but the investment manager makes no representation or warranty as to their completeness or accuracy. Although historical performance is no guarantee of future results, these insights may help you understand our investment management philosophy.*

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## Performance Summary as of December 31, 2018

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

### Performance as of 12/31/18

*Cumulative total return excludes sales charges. Average annual total return includes maximum sales charges. Sales charges will vary depending on the size of the investment and the class of share purchased. The maximum is 5.50% and the minimum is 0%. **Class A:** 5.50% maximum initial sales charge. For other share classes, visit [franklintempleton.com](http://franklintempleton.com).*

Share Class	Cumulative Total Return <sup>1</sup>	Average Annual Total Return <sup>2</sup>
<b>Z</b>		
1-Year	-8.95%	-8.95%
5-Year	+18.48%	+3.45%
10-Year	+146.61%	+9.45%
<b>A<sup>3</sup></b>		
1-Year	-9.18%	-14.17%
5-Year	+16.92%	+2.01%
10-Year	+139.74%	+8.52%

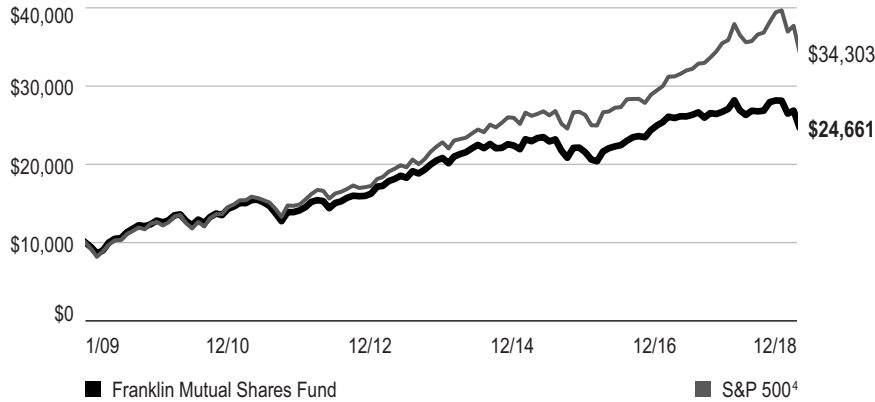
*Performance data represent past performance, which does not guarantee future results. Investment return and principal value will fluctuate, and you may have a gain or loss when you sell your shares. Current performance may differ from figures shown. For most recent month-end performance, go to [franklintempleton.com](http://franklintempleton.com)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

See page 12 for Performance Summary footnotes.

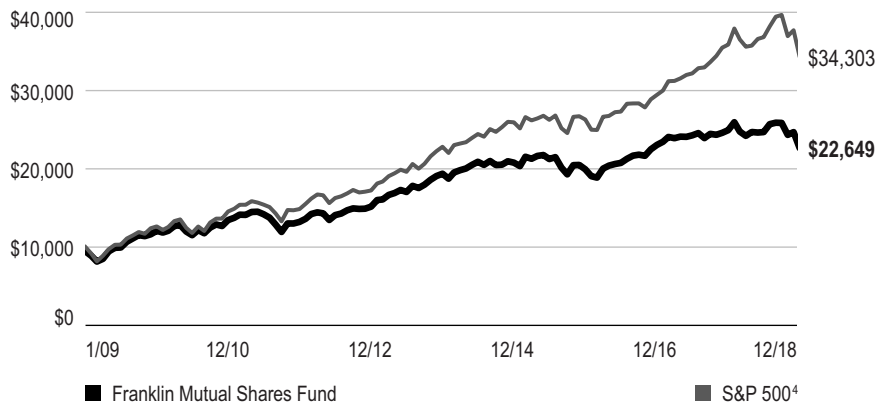
### Total Return Index Comparison for a Hypothetical \$10,000 Investment

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

#### Class Z (1/1/09–12/31/18)



#### Class A (1/1/09–12/31/18)



See page 12 for Performance Summary footnotes.



## Distributions (1/1/18–12/31/18)

Share Class	Net Investment Income	Short-Term Capital Gain	Long-Term Capital Gain	Total
Z	\$0.5286	\$0.0583	\$1.1914	\$1.7783
A	\$0.4610	\$0.0583	\$1.1914	\$1.7107
C	\$0.0258	\$0.0583	\$1.1914	\$1.2755
R	\$0.3605	\$0.0583	\$1.1914	\$1.6102
R6	\$0.5493	\$0.0583	\$1.1914	\$1.7990

## Total Annual Operating Expenses<sup>5</sup>

Share Class	
Z	0.78%
A	1.03%

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

All investments involve risks, including possible loss of principal. Value securities may not increase in price as anticipated or may decline further in value. Special risks are associated with foreign investing, including currency fluctuations, economic instability and political developments. The Fund's investments in companies engaged in mergers, reorganizations or liquidations also involve special risks as pending deals may not be completed on time or on favorable terms. The Fund may invest in lower rated bonds, which entail higher credit risk. The Fund is actively managed but there is no guarantee that the manager's investment decisions will produce the desired results. The Fund's prospectus also includes a description of the main investment risks.

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

2. Average annual total return represents the average annual change in value of an investment over the periods indicated. Return for less than one year, if any, has not been annualized.

3. Prior to 9/10/18, these shares were offered at a higher initial sales charge of 5.75%, thus actual returns would have differed. Total returns with sales charges have been restated to reflect the current maximum initial sales charge of 5.50%.

4. Source: Morningstar. The S&P 500 is a market capitalization-weighted index of 500 stocks designed to measure total U.S. equity market performance.

5. Figures are as stated in the Fund's current prospectus and may differ from the expense ratios disclosed in the Your Fund's Expenses and Financial Highlights sections in this report. In periods of market volatility, assets may decline significantly, causing total annual Fund operating expenses to become higher than the figures shown.

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

## Your Fund's Expenses

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

### Actual Fund Expenses

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

### Hypothetical Example for Comparison with Other Funds

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

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

Share Class	Beginning Account Value 7/1/18	Actual (actual return after expenses)		Hypothetical (5% annual return before expenses)		Net Annualized Expense Ratio <sup>2</sup>
		Ending Account Value 12/31/18	Expenses Paid During Period 7/1/18–12/31/18 <sup>1,2</sup>	Ending Account Value 12/31/18	Expenses Paid During Period 7/1/18–12/31/18 <sup>1,2</sup>	
Z	\$1,000	\$918.50	\$3.63	\$1,021.42	\$3.82	0.75%
A	\$1,000	\$917.30	\$4.83	\$1,020.16	\$5.09	1.00%
C	\$1,000	\$913.40	\$8.44	\$1,016.38	\$8.89	1.75%
R	\$1,000	\$916.00	\$6.04	\$1,018.90	\$6.36	1.25%
R6	\$1,000	\$918.60	\$3.34	\$1,021.73	\$3.52	0.69%

1. Expenses are equal to the annualized expense ratio for the six-month period as indicated above—in the far right column—multiplied by the simple average account value over the period indicated, and then multiplied by 184/365 to reflect the one-half year period.

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

## Financial Highlights

	Year Ended December 31,				
	2018	2017	2016	2015	2014
<b>Class Z</b>					
<b>Per share operating performance</b>					
(for a share outstanding throughout the year)					
Net asset value, beginning of year	\$28.63	\$28.22	\$26.00	\$29.52	\$28.34
Income from investment operations <sup>a</sup> :					
Net investment income <sup>b</sup>	0.51	0.65 <sup>c</sup>	0.63 <sup>d</sup>	0.54	0.78 <sup>e</sup>
Net realized and unrealized gains (losses)	(3.11)	1.73	3.48	(1.71)	1.38
Total from investment operations	(2.60)	2.38	4.11	(1.17)	2.16
Less distributions from:					
Net investment income	(0.53)	(0.68)	(0.64)	(0.59)	(0.98)
Net realized gains	(1.25)	(1.29)	(1.25)	(1.76)	—
Total distributions	(1.78)	(1.97)	(1.89)	(2.35)	(0.98)
Net asset value, end of year	\$24.25	\$28.63	\$28.22	\$26.00	\$29.52
Total return	(8.95)%	8.49%	15.88%	(3.81)%	7.60%
<b>Ratios to average net assets</b>					
Expenses <sup>f,g</sup>	0.76% <sup>h</sup>	0.78%	0.80% <sup>h</sup>	0.81% <sup>h</sup>	0.80%
Expenses incurred in connection with securities sold short	—% <sup>i</sup>	—%	0.01%	0.02%	0.03%
Net investment income	1.77%	2.23% <sup>c</sup>	2.33% <sup>d</sup>	1.82%	2.67% <sup>e</sup>
<b>Supplemental data</b>					
Net assets, end of year (000's)	\$5,189,476	\$6,229,996	\$7,681,881	\$6,770,056	\$7,363,765
Portfolio turnover rate	20.72%	18.15%	20.56%	19.99%	19.24%

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

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

<sup>c</sup>Net investment income per share includes approximately \$0.16 per share related to income received in the form of special dividends in connection with certain Fund holdings. Excluding this amount, the ratio of net investment income to average net assets would have been 1.69%.

<sup>d</sup>Net investment income per share includes approximately \$0.10 per share related to income received in the form of special dividends in connection with certain Fund holdings. Excluding this amount, the ratio of net investment income to average net assets would have been 1.96%.

<sup>e</sup>Net investment income per share includes approximately \$0.29 per share related to income received in the form of a special dividend in connection with certain Fund holdings. Excluding this amount, the ratio of net investment income to average net assets would have been 1.66%.

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

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

<sup>h</sup>Benefit of waiver and payments by affiliates rounds to less than 0.01%.

<sup>i</sup>Rounds to less than 0.01%.

