FRANKLIN TEMPLETON INVESTMENTS

Annual Report and Shareholder Letter
December 31, 2014

Franklin Mutual Shares Fund

Formerly, Mutual Shares Fund

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Franklin Templeton Investments

Gain From Our Perspective®

At Franklin Templeton Investments, we're dedicated to one goal: delivering exceptional asset management for our clients. By bringing together multiple, world-class investment teams in a single firm, we're able to offer specialized expertise across styles and asset classes, all supported by the strength and resources of one of the world's largest asset managers. This has helped us to become a trusted partner to individual and institutional investors across the globe.

Focus on Investment Excellence

At the core of our firm, you'll find multiple independent investment teams—each with a focused area of expertise—from traditional to alternative strategies and multi-asset solutions. And because our portfolio groups operate autonomously, their strategies can be combined to deliver true style and asset class diversification.

All of our investment teams share a common commitment to excellence grounded in rigorous, fundamental research and robust, disciplined risk management. Decade after decade, our consistent, research-driven processes have helped Franklin Templeton earn an impressive record of strong, long-term results.

Global Perspective Shaped by Local Expertise

In today's complex and interconnected world, smart investing demands a global perspective. Franklin Templeton pioneered international investing over 60 years ago, and our expertise in emerging markets spans more than a quarter of a century. Today, our investment professionals are on the ground across the globe, spotting investment ideas and potential risks firsthand. These locally based teams bring in-depth understanding of local companies, economies and cultural nuances, and share their best thinking across our global research network.

Strength and Experience

Franklin Templeton is a global leader in asset management serving clients in over 150 countries.[1] We run our business with the same prudence we apply to asset management, staying focused on delivering relevant investment solutions, strong long-term results and reliable, personal service. This approach, focused on putting clients first, has helped us to become one of the most trusted names in financial services.

1. As of 12/31/13. Clients are represented by the total number of shareholder accounts.

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Average Annual Total Return

Class Z	12/31/14
1-Year	+7.60%
5-Year	+11.80%
10-Year	+6.50%

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

Shareholder Letter

Dear Franklin Mutual Shares Fund Shareholder:

Franklin Mutual Shares Fund – Class Z rose 7.60% for the year ended December 31, 2014. The broad U.S. stock market, as measured by the Standard & Poor's® 500 Index (S&P 500®), gained 13.69% in the same period, while the MSCI World Index advanced 5.50% and the MSCI Europe Index rose 4.66% in local currency terms.[1] Equity markets were also generally positive during the last six months of the year but exhibited greater volatility than during the first half. The Fund invests globally, and its performance reflected the different results from U.S. and international securities.

In 2014, U.S. stocks led the rise in global markets. Domestic equities were driven by modest economic growth and low interest rates as the U.S. economy continued to recover, albeit gradually. Outside the U.S., faltering growth raised questions about whether the recovery was truly global. The consistency of the modest U.S. recovery has helped make the U.S. stock market one of the best performing in the world over the past three years.

In Europe, growth stalled amid widespread concerns about deflation. European interest rates continued to plunge as a result, and at year-end, five-year German government bonds yielded almost nothing. We expect, and support, aggressive measures by the European Central Bank to drive inflation to its 2% target.

In Asia, Chinese growth moderated and the Chinese market experienced some volatility, while Japan's experiments with revitalizing its economy, driven by Prime Minister Shinzo Abe, appeared to have stalled.

The fourth quarter of the year was dominated by an extraordinary plunge in global oil prices, as they declined nearly by half. While other commodity prices fell, as might be expected in a period of slowing global growth, the energy price collapse was dramatic and swift, driven by both supply and demand factors. Supply was driven upward by the ongoing U.S. shale revolution, in which new "fracking" techniques have increased U.S. oil production by millions of barrels per day, and by the reduced strength of the Organization of the Petroleum Exporting Countries, which no longer has the ability or desire to lower production to stabilize global prices. Reduced demand resulted from slowing growth, as well as longer term efforts to promote alternative fuels.

At Mutual Series we are not top-down investors who start with a theme and then pick stocks. Rather, we are fundamental bottom-up analysts of companies, and our portfolios are an outgrowth of this process. By year-end 2014, our investment process led us to a significant number of undervalued financial companies. Financials were at the center of the global financial crisis and have remained in a semi-crisis state ever since, with regulatory issues, capital concerns and the effect of quantitative easing all weighing on financials.

1. Source: Morningstar.
The indexes are unmanaged and include reinvested dividends. One cannot invest directly in an index, and an index is not representative of the Fund's portfolio.

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Our investments in financials were focused on insurers and banks. Insurers remained inexpensive relative to their book value. The basic business of an insurance company is to charge premiums in exchange for taking on some risk, invest the premiums and pay claims to policyholders as they occur. Investing the premiums is a key business component, and the declining level of interest rates has been a headwind for earnings. Beyond low interest rates, insurers have struggled with an uncertain regulatory environment and market concerns that they will not be disciplined in underwriting risk.

We focused on opportunities in the insurance sector where we believed the business improvements were more within management's control and less sensitive to the broad landscape, particularly companies with strong balance sheets that permitted a focus on internal cost cutting and capital returns to shareholders. Our outlook generally assumed modest market returns, continued low interest rates, a normalization of weather-related losses (currently lower than normal) and a softening pricing cycle, which we saw as leading to a low double-digit return on equity for these companies. In this environment, we still saw room for good returns in these investments with the possibility of stronger returns should interest rates rise.

Banks have generally lagged the broader markets over the past several years and recently traded at earnings multiples 30 percent or more below that of the S&P 500. Also, a number of these banks traded at or below their book values, implying that they would not create value and might even destroy value in the future. Many banks took significant hits to capital during the financial crisis and were forced to use earnings to strengthen balance sheets rather than pursue growth. Beyond simply making up for losses, banks increased capital and faced other regulatory burdens as well as massive legal and conduct-related penalties following the financial crisis, all of which contributed to their weak performance. Banks have also had to deal with an environment of low rates and weak loan demand. While some of these headwinds are continuing, banks have made significant progress cutting costs and adapting their balance sheets for the changing landscape. This suggested to us that banks should be able to return to more normal levels of profitability in the years ahead, which we believed was not priced into the stocks. In addition, the potential for investment gains existed with banks as it did insurers if rates and lending volumes eventually improve.

The Fund's merger arbitrage activity has picked up along with merger and acquisition (M&A) volumes. Many of our largest M&A-related positions were not traditional merger arbitrage positions, where we invested solely to capture a discount created by the announcement of a deal. Instead, in several cases the Fund invested in either the acquirer or the target at the time of deal announcement and we decided to maintain the position. Examples include Medtronic's acquisition of Covidien, where the Fund held a significant Medtronic position prior to the deal, and Reynolds American's acquisition of Lorillard, where the Fund held Lorillard.[2] In each case, we analyzed the proposed deal and expected value creation for the new company after the deal was completed.

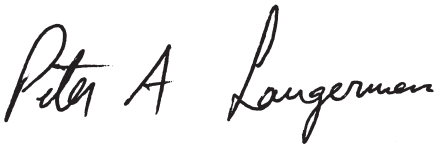
Within the distressed debt universe, the opportunity set continued to be limited given the low interest rate environment and persistently low default rate among corporate bond issuers. Even so, the Fund was involved in the first lien debt of Caesars Entertainment Operating Company, the largest subsidiary of Caesars Entertainment Corporation, which was purchased by Apollo Management Holdings LP and Texas Pacific Group in a leveraged buyout.[3] The gaming, entertainment, and hospitality company has struggled for years under the weight of its overleveraged capital structure and was expected to restructure its debt through a bankruptcy filing imminently. The positions held by the Fund are secured by the company's assets and enjoy a parent guarantee that we feel offers us significant downside protection with the ability to earn compelling returns on a risk-adjusted basis. The Fund is a member of an ad hoc creditor group and is actively involved in the restructuring negotiations.

Further, given oil's precipitous price decline since mid-summer, the likelihood of a longer U-shaped recovery, significant current and committed future capital expenditures, and the size of the energy and energy services sector, we are optimistic that new and compelling opportunities to deploy capital in the asset class may materialize as 2015 progresses. In fact, the energy sector is the largest high yield issuer as profit margins decline, asset-based loan availabilities are recalculated lower, hedge portfolios roll off and liquidity pressures mount.

2. Franklin Mutual Shares Fund's holdings are based on total net assets as of 12/31/14: Medtronic 3.0% and Lorillard 1.4%.
3. Franklin Mutual Shares Fund's holdings are based on total net assets as of 12/31/14: Caesars Entertainment Operating Co. 0.5%.
See www.franklintempletondatasources.com for additional data provider information.

Although 2014 resulted in underperformance for many value investors including ourselves, we will continue to focus on fundamental security analysis as part of our commitment to shareholders to achieve attractive long-term returns with a focus on containing risk. We thank you for your investment in the Fund and look forward to a prosperous 2015.

Sincerely,



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

The letter reflects our analysis, opinions and portfolio holdings as of December 31, 2014, 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.

Annual Report

Franklin Mutual Shares Fund

(formerly, Mutual Shares Fund)

This annual report for Franklin Mutual Shares Fund covers the fiscal year ended December 31, 2014.

Your Fund's Goals and Main Investments

The Fund seeks capital appreciation, with income as a secondary goal, by investing primarily in equity securities of companies the Fund's managers believe are at prices below their intrinsic value. The Fund may invest up to 35% of its assets in foreign securities.

Performance Overview

The Fund's Class Z shares delivered a cumulative total return of +7.60% for the 12 months ended December 31, 2014. 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, generated a +13.69% total return.[1] You can find more of the Fund's performance data in the Performance Summary beginning on page 9.

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

Geographic Breakdown*
Based on Total Net Assets as of 12/31/14

*Weightings may be negative or may not total 100% due to rounding, use of any derivatives, unsettled trades or other factors.

Economic and Market Overview

The global economy grew moderately during 2014 as U.S. economic growth expanded while growth rates in much of the rest of the world declined. U.S. economic activity was supported in some quarters by increased consumer spending, business investment and federal defense spending. The housing market strengthened, and lower gasoline prices and improved job growth contributed to rising retail sales. The U.S. Federal Reserve Board (Fed) began reducing its large-scale bond purchases $10 billion a month in January and ended the buying program in October. But it continued its practice of maintaining holdings of longer term securities at sizable levels. Toward period-end, the Fed stated that it could be patient with regard to raising interest rates and that the interest rate might not rise for at least a couple of meetings, possibly implying at least the first two meetings of 2015.

Outside the U.S., the U.K. economy grew relatively well, supported by the services and manufacturing sectors. In the eurozone, economic growth remained subdued, as concerns persisted about the potential negative impacts to growth from the crisis in Ukraine and China's moderating growth rate. In June, the European Central Bank (ECB) reduced its main

1. Source: Morningstar.
The index is unmanaged and includes reinvested dividends. One cannot invest directly in an index, and an index is not representative of the Fund's portfolio.
See www.franklintempletondatasources.com for additional data provider information.

The dollar value, number of shares or principal amount, and names of all portfolio holdings are listed in the Fund's Statement of Investments (SOI). The SOI begins on page 21.

interest rate and, for the first time, set a negative deposit rate; the ECB reduced both rates again in September. The ECB broadened its monetary easing stance by implementing an asset purchase program to prevent deflation and stimulate the economy. Japan's second- and third-quarter economic contractions indicated the economy was in a recession, although private consumption and exports improved in the third quarter. In October, the Bank of Japan expanded its stimulus measures amid weak domestic demand and as substantially lower crude oil prices exerted further downward pressure on inflation. Near period-end, Japan's ruling coalition was reelected in early parliamentary elections and subsequently announced a fresh stimulus package aimed at reviving economic growth.

Global developed market stocks, as measured by the MSCI World Index, advanced overall during the 12-month period amid a generally accommodative monetary policy environment and continued strength in corporate earnings. In several emerging markets, economic growth generally moderated. Emerging market stocks overall, as measured by the MSCI Emerging Markets Index, fell for the year, amid headwinds such as soft domestic demand, weak exports, plummeting crude oil prices, regional geopolitical tensions and concerns about possible U.S. interest rate increases. Many emerging market currencies depreciated against the U.S. dollar, leading several central banks to raise interest rates seeking to support their currencies. Several other central banks lowered interest rates to promote economic growth. Gold prices ended the year lower amid benign global inflation and a strong U.S. dollar.

Top 10 Sectors/Industries
Based on Equity Securities as of 12/31/14

	% of Total Net Assets
Insurance	9.3%
Banks	9.2%
Media	8.8%
Pharmaceuticals	6.8%
Oil, Gas & Consumable Fuels	6.6%
Tobacco	5.7%
Software	4.9%
Health Care Equipment & Supplies	4.0%
Technology Hardware, Storage & Peripherals	3.5%
Food & Staples Retailing	3.4%

Investment Strategy

At 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 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 it is also intended to reduce the risk of substantial declines. 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.

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 eschew 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

Many Fund holdings increased in value during the 12-month period. Top contributors to performance included technology leader Apple, Teva Pharmaceutical Industries and retailer Kroger.

During the year Apple reported consistently good quarterly results, driven by its strong iPhone business. In addition, the company announced a trio of shareholder friendly actions. These included an enhanced share repurchase program of $90 billion, up from $60 billion, with the same end date of December 2015, an 8% increase in the dividend, and a seven-for-one stock split that went into effect in early June. In September, the company released its highly anticipated iPhone 6, which sold 10 million units in its first two days. The iPhone sales drove a strong fiscal fourth quarter via healthy sales volumes and a strong product mix that led to a higher average selling price for the period. In October, the company refreshed its product line-up ahead of the holiday season, including launches of the new iPad Air 2, iPad Mini 3, iMac with Retina Display and an updated Mac Mini. Apple also announced the commencement of support for Apple Pay, its mobile payment and digital wallet application.

The performance of Israel-based Teva Pharmaceutical Industries was largely driven by positive events related to the company's most profitable drug, Copaxone, used to prevent the relapse of multiple sclerosis. In March, the U.S. Supreme Court agreed to hear Teva's appeal (with oral arguments occurring in October) to maintain a patent, which further delayed the entrance of generic competition. The delay provided Teva the opportunity to convert more U.S. patients to its new formulation and allowed it to potentially retain a higher portion of the franchise once generic alternatives entered the market. In December, Teva received more good news regarding Copaxone with the new formulation gaining European Union approval. Investors also reacted favorably to the January 2014 announcement of a new chief executive officer (CEO) as the market believed he could successfully carry on Teva's cost-cutting restructuring program.

Kroger is a Cincinnati-based grocery retailer that operates over 2,400 grocery and multi-department stores in 31 states. During 2014, the company reported strong quarterly operating profits while also raising its fiscal year 2014 earnings outlook for three consecutive quarters. The increase in the full-year outlook was driven in part by the acquisition of Harris Teeter, a stronger outlook for 2014 full-year sales and a decline in gasoline prices, which has helped the U.S. consumer. Kroger's management team has been executing on a program called "Consumer First" for several years. This program has resonated with Kroger customers, enabling the company to gain market share, leverage fixed costs, drive operating profit growth and increase shareholder value.

During the period under review, some of the Fund's investments negatively affected performance. These included offshore drilling company Transocean, natural resources firm Freeport-McMoRan and retailer Tesco.

Transocean is a Switzerland-headquartered company providing offshore contract drilling services. The offshore drilling market continued to be mired in a downturn with little clarity regarding the length and depth of the current cycle as oil prices plunged during the second half of 2014. Oil companies pushed back projects, leaving a number of new rigs without contracts and increasing potential downtime between jobs for existing rigs. The growing fleet of uncontracted rigs at period-end portended, in our view, weak second-half results and a challenging start to 2015. On a positive note, the company started a Master Limited Partnership (MLP), Transocean Partners, which went public in September. The MLP may provide Transocean with a way to generate cash by selling (dropping down) assets into Transocean Partners while still controlling the operations of those assets.

Top 10 Equity Holdings
12/31/14

Company *Sector/Industry, Country*	% of Total Net Assets
Medtronic Inc. *Health Care Equipment & Supplies, U.S.*	3.0%
Microsoft Corp. *Software, U.S.*	2.8%
Merck & Co. Inc. *Pharmaceuticals, U.S.*	2.6%
White Mountains Insurance Group Ltd. *Insurance, U.S.*	2.5%
Teva Pharmaceutical Industries Ltd., ADR *Pharmaceuticals, Israel*	2.2%
Apple Inc. *Technology Hardware, Storage & Peripherals, U.S.*	2.0%
Twenty-First Century Fox Inc., B *Media, U.S.*	1.9%
PNC Financial Services Group Inc. *Banks, U.S.*	1.9%
American International Group Inc. *Insurance, U.S.*	1.7%
Time Warner Cable Inc. *Media, U.S.*	1.6%

Shares of Freeport-McMoRan came under pressure during 2014 in large part due to falling crude oil prices during the second half of the year, as well as lower prices for copper and gold. The company's stock also came under pressure from events related to its operations in Indonesia. In early 2014, Indonesia's government issued new mining-related tax and regulatory policies with the apparent intent to force miners to build smelters within the country. In September, production at the company's Grasberg mine in Indonesia declined following a fatal accident. The workers' union subsequently threatened to strike, a development that ultimately did not occur. We took a favorable view of agreements announced in May for Freeport to sell shale assets in Texas and to purchase deepwater oil and gas projects in the Gulf of Mexico. We believe the deepwater assets are more attractive than the shale assets, and proceeds from the shale asset sale allowed Freeport to pay off some of its debt. In addition, we had a favorable view on copper over the longer term as we believed supply shortages were likely in the next few years.

Shares of the U.K.-based Tesco fell throughout 2014. In March, the stock declined as investors became more concerned about price competition from major discounters and competitor supermarkets. Then in August, Tesco issued an unexpected trading statement ahead of its scheduled first-half results. The company lowered its profit guidance primarily for its flagship U.K. operations and cut its dividend. The stock price took a further hit in September with the announcement of material accounting irregularities in Tesco's core U.K. operations and a contemporaneous change of both the company's CEO and chief financial officer. At year-end, the Fund no longer held Tesco shares.

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

What is a currency forward contract?

A currency forward contract, or a currency forward, 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.

What is a futures contract?

A futures contract, or 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 asset at a specific price on a future date.

As fellow shareholders, we found recent relative performance disappointing, but it is not uncommon for our strategy to lag amid a strong equity market. 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 continued participation in Franklin Mutual Shares Fund. We look forward to continuing to serve your investment needs.

Peter A. Langerman
Co-Portfolio Manager

F. David Segal, CFA
Co-Portfolio Manager

Debbie A. Turner, CFA
Assistant Portfolio Manager

The foregoing information reflects our analysis, opinions and portfolio holdings as of December 31, 2014, 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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Peter Langerman has been portfolio manager for Franklin Mutual Shares Fund (formerly, Mutual Shares Fund) since 2005. He has been portfolio manager of Franklin Mutual Global Discovery Fund (formerly, Mutual Global Discovery Fund) since 2009. He joined Franklin Templeton Investments in 1996, serving in various capacities, including President and Chief Executive Officer of Franklin Mutual Advisers and member of the management team of the Funds, including Franklin Mutual Shares Fund. From 2002 to 2005, he served as director of New Jersey's Division of Investment, overseeing employee pension funds. Between 1986 and 1996, Mr. Langerman was employed at Heine Securities Corporation, the Fund's former manager.

F. David Segal has been portfolio manager for Franklin Mutual Shares Fund (formerly, Mutual Shares Fund) since 2005. He joined Franklin Templeton Investments in 2002. Previously, he was an analyst in the Structured Finance Group of MetLife for the period 1999 to 2002.

Debbie Turner has been assistant portfolio manager for Franklin Mutual Shares Fund (formerly, Mutual Shares Fund) since 2001. She joined Franklin Templeton Investments in 1996. Between 1993 and 1996, Ms. Turner was employed at Heine Securities Corporation, the Fund's former manager.

Performance Summary as of December 31, 2014

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

Net Asset Value

Share Class (Symbol)	**12/31/14**	**12/31/13**	**Change**
Z (MUTHX)	$29.52	$28.34	+$1.18
A (TESIX)	$29.29	$28.12	+$1.17
C (TEMTX)	$29.02	$27.88	+$1.14
R (TESRX)	$29.14	$27.98	+$1.16
R6 (FMSHX)	$29.51	$28.33	+$1.18

Distributions (1/1/2014–12/31/2014)

Share Class	**Dividend Income**
Z	$0.9791
A	$0.8876
C	$0.6830
R	$0.8228
R6	$1.0143

Performance as of 12/31/14

Cumulative total return excludes sales charges. Average annual total return and value of $10,000 investment include maximum sales charges. ***Class Z/R/R6:*** *no sales charges;* ***Class A:*** *5.75% maximum initial sales charge;* ***Class C:*** *1% contingent deferred sales charge in first year only.*

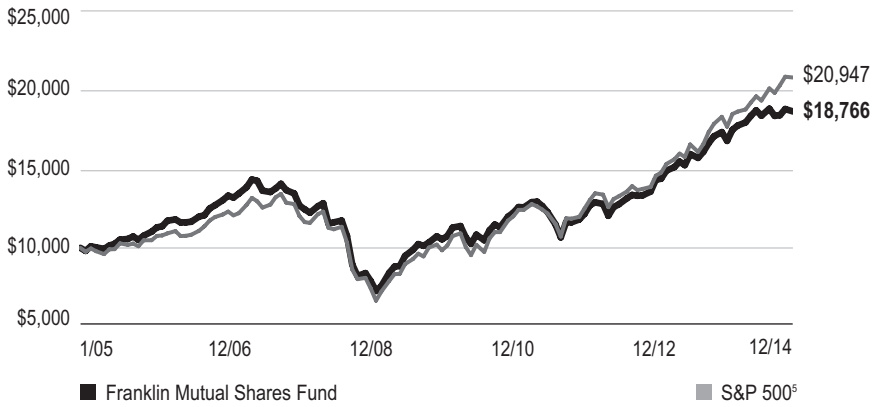
Share Class	Cumulative Total Return[1]	Average Annual Total Return[2]	Value of $10,000 Investment[3]	Total Annual Operating Expenses[4]
Z				0.79%
1-Year	+7.60%	+7.60%	$10,760	
5-Year	+74.70%	+11.80%	$17,470	
10-Year	+87.66%	+6.50%	$18,766	
A				1.09%
1-Year	+7.30%	+1.11%	$10,111	
5-Year	+72.09%	+10.16%	$16,222	
10-Year	+81.94%	+5.54%	$17,148	
C				1.79%
1-Year	+6.56%	+5.56%	$10,556	
5-Year	+66.22%	+10.70%	$16,622	
10-Year	+69.88%	+5.44%	$16,988	
R				1.29%
1-Year	+7.10%	+7.10%	$10,710	
5-Year	+70.45%	+11.25%	$17,045	
10-Year	+78.60%	+5.97%	$17,860	
R6[5]				0.67%
1-Year	+7.72%	+7.72%	$10,772	
Since Inception (5/1/13)	+24.63%	+14.11%	$12,463	

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

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.