FRANKLIN MUTUAL SHARES FUND  
FINANCIAL HIGHLIGHTS

	Year Ended December 31,				
	2018	2017	2016	2015	2014
<b>Class A</b>					
<b>Per share operating performance</b>					
(for a share outstanding throughout the year)					
Net asset value, beginning of year . . . . .	\$28.35	\$27.97	\$25.78	\$29.29	\$28.12
Income from investment operations <sup>a</sup> :					
Net investment income <sup>b</sup> . . . . .	0.43	0.58 <sup>c</sup>	0.56 <sup>d</sup>	0.45	0.69 <sup>e</sup>
Net realized and unrealized gains (losses) . . . . .	(3.07)	1.70	3.45	(1.69)	1.37
Total from investment operations . . . . .	(2.64)	2.28	4.01	(1.24)	2.06
Less distributions from:					
Net investment income . . . . .	(0.46)	(0.61)	(0.57)	(0.51)	(0.89)
Net realized gains . . . . .	(1.25)	(1.29)	(1.25)	(1.76)	—
Total distributions . . . . .	(1.71)	(1.90)	(1.82)	(2.27)	(0.89)
Net asset value, end of year . . . . .	\$24.00	\$28.35	\$27.97	\$25.78	\$29.29
Total return <sup>f</sup> . . . . .	(9.18)%	8.21%	15.61%	(4.10)%	7.30%
<b>Ratios to average net assets</b>					
Expenses <sup>g,h</sup> . . . . .	1.01% <sup>i</sup>	1.03%	1.05% <sup>i</sup>	1.09% <sup>i</sup>	1.10%
Expenses incurred in connection with securities sold short . . . . .	—% <sup>j</sup>	—%	0.01%	0.02%	0.03%
Net investment income . . . . .	1.52%	1.98% <sup>c</sup>	2.08% <sup>d</sup>	1.54%	2.37% <sup>e</sup>
<b>Supplemental data</b>					
Net assets, end of year (000's) . . . . .	\$3,852,134	\$4,386,829	\$4,737,576	\$4,819,868	\$5,392,130
Portfolio turnover rate . . . . .	20.72%	18.15%	20.56%	19.99%	19.24%

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

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

<sup>c</sup>Net investment income per share includes approximately \$0.16 per share related to income received in the form of special dividends in connection with certain Fund holdings. Excluding this amount, the ratio of net investment income to average net assets would have been 1.44%.

<sup>d</sup>Net investment income per share includes approximately \$0.10 per share related to income received in the form of special dividends in connection with certain Fund holdings. Excluding this amount, the ratio of net investment income to average net assets would have been 1.71%.

<sup>e</sup>Net investment income per share includes approximately \$0.29 per share related to income received in the form of a special dividend in connection with certain Fund holdings. Excluding this amount, the ratio of net investment income to average net assets would have been 1.36%.

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

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

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

<sup>i</sup>Benefit of waiver and payments by affiliates rounds to less than 0.01%.

<sup>j</sup>Rounds to less than 0.01%.

FRANKLIN MUTUAL SHARES FUND  
FINANCIAL HIGHLIGHTS

	Year Ended December 31,				
	2018	2017	2016	2015	2014
<b>Class C</b>					
<b>Per share operating performance</b>					
(for a share outstanding throughout the year)					
Net asset value, beginning of year . . . . .	\$28.04	\$27.68	\$25.54	\$29.02	\$27.88
Income from investment operations <sup>a</sup> :					
Net investment income <sup>b</sup> . . . . .	0.21	0.35 <sup>c</sup>	0.35 <sup>d</sup>	0.24	0.48 <sup>e</sup>
Net realized and unrealized gains (losses) . . . . .	(3.00)	1.67	3.40	(1.67)	1.34
Total from investment operations . . . . .	(2.79)	2.02	3.75	(1.43)	1.82
Less distributions from:					
Net investment income . . . . .	(0.03)	(0.37)	(0.36)	(0.29)	(0.68)
Net realized gains . . . . .	(1.25)	(1.29)	(1.25)	(1.76)	—
Total distributions . . . . .	(1.28)	(1.66)	(1.61)	(2.05)	(0.68)
Net asset value, end of year. . . . .	\$23.97	\$28.04	\$27.68	\$25.54	\$29.02
Total return <sup>f</sup> . . . . .	(9.87)%	7.37%	14.77%	(4.79)%	6.56%
<b>Ratios to average net assets</b>					
Expenses <sup>g,h</sup> . . . . .	1.76% <sup>i</sup>	1.78%	1.80% <sup>i</sup>	1.81% <sup>i</sup>	1.80%
Expenses incurred in connection with securities sold short . . . . .	—% <sup>j</sup>	—%	0.01%	0.02%	0.03%
Net investment income . . . . .	0.77%	1.23% <sup>c</sup>	1.33% <sup>d</sup>	0.82%	1.67% <sup>e</sup>
<b>Supplemental data</b>					
Net assets, end of year (000's) . . . . .	\$309,756	\$995,665	\$1,114,760	\$1,101,302	\$1,240,845
Portfolio turnover rate . . . . .	20.72%	18.15%	20.56%	19.99%	19.24%

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

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

<sup>c</sup>Net investment income per share includes approximately \$0.16 per share related to income received in the form of special dividends in connection with certain Fund holdings. Excluding this amount, the ratio of net investment income to average net assets would have been 0.69%.

<sup>d</sup>Net investment income per share includes approximately \$0.10 per share related to income received in the form of special dividends in connection with certain Fund holdings. Excluding this amount, the ratio of net investment income to average net assets would have been 0.96%.

<sup>e</sup>Net investment income per share includes approximately \$0.29 per share related to income received in the form of a special dividend in connection with certain Fund holdings. Excluding this amount, the ratio of net investment income to average net assets would have been 0.66%.

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

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

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

<sup>i</sup>Benefit of waiver and payments by affiliates rounds to less than 0.01%.

<sup>j</sup>Rounds to less than 0.01%.



FRANKLIN MUTUAL SHARES FUND  
FINANCIAL HIGHLIGHTS

	Year Ended December 31,				
	2018	2017	2016	2015	2014
<b>Class R</b>					
<b>Per share operating performance</b>					
(for a share outstanding throughout the year)					
Net asset value, beginning of year . . . . .	\$28.21	\$27.83	\$25.66	\$29.14	\$27.98
Income from investment operations <sup>a</sup> :					
Net investment income <sup>b</sup> . . . . .	0.36	0.50 <sup>c</sup>	0.49 <sup>d</sup>	0.38	0.64 <sup>e</sup>
Net realized and unrealized gains (losses) . . . . .	(3.05)	1.70	3.42	(1.67)	1.34
Total from investment operations . . . . .	(2.69)	2.20	3.91	(1.29)	1.98
Less distributions from:					
Net investment income . . . . .	(0.36)	(0.53)	(0.49)	(0.43)	(0.82)
Net realized gains . . . . .	(1.25)	(1.29)	(1.25)	(1.76)	—
Total distributions . . . . .	(1.61)	(1.82)	(1.74)	(2.19)	(0.82)
Net asset value, end of year . . . . .	\$23.91	\$28.21	\$27.83	\$25.66	\$29.14
Total return . . . . .	(9.41)%	7.96%	15.31%	(4.32)%	7.10%
<b>Ratios to average net assets</b>					
Expenses <sup>f,g</sup> . . . . .	1.26% <sup>h</sup>	1.28%	1.30% <sup>h</sup>	1.31% <sup>h</sup>	1.30%
Expenses incurred in connection with securities sold short . . . . .	—% <sup>i</sup>	—%	0.01%	0.02%	0.03%
Net investment income . . . . .	1.27%	1.73% <sup>c</sup>	1.83% <sup>d</sup>	1.32%	2.17% <sup>e</sup>
<b>Supplemental data</b>					
Net assets, end of year (000's) . . . . .	\$74,345	\$107,660	\$123,013	\$134,050	\$172,938
Portfolio turnover rate . . . . .	20.72%	18.15%	20.56%	19.99%	19.24%

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

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

<sup>c</sup>Net investment income per share includes approximately \$0.16 per share related to income received in the form of special dividends in connection with certain Fund holdings. Excluding this amount, the ratio of net investment income to average net assets would have been 1.19%.

<sup>d</sup>Net investment income per share includes approximately \$0.10 per share related to income received in the form of special dividends in connection with certain Fund holdings. Excluding this amount, the ratio of net investment income to average net assets would have been 1.46%.

<sup>e</sup>Net investment income per share includes approximately \$0.29 per share related to income received in the form of a special dividend in connection with certain Fund holdings. Excluding this amount, the ratio of net investment income to average net assets would have been 1.16%.

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

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

<sup>h</sup>Benefit of waiver and payments by affiliates rounds to less than 0.01%.

<sup>i</sup>Rounds to less than 0.01%.

FRANKLIN MUTUAL SHARES FUND  
FINANCIAL HIGHLIGHTS

	Year Ended December 31,				
	2018	2017	2016	2015	2014
<b>Class R6</b>					
<b>Per share operating performance</b>					
(for a share outstanding throughout the year)					
Net asset value, beginning of year . . . . .	\$28.61	\$28.21	\$25.98	\$29.51	\$28.33
Income from investment operations <sup>a</sup> :					
Net investment income <sup>b</sup> . . . . .	0.53	0.70 <sup>c</sup>	0.66 <sup>d</sup>	0.57	0.82 <sup>e</sup>
Net realized and unrealized gains (losses) . . . . .	(3.11)	1.71	3.49	(1.71)	1.37
Total from investment operations . . . . .	(2.58)	2.41	4.15	(1.14)	2.19
Less distributions from:					
Net investment income . . . . .	(0.55)	(0.72)	(0.67)	(0.63)	(1.01)
Net realized gains . . . . .	(1.25)	(1.29)	(1.25)	(1.76)	—
Total distributions . . . . .	(1.80)	(2.01)	(1.92)	(2.39)	(1.01)
Net asset value, end of year . . . . .	\$24.23	\$28.61	\$28.21	\$25.98	\$29.51
Total return . . . . .	(8.88)%	8.61%	16.05%	(3.71)%	7.72%
<b>Ratios to average net assets</b>					
Expenses <sup>f,g</sup> . . . . .	0.69% <sup>h</sup>	0.67%	0.68% <sup>h</sup>	0.69% <sup>h</sup>	0.69%
Expenses incurred in connection with securities sold short . . . . .	—% <sup>i</sup>	—%	0.01%	0.02%	0.03%
Net investment income . . . . .	1.84%	2.34% <sup>c</sup>	2.45% <sup>d</sup>	1.94%	2.78% <sup>e</sup>
<b>Supplemental data</b>					
Net assets, end of year (000's) . . . . .	\$3,160,186	\$3,741,430	\$1,896,497	\$1,923,466	\$2,249,991
Portfolio turnover rate . . . . .	20.72%	18.15%	20.56%	19.99%	19.24%

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

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

<sup>c</sup>Net investment income per share includes approximately \$0.16 per share related to income received in the form of special dividends in connection with certain Fund holdings. Excluding this amount, the ratio of net investment income to average net assets would have been 1.80%.

<sup>d</sup>Net investment income per share includes approximately \$0.10 per share related to income received in the form of special dividends in connection with certain Fund holdings. Excluding this amount, the ratio of net investment income to average net assets would have been 2.08%.

<sup>e</sup>Net investment income per share includes approximately \$0.29 per share related to income received in the form of a special dividend in connection with certain Fund holdings. Excluding this amount, the ratio of net investment income to average net assets would have been 1.77%.

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

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

<sup>h</sup>Benefit of waiver and payments by affiliates rounds to less than 0.01%.

<sup>i</sup>Rounds to less than 0.01%.

## Statement of Investments, December 31, 2018

	Country	Shares/ Units/ Warrants	Value
<b>Common Stocks and Other Equity Interests 83.7%</b>			
<b>Aerospace &amp; Defense 0.8%</b>			
BAE Systems PLC	United Kingdom	18,114,621	\$ 106,078,274
<b>Auto Components 0.5%</b>			
The Goodyear Tire & Rubber Co.	United States	2,382,274	48,622,212
<sup>a,b,c,d</sup> International Automotive Components Group Brazil LLC	Brazil	7,234,813	306,590
<sup>a,b,c,d</sup> International Automotive Components Group North America LLC	United States	63,079,866	7,519,120
			<u>56,447,922</u>
<b>Automobiles 1.2%</b>			
General Motors Co.	United States	4,507,470	150,774,871
<b>Banks 9.5%</b>			
Barclays PLC	United Kingdom	38,190,870	73,307,613
CIT Group Inc.	United States	2,759,673	105,612,686
Citigroup Inc.	United States	3,576,406	186,187,696
Citizens Financial Group Inc.	United States	6,757,671	200,905,559
Columbia Banking System Inc.	United States	88,096	3,197,004
<sup>a</sup> FCB Financial Holdings Inc., A	United States	1,647,570	55,325,401
Guaranty Bancorp.	United States	1,146,366	23,787,094
JPMorgan Chase & Co.	United States	2,871,890	280,353,902
State Bank Financial Corp.	United States	1,467,000	31,672,530
Wells Fargo & Co.	United States	5,171,930	238,322,534
			<u>1,198,672,019</u>
<b>Biotechnology 0.6%</b>			
Shire PLC	United Kingdom	1,258,054	73,318,032
<b>Building Products 1.1%</b>			
Johnson Controls International PLC	United States	4,783,800	141,839,670
<b>Chemicals 0.0%</b>			
<sup>a,c,e</sup> Dow Corning Corp., Contingent Distribution	United States	12,630,547	—
<b>Communications Equipment 2.0%</b>			
Cisco Systems Inc.	United States	5,851,060	253,526,430
<b>Construction &amp; Engineering 0.6%</b>			
Fluor Corp.	United States	2,399,827	77,274,429
<b>Consumer Finance 1.7%</b>			
Ally Financial Inc.	United States	2,870,838	65,053,190
Capital One Financial Corp.	United States	2,011,505	152,049,663
			<u>217,102,853</u>
<b>Containers &amp; Packaging 1.5%</b>			
International Paper Co.	United States	3,741,837	151,020,541
WestRock Co.	United States	1,125,212	42,488,005
			<u>193,508,546</u>
<b>Diversified Financial Services 1.1%</b>			
Voya Financial Inc.	United States	3,413,030	136,999,024
<b>Diversified Telecommunication Services 1.8%</b>			
AT&T Inc.	United States	4,727,562	134,924,619
Koninklijke KPN NV	Netherlands	30,410,640	89,201,945
			<u>224,126,564</u>
<b>Electric Utilities 0.3%</b>			
<sup>a</sup> PG&E Corp.	United States	1,595,750	37,899,063

FRANKLIN MUTUAL SHARES FUND  
STATEMENT OF INVESTMENTS

	Country	Shares/ Units/ Warrants	Value
<b>Common Stocks and Other Equity Interests (continued)</b>			
<b>Electrical Equipment 1.6%</b>			
<sup>a</sup> Sensata Technologies Holding PLC . . . . .	United States	4,363,870	\$ 195,675,931
<b>Energy Equipment &amp; Services 1.1%</b>			
Baker Hughes a GE Co., A. . . . .	United States	5,908,552	127,033,868
<sup>a</sup> McDermott International Inc. . . . .	United States	2,645,956	17,304,552
			144,338,420
<b>Entertainment 2.4%</b>			
The Walt Disney Co. . . . .	United States	2,716,200	297,831,330
<b>Equity Real Estate Investment Trusts (REITs) 1.8%</b>			
<sup>b</sup> Alexander's Inc. . . . .	United States	326,675	99,550,939
Vornado Realty Trust. . . . .	United States	2,036,522	126,325,460
			225,876,399
<b>Food &amp; Staples Retailing 2.9%</b>			
The Kroger Co. . . . .	United States	7,402,986	203,582,115
Walgreens Boots Alliance Inc. . . . .	United States	2,446,029	167,137,162
			370,719,277
<b>Health Care Equipment &amp; Supplies 3.7%</b>			
Medtronic PLC . . . . .	United States	5,180,794	471,245,022
<b>Health Care Providers &amp; Services 1.6%</b>			
CVS Health Corp. . . . .	United States	3,015,915	197,602,751
<b>Household Durables 2.6%</b>			
Lennar Corp., A . . . . .	United States	2,378,700	93,126,105
Newell Brands Inc. . . . .	United States	8,753,495	162,727,472
Toll Brothers Inc. . . . .	United States	1,993,600	65,649,248
			321,502,825
<b>Household Products 0.6%</b>			
Energizer Holdings Inc. . . . .	United States	1,787,933	80,725,175
<b>Independent Power &amp; Renewable Electricity Producers 0.6%</b>			
<sup>a</sup> Vistra Energy Corp. . . . .	United States	3,124,828	71,527,313
<b>Industrial Conglomerates 0.8%</b>			
General Electric Co. . . . .	United States	13,594,500	102,910,365
<b>Insurance 8.2%</b>			
Alleghany Corp. . . . .	United States	377,389	235,234,111
American International Group Inc. . . . .	United States	5,664,539	223,239,482
<sup>a</sup> Brighthouse Financial Inc. . . . .	United States	2,373,200	72,335,136
Chubb Ltd. . . . .	United States	1,446,258	186,827,608
The Hartford Financial Services Group Inc. . . . .	United States	3,734,899	166,016,261
MetLife Inc. . . . .	United States	3,551,930	145,842,246
			1,029,494,844
<b>IT Services 1.5%</b>			
Cognizant Technology Solutions Corp., A. . . . .	United States	2,991,050	189,871,854
<b>Machinery 0.7%</b>			
CNH Industrial NV. . . . .	United Kingdom	4,351,332	39,317,241
CNH Industrial NV, special voting . . . . .	United Kingdom	5,296,616	47,858,525
			87,175,766