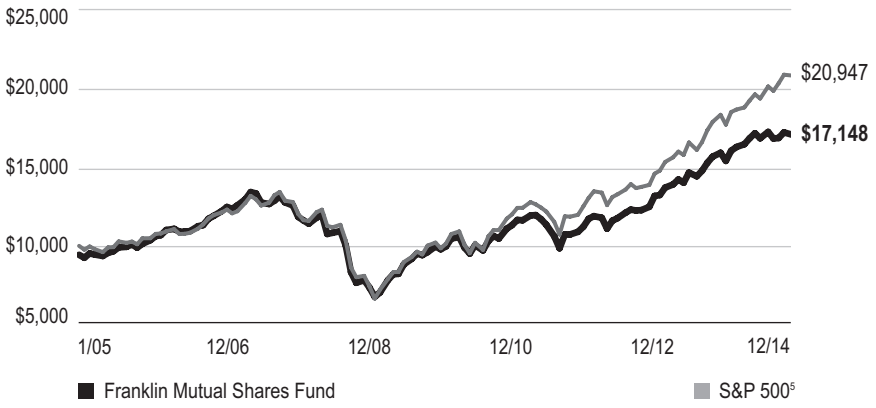
Class Z (1/1/05–12/31/14)



Average Annual Total Return

Class Z	12/31/14
1-Year	+7.60%
5-Year	+11.80%
10-Year	+6.50%

Class A (1/1/05–12/31/14)

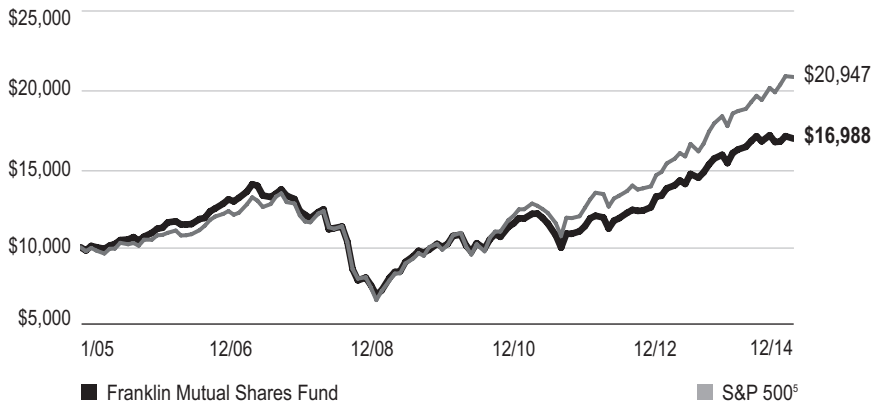


Average Annual Total Return

Class A	12/31/14
1-Year	+1.11%
5-Year	+10.16%
10-Year	+5.54%

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

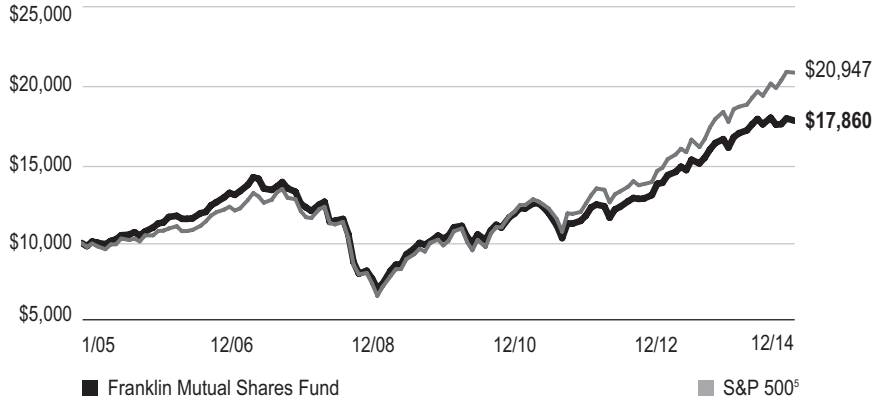
Class C (1/1/05–12/31/14)



Average Annual Total Return

Class C	12/31/14
1-Year	+5.56%
5-Year	+10.70%
10-Year	+5.44%

Class R (1/1/05–12/31/14)

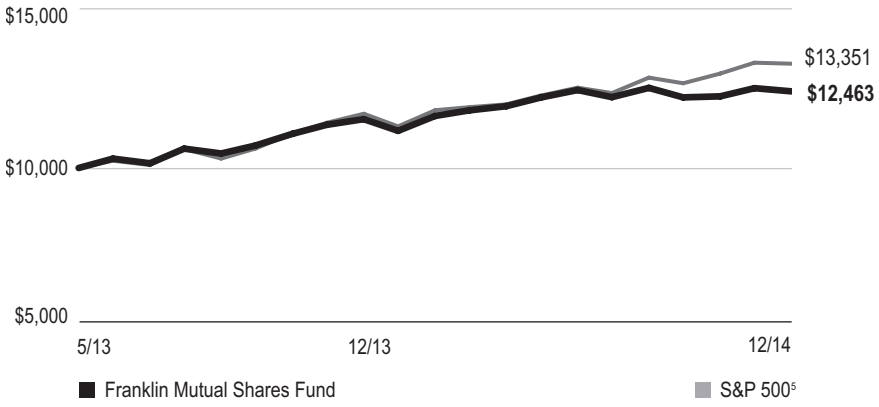


Average Annual Total Return

Class R	12/31/14
1-Year	+7.10%
5-Year	+11.25%
10-Year	+5.97%

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

Class R6 (5/1/13–12/31/14)[5]



Average Annual Total Return

Class R6[5]	12/31/14
1-Year	+7.72%
Since Inception (5/1/13)	+14.11%

All investments involve risks, including possible loss of principal. Value securities may not increase in price as anticipated or may decline further in value. The Fund's investments in foreign securities involve special risks including currency fluctuations, and economic and political uncertainties. The Fund may also invest in companies engaged in mergers, reorganizations or liquidations, which involve special risks as pending deals may not be completed on time or on favorable terms, as well as 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.

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

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

Class R: Shares are available to certain eligible investors as described in the prospectus. These shares have higher annual fees and expenses than Class A shares.

Class R6: Shares are available to certain eligible investors as described in the prospectus.

1. Cumulative total return represents the change in value of an investment over the periods indicated.
2. Average annual total return represents the average annual change in value of an investment over the periods indicated.
3. These figures represent the value of a hypothetical $10,000 investment in the Fund over the periods indicated.
4. Figures are as stated in the Fund's current prospectus. In periods of market volatility, assets may decline significantly, causing total annual Fund operating expenses to become higher than the figures shown.
5. Class R6 has a fee waiver contractually guaranteed through at least 4/30/15. Investment results reflect the fee waiver, to the extent applicable; without this reduction, the results would have been lower.
6. Source: Morningstar. The S&P 500 is a market capitalization-weighted index of 500 stocks designed to measure total U.S. equity market performance.

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

Your Fund's Expenses

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

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

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

Actual Fund Expenses

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

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

1. Divide your account value by $1,000.
   If an account had an $8,600 value,
   then $8,600 ÷ $1,000 = 8.6.

2. Multiply the result by the number under the heading "Expenses Paid During Period."
   If Expenses Paid During Period were $7.50,
   then 8.6 x $7.50 = $64.50.

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

Hypothetical Example for Comparison with Other Funds

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

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

Share Class	Beginning Account Value 7/1/14	Ending Account Value 12/31/14	Expenses Paid During Period* 7/1/14–12/31/14
Z			
Actual	$1,000	$ 996.20	$4.08
Hypothetical (5% return before expenses)	$1,000	$1,021.12	$4.13
A			
Actual	$1,000	$ 994.80	$5.58
Hypothetical (5% return before expenses)	$1,000	$1,019.61	$5.65
C			
Actual	$1,000	$ 991.20	$9.08
Hypothetical (5% return before expenses)	$1,000	$1,016.08	$9.20
R			
Actual	$1,000	$ 993.90	$6.58
Hypothetical (5% return before expenses)	$1,000	$1,018.60	$6.67
R6			
Actual	$1,000	$ 996.70	$3.52
Hypothetical (5% return before expenses)	$1,000	$1,021.68	$3.57

*Expenses are calculated using the most recent six-month expense ratio, annualized for each class (Z: 0.81%; A: 1.11%; C: 1.81%; R: 1.31%; and R6: 0.70%), multiplied by the average account value over the period, multiplied by 184/365 to reflect the one-half year period.

Financial Highlights

	Year Ended December 31,				
	2014	2013	2012	2011	2010
Class Z					
Per share operating performance (for a share outstanding throughout the year)					
Net asset value, beginning of year	$28.34	$22.48	$19.96	$20.80	$19.19
Income from investment operations[a]:					
Net investment income[b]	0.78[c]	0.47	0.39	0.47[d]	0.56[e]
Net realized and unrealized gains (losses)	1.38	5.83	2.62	(0.80)	1.68
Total from investment operations	2.16	6.30	3.01	(0.33)	2.24
Less distributions from net investment income	(0.98)	(0.44)	(0.49)	(0.51)	(0.63)
Net asset value, end of year	$29.52	$28.34	$22.48	$19.96	$20.80
Total return	7.60%	28.10%	15.14%	(1.50)%	11.75%
Ratios to average net assets					
Expenses[f]	0.80%[g]	0.79%[g]	0.82%	0.86%	0.85%[h]
Expenses incurred in connection with securities sold short	0.03%	—%[i]	—%[i]	—%[i]	0.02%
Net investment income	2.67%[c]	1.85%	1.82%	2.24%[d]	2.83%[e]
Supplemental data					
Net assets, end of year (000's)	$7,363,765	$7,025,908	$7,575,308	$7,540,502	$8,635,954
Portfolio turnover rate	19.24%	24.29%	21.57%	29.44%	28.25%

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

[b]Based on average daily shares outstanding.

[c]Net investment income per share includes approximately $0.29 per share received in the form of a special dividend paid in connection with certain Fund's holdings. Excluding this amount, the ratio of net investment income to average net assets would have been 1.66%.

[d]Net investment income per share includes approximately $0.08 per share related to interest income received that had previously been deemed uncollectible. Excluding this amount, the ratio of net investment income to average net assets would have been 1.87%.

[e]Net investment income per share includes approximately $0.21 per share received in the form of a special dividend paid in connection with a corporate real estate investment trust (REIT) conversion. Excluding this non-recurring amount, the ratio of net investment income to average net assets would have been 1.73%.