FRANKLIN MUTUAL SHARES FUND  
STATEMENT OF INVESTMENTS

	Country	Shares/ Units/ Warrants	Value
<b>Common Stocks and Other Equity Interests (continued)</b>			
<b>Media 4.8%</b>			
<sup>a</sup> Charter Communications Inc., A . . . . .	United States	865,529	\$ 246,649,799
Comcast Corp., A . . . . .	United States	5,111,400	174,043,170
<sup>a</sup> Cumulus Media Inc., A . . . . .	United States	151,572	1,636,978
<sup>a</sup> Cumulus Media Inc., B . . . . .	United States	225,990	2,146,905
<sup>a</sup> Cumulus Media Inc., wts., 6/04/38 . . . . .	United States	171,135	1,625,782
<sup>a</sup> Discovery Inc., C . . . . .	United States	4,772,200	110,142,376
<sup>a</sup> DISH Network Corp., A . . . . .	United States	2,879,437	71,899,542
			<u>608,144,552</u>
<b>Metals &amp; Mining 0.4%</b>			
thyssenkrupp AG . . . . .	Germany	1,557,406	26,754,222
Warrior Met Coal Inc. . . . .	United States	795,602	19,181,964
			<u>45,936,186</u>
<b>Oil, Gas &amp; Consumable Fuels 8.1%</b>			
Anadarko Petroleum Corp. . . . .	United States	3,198,080	140,203,827
BP PLC . . . . .	United Kingdom	14,266,349	90,228,981
Kinder Morgan Inc. . . . .	United States	11,533,040	177,378,156
Marathon Oil Corp. . . . .	United States	10,959,685	157,161,883
Plains All American Pipeline LP . . . . .	United States	3,862,400	77,402,496
Royal Dutch Shell PLC, A (EUR Traded) . . . . .	United Kingdom	4,955,823	145,678,884
Royal Dutch Shell PLC, A (GBP Traded) . . . . .	United Kingdom	3,159,359	92,968,538
The Williams Cos. Inc. . . . .	United States	6,351,184	140,043,607
			<u>1,021,066,372</u>
<b>Pharmaceuticals 7.4%</b>			
Eli Lilly & Co. . . . .	United States	2,539,343	293,852,772
Merck & Co. Inc. . . . .	United States	4,078,310	311,623,667
Novartis AG, ADR . . . . .	Switzerland	3,798,680	325,964,731
			<u>931,441,170</u>
<b>Professional Services 0.5%</b>			
RELX PLC . . . . .	United Kingdom	3,153,086	64,999,025
<b>Software 2.3%</b>			
<sup>a</sup> Avaya Holdings Corp., wts., 12/15/22 . . . . .	United States	276,741	567,319
<sup>a</sup> Red Hat Inc. . . . .	United States	625,300	109,827,692
Symantec Corp. . . . .	United States	9,445,251	178,468,018
			<u>288,863,029</u>
<b>Technology Hardware, Storage &amp; Peripherals 3.2%</b>			
Apple Inc. . . . .	United States	86,089	13,579,679
Hewlett Packard Enterprise Co. . . . .	United States	7,491,354	98,960,786
Samsung Electronics Co. Ltd. . . . .	South Korea	5,521,050	191,849,436
Western Digital Corp. . . . .	United States	2,716,857	100,442,203
			<u>404,832,104</u>
<b>Tobacco 2.9%</b>			
Altria Group Inc. . . . .	United States	2,351,460	116,138,609
British American Tobacco PLC . . . . .	United Kingdom	4,377,848	139,571,261
British American Tobacco PLC, ADR . . . . .	United Kingdom	1,655,688	52,750,220
Imperial Brands PLC . . . . .	United Kingdom	1,751,865	53,103,743
			<u>361,563,833</u>



FRANKLIN MUTUAL SHARES FUND  
STATEMENT OF INVESTMENTS

	Country	Shares/ Units/ Warrants	Value
<b>Common Stocks and Other Equity Interests (continued)</b>			
<b>Wireless Telecommunication Services 1.3%</b>			
<sup>a</sup> T-Mobile U.S. Inc. . . . . .	United States	2,480,000	\$ 157,752,800
<b>Total Common Stocks and Other Equity Interests (Cost \$9,165,173,010) . . . . .</b>			<u>10,538,664,040</u>
<b>Management Investment Companies (Cost \$132,971,382) 1.0%</b>			
<b>Diversified Financial Services 1.0%</b>			
<sup>a</sup> Altaba Inc. . . . .	United States	2,134,452	<u>123,670,149</u>
		<b>Principal Amount</b>	
<b>Corporate Notes and Senior Floating Rate Interests 3.0%</b>			
<sup>f</sup> Banff Merger Sub Inc., senior note, 144A, 9.75%, 9/01/26 . . . . .	United States	\$ 68,188,000	62,562,490
<sup>g,h</sup> Cumulus Media New Holdings Inc., Term Loan, 7.03%, (1-month USD LIBOR + 4.50%), 5/13/22. . . . .	United States	42,495,071	40,326,038
Frontier Communications Corp., senior note, 10.50%, 9/15/22 . . . . .	United States	82,365,000	57,655,500
senior note, 11.00%, 9/15/25 . . . . .	United States	93,006,000	58,356,615
<sup>f</sup> McDermott Technology Americas Inc., senior note, 144A, 10.625%, 5/01/24 . . . . .	United States	36,543,000	30,970,192
<sup>g,h</sup> Veritas US Inc., Term Loan B1, 7.022%, (1-month USD LIBOR + 4.50%), 1/27/23. . . . .	United States	50,611,385	43,546,896
Term Loan B1, 7.303%, (3-month USD LIBOR + 4.50%), 1/27/23. . . . .	United States	16,592,417	14,276,398
<sup>f</sup> Veritas US Inc./Veritas Bermuda Ltd., senior note, 144A, 7.50%, 2/01/23 . . . . .	United States	10,656,000	8,737,920
senior note, 144A, 10.50%, 2/01/24 . . . . .	United States	87,705,000	<u>58,104,562</u>
<b>Total Corporate Notes and Senior Floating Rate Interests (Cost \$453,304,473) . . . . .</b>			<u>374,536,611</u>
<b>Corporate Notes and Senior Floating Rate Interests in Reorganization 1.4%</b>			
<sup>c,d,i</sup> Broadband Ventures III LLC, secured promissory note, 5.00%, 2/01/12 . . . . .	United States	19,594	—
<sup>i</sup> HeartCommunications Inc., senior secured note, first lien, 9.00%, 12/15/19 . . . . .	United States	74,295,000	50,149,125
<sup>g,h</sup> Tranche D Term Loan, 8.443%, (3-month USD LIBOR + 6.75%), 1/30/19 . . . . .	United States	94,620,526	64,000,378
<sup>g,h</sup> Tranche E Term Loan, 9.193%, (3-month USD LIBOR + 7.50%), 7/30/19 . . . . .	United States	30,412,812	20,561,189
<sup>g,h,i</sup> Toys R US-Delaware Inc., Term B-4 Loan, 10.067%, (3-month USD LIBOR + 8.75%), 4/24/20. . . . .	United States	74,685,265	<u>36,969,206</u>
<b>Total Corporate Notes and Senior Floating Rate Interests in Reorganization (Cost \$266,203,476) . . . . .</b>			<u>171,679,898</u>
		<b>Shares</b>	
<b>Companies in Liquidation 0.0%†</b>			
<sup>a,c,e</sup> Avaya Holdings Corp., Contingent Distribution . . . . .	United States	67,859,000	—
<sup>a,c,e</sup> Avaya Inc., Contingent Distribution . . . . .	United States	131,491,378	—
<sup>a,c,e</sup> Tribune Media, Litigation Trust, Contingent Distribution . . . . .	United States	1,007,002	—

FRANKLIN MUTUAL SHARES FUND  
STATEMENT OF INVESTMENTS

	Country	Shares	Value
<b>Companies in Liquidation</b> (continued)			
<sup>a,e</sup> Vistra Energy Corp., Litigation Trust, Contingent Distribution	United States	194,177,556	\$ 174,760
<b>Total Companies in Liquidation (Cost \$6,601,885)</b>			<u>174,760</u>
<b>Total Investments before Short Term Investments (Cost \$10,024,254,226)</b>			<u>11,208,725,458</u>
		<b>Principal Amount</b>	
<b>Short Term Investments 10.6%</b>			
<b>U.S. Government and Agency Securities 10.6%</b>			
<sup>i</sup> FHLB, 1/02/19	United States	\$ 23,600,000	23,600,000
<sup>i</sup> U.S. Treasury Bill, 1/03/19	United States	150,000,000	149,990,515
<sup>k</sup> 1/24/19	United States	100,000,000	99,858,685
1/02/19 - 6/13/19	United States	1,069,000,000	<u>1,064,131,677</u>
<b>Total U.S. Government and Agency Securities (Cost \$1,337,501,063)</b>			<u>1,337,580,877</u>
<b>Total Investments (Cost \$11,361,755,289) 99.7%</b>			<u>12,546,306,335</u>
<b>Securities Sold Short (1.2)%</b>			<u>(148,540,745)</u>
<b>Other Assets, less Liabilities 1.5%</b>			<u>188,131,236</u>
<b>Net Assets 100.0%</b>			<u>\$12,585,896,826</u>
		<b>Shares</b>	
<b><sup>l</sup>Securities Sold Short (1.2)%</b>			
<b>Common Stocks (1.2)%</b>			
<b>Internet &amp; Direct Marketing Retail (0.9)%</b>			
Alibaba Group Holding Ltd., ADR	China	823,372	<u>(112,859,600)</u>
<b>Pharmaceuticals (0.3)%</b>			
Takeda Pharmaceutical Co. Ltd.	Japan	1,055,507	<u>(35,681,145)</u>
<b>Total Securities Sold Short (Proceeds \$174,046,070)</b>			<u>\$ (148,540,745)</u>

FRANKLIN MUTUAL SHARES FUND  
STATEMENT OF INVESTMENTS

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

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

<sup>b</sup>See Note 11 regarding holdings of 5% voting securities.

<sup>c</sup>Fair valued using significant unobservable inputs. See Note 13 regarding fair value measurements.

<sup>d</sup>See Note 9 regarding restricted securities.

<sup>e</sup>Contingent distributions represent the right to receive additional distributions, if any, during the reorganization of the underlying company. Shares represent total underlying principal of debt securities.

<sup>f</sup>Security was purchased pursuant to Rule 144A under the Securities Act of 1933 and may be sold in transactions exempt from registration only to qualified institutional buyers or in a public offering registered under the Securities Act of 1933. These securities have been deemed liquid under guidelines approved by the Trust's Board of Trustees. At December 31, 2018, the aggregate value of these securities was \$160,375,164, representing 1.3% of net assets.

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

<sup>h</sup>See Note 1(f) regarding senior floating rate interests.

<sup>i</sup>See Note 8 regarding credit risk and defaulted securities.

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

<sup>k</sup>A portion or all of the security has been segregated as collateral for securities sold short. At December 31, 2018, the value of this security pledged amounted to \$67,454,552, representing 0.5% of net assets.

<sup>l</sup>See Note 1(d) regarding securities sold short.

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

**Futures Contracts**

Description	Type	Number of Contracts	Notional Amount*	Expiration Date	Value/ Unrealized Appreciation (Depreciation)
<b>Currency Contracts</b>					
EUR/USD . . . . .	Short	862	\$124,154,938	3/18/19	\$ 18,533
GBP/USD . . . . .	Short	2,702	215,991,125	3/18/19	446,480
Total Futures Contracts . . . . .					<u>\$465,013</u>

\*As of period end.

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

**Forward Exchange Contracts**

Currency	Counterparty <sup>a</sup>	Type	Quantity	Contract Amount	Settlement Date	Unrealized Appreciation	Unrealized Depreciation
<b>OTC Forward Exchange Contracts</b>							
Euro	BOFA	Buy	22,984,735	\$ 26,190,537	1/14/19	\$ 178,092	\$ —
Euro	BONY	Sell	29,029,468	34,470,752	1/14/19	1,167,461	—
Euro	HSBK	Buy	40,156,645	45,753,694	1/14/19	314,957	—
Euro	HSBK	Sell	3,184,810	3,749,741	1/14/19	96,051	—
Euro	SSBT	Buy	10,367,564	11,809,439	1/14/19	84,474	—
Euro	SSBT	Sell	50,378,205	59,842,146	1/14/19	2,047,082	—
Euro	UBSW	Buy	7,415,299	8,436,166	1/14/19	70,841	—
British Pound	BOFA	Buy	2,596,054	3,289,858	1/16/19	23,549	—
British Pound	BOFA	Sell	4,427,482	5,888,817	1/16/19	237,916	—
British Pound	HSBK	Buy	4,018,408	5,098,978	1/16/19	29,811	—
British Pound	HSBK	Sell	3,654,007	4,875,256	1/16/19	211,560	—
British Pound	UBSW	Buy	677,452	856,134	1/16/19	8,514	—
South Korean Won	BONY	Sell	7,177,365,000	6,486,548	2/15/19	32,270	—
South Korean Won	HSBK	Buy	13,557,197,210	12,032,336	2/15/19	159,034	—
South Korean Won	HSBK	Sell	71,566,552,326	64,465,326	2/15/19	108,787	—
South Korean Won	UBSW	Buy	11,673,873,446	10,360,481	2/15/19	137,302	—
South Korean Won	UBSW	Sell	38,246,441,630	34,448,495	2/15/19	55,213	—
Euro	BONY	Sell	8,405,312	9,718,222	2/20/19	45,892	—
Euro	HSBK	Sell	11,994,483	14,179,256	2/20/19	376,723	—
Euro	SSBT	Sell	9,373,805	10,874,007	2/20/19	87,193	—
Euro	BONY	Sell	5,437,745	6,341,933	4/10/19	57,723	—
Euro	SSBT	Sell	5,437,746	6,342,587	4/10/19	58,375	—
Euro	BOFA	Sell	10,516,735	12,389,660	4/18/19	227,397	—
Euro	HSBK	Sell	10,516,734	12,391,763	4/18/19	229,500	—
British Pound	UBSW	Sell	44,604,887	58,439,762	4/24/19	1,241,489	—
Euro	HSBK	Sell	6,989,274	8,126,429	5/07/19	30,203	—
South Korean Won	BONY	Sell	7,343,124,345	6,623,184	5/17/19	—	(5,198)
South Korean Won	HSBK	Sell	56,232,780,334	50,651,036	5/17/19	—	(108,333)
South Korean Won	UBSW	Sell	55,844,969,521	49,950,778	5/17/19	—	(458,528)
Euro	HSBK	Sell	7,279,653	8,390,382	5/21/19	—	(52,492)
Euro	SSBT	Sell	23,290,869	27,121,053	5/21/19	108,517	—
British Pound	BOFA	Sell	92,809,023	120,164,658	5/28/19	961,916	—
Total Forward Exchange Contracts						\$ 8,387,842	\$ (624,551)
Net unrealized appreciation (depreciation)						\$ 7,763,291	

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

See Note 10 regarding other derivative information.

See Abbreviations on page 43.

## Financial Statements

### Statement of Assets and Liabilities

December 31, 2018

## Assets:

## Investments in securities:

Cost - Unaffiliated issuers . . . . .	\$11,292,576,386
Cost - Non-controlled affiliates (Note 3f and 11) . . . . .	69,178,903

Value - Unaffiliated issuers . . . . .	\$12,438,929,686
Value - Non-controlled affiliates (Note 3f and 11) . . . . .	107,376,649

Cash . . . . .	1,049,841
Foreign currency, at value (cost \$1,473,326) . . . . .	1,473,326

## Receivables:

Investment securities sold . . . . .	3,735,682
Capital shares sold . . . . .	15,641,423
Dividends and interest . . . . .	34,842,532
European Union tax reclaims . . . . .	7,177,446

## Deposits with brokers for:

Securities sold short . . . . .	160,083,230
Futures contracts . . . . .	8,921,380

Unrealized appreciation on OTC forward exchange contracts . . . . .	8,387,842
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Other assets . . . . .	1,788
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Total assets . . . . .	12,787,620,825
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## Liabilities:

## Payables:

Investment securities purchased . . . . .	12,225,832
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Capital shares redeemed . . . . .	26,497,982
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Management fees . . . . .	7,191,971
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Distribution fees . . . . .	2,368,070
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Transfer agent fees . . . . .	1,750,479
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Trustees' fees and expenses . . . . .	955,705
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Variation margin on futures contracts . . . . .	919,800
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Securities sold short, at value (proceeds \$174,046,070) . . . . .	148,540,745
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Unrealized depreciation on OTC forward exchange contracts . . . . .	624,551
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Accrued expenses and other liabilities . . . . .	648,864
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Total liabilities . . . . .	201,723,999
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Net assets, at value . . . . .	\$12,585,896,826
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## Net assets consist of:

Paid-in capital . . . . .	\$10,995,202,122
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Total distributable earnings (loss) . . . . .	1,590,694,704
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Net assets, at value . . . . .	\$12,585,896,826
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FRANKLIN MUTUAL SHARES FUND  
FINANCIAL STATEMENTS

**Statement of Assets and Liabilities** (continued)

December 31, 2018

**Class Z:**

Net assets, at value .....	\$5,189,476,003
Shares outstanding .....	214,006,966
Net asset value and maximum offering price per share .....	\$24.25

**Class A:**

Net assets, at value .....	\$3,852,134,274
Shares outstanding .....	160,510,109
Net asset value per share <sup>a</sup> .....	\$24.00
Maximum offering price per share (net asset value per share ÷ 94.50%) .....	\$25.40

**Class C:**

Net assets, at value .....	\$ 309,755,931
Shares outstanding .....	12,923,293
Net asset value and maximum offering price per share <sup>a</sup> .....	\$23.97

**Class R:**

Net assets, at value .....	\$ 74,344,680
Shares outstanding .....	3,109,359
Net asset value and maximum offering price per share .....	\$23.91

**Class R6:**

Net assets, at value .....	\$3,160,185,938
Shares outstanding .....	130,438,414
Net asset value and maximum offering price per share .....	\$24.23

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

FRANKLIN MUTUAL SHARES FUND  
FINANCIAL STATEMENTS

**Statement of Operations**

for the year ended December 31, 2018

Investment income:	
Dividends: (net of foreign taxes)*	
Unaffiliated issuers . . . . .	\$ 304,973,581
Non-controlled affiliates (Note 3f and 11) . . . . .	5,880,150
Interest:	
Unaffiliated issuers . . . . .	60,120,731
Income from securities loaned:	
Unaffiliated issuers (net of fees and rebates) . . . . .	87,926
Non-controlled affiliates (Note 3f) . . . . .	2,237
Other income (Note 1g) . . . . .	1,743,290
Total investment income . . . . .	<u>372,807,915</u>
Expenses:	
Management fees (Note 3a) . . . . .	95,371,099
Distribution fees: (Note 3c)	
Class A . . . . .	10,441,697
Class C . . . . .	8,070,000
Class R . . . . .	476,521
Transfer agent fees: (Note 3e)	
Class Z . . . . .	5,437,817
Class A . . . . .	3,792,749
Class C . . . . .	733,080
Class R . . . . .	86,939
Class R6 . . . . .	774,618
Custodian fees (Note 4) . . . . .	419,425
Reports to shareholders . . . . .	727,921
Registration and filing fees . . . . .	198,616
Professional fees . . . . .	384,486
Trustees' fees and expenses . . . . .	895,295
Dividends on securities sold short . . . . .	632,410
Other . . . . .	308,809
Total expenses . . . . .	128,751,482
Expense reductions (Note 4) . . . . .	(94,069)
Expenses waived/paid by affiliates (Note 3f and 3g) . . . . .	(48,100)
Net expenses . . . . .	<u>128,609,313</u>
Net investment income . . . . .	<u>244,198,602</u>
Realized and unrealized gains (losses):	
Net realized gain (loss) from:	
Investments:	
Unaffiliated issuers . . . . .	1,018,447,400
Controlled affiliates (Note 3f and 11) . . . . .	27,760
Non-controlled affiliates (Note 3f and 11) . . . . .	30,054
Foreign currency transactions . . . . .	(2,661,002)
Forward exchange contracts . . . . .	28,266,598
Futures contracts . . . . .	31,843,852
Securities sold short . . . . .	3,081,811
Net realized gain (loss) . . . . .	<u>1,079,036,473</u>
Net change in unrealized appreciation (depreciation) on:	
Investments:	
Unaffiliated issuers . . . . .	(2,589,264,773)
Non-controlled affiliates (Note 3f and 11) . . . . .	(63,741,134)
Translation of other assets and liabilities	
denominated in foreign currencies . . . . .	(464,358)
Forward exchange contracts . . . . .	39,902,692
Futures contracts . . . . .	6,968,472
Securities sold short . . . . .	24,544,932
Net change in unrealized appreciation (depreciation) . . . . .	<u>(2,582,054,169)</u>
Net realized and unrealized gain (loss) . . . . .	<u>(1,503,017,696)</u>