[f]Includes dividend expense on securities sold short and borrowing fees, if any. See below for the ratios of such expenses to average net assets for the periods presented. See Note 1(f).

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

[h]Benefit of waiver and payment by affiliates rounds to less than 0.01%.

[i]Rounds to less than 0.01%.

	Year Ended December 31,				
	2014	2013	2012	2011	2010
Class A					
Per share operating performance (for a share outstanding throughout the year)					
Net asset value, beginning of year	$28.12	$22.32	$19.81	$20.64	$19.06
Income from investment operations[a]:					
Net investment income[b]	0.69[c]	0.40	0.33	0.40[d]	0.49[e]
Net realized and unrealized gains (losses)	1.37	5.76	2.60	(0.79)	1.66
Total from investment operations	2.06	6.16	2.93	(0.39)	2.15
Less distributions from net investment income	(0.89)	(0.36)	(0.42)	(0.44)	(0.57)
Net asset value, end of year	$29.29	$28.12	$22.32	$19.81	$20.64
Total return[f]	7.30%	27.74%	14.75%	(1.79)%	11.41%
Ratios to average net assets					
Expenses[g]	1.10%[h]	1.09%[h]	1.12%	1.16%	1.15%[i]
Expenses incurred in connection with securities sold short	0.03%	—%[j]	—%[j]	—%[j]	0.02%
Net investment income	2.37%[c]	1.55%	1.52%	1.94%[d]	2.53%[e]
Supplemental data					
Net assets, end of year (000's)	$5,392,130	$5,477,733	$4,633,895	$4,681,967	$5,368,887
Portfolio turnover rate	19.24%	24.29%	21.57%	29.44%	28.25%

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

[b]Based on average daily shares outstanding.

[c]Net investment income per share includes approximately $0.29 per share received in the form of a special dividend paid in connection with certain Fund's holdings. Excluding this amount, the ratio of net investment income to average net assets would have been 1.36%.

[d]Net investment income per share includes approximately $0.08 per share related to interest income received that had previously been deemed uncollectible. Excluding this amount, the ratio of net investment income to average net assets would have been 1.57%.

[e]Net investment income per share includes approximately $0.21 per share received in the form of a special dividend paid in connection with a corporate REIT conversion. Excluding this non-recurring amount, the ratio of net investment income to average net assets would have been 1.43%.

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

[g]Includes dividend expense on securities sold short and borrowing fees, if any. See below for the ratios of such expenses to average net assets for the periods presented. See Note 1(f).

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

[i]Benefit of waiver and payment by affiliates rounds to less than 0.01%.

[j]Rounds to less than 0.01%.

	Year Ended December 31,				
	2014	2013	2012	2011	2010
Class C					
Per share operating performance (for a share outstanding throughout the year)					
Net asset value, beginning of year	$27.88	$22.13	$19.65	$20.46	$18.89
Income from investment operations[a]:					
Net investment income[b]	0.48[c]	0.22	0.17	0.25[d]	0.35[e]
Net realized and unrealized gains (losses)	1.34	5.71	2.57	(0.77)	1.65
Total from investment operations	1.82	5.93	2.74	(0.52)	2.00
Less distributions from net investment income	(0.68)	(0.18)	(0.26)	(0.29)	(0.43)
Net asset value, end of year	$29.02	$27.88	$22.13	$19.65	$20.46
Total return[f]	6.56%	26.82%	13.97%	(2.44)%	10.62%
Ratios to average net assets					
Expenses[g]	1.80%[h]	1.79%[h]	1.82%	1.86%	1.85%[i]
Expenses incurred in connection with securities sold short	0.03%	—%[j]	—%[j]	—%[j]	0.02%
Net investment income	1.67%[c]	0.85%	0.82%	1.24%[d]	1.83%[e]
Supplemental data					
Net assets, end of year (000's)	$1,240,845	$1,236,603	$1,043,695	$1,065,446	$1,292,711
Portfolio turnover rate	19.24%	24.29%	21.57%	29.44%	28.25%

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

[b]Based on average daily shares outstanding.

[c]Net investment income per share includes approximately $0.29 per share received in the form of a special dividend paid in connection with certain Fund's holdings. Excluding this amount, the ratio of net investment income to average net assets would have been 0.66%.

[d]Net investment income per share includes approximately $0.08 per share related to interest income received that had previously been deemed uncollectible. Excluding this amount, the ratio of net investment income to average net assets would have been 0.87%.

[e]Net investment income per share includes approximately $0.21 per share received in the form of a special dividend paid in connection with a corporate REIT conversion. Excluding this non-recurring amount, the ratio of net investment income to average net assets would have been 0.73%.

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

[g]Includes dividend expense on securities sold short and borrowing fees, if any. See below for the ratios of such expenses to average net assets for the periods presented. See Note 1(f).

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

[i]Benefit of waiver and payment by affiliates rounds to less than 0.01%.

[j]Rounds to less than 0.01%.

	Year Ended December 31,				
	2014	2013	2012	2011	2010
Class R					
Per share operating performance (for a share outstanding throughout the year)					
Net asset value, beginning of year	$27.98	$22.20	$19.70	$20.52	$18.95
Income from investment operations[a]:					
Net investment income[b]	0.64[c]	0.34	0.28	0.36[d]	0.45[e]
Net realized and unrealized gains (losses)	1.34	5.73	2.59	(0.78)	1.66
Total from investment operations	1.98	6.07	2.87	(0.42)	2.11
Less distributions from net investment income	(0.82)	(0.29)	(0.37)	(0.40)	(0.54)
Net asset value, end of year	$29.14	$27.98	$22.20	$19.70	$20.52
Total return	7.10%	27.47%	14.52%	(1.94)%	11.18%
Ratios to average net assets					
Expenses[f]	1.30%[g]	1.29%[g]	1.32%	1.36%	1.35%[h]
Expenses incurred in connection with securities sold short	0.03%	—%[i]	—%[i]	—%[i]	0.02%
Net investment income	2.17%[c]	1.35%	1.32%	1.74%[d]	2.33%[e]
Supplemental data					
Net assets, end of year (000's)	$172,938	$192,658	$191,304	$218,757	$259,834
Portfolio turnover rate	19.24%	24.29%	21.57%	29.44%	28.25%

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

[b]Based on average daily shares outstanding.

[c]Net investment income per share includes approximately $0.29 per share received in the form of a special dividend paid in connection with certain Fund's holdings. Excluding this amount, the ratio of net investment income to average net assets would have been 1.16%.

[d]Net investment income per share includes approximately $0.08 per share related to interest income received that had previously been deemed uncollectible. Excluding this amount, the ratio of net investment income to average net assets would have been 1.37%.

[e]Net investment income per share includes approximately $0.21 per share received in the form of a special dividend paid in connection with a corporate REIT conversion. Excluding this non-recurring amount, the ratio of net investment income to average net assets would have been 1.23%.

[f]Includes dividend expense on securities sold short and borrowing fees, if any. See below for the ratios of such expenses to average net assets for the periods presented. See Note 1(f).

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

[h]Benefit of waiver and payment by affiliates rounds to less than 0.01%.

[i]Rounds to less than 0.01%.

	Year Ended December 31,	
	2014	2013[a]
Class R6		
Per share operating performance (for a share outstanding throughout the year)		
Net asset value, beginning of year	$28.33	$24.91
Income from investment operations[b]:		
Net investment income[c]	0.82[d]	0.38
Net realized and unrealized gains (losses)	1.37	3.51
Total from investment operations	2.19	3.89
Less distributions from net investment income	(1.01)	(0.47)
Net asset value, end of year	$29.51	$28.33
Total return[e]	7.72%	15.70%
Ratios to average net assets[f]		
Expenses[g,h]	0.69%	0.67%
Expenses incurred in connection with securities sold short	0.03%	—%[i]
Net investment income	2.78%[d]	1.97%
Supplemental data		
Net assets, end of year (000's)	$2,249,991	$2,221,889
Portfolio turnover rate	19.24%	24.29%

[a]For the period May 1, 2013 (effective date) to December 31, 2013.

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

[c]Based on average daily shares outstanding.

[d]Net investment income per share includes approximately $0.29 per share received in the form of a special dividend paid in connection with certain Fund's holdings. Excluding this amount, the ratio of net investment income to average net assets would have been 1.77%.

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

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

[g]Includes dividend expense on securities sold short and borrowing fees, if any. See below for the ratios of such expenses to average net assets for the periods presented. See Note 1(f).

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

[i]Rounds to less than 0.01%.

Statement of Investments, December 31, 2014

	Country	Shares	Value
Common Stocks and Other Equity Interests 84.7%			
Aerospace & Defense 1.7%			
[a] B/E Aerospace Inc.	United States	1,412,070	$ 81,928,301
Huntington Ingalls Industries Inc.	United States	1,508,054	169,595,753
[a] KLX Inc.	United States	706,035	29,123,944
			280,647,998
Auto Components 0.3%			
[a,b,c] International Automotive Components Group Brazil LLC	Brazil	7,234,813	684,268
[a,b,c,d] International Automotive Components Group North America LLC	United States	63,079,866	47,762,813
			48,447,081
Automobiles 1.3%			
General Motors Co.	United States	6,183,080	215,851,323
Banks 9.2%			
Barclays PLC	United Kingdom	22,479,720	85,320,301
CIT Group Inc.	United States	2,102,356	100,555,687
Citigroup Inc.	United States	3,362,406	181,939,789
Citizens Financial Group Inc.	United States	1,950,638	48,492,861
Columbia Banking System Inc.	United States	1,603,629	44,276,197
[a] FCB Financial Holdings Inc., A	United States	1,647,570	40,596,125
[c] Guaranty Bancorp	United States	1,146,366	16,553,525
[a] ING Groep NV, IDR	Netherlands	7,306,186	95,742,451
JPMorgan Chase & Co.	United States	3,550,940	222,217,825
KB Financial Group Inc.	South Korea	2,078,971	68,712,333
PNC Financial Services Group Inc.	United States	3,438,533	313,697,366
Societe Generale SA	France	627,835	26,581,215
State Bank Financial Corp.	United States	1,467,000	29,310,660
SunTrust Banks Inc.	United States	2,963,080	124,153,052
Wells Fargo & Co.	United States	2,093,160	114,747,031
			1,512,896,418
Beverages 1.3%			
Coca-Cola Enterprises Inc.	United States	556,852	24,623,995
PepsiCo Inc.	United States	1,930,319	182,530,965
			207,154,960
Capital Markets 0.4%			
Credit Suisse Group AG	Switzerland	2,666,742	67,272,067
Chemicals 0.0%			
[a,e,f] Dow Corning Corp., Contingent Distribution	United States	12,630,547	—
Communications Equipment 1.4%			
Cisco Systems Inc.	United States	8,126,460	226,037,485
Consumer Finance 0.5%			
[a] Ally Financial Inc.	United States	3,254,500	76,871,290
Containers & Packaging 0.9%			
MeadWestvaco Corp.	United States	3,395,925	150,745,111
Diversified Consumer Services 0.1%			
Cengage Learning Holdings II LP	United States	837,095	18,834,638
Diversified Telecommunication Services 0.6%			
[a,e,f] Global Crossing Holdings Ltd., Contingent Distribution	United States	105,649,309	—
Koninklijke KPN NV	Netherlands	30,410,640	96,702,184
			96,702,184