FRANKLIN MUTUAL SHARES FUND  
FINANCIAL STATEMENTS

**Statement of Operations** (continued)  
for the year ended December 31, 2018

Net increase (decrease) in net assets resulting from operations . . . . . \$(1,258,819,094)

\*Foreign taxes withheld on dividends . . . . . \$ 8,272,037

**Statements of Changes in Net Assets**

	Year Ended December 31,	
	2018	2017
Increase (decrease) in net assets:		
Operations:		
Net investment income . . . . .	\$ 244,198,602	\$ 329,366,264
Net realized gain (loss) . . . . .	1,079,036,473	565,295,714
Net change in unrealized appreciation (depreciation) . . . . .	(2,582,054,169)	361,422,610
Net increase (decrease) in net assets resulting from operations . . . . .	(1,258,819,094)	1,256,084,588
Distributions to shareholders: (Note 1h)		
Class Z . . . . .	(359,738,797)	(440,140,182)
Class A . . . . .	(258,843,422)	(284,207,900)
Class C . . . . .	(16,133,984)	(57,527,176)
Class R . . . . .	(4,696,240)	(6,815,560)
Class R6 . . . . .	(218,275,931)	(221,876,421)
Total distributions to shareholders . . . . .	(857,688,374)	(1,010,567,239)
Capital share transactions: (Note 2)		
Class Z . . . . .	(162,098,601)	(1,618,916,627)
Class A . . . . .	114,605,103	(431,662,396)
Class C . . . . .	(631,170,380)	(138,671,413)
Class R . . . . .	(21,048,937)	(17,540,464)
Class R6 . . . . .	(59,462,529)	1,869,126,723
Total capital share transactions . . . . .	(759,175,344)	(337,664,177)
Net increase (decrease) in net assets . . . . .	(2,875,682,812)	(92,146,828)
Net assets:		
Beginning of year . . . . .	15,461,579,638	15,553,726,466
End of year (Note 1h) . . . . .	\$12,585,896,826	\$15,461,579,638

## Notes to Financial Statements

### 1. Organization and Significant Accounting Policies

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

The following summarizes the Fund's significant accounting policies.

#### a. Financial Instrument Valuation

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

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

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

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

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

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

The Fund has procedures to determine the fair value of financial instruments for which market prices are not reliable or readily available. Under these procedures, the Fund primarily employs a market-based approach which may use related or comparable assets or liabilities, recent transactions, market multiples, book values, and other relevant information for the investment to determine the fair value of the investment. An income-based valuation approach may also be used in which the anticipated future cash flows of the investment are discounted to calculate fair value. Discounts may also be applied due to the nature or duration of any restrictions on the disposition of the investments. Due to the inherent uncertainty of valuations of such investments, the fair values may differ significantly from the values that would have been used had an active market existed.

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

### a. Financial Instrument Valuation (continued)

Trading in securities on foreign securities stock exchanges and OTC markets may be completed before 4 p.m. Eastern time. In addition, trading in certain foreign markets may not take place on every Fund's business day. Occasionally, events occur between the time at which trading in a foreign security is completed and 4 p.m. Eastern time that might call into question the reliability of the value of a portfolio security held by the Fund. As a result, differences may arise between the value of the Fund's portfolio securities as determined at the foreign market close and the latest indications of value at 4 p.m. Eastern time. In order to minimize the potential for these differences, the VC monitors price movements following the close of trading in foreign stock markets through a series of country specific market proxies (such as baskets of American Depository Receipts, futures contracts and exchange traded funds). These price movements are measured against established trigger thresholds for each specific market proxy to assist in determining if an event has occurred that may call into question the reliability of the values of the foreign securities held by the Fund. If such an event occurs, the securities may be valued using fair value procedures, which may include the use of independent pricing services. At December 31, 2018, a market event occurred resulting in a portion of the securities held by the Fund being valued using fair value procedures.

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

### b. Foreign Currency Translation

Portfolio securities and other assets and liabilities denominated in foreign currencies are translated into U.S. dollars based on the exchange rate of such currencies against U.S. dollars on the date of valuation. The Fund may enter into foreign currency exchange contracts to facilitate transactions denominated in a foreign currency. Purchases and sales of securities, income and expense items denominated in foreign currencies are translated into U.S. dollars at the exchange rate in effect on the transaction

date. Portfolio securities and assets and liabilities denominated in foreign currencies contain risks that those currencies will decline in value relative to the U.S. dollar. Occasionally, events may impact the availability or reliability of foreign exchange rates used to convert the U.S. dollar equivalent value. If such an event occurs, the foreign exchange rate will be valued at fair value using procedures established and approved by the Board.

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

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

### c. Derivative Financial Instruments

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

Derivative counterparty credit risk is managed through a formal evaluation of the creditworthiness of all potential counterparties. The Fund attempts to reduce its exposure to counterparty credit risk on OTC derivatives, whenever possible, by entering into International Swaps and Derivatives

Association (ISDA) master agreements with certain counterparties. These agreements contain various provisions, including but not limited to collateral requirements, events of default, or early termination. Termination events applicable to the counterparty include certain deteriorations in the credit quality of the counterparty. Termination events applicable to the Fund include failure of the Fund to maintain certain net asset levels and/or limit the decline in net assets over various periods of time. In the event of default or early termination, the ISDA master agreement gives the non-defaulting party the right to net and close-out all transactions traded, whether or not arising under the ISDA agreement, to one net amount payable by one counterparty to the other. However, absent an event of default or early termination, OTC derivative assets and liabilities are presented gross and not offset in the Statement of Assets and Liabilities. Early termination by the counterparty may result in an immediate payment by the Fund of any net liability owed to that counterparty under the ISDA agreement. At December 31, 2018, the Fund had no OTC derivatives in a net liability position for such contracts.

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

At December 31, 2018, the Fund received \$9,083,691 in U.K. Treasury Bonds and U.S. Treasury Bills, Bonds and Notes as collateral for derivatives.

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

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

See Note 10 regarding other derivative information.

#### **d. Securities Sold Short**

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

The Fund is required to establish a margin account with the broker lending the security sold short. While the short sale is outstanding, the broker retains the proceeds of the short sale to the extent necessary to meet margin requirements until the short position is closed out. A deposit must also be maintained with the Fund's custodian/counterparty broker consisting of cash and/or securities having a value equal to a specified percentage of the value of the securities sold short. The Fund is obligated to pay fees for borrowing the securities sold short and is required to pay the counterparty any dividends and/or interest due on securities sold short. Such dividends and/or interest and any security borrowing fees are recorded as an expense to the Fund.

#### **e. Securities Lending**

The Fund participates in an agency based securities lending program to earn additional income. The Fund receives cash collateral against the loaned securities in an amount equal to at

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

### e. Securities Lending (continued)

least 102% of the fair value of the loaned securities. Collateral is maintained over the life of the loan in an amount not less than 100% of the fair value of loaned securities, as determined at the close of Fund business each day; any additional collateral required due to changes in security values is delivered to the Fund on the next business day. The collateral is deposited into a joint cash account with other funds and is used to invest in a money market fund managed by Franklin Advisers, Inc., an affiliate of the Fund, and/or a joint repurchase agreement. The Fund may receive income from the investment of cash collateral, in addition to lending fees and rebates paid by the borrower. Income from securities loaned, net of fees paid to the securities lending agent and/or third-party vendor, is reported separately in the Statement of Operations. The Fund bears the market risk with respect to the collateral investment, securities loaned, and the risk that the agent may default on its obligations to the Fund. If the borrower defaults on its obligation to return the securities loaned, the Fund has the right to repurchase the securities in the open market using the collateral received. The securities lending agent has agreed to indemnify the Fund in the event of default by a third party borrower. At December 31, 2018, the Fund had no securities on loan.

### f. Senior Floating Rate Interests

The Fund invests in senior secured corporate loans that pay interest at rates which are periodically reset by reference to a base lending rate plus a spread. These base lending rates are generally the prime rate offered by a designated U.S. bank or the London InterBank Offered Rate (LIBOR). Senior secured corporate loans often require prepayment of principal from excess cash flows or at the discretion of the borrower. As a result, actual maturity may be substantially less than the stated maturity. Senior secured corporate loans in which the Fund invests are generally readily marketable, but may be subject to certain restrictions on resale.

### g. Income and Deferred Taxes

It is the Fund's policy to qualify as a regulated investment company under the Internal Revenue Code. The Fund intends to distribute to shareholders substantially all of its taxable income

and net realized gains to relieve it from federal income and excise taxes. As a result, no provision for U.S. federal income taxes is required.

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

As a result of several court cases, in certain countries across the European Union, the Fund filed additional tax reclaims for previously withheld taxes on dividends earned in those countries (EU reclaims). These additional filings are subject to various administrative proceedings by the local jurisdictions' tax authorities within the European Union, as well as a number of related judicial proceedings. Income recognized, if any, for EU reclaims is reflected as other income in the Statement of Operations and any related receivable, if any, is reflected as European Union tax reclaims in the Statement of Assets and Liabilities. When uncertainty exists as to the ultimate resolution of these proceedings, the likelihood of receipt of these EU reclaims, and the potential timing of payment, no amounts are reflected in the financial statements. For U.S. income tax purposes, EU reclaims received by the Fund, if any, reduce the amounts of foreign taxes Fund shareholders can use as tax credits in their individual income tax returns.

The Fund may recognize an income tax liability related to its uncertain tax positions under U.S. GAAP when the uncertain tax position has a less than 50% probability that it will be sustained upon examination by the tax authorities based on its technical merits. As of December 31, 2018, the Fund has determined that no tax liability is required in its financial statements related to uncertain tax positions for any open tax years (or expected to be taken in future tax years). Open tax years are those that remain subject to examination and are based on the statute of limitations in each jurisdiction in which the Fund invests.



**h. Security Transactions, Investment Income, Expenses and Distributions**

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

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

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

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

Distributions from net investment income :	
Class Z. ....	\$(143,391,184)
Class A. ....	(90,135,244)
Class C. ....	(12,762,513)
Class R. ....	(1,950,214)
Class R6. ....	(87,386,307)
Distributions from net realized gains:	
Class Z. ....	(296,748,998)
Class A. ....	(194,072,656)
Class C. ....	(44,764,663)
Class R. ....	(4,865,346)
Class R6. ....	(134,490,114)

For the year ended December 31, 2017, undistributed net investment income (loss) included in net assets was \$2,054,424.

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

**i. Accounting Estimates**

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

**j. Guarantees and Indemnifications**

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



## 2. Shares of Beneficial Interest

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

	Year Ended December 31,			
	2018		2017	
	Shares	Amount	Shares	Amount
<b>Class Z Shares:</b>				
Shares sold . . . . .	10,029,587	\$ 284,766,342	23,691,795	\$ 696,267,462
Shares issued in reinvestment of distributions. . . . .	13,492,550	320,309,753	13,747,109	395,547,594
Shares redeemed . . . . .	(27,123,733)	(767,174,696)	(92,023,346)	(2,710,731,683)
Net increase (decrease) . . . . .	(3,601,596)	\$(162,098,601)	(54,584,442)	\$(1,618,916,627)
<b>Class A Shares:</b>				
Shares sold <sup>a</sup> . . . . .	25,412,499	\$ 710,808,675	17,964,808	\$ 522,017,079
Shares issued in reinvestment of distributions. . . . .	10,148,432	238,431,075	9,145,140	260,399,623
Shares redeemed . . . . .	(29,787,083)	(834,634,647)	(41,761,357)	(1,214,079,098)
Net increase (decrease) . . . . .	5,773,848	\$ 114,605,103	(14,651,409)	\$ (431,662,396)
<b>Class C Shares:</b>				
Shares sold . . . . .	2,074,273	\$ 57,275,560	2,533,117	\$ 72,481,356
Shares issued in reinvestment of distributions. . . . .	675,227	15,942,868	2,024,489	56,971,259
Shares redeemed <sup>a</sup> . . . . .	(25,329,240)	(704,388,808)	(9,333,970)	(268,124,028)
Net increase (decrease) . . . . .	(22,579,740)	\$(631,170,380)	(4,776,364)	\$ (138,671,413)
<b>Class R Shares:</b>				
Shares sold . . . . .	347,792	\$ 9,776,448	622,054	\$ 17,981,440
Shares issued in reinvestment of distributions. . . . .	199,115	4,662,921	239,266	6,777,153
Shares redeemed . . . . .	(1,253,910)	(35,488,306)	(1,464,599)	(42,299,057)
Net increase (decrease) . . . . .	(707,003)	\$ (21,048,937)	(603,279)	\$ (17,540,464)
<b>Class R6 Shares:</b>				
Shares sold . . . . .	14,420,824	\$ 412,295,163	63,378,950	\$ 1,870,087,713
Shares issued in reinvestment of distributions. . . . .	9,195,249	218,103,352	7,729,991	221,874,105
Shares redeemed . . . . .	(23,959,670)	(689,861,044)	(7,551,970)	(222,835,095)
Net increase (decrease) . . . . .	(343,597)	\$ (59,462,529)	63,556,971	\$ 1,869,126,723

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

## 3. Transactions with Affiliates

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

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

**a. Management Fees**

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

Annualized Fee Rate	Net Assets
0.675%	Up to and including \$5 billion
0.645%	Over \$5 billion, up to and including \$10 billion
0.625%	Over \$10 billion, up to and including \$15 billion
0.595%	Over \$15 billion, up to and including \$20 billion
0.585%	Over \$20 billion, up to and including \$25 billion
0.565%	Over \$25 billion, up to and including \$30 billion
0.555%	Over \$30 billion, up to and including \$35 billion
0.545%	In excess of \$35 billion

For the year ended December 31, 2018, the gross effective investment management fee rate was 0.649% of the Fund's average daily net assets.

**b. Administrative Fees**

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

**c. Distribution Fees**

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

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

Class A . . . . .	0.35%
Class C . . . . .	1.00%
Class R . . . . .	0.50%

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

**d. Sales Charges/Underwriting Agreements**

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

Sales charges retained net of commissions paid to unaffiliated brokers/dealers . . . . .	\$307,621
CDSC retained . . . . .	\$ 22,051

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

**d. Sales Charges/Underwriting Agreements** (continued)

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

**e. Transfer Agent Fees**

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

For the year ended December 31, 2018, the Fund paid transfer agent fees of \$10,825,203, of which \$5,695,664 was retained by Investor Services.

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

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

	Number of Shares Held at Beginning of Year	Gross Additions	Gross Reductions	Number of Shares Held at End of Year	Value at End of Year	Income from securities loaned	Realized Gain (Loss)	Net Change in Unrealized Appreciation (Depreciation)
<b>Non-Controlled Affiliates</b>								
Institutional Fiduciary Trust Money Market Portfolio, 1.99% . . . . .	—	26,728,000	(26,728,000)	—	\$ —	\$2,237	\$ —	\$ —

**g. Waiver and Expense Reimbursements**

Investor Services has voluntarily agreed in advance to waive or limit its fees so that the Class R6 transfer agent fees do not exceed 0.02% based on the average net assets of the class. Investor Services may discontinue this waiver in the future.

**h. Other Affiliated Transactions**

At December 31, 2018, one or more of the funds in Franklin Fund Allocator Series owned 11.3% of the Fund’s outstanding shares.

**4. Expense Offset Arrangement**

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

## 5. Independent Trustees' Retirement Plan

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

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

<sup>a</sup> Projected benefit obligation at December 31, 2018 . . . . .	\$955,705
<sup>b</sup> Increase in projected benefit obligation . . . . .	\$232,125
Benefit payments made to retired trustees . . . . .	\$(15,790)

<sup>a</sup>The projected benefit obligation is included in trustees' fees and expenses in the Statement of Assets and Liabilities.

<sup>b</sup>The increase in projected benefit obligation is included in trustees' fees and expenses in the Statement of Operations.

## 6. Income Taxes

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

	2018	2017
Distributions paid from:		
Ordinary income. . . . .	\$273,584,591	\$ 367,181,482
Long term capital gain. . . . .	584,103,783	643,385,757
	<u>\$857,688,374</u>	<u>\$1,010,567,239</u>

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

Cost of investments. . . . .	<u>\$11,206,385,757</u>
Unrealized appreciation . . . . .	\$ 2,440,010,903
Unrealized depreciation . . . . .	<u>(1,240,390,266)</u>
Net unrealized appreciation (depreciation) . . . . .	\$ 1,199,620,637
Distributable earnings:	
Undistributed ordinary income. . . . .	\$ 9,116,741
Undistributed long term capital gains . . . . .	<u>375,725,587</u>
Total distributable earnings. . . . .	\$ 384,842,328

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

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

## 7. Investment Transactions

Purchases and sales of investments (excluding short term securities and securities sold short) for the year ended December 31, 2018, aggregated \$2,810,237,178 and \$4,542,869,806, respectively.

## 8. Credit Risk and Defaulted Securities

The Fund may purchase the pre-default or defaulted debt of distressed companies. Distressed companies are financially troubled and could be or are already involved in financial restructuring or bankruptcy. Risks associated with purchasing these securities include the possibility that the bankruptcy or other restructuring process takes longer than expected, or that distributions in restructuring are less than anticipated, either or both of which may result in unfavorable consequences to the Fund. If it becomes probable that the income on debt securities, including those of distressed companies, will not be collected, the Fund discontinues accruing income and recognizes an adjustment for uncollectible interest.

At December 31, 2018, the aggregate long value of distressed company securities for which interest recognition has been discontinued was \$171,679,898, representing 1.4% of the Fund's net assets. For information as to specific securities, see the accompanying Statement of Investments.

## 9. Restricted Securities

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

At December 31, 2018, investments in restricted securities, excluding securities exempt from registration under the 1933 Act deemed to be liquid, were as follows:

Principal Amount/ Shares	Issuer	Acquisition Date	Cost	Value
19,594	Broadband Ventures III LLC, secured promissory note, 5.00%, 2/01/12 . . . . .	7/01/10 - 11/30/12	\$ 19,594	\$ —
7,234,813	International Automotive Components Group Brazil LLC . . . . .	4/13/06 - 12/26/08	4,804,678	306,590
63,079,866	International Automotive Components Group North America LLC . . . . .	1/12/06 - 3/18/13	51,662,536	7,519,120
<b>Total Restricted Securities</b> (Value is 0.1% of Net Assets) . . . . .			<b>\$56,486,808</b>	<b>\$7,825,710</b>

## 10. Other Derivative Information

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

Derivative Contracts Not Accounted for as Hedging Instruments	Asset Derivatives		Liability Derivatives	
	Statement of Assets and Liabilities Location	Fair Value	Statement of Assets and Liabilities Location	Fair Value
Foreign exchange contracts . . . . .	Variation margin on futures contracts	\$ 465,013 <sup>a</sup>	Variation margin on futures contracts	\$ —
	Unrealized appreciation on OTC forward exchange contracts	8,387,842	Unrealized depreciation on OTC forward exchange contracts	624,551
Totals . . . . .		<u>\$8,852,855</u>		<u>\$624,551</u>

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

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

Derivative Contracts Not Accounted for as Hedging Instruments	Statement of Operations Location	Net Realized Gain (Loss) for the Year	Statement of Operations Location	Net Change in Unrealized Appreciation (Depreciation) for the Year
	Net realized gain (loss) from:		Net change in unrealized appreciation (depreciation) on:	
Foreign exchange contracts . . .	Forward exchange contracts	\$28,266,598	Forward exchange contracts	\$39,902,692
	Futures contracts	31,843,852	Futures contracts	6,968,472
Totals . . . . .		<u>\$60,110,450</u>		<u>\$46,871,164</u>

For the year ended December 31, 2018, the average month end notional amount of futures contracts represented \$518,598,030. The average month end contract value of forward exchange contracts was \$1,138,324,591.