	Country	Shares	Value
Common Stocks and Other Equity Interests (continued)			
Energy Equipment & Services 1.4%			
Baker Hughes Inc.	United States	2,860,306	$ 160,377,358
Ensco PLC, A	United States	545,492	16,337,485
[g] Transocean Ltd.	United States	3,071,412	56,298,982
			233,013,825
Food & Staples Retailing 3.4%			
CVS Health Corp.	United States	1,528,221	147,182,965
The Kroger Co.	United States	3,609,640	231,774,984
Walgreens Boots Alliance Inc.	United States	2,283,129	173,974,430
			552,932,379
Health Care Equipment & Supplies 4.0%			
Medtronic Inc.	United States	6,804,194	491,262,807
Stryker Corp.	United States	1,810,620	170,795,784
			662,058,591
Health Care Providers & Services 1.1%			
Cigna Corp.	United States	1,718,030	176,802,467
Household Products 0.2%			
Energizer Holdings Inc.	United States	196,822	25,303,436
Independent Power & Renewable Electricity Producers 0.7%			
NRG Energy Inc.	United States	4,399,652	118,570,621
Insurance 9.3%			
ACE Ltd.	United States	1,939,640	222,825,843
[a] Alleghany Corp.	United States	377,389	174,919,802
The Allstate Corp.	United States	2,228,178	156,529,505
American International Group Inc.	United States	5,079,039	284,476,974
MetLife Inc.	United States	2,895,970	156,643,017
[a,b] Olympus Re Holdings Ltd.	United States	202,380	—
[c] White Mountains Insurance Group Ltd.	United States	655,346	412,940,068
Zurich Insurance Group AG	Switzerland	352,340	110,465,075
			1,518,800,284
IT Services 1.3%			
Xerox Corp.	United States	15,854,785	219,747,320
Machinery 1.3%			
Caterpillar Inc.	United States	934,365	85,522,428
CNH Industrial NV (EUR Traded)	United Kingdom	4,351,332	35,276,248
CNH Industrial NV, special voting (EUR Traded)	United Kingdom	5,296,616	42,939,665
[c] Federal Signal Corp.	United States	3,360,800	51,890,752
			215,629,093
Marine 1.2%			
A.P. Moeller-Maersk AS, B	Denmark	100,690	202,364,831
Media 8.8%			
CBS Corp., B	United States	3,336,259	184,628,573
Comcast Corp., Special A	United States	846,676	48,738,904
[a] DIRECTV	United States	2,385,168	206,794,066
Reed Elsevier PLC	United Kingdom	12,648,470	216,866,863
Time Warner Cable Inc.	United States	1,769,704	269,101,190
Time Warner Inc.	United States	1,428,918	122,058,176

	Country	Shares	Value
Common Stocks and Other Equity Interests (continued)			
Media (continued)			
[a] Tribune Media Co., A	United States	647,376	$ 38,693,664
[a] Tribune Media Co., B	United States	469,946	28,088,672
Tribune Publishing Co.	United States	309,101	7,078,413
Twenty-First Century Fox Inc., B	United States	8,524,052	314,452,278
			1,436,500,799
Metals & Mining 1.8%			
Anglo American PLC	United Kingdom	2,188,929	40,959,662
Freeport-McMoRan Inc., B	United States	5,933,533	138,607,331
[a] ThyssenKrupp AG	Germany	4,544,107	116,895,332
			296,462,325
Multiline Retail 0.4%			
Kohl's Corp.	United States	1,087,447	66,377,765
Oil, Gas & Consumable Fuels 6.6%			
Anadarko Petroleum Corp.	United States	903,460	74,535,450
Apache Corp.	United States	2,845,910	178,353,180
BG Group PLC	United Kingdom	5,968,338	80,469,636
BP PLC	United Kingdom	15,851,497	101,548,760
CONSOL Energy Inc.	United States	2,383,474	80,585,256
Marathon Oil Corp.	United States	5,828,073	164,876,185
Murphy Oil Corp.	United States	1,576,220	79,630,634
Royal Dutch Shell PLC, A	United Kingdom	7,327,252	245,232,860
Talisman Energy Inc. (CAD Traded)	Canada	614,645	4,816,594
Talisman Energy Inc. (USD Traded)	Canada	8,388,371	65,680,945
			1,075,729,500
Paper & Forest Products 1.3%			
International Paper Co.	United States	3,879,234	207,849,358
Personal Products 0.4%			
Avon Products Inc.	United States	7,470,204	70,145,216
Pharmaceuticals 6.8%			
Eli Lilly & Co.	United States	2,495,948	172,195,452
[a] Hospira Inc.	United States	2,595,187	158,955,204
Merck & Co. Inc.	United States	7,460,200	423,664,758
Teva Pharmaceutical Industries Ltd., ADR	Israel	6,224,949	357,996,817
			1,112,812,231
Real Estate Investment Trusts (REITs) 0.9%			
[c] Alexander's Inc.	United States	326,675	142,815,777
Real Estate Management & Development 0.8%			
[f] Canary Wharf Group PLC	United Kingdom	14,262,931	120,251,997
[a] Forestar Group Inc.	United States	886,386	13,650,344
			133,902,341
Software 4.9%			
CA Inc.	United States	3,111,638	94,749,377
Microsoft Corp.	United States	9,836,982	456,927,814
Symantec Corp.	United States	10,127,147	259,811,956
			811,489,147

	Country	Shares	Value
Common Stocks and Other Equity Interests (continued)			
Technology Hardware, Storage & Peripherals 3.5%			
Apple Inc.	United States	3,012,110	$ 332,476,702
Hewlett-Packard Co.	United States	3,520,334	141,271,003
Samsung Electronics Co. Ltd.	South Korea	88,806	107,743,529
			581,491,234
Tobacco 5.7%			
Altria Group Inc.	United States	3,982,209	196,203,438
British American Tobacco PLC	United Kingdom	4,864,275	265,368,080
Imperial Tobacco Group PLC	United Kingdom	3,810,199	168,428,819
Lorillard Inc.	United States	3,687,131	232,068,025
Philip Morris International Inc.	United States	944,754	76,950,213
			939,018,575
Wireless Telecommunication Services 1.2%			
Vodafone Group PLC	United Kingdom	58,574,055	203,278,060
Total Common Stocks and Other Equity Interests (Cost $9,607,764,563)			13,904,555,730
Convertible Preferred Stocks (Cost $755,800) 0.0%†			
Banks 0.0%†			
Columbia Banking System Inc., cvt. pfd., B	United States	7,558	2,432,332
Preferred Stocks (Cost $117,489,716) 0.6%			
Automobiles 0.6%			
Volkswagen AG, pfd.	Germany	450,280	100,604,482
		Principal Amount*	
Corporate Bonds, Notes and Senior Floating Rate Interests 4.5%			
Avaya Inc.,			
[h] senior note, 144A, 10.50%, 3/01/21	United States	53,494,000	46,004,840
[h] senior secured note, 144A, 7.00%, 4/01/19	United States	37,416,000	36,667,680
[i,j] Tranche B-3 Term Loan, 4.67%, 10/26/17	United States	56,504,098	54,338,127
[i,j] Tranche B-6 Term Loan, 6.50%, 3/31/18	United States	13,787,058	13,631,954
[i,j] Caesars Entertainment Operating Co. Inc., Senior Tranche, first lien, 3/01/17,			
B5B, 5.949%	United States	9,541,623	8,376,753
B6B, 6.949%	United States	45,490,495	40,202,225
B7, 9.75%	United States	30,701,720	27,232,426
[i,j] Cengage Learning Acquisitions Inc., First Lien Exit Term Loan, 7.00%, 3/31/20	United States	5,290,025	5,243,737
First Data Corp., senior note, 11.75%, 8/15/21	United States	28,654,000	33,023,735
iHeartCommunications Inc.,			
senior secured note, first lien, 9.00%, 12/15/19	United States	74,295,000	73,459,181
[i,j] Tranche B Term Loan, 3.819%, 1/29/16	United States	708,077	700,775
[i,j] Tranche C Term Loan, 3.819%, 1/29/16	United States	76,893	76,028
[i,j] Tranche D Term Loan, 6.919%, 1/30/19	United States	94,620,527	89,386,876
[i,j] Tranche E Term Loan, 7.669%, 7/30/19	United States	30,412,812	29,234,316
[i,j] JC Penney Corp. Inc., Term Loan, 6.00%, 5/22/18	United States	78,949,728	77,814,826
NGPL PipeCo LLC,			
[h] secured note, 144A, 7.119%, 12/15/17	United States	29,468,000	29,099,650
[g,h] senior secured note, 144A, 9.625%, 6/01/19	United States	43,741,000	44,069,057
[i,j] Term Loan B, 6.75%, 9/15/17	United States	2,392,596	2,314,837

	Country	Principal Amount*	Value
Corporate Bonds, Notes and Senior Floating Rate Interests (continued)			
[i,j] Toys R US-Delaware Inc., Filo Term Loan, 8.75%, 10/24/19	United States	8,171,000	$ 8,044,104
[k] Term Loan B4, 9.75%, 4/24/20	United States	69,136,648	63,294,601
Walter Energy Inc.,			
[i,j] B, Term Loan, 7.25%, 4/01/18	United States	35,970,965	27,989,907
[h] first lien, 144A, 9.50%, 10/15/19	United States	20,046,000	15,335,190
[g,h,l] second lien, 144A, PIK, 11.50%, 4/01/20	United States	16,960,000	5,597,631
Total Corporate Bonds, Notes and Senior Floating Rate Interests (Cost $730,401,999)			731,138,456
Corporate Notes and Senior Floating Rate Interests in Reorganization 1.2%			
[b,m] Broadband Ventures III LLC, secured promissory note, 5.00%, 2/01/12	United States	19,594	—
[i,j,m] Texas Competitive Electric Holdings Co. LLC, Extended Term Loan, 4.648%, 10/10/17	United States	194,177,556	125,729,967
[h,m] Texas Competitive Electric Holdings Co. LLC/Texas Competitive Electric Holdings Finance Inc., senior secured note, 144A, 11.50%, 10/01/20	United States	98,672,000	70,303,800
Total Corporate Notes and Senior Floating Rate Interests in Reorganization (Cost $261,071,411)			196,033,767
		Shares	
Companies in Liquidation 0.6%			
[a] Adelphia Recovery Trust	United States	99,967,609	239,922
[a,e] Adelphia Recovery Trust, Arahova Contingent Value Vehicle, Contingent Distribution	United States	12,005,115	120,051
[a,b,c,d] CB FIM Coinvestors LLC	United States	43,105,703	—
[a,e,f] Century Communications Corp., Contingent Distribution	United States	33,138,000	—
[a,b] FIM Coinvestor Holdings I, LLC	United States	53,924,666	—
[a,n] Lehman Brothers Holdings Inc., Bankruptcy Claim	United States	420,480,670	105,120,168
[a,e,f] Tribune Media Litigation Trust, Contingent Distribution	United States	995,729	—
[a,e,f] Tropicana Litigation Trust, Contingent Distribution	United States	76,355,000	—
Total Companies in Liquidation (Cost $125,665,191)			105,480,141
		Principal Amount*	
Municipal Bonds (Cost $45,179,457) 0.3%			
Puerto Rico Commonwealth GO, Refunding, Series A, 8.00%, 7/01/35	United States	48,397,000	42,286,879
Total Investments before Short Term Investments (Cost $10,888,328,137)			15,082,531,787
Short Term Investments 7.6%			
U.S. Government and Agency Securities 7.5%			
[o] FHLB, 1/02/15	United States	1,900,000	1,900,000
[o,p] U.S. Treasury Bills,			
2/19/15	United States	263,000,000	262,995,529
1/02/15 - 7/02/15	United States	968,000,000	967,932,229
Total U.S. Government and Agency Securities (Cost $1,232,761,078)			1,232,827,758
Total Investments before Money Market Funds (Cost $12,121,089,215)			16,315,359,545

	Country	Shares	Value
Short Term Investments (continued)			
[q] **Investments from Cash Collateral Received for Loaned Securities (Cost $24,944,100) 0.1%**			
Money Market Funds 0.1%			
[r] BNY Mellon Overnight Government Fund, 0.072%	United States	24,944,100	$ 24,944,100
Total Investments (Cost $12,146,033,315) 99.5%			16,340,303,645
Securities Sold Short (0.6)%			(104,153,151)
Other Assets, less Liabilities 1.1%			183,519,338
Net Assets 100.0%			$16,419,669,832
[s] **Securities Sold Short (Proceeds $108,441,982) (0.6)%**			
Common Stocks (0.6)%			
Diversified Telecommunication Services (0.6)%			
AT&T Inc.	United States	3,100,719	$ (104,153,151)

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

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

[a]Non-income producing.