See Note 1(c) regarding derivative financial instruments.

## 11. Holdings of 5% Voting Securities of Portfolio Companies

The 1940 Act defines "affiliated companies" to include investments in portfolio companies in which a fund owns 5% or more of the outstanding voting securities. During the year ended December 31, 2018, investments in "affiliated companies" were as follows:

Name of Issuer	Number of Shares Held at Beginning of Year	Gross Additions	Gross Reductions	Number of Shares Held at End of Year	Value at End of Year	Dividend Income	Realized Gain (Loss)	Net Change in Unrealized Appreciation (Depreciation)
<b>Controlled Affiliates<sup>a</sup></b>								
CB FIM Coinvestors LLC . . . . .	43,105,703	—	(43,105,703) <sup>b</sup>	—	\$ —	\$ —	\$27,760	\$ —
<b>Non-Controlled Affiliates</b>								
Alexander's Inc. . . . .	326,675	—	—	326,675	\$ 99,550,939	\$5,880,150	\$30,054 <sup>c</sup>	\$(29,763,360)
International Automotive Components Group Brazil LLC . . . . .	7,234,813	—	—	7,234,813	306,590	—	—	58,544
International Automotive Components Group North America LLC . . . . .	63,079,866	—	—	63,079,866	7,519,120	—	—	(34,036,318)
<b>Total Non-Controlled Affiliates . . . . .</b>					<u>\$107,376,649</u>	<u>\$5,880,150</u>	<u>\$30,054</u>	<u>\$(63,741,134)</u>
<b>Total Affiliated Securities (Value is 0.9% of Net Assets) . . . . .</b>					<u>\$107,376,649</u>	<u>\$5,880,150</u>	<u>\$57,814</u>	<u>\$(63,741,134)</u>

<sup>a</sup>Issuer in which the Fund owns 25% or more of the outstanding voting securities.

<sup>b</sup>Gross reduction was the result of a corporate action.

<sup>c</sup>Realized gain distribution from REITs.

## 12. Credit Facility

The Fund, together with other U.S. registered and foreign investment funds (collectively, Borrowers), managed by Franklin Templeton, are borrowers in a joint syndicated senior unsecured credit facility totaling \$2 billion (Global Credit Facility) which matured on February 8, 2019. This Global Credit Facility provides a source of funds to the Borrowers for temporary and emergency purposes, including the ability to meet future unanticipated or unusually large redemption requests. Effective February 8, 2019, the Borrowers renewed the Global Credit Facility for a one year term, maturing February 7, 2020, for a total of \$2 billion.

## 12. Credit Facility (continued)

Under the terms of the Global Credit Facility, the Fund shall, in addition to interest charged on any borrowings made by the Fund and other costs incurred by the Fund, pay its share of fees and expenses incurred in connection with the implementation and maintenance of the Global Credit Facility, based upon its relative share of the aggregate net assets of all of the Borrowers, including an annual commitment fee of 0.15% based upon the unused portion of the Global Credit Facility. These fees are reflected in other expenses in the Statement of Operations. During the year ended December 31, 2018, the Fund did not use the Global Credit Facility.

## 13. Fair Value Measurements

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

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

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

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

	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Investments in Securities: <sup>a</sup>				
Equity Investments: <sup>b</sup>				
Auto Components . . . . .	\$ 48,622,212	\$ —	\$ 7,825,710	\$ 56,447,922
Machinery . . . . .	—	87,175,766	—	87,175,766
Media . . . . .	604,371,865	3,772,687	—	608,144,552
Metals & Mining . . . . .	19,181,964	26,754,222	—	45,936,186
Software . . . . .	288,295,710	567,319	—	288,863,029
All Other Equity Investments . . . . .	9,575,766,734	—	— <sup>c</sup>	9,575,766,734
Corporate Notes and Senior Floating Rate Interests . . . . .	—	374,536,611	—	374,536,611
Corporate Notes and Senior Floating Rate Interests in Reorganization . . . . .	—	171,679,898	— <sup>c</sup>	171,679,898
Companies in Liquidation . . . . .	—	174,760	— <sup>c</sup>	174,760
Short Term Investments . . . . .	1,313,980,877	23,600,000	—	1,337,580,877
Total Investments in Securities . . . . .	\$ 11,850,219,362	\$ 688,261,263	\$ 7,825,710	\$ 12,546,306,335
Other Financial Instruments:				
Futures Contracts . . . . .	\$ 465,013	\$ —	\$ —	\$ 465,013
Forward Exchange Contracts . . . . .	—	8,387,842	—	8,387,842
Total Other Financial Instruments . . . . .	\$ 465,013	\$ 8,387,842	\$ —	\$ 8,852,855



	Level 1	Level 2	Level 3	Total
<b>Liabilities:</b>				
Other Financial Instruments:				
Securities Sold Short <sup>a</sup> . . . . .	\$ 148,540,745	\$ —	\$ —	\$ 148,540,745
Forward Exchange Contracts . . . . .	—	624,551	—	624,551
<b>Total Other Financial Instruments . . . . .</b>	<b>\$ 148,540,745</b>	<b>\$ 624,551</b>	<b>\$ —</b>	<b>\$ 149,165,296</b>

<sup>a</sup>For detailed categories, see the accompanying Statement of Investments.  
<sup>b</sup>Includes common stocks and management investment companies as well as other equity interests.  
<sup>c</sup>Includes securities determined to have no value at December 31, 2018.

A reconciliation of assets in which Level 3 inputs are used in determining fair value is presented when there are significant Level 3 financial instruments at the beginning and/or end of the year.

#### 14. New Accounting Pronouncements

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

#### 15. Subsequent Events

The Fund has evaluated subsequent events through the issuance of the financial statements and determined that no events have occurred that require disclosure other than those already disclosed in the financial statements.

#### Abbreviations

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

## Report of Independent Registered Public Accounting Firm

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

### Opinion on the Financial Statements

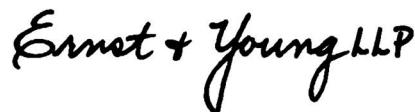
We have audited the accompanying statement of assets and liabilities of Franklin Mutual Shares Fund (the "Fund") (one of the funds constituting Franklin Mutual Series Funds), including the schedule of investments, as of December 31, 2018, and the related statement of operations for the year then ended,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

### Basis for Opinion

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

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

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of December 31, 2018, by correspondence with the custodian or by other appropriate auditing procedures where replies from others were not received. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

The signature of Ernst & Young LLP is written in a black, cursive script. The words "Ernst & Young" are written in a larger, more prominent cursive font, with "LLP" in a smaller, simpler font to the right.

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

Boston, Massachusetts  
February 20, 2019

**Tax Information (unaudited)**

Under Section 852(b)(3)(C) of the Internal Revenue Code, the Fund hereby reports the maximum amount allowable but no less than \$682,605,704 as a long term capital gain dividend for the fiscal year ended December 31, 2018.

Under Section 871(k)(2)(C) of the Internal Revenue Code, the Fund hereby reports the maximum amount allowable but no less than \$28,582,586 as a short term capital gain dividend for purposes of the tax imposed under Section 871(a)(1)(A) of the Internal Revenue Code for the fiscal year ended December 31, 2018.

Under Section 854(b)(1)(A) of the Internal Revenue Code, the Fund hereby reports 70.18% of the ordinary income dividends as income qualifying for the dividends received deduction for the fiscal year ended December 31, 2018.

Under Section 854(b)(1)(B) of the Internal Revenue Code, the Fund hereby reports the maximum amount allowable but no less than \$287,866,117 as qualified dividends for purposes of the maximum rate under Section 1(h)(11) of the Internal Revenue Code for the fiscal year ended December 31, 2018. Distributions, including qualified dividend income, paid during calendar year 2018 will be reported to shareholders on Form 1099-DIV by mid-February 2019. Shareholders are advised to check with their tax advisors for information on the treatment of these amounts on their individual income tax returns.

## Board Members and Officers

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

### Independent Board Members

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

## Independent Board Members (continued)

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

## Interested Board Members and Officers

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

**Interested Board Members and Officers** (continued)

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

**Interested Board Members and Officers** (continued)

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



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

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

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

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

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

# Shareholder Information

## Proxy Voting Policies and Procedures

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

## Quarterly Statement of Investments

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

## Householding of Reports and Prospectuses

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

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**FRANKLIN  
TEMPLETON**

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

**Investment Manager**

Franklin Mutual Advisers, LLC

**Distributor**

Franklin Templeton Distributors, Inc.

(800) DIAL BEN® / 342-5236

[franklintempleton.com](http://franklintempleton.com)

**Shareholder Services**

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

(800) 448-FUND - (Class Z)

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

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