[b]See Note 9 regarding restricted securities.

[c]See Note 11 regarding holdings of 5% voting securities.

[d]At December 31, 2014, pursuant to the Fund's policies and the requirements of applicable securities law, the Fund may be restricted from trading these securities for a limited or extended period of time.

[e]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.

[f]Security has been deemed illiquid because it may not be able to be sold within seven days. At December 31, 2014, the aggregate value of these securities was $120,251,997, representing 0.73% of net assets.

[g]A portion or all of the security is on loan at December 31, 2014. See Note 1(g).

[h]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, 2014, the aggregate value of these securities was $247,077,848, representing 1.50% of net assets.

[i]See Note 1(h) regarding senior floating rate interests.

[j]The coupon rate shown represents the rate at period end.

[k]A portion or all of the security purchased on a delayed delivery basis. See Note 1(c).

[l]Income may be received in additional securities and/or cash.

[m]See Note 8 regarding credit risk and defaulted securities.

[n]Bankruptcy Claim represent the right to receive distributions, if any, during the liquidation of the underlying pool of assets. Shares represent the amount of allowed unsecured claims.

[o]The security is traded on a discount basis with no stated coupon rate.

[p]Security or a portion of the security has been pledged as collateral for securities sold short, open futures and forward contracts. At December 31, 2014, the aggregate value of these securities and/or cash pledged as collateral was $169,069,960, representing 1.03% of net assets.

[q]See Note 1(g) regarding securities on loan.

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

[s]See Note 1(f) regarding securities sold short.

At December 31, 2014, the Fund had the following futures contracts outstanding. See Note 1(d).

Futures Contracts

Description	Type	Number of Contracts	Notional Value	Expiration Date	Unrealized Appreciation	Unrealized Depreciation
Currency Contracts						
CHF/USD	Short	68	$ 8,562,900	3/16/15	$ 199,535	$ —
EUR/USD	Short	1,284	194,317,350	3/16/15	4,680,832	—
GBP/USD	Short	3,270	318,211,875	3/16/15	1,877,075	—
Unrealized appreciation (depreciation)					6,757,442	—
Net unrealized appreciation (depreciation)					$ 6,757,442	

At December 31, 2014, the Fund had the following forward exchange contracts outstanding. See Note 1(d).

Forward Exchange Contracts

Currency	Counterparty[a]	Type	Quantity	Contract Amount	Settlement Date	Unrealized Appreciation	Unrealized Depreciation
Euro	BANT	Buy	565,714	$ 704,569	1/20/15	$ —	$ (19,903)
Euro	BANT	Sell	268,491	354,709	1/20/15	29,763	—
Euro	BONY	Buy	93,419	117,009	1/20/15	—	(3,947)
Euro	DBFX	Buy	1,131,428	1,409,894	1/20/15	—	(40,563)
Euro	DBFX	Sell	1,214,178	1,604,336	1/20/15	134,855	—
Euro	FBCO	Sell	220,075	291,560	1/20/15	25,210	—
Euro	HSBC	Buy	1,131,429	1,409,308	1/20/15	—	(39,976)
Euro	HSBC	Sell	1,079,932	1,427,238	1/20/15	120,231	—
Euro	SCBT	Sell	273,819	361,887	1/20/15	30,493	—
Euro	SSBT	Buy	1,205,060	1,500,895	1/20/15	—	(42,449)
Euro	SSBT	Sell	1,079,932	1,427,111	1/20/15	120,104	—
British Pound	BANT	Buy	41,834,473	68,252,815	1/21/15	—	(3,056,423)
British Pound	BBU	Buy	36,422,569	58,746,195	1/21/15	—	(1,983,913)
British Pound	DBFX	Sell	79,710,205	135,945,971	1/21/15	11,722,634	—
British Pound	FBCO	Buy	13,086,161	21,363,824	1/21/15	—	(969,865)
British Pound	FBCO	Sell	1,553,437	2,518,270	1/21/15	97,337	—
British Pound	HSBC	Buy	2,037,713	3,423,867	1/21/15	—	(248,220)
British Pound	HSBC	Sell	56,116,005	95,733,905	1/21/15	8,280,643	—
British Pound	SCBT	Sell	2,669,558	4,326,660	1/21/15	166,321	—
British Pound	SSBT	Buy	6,611,379	11,074,850	1/21/15	—	(771,431)
British Pound	SSBT	Sell	74,013,998	126,327,091	1/21/15	10,980,934	—
South Korean Won	BANT	Buy	4,503,026,384	4,202,882	2/12/15	—	(94,743)
South Korean Won	BANT	Sell	57,026,254,622	54,495,694	2/12/15	2,528,980	(58,686)
South Korean Won	BONY	Sell	4,522,734,532	4,382,350	2/12/15	256,232	—
South Korean Won	FBCO	Buy	1,412,739,859	1,292,534	2/12/15	—	(3,683)
South Korean Won	FBCO	Sell	76,518,933,272	73,724,895	2/12/15	3,916,206	—
South Korean Won	HSBC	Buy	14,022,673,339	12,807,183	2/12/15	53,998	(68,210)
South Korean Won	HSBC	Sell	74,870,880,806	72,061,338	2/12/15	3,830,479	(74,302)
Swiss Franc	BANT	Buy	4,120,876	4,256,312	2/12/15	—	(108,293)
Swiss Franc	BANT	Sell	30,311,377	33,516,894	2/12/15	3,005,864	—
Swiss Franc	DBFX	Buy	5,363,525	5,552,036	2/12/15	—	(153,183)
Swiss Franc	DBFX	Sell	1,535,227	1,663,348	2/12/15	118,009	—
Swiss Franc	FBCO	Buy	5,647,170	5,863,457	2/12/15	—	(179,090)
Swiss Franc	FBCO	Sell	1,344,952	1,428,228	2/12/15	74,417	—
Swiss Franc	HSBC	Buy	134,243	138,784	2/12/15	—	(3,657)
Swiss Franc	HSBC	Sell	339,635	345,266	2/12/15	3,394	—
Swiss Franc	SSBT	Buy	7,242,730	7,498,455	2/12/15	—	(208,019)
Swiss Franc	SSBT	Sell	195,342	203,201	2/12/15	6,572	—
British Pound	BANT	Buy	47,456,647	76,428,771	2/19/15	—	(2,487,149)

Forward Exchange Contracts (continued)

Currency	Counterparty[a]	Type	Quantity	Contract Amount	Settlement Date	Unrealized Appreciation	Unrealized Depreciation
British Pound	BANT	Sell	71,114,405	$116,916,002	2/19/15	$ 6,113,517	$ —
British Pound	BBU	Buy	1,066,489	1,693,944	2/19/15	—	(32,260)
British Pound	DBFX	Buy	6,131,641	9,821,321	2/19/15	—	(267,686)
British Pound	DBFX	Sell	1,236,169	1,936,627	2/19/15	10,567	—
British Pound	FBCO	Buy	12,870,252	20,601,941	2/19/15	—	(548,959)
British Pound	FBCO	Sell	66,928,356	109,868,235	2/19/15	5,587,981	—
British Pound	HSBC	Buy	10,209,783	16,354,640	2/19/15	—	(446,902)
British Pound	HSBC	Sell	6,990,132	11,275,501	2/19/15	384,262	—
British Pound	SCBT	Buy	909,303	1,472,089	2/19/15	—	(55,315)
British Pound	SCBT	Sell	1,488,213	2,392,421	2/19/15	73,655	—
British Pound	SSBT	Buy	19,373,481	31,242,772	2/19/15	—	(1,057,188)
British Pound	SSBT	Sell	57,574,930	94,998,595	2/19/15	5,291,801	—
Euro	BANT	Buy	181,187	227,083	2/27/15	—	(7,730)
Euro	BANT	Sell	1,045,925	1,366,622	2/27/15	100,376	—
Euro	BONY	Buy	1,201,669	1,494,215	2/27/15	—	(39,418)
Euro	BONY	Sell	1,922,528	2,521,738	2/27/15	194,234	—
Euro	DBFX	Buy	1,976,792	2,460,474	2/27/15	—	(67,276)
Euro	DBFX	Sell	3,157,816	4,124,935	2/27/15	301,933	—
Euro	FBCO	Buy	1,270,839	1,576,694	2/27/15	—	(38,156)
Euro	FBCO	Sell	1,437,028	1,871,694	2/27/15	131,960	—
Euro	HSBC	Buy	2,256,229	2,805,101	2/27/15	—	(73,603)
Euro	HSBC	Sell	2,513,732	3,275,850	2/27/15	232,606	—
Euro	SCBT	Sell	1,520,726	1,974,739	2/27/15	133,676	—
Euro	SSBT	Buy	1,976,792	2,461,070	2/27/15	—	(67,872)
Euro	SSBT	Sell	1,990,004	2,594,844	2/27/15	185,651	—
Euro	BANT	Sell	6,268,797	7,971,202	4/16/15	378,433	—
Euro	BBU	Sell	951,661	1,194,287	4/16/15	41,635	—
Euro	BONY	Sell	1,835,421	2,300,979	4/16/15	77,917	—
Euro	DBFX	Sell	22,321,975	28,276,811	4/16/15	1,240,427	—
Euro	FBCO	Sell	4,148,728	5,212,750	4/16/15	187,809	—
Euro	HSBC	Sell	5,445,550	6,874,831	4/16/15	279,179	—
Euro	SCBT	Sell	917,710	1,150,212	4/16/15	38,681	—
Euro	SSBT	Sell	4,856,165	6,116,778	4/16/15	234,989	—
British Pound	BANT	Sell	5,886,792	9,195,757	4/22/15	28,514	—
British Pound	HSBC	Sell	57,256,038	91,888,104	4/22/15	2,725,779	—
British Pound	SCBT	Sell	57,196,761	92,143,982	4/22/15	3,073,966	—
Euro	BANT	Sell	61,001,714	76,172,840	5/18/15	2,262,108	—
Euro	BONY	Sell	380,905	464,323	5/18/15	2,812	—
Euro	DBFX	Sell	68,639,701	85,668,255	5/18/15	2,503,206	—
Euro	FBCO	Sell	66,319,078	82,806,059	5/18/15	2,452,716	—
Euro	HSBC	Sell	5,687,211	7,050,795	5/18/15	160,072	—
Euro	SSBT	Sell	3,533,578	4,418,717	5/18/15	137,373	—
British Pound	BANT	Buy	1,935,048	3,019,149	5/21/15	—	(6,482)
British Pound	BANT	Sell	44,885,618	70,245,992	5/21/15	363,799	—
British Pound	FBCO	Buy	1,027,176	1,599,021	5/21/15	184	—
British Pound	FBCO	Sell	32,333,146	50,562,574	5/21/15	223,260	—
British Pound	HSBC	Buy	3,391,356	5,303,069	5/21/15	—	(23,084)
British Pound	SSBT	Sell	59,249,016	92,665,461	5/21/15	420,965	—
Unrealized appreciation (depreciation)						81,078,719	(13,347,636)
Net unrealized appreciation (depreciation)						$67,731,083	

[a]May be comprised of multiple contracts with the same counterparty, currency and settlement date.

See Abbreviations on page 47.

Financial Statements

Statement of Assets and Liabilities

December 31, 2014

Assets:	
Investments in securities:	
Cost - Unaffiliated issuers	$11,865,549,153
Cost - Non-controlled affiliated issuers (Note 11)	280,484,162
Total cost of investments	$12,146,033,315
Value - Unaffiliated issuers	$15,667,656,442
Value - Non-controlled affiliated issuers (Note 11)	672,647,203
Total value of investments (includes securities loaned in the amount of $23,855,094)	16,340,303,645
Cash	1,418,396
Restricted Cash (Note 1e)	20,200,000
Foreign currency, at value (cost $28,606,016)	28,658,204
Receivables:	
Investment securities sold	13,122,255
Capital shares sold	10,851,540
Dividends and interest	31,968,239
Due from brokers	107,815,125
Variation margin	473,075
Unrealized appreciation on forward exchange contracts	81,078,719
Other assets	3,734,865
Total assets	16,639,624,063
Liabilities:	
Payables:	
Investment securities purchased	25,441,932
Capital shares redeemed	14,108,347
Management fees	8,987,274
Distribution fees	4,945,958
Transfer agent fees	2,516,915
Trustees' fees and expenses	715,684
Securities sold short, at value (proceeds $108,441,982)	104,153,151
Payable upon return of securities loaned	24,944,100
Due to Brokers	20,200,000
Unrealized depreciation on forward exchange contracts	13,347,636
Accrued expenses and other liabilities	593,234
Total liabilities	219,954,231
Net assets, at value	$16,419,669,832
Net assets consist of:	
Paid-in capital	$12,135,158,105
Undistributed net investment income	3,557,868
Net unrealized appreciation (depreciation)	4,272,875,400
Accumulated net realized gain (loss)	8,078,459
Net assets, at value	$16,419,669,832

Statement of Assets and Liabilities (continued)
December 31, 2014

Class Z:	
Net assets, at value	$7,363,764,789
Shares outstanding	249,437,555
Net asset value and maximum offering price per share	$29.52
Class A:	
Net assets, at value	$5,392,129,946
Shares outstanding	184,114,657
Net asset value per share[a]	$29.29
Maximum offering price per share (net asset value per share ÷ 94.25%)	$31.08
Class C:	
Net assets, at value	$1,240,845,434
Shares outstanding	42,758,135
Net asset value and maximum offering price per share[a]	$29.02
Class R:	
Net assets, at value	$ 172,938,290
Shares outstanding	5,933,853
Net asset value and maximum offering price per share	$29.14
Class R6:	
Net assets, at value	$2,249,991,373
Shares outstanding	76,244,509
Net asset value and maximum offering price per share	$29.51

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

Statement of Operations
for the year ended December 31, 2014

Investment income:	
Dividends:	
Unaffiliated issuers	$ 489,241,985
Non-controlled affiliated issuers (Note 11)	5,433,866
Interest	73,890,127
Income from securities loaned	827,956
Total investment income	569,393,934
Expenses:	
Management fees (Note 3a)	99,749,387
Administrative fees (Note 3b)	6,148,966
Distribution fees: (Note 3c)	
Class A	16,468,547
Class C	12,481,062
Class R	911,746
Transfer agent fees: (Note 3e)	
Class Z	8,236,368
Class A	6,239,704
Class C	1,420,822
Class R	207,846
Class R6	57
Custodian fees (Note 4)	487,350
Reports to shareholders	914,303
Registration and filing fees	322,348
Professional fees	352,913
Trustees' fees and expenses	371,791
Dividends on securities sold short	4,238,006
Other	224,798
Total expenses	158,776,014
Expense reductions (Note 4)	(1,099)
Net expenses	158,774,915
Net investment income	410,619,019
Realized and unrealized gains (losses):	
Net realized gain (loss) from:	
Investments:	
Unaffiliated issuers	574,696,414
Foreign currency transactions	(47,798,177)
Futures contracts	34,992,691
Securities sold short	(8,830,974)
Net realized gain (loss)	553,059,954
Net change in unrealized appreciation (depreciation) on:	
Investments	60,566,269
Translation of other assets and liabilities denominated in foreign currencies	156,334,479
Net change in unrealized appreciation (depreciation)	216,900,748
Net realized and unrealized gain (loss)	769,960,702
Net increase (decrease) in net assets resulting from operations	$1,180,579,721

Statements of Changes in Net Assets

	Year Ended December 31,	
	2014	2013
Increase (decrease) in net assets:		
Operations:		
Net investment income	$ 410,619,019	$ 251,344,544
Net realized gain (loss) from investments, written options, foreign currency transactions, futures contracts and securities sold short	553,059,954	993,731,116
Net change in unrealized appreciation (depreciation) on investments and translation of other assets and liabilities denominated in foreign currencies	216,900,748	2,396,375,091
Net increase (decrease) in net assets resulting from operations	1,180,579,721	3,641,450,751
Distributions to shareholders from:		
Net investment income:		
Class Z	(239,045,203)	(108,650,856)
Class A	(160,771,009)	(70,929,517)
Class C	(28,860,009)	(8,234,548)
Class R	(4,880,076)	(2,105,976)
Class R6	(76,100,480)	(36,946,169)
Total distributions to shareholders	(509,656,777)	(226,867,066)
Capital share transactions: (Note 2)		
Class Z	45,622,128	(2,214,251,239)
Class A	(311,543,956)	(322,542,799)
Class B	—	(8,747,313)
Class C	(45,734,382)	(69,514,789)
Class R	(27,313,743)	(45,098,562)
Class R6	(67,074,130)	1,947,873,302
Total capital share transactions	(406,044,083)	(712,281,400)
Net increase (decrease) in net assets	264,878,861	2,702,302,285
Net assets:		
Beginning of year	16,154,790,971	13,452,488,686
End of year	$16,419,669,832	$16,154,790,971
Undistributed net investment income included in net assets:		
End of year	$ 3,557,868	$ 69,030,288

Notes to Financial Statements

1. Organization and Significant Accounting Policies

Franklin Mutual Series Funds (Trust) is registered under the Investment Company Act of 1940, as amended, (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 financial statements of the remaining funds in the Trust are presented separately. The Fund offers five classes of shares: Class Z, Class A, Class C, Class R and Class R6. Each class of shares differs by its initial sales load, contingent deferred sales charges, voting rights on matters affecting a single class, its exchange privilege and fees primarily due to differing arrangements for distribution and transfer agent fees.

Effective June 30, 2014, Mutual Shares Fund was renamed Franklin Mutual Shares Fund.

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 at the close of the New York Stock Exchange (NYSE), generally at 4 p.m. Eastern time (NYSE close) on each day the NYSE is open for trading. 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 and Liquidity Oversight Committee (VLOC). The VLOC provides administration and oversight of the Fund's valuation policies and procedures, which are approved annually by the Board. Among other things, these procedures allow the Fund to 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 (derivatives) 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 the NYSE close, whichever is earlier. The value is then converted into its U.S. dollar equivalent at the foreign exchange rate in effect at the NYSE close on the day that the value of the security is determined. Over-the-counter (OTC) securities are valued within the range of the most recent quoted bid and ask prices. Securities that trade in multiple markets or on multiple exchanges are valued according to the broadest and most representative market. Certain equity securities are valued based upon fundamental characteristics or relationships to similar securities. Investments in non-registered money market funds are valued at the closing NAV.

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

Certain derivatives 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 VLOC convenes on a regular basis to review such financial instruments and considers a number of factors, including significant unobservable valuation inputs, when arriving at fair value. The VLOC primarily employs a market-based approach which may use related or comparable assets or liabilities, recent transactions, market multiples, book values, and other relevant information for the investment to determine the fair value of the investment. An income-based valuation

1. Organization and Significant Accounting Policies (continued)

a. Financial Instrument Valuation *(continued)*

approach may also be used in which the anticipated future cash flows of the investment are discounted to calculate fair value. Discounts may also be applied due to the nature or duration of any restrictions on the disposition of the investments. Due to the inherent uncertainty of valuations of such investments, the fair values may differ significantly from the values that would have been used had an active market existed. The VLOC employs various methods for calibrating these valuation approaches including a regular review of key inputs and assumptions, transactional back-testing or disposition analysis, and reviews of any related market activity.

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

Also, when the last day of the reporting period is a non-business day, certain foreign markets may be open on those days that the NYSE is closed, 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 on 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. Securities Purchased on a Delayed Delivery Basis

The Fund purchases securities on a delayed delivery basis, with payment and delivery scheduled for a future date. These transactions are subject to market fluctuations and are subject to the risk that the value at delivery may be more or less than the trade date purchase price. Although the Fund will generally purchase these securities with the intention of holding the securities, it may sell the securities before the settlement date. Sufficient assets have been segregated for these securities.

d. Derivative Financial Instruments

The Fund invested in derivatives 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 on 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, 2014, the Fund had OTC derivatives in a net liability position of $1,974,538 and the aggregate value of collateral pledged for such contracts was $2,230,470.

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 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.

At December 31, 2014, the Fund received $36,877,934 in Federal Republic of Germany Bonds, United Kingdom Treasury Bonds and Notes and U.S. Treasury 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 for 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 on 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.

The Fund purchased or wrote exchange traded option contracts primarily to manage exposure to equity price risk. An option is a contract entitling the holder to purchase or sell a specific amount of shares or units of an asset or notional amount of a swap (swaption), at a specified price. Options purchased are recorded as an asset while options written are recorded as a liability. Upon exercise of an option, the acquisition cost or sales proceeds of the underlying investment is adjusted by any premium received or paid. Upon expiration of an option, any premium received or paid is recorded as a realized gain or loss. Upon closing an option other than through expiration or exercise, the difference between the premium and the cost to close the position is recorded as a realized gain or loss.

See Notes 10 regarding other derivative information.

1. Organization and Significant Accounting Policies (continued)

e. Restricted Cash

At December 31, 2014, the Fund held restricted cash in connection with investments in certain derivative securities. Restricted cash is held in a segregated account with the Fund's custodian/counterparty broker and is reflected in the Statement of Assets and Liabilities.

f. 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.

g. Securities Lending

The Fund participates in an agency based securities lending program. The Fund receives cash collateral against the loaned securities in an amount equal to at least 102% of the 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 invested in a non-registered money fund as indicated on the Statement of Investments. The Fund receives income from the investment of cash collateral, in addition to lending fees and rebates paid by the borrower. The Fund bears the market risk with respect to the collateral investment, securities loaned, and the risk that the agent may default on its obligations to the Fund. The securities lending agent has agreed to indemnify the Fund in the event of default by a third party borrower.

h. 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.

i. 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 has filed additional tax reclaims for previously withheld taxes on dividends earned in those countries. 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. At this time, uncertainty exists as to the ultimate resolution of these proceedings, the likelihood of receipt of these reclaims, and the potential timing of payments, and accordingly, no amounts are reflected in the financial statements.

The Fund recognizes the tax benefits of uncertain tax positions only when the position is "more likely than not" to be sustained

upon examination by the tax authorities based on the technical merits of the tax position. As of December 31, 2014, and for all open tax years, the Fund has determined that no liability for unrecognized tax benefits is required in the Fund's financial statements related to uncertain tax positions taken on a tax return (or expected to be taken on future tax returns). Open tax years are those that remain subject to examination and are based on each tax jurisdiction statute of limitation.

j. 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 foreign 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 and are determined according to income tax regulations (tax basis). Distributable earnings determined on a tax basis may differ from earnings recorded in accordance with 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. Fund specific expenses are charged directly to the fund that incurred the expense.

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

k. 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.

l. 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, 2014, there were an unlimited number of shares authorized (without par value). Transactions in the Fund's shares were as follows:

	Year Ended December 31,			
	2014		2013	
	Shares	Amount	Shares	Amount
Class Z Shares:				
Shares sold	22,793,740	$ 670,723,079	23,777,445	$ 610,905,219
Shares issued in reinvestment of distributions	7,266,342	217,049,081	3,583,743	98,456,406
Shares redeemed[a]	(28,537,599)	(842,150,032)	(116,412,728)	(2,923,612,864)
Net increase (decrease)	1,522,483	$ 45,622,128	(89,051,540)	$(2,214,251,239)
Class A Shares:				
Shares sold	17,328,653	$ 506,435,075	19,131,649	$ 488,767,639
Shares issued in reinvestment of distributions	5,000,232	148,238,236	2,409,509	65,436,121
Shares redeemed	(33,005,127)	(966,217,267)	(34,406,256)	(876,746,559)
Net increase (decrease)	(10,676,242)	$(311,543,956)	(12,865,098)	$ (322,542,799)

2. Shares of Beneficial Interest (continued)

	Year Ended December 31,			
	2014		2013[c]	
	Shares	Amount	Shares	Amount
Class B Shares[b]:				
Shares sold			561	$ 13,200
Shares redeemed			(373,830)	(8,760,513)
Net increase (decrease)			(373,269)	$ (8,747,313)
Class C Shares:				
Shares sold	3,259,585	$ 93,998,595	3,626,063	$ 91,651,237
Shares issued in reinvestment of distributions	926,812	27,251,988	293,487	7,744,860
Shares redeemed	(5,790,089)	(166,984,965)	(6,713,803)	(168,910,886)
Net increase (decrease)	(1,603,692)	$ (45,734,382)	(2,794,253)	$ (69,514,789)
Class R Shares:				
Shares sold	768,981	$ 22,249,134	1,292,806	$ 32,376,979
Shares issued in reinvestment of distributions	164,329	4,850,146	78,123	2,098,501
Shares redeemed	(1,884,250)	(54,413,023)	(3,105,285)	(79,574,042)
Net increase (decrease)	(950,940)	$ (27,313,743)	(1,734,356)	$ (45,098,562)
Class R6 Shares:				
Shares sold[a]	3,360,357	$ 98,879,499	82,984,840	$ 2,067,192,481
Shares issued in reinvestment of distributions	2,548,288	76,100,480	1,344,162	36,946,169
Shares redeemed	(8,093,000)	(242,054,109)	(5,900,138)	(156,265,348)
Net increase (decrease)	(2,184,355)	$ (67,074,130)	78,428,864	$ 1,947,873,302

[a]Effective May 1, 2013, a portion of Class Z shares were exchanged into Class R6.
[b]Effective March 22, 2013, all Class B shares were converted to Class A.
[c]For the period May 1, 2013 (effective date) to December 31, 2013, for Class R6.

3. Transactions with Affiliates

Franklin Resources, Inc. is the holding company for various subsidiaries that together are referred to as Franklin Templeton Investments. Certain officers and trustees of the 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

Effective July 1, 2014, the Fund combined its investment management and administration agreements as approved by the Board. The fees paid under the combined agreement do not exceed the aggregate fees that were paid under the separate agreements.

Prior to July 1, 2014, the Fund paid fees to Franklin Mutual based on the average daily net assets of the Fund as follows:

Annualized Fee Rate	Net Assets
0.600%	Up to and including $5 billion
0.570%	Over $5 billion, up to and including $10 billion
0.550%	Over $10 billion, up to and including $15 billion
0.520%	Over $15 billion, up to and including $20 billion
0.510%	Over $20 billion, up to and including $25 billion
0.490%	Over $25 billion, up to and including $30 billion
0.480%	Over $30 billion, up to and including $35 billion
0.470%	In excess of $35 billion

b. Administrative Fees

Effective July 1, 2014, 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.

Prior to July 1, 2014, the Fund paid its allocated share of an administrative fee to FT Services based on the Trust's aggregate average daily net assets as follows:

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

3. Transactions with Affiliates (continued)

c. Distribution Fees

The Board has adopted distribution plans for each share class, with the exception of Class Z and Class R6 shares, pursuant to Rule 12b-1 under the 1940 Act. Distribution fees are not charged on shares held by affiliates. 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 for each fund.

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 0.30% per year for Class A shares until further notice and approval by the Board.

d. Sales Charges/Underwriting Agreements

Front-end sales charges and contingent deferred sales charges (CDSC) do not represent expenses of the 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 broker/dealers	$1,373,834
CDSC retained	$ 36,415

e. Transfer Agent Fees

Each class of shares, except for Class R6, pays transfer agent fees to Investor Services for its performance of shareholder servicing obligations and reimburses Investor Services for out of pocket expenses incurred, including shareholding servicing fees paid to third parties. These fees are allocated daily 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, 2014, the Fund paid transfer agent fees of $16,104,797, of which $7,628,958 was retained by Investor Services.

f. Waiver and Expense Reimbursements

Investor Services has contractually agreed in advance to waive or limit its fees so that the Class R6 transfer agent fees do not exceed 0.01% until April 30, 2015. There were no Class R6 transfer agent fees waived during the year ended December 31, 2014.

g. Other Affiliated Transactions

At December 31, 2014, one or more of the funds in the Franklin Fund Allocator Series owned 13.06% 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, 2014, 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, 2014, the Fund's projected benefit obligation and benefit payments under the Plan were as follows:

[a]Projected benefit obligation at December 31, 2014	$715,684
[b]Increase in projected benefit obligation	$ 23,141
Benefit payments made to retired trustees	$ (16,041)

[a]The projected benefit obligation is included in trustees' fees and expenses in the Statement of Assets and Liabilities.
[b]The increase in projected benefit obligation is included in trustees' fees and expenses in the Statement of Operations.

6. Income Taxes

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

During the year ended December 31, 2014, the Fund utilized $578,581,524 of capital loss carryforwards.

The tax character of distributions paid during the years ended December 31, 2014 and 2013, was as follows:

	2014	2013
Distributions paid from ordinary income	$509,656,777	$226,867,066

At December 31, 2014, 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	$12,166,340,224
Unrealized appreciation	$ 5,067,447,902
Unrealized depreciation	(893,484,481)
Net unrealized appreciation (depreciation)	$ 4,173,963,421
Undistributed ordinary income	$ 23,905,336
Undistributed long term capital gains	90,750,515
Distributable earnings	$ 114,655,851

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

7. Investment Transactions

Purchases and sales of investments (excluding short term securities and securities sold short) for the year ended December 31, 2014, aggregated $2,956,708,783 and $3,834,240,550, 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 are about to 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, 2014, the aggregate long value of distressed company securities for which interest recognition has been discontinued was $196,033,767, representing 1.19% 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) or which are subject to legal, contractual, or other agreed upon restrictions on resale. Restricted securities are often purchased in private placement transactions, and cannot be sold without prior registration unless the sale is pursuant to an exemption under the 1933 Act. Disposal of these securities may require greater effort and expense, and prompt sale at an acceptable price may be difficult. The Fund may have registration rights for restricted securities. The issuer generally incurs all registration costs.

At December 31, 2014, the Fund held investments in restricted securities, excluding certain securities exempt from registration under the 1933 Act deemed to be liquid, as follows:

Principal Amount Shares	Issuer	Acquisition Dates	Cost	Value
19,594	Broadband Ventures III LLC, secured promissory note, 5.00%, 2/01/12	7/01/10 - 11/30/12	$ 19,594	$ —
43,105,703	CB FIM Coinvestors LLC	1/15/09 - 6/02/09	—	—
53,924,666	FIM Coinvestor Holdings I, LLC	11/20/06 - 6/02/09	—	—
7,234,813	International Automotive Components Group Brazil LLC	4/13/06 - 12/26/08	4,804,678	684,268
63,079,866	International Automotive Components Group North America LLC	1/12/06 - 3/18/13	51,662,536	47,762,813
202,380	Olympus Re Holdings Ltd.	12/19/01	18,906,463	—
	Total Restricted Securities (Value is 0.30% of Net Assets)		$75,393,271	$48,447,081

10. Other Derivative Information

At December 31, 2014, the Fund's investments in derivative contracts are reflected on 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	Unrealized appreciation on forward exchange contracts / Net assets consist of – net unrealized appreciation (depreciation)	$87,836,161[a]	Unrealized depreciation on forward exchange contracts	$13,347,636

[a]Includes cumulative appreciation (depreciation) of futures contracts as reported in the Statement of Investments. Only current day's variation margin is separately reported within the Statement of Assets and Liabilities.

For the year ended December 31, 2014, the effect of derivative contracts on the Fund's Statement of Operations was as follows:

Derivative Contracts Not Accounted for as Hedging Instruments	Statement of Operations Locations	Realized Gain (Loss) for the Year	Change in Unrealized Appreciation (Depreciation) for the Year
Foreign exchange contracts	Net realized gain (loss) from foreign currency transactions and futures contracts / Net change in unrealized appreciation (depreciation) on translation of other assets and liabilities denominated in foreign currencies	$(10,744,827)	$156,757,074

For the year ended December 31, 2014, the average month end fair value of derivatives represented 0.40% of average month end net assets. The average month end number of open derivative contracts for the year was 222.

See Note 1(d) 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. Investments in "affiliated companies" for the Fund for the year ended December 31, 2014, were as shown below.

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	Investment Income	Realized Gain (Loss)
Controlled Affiliates[a]							
CB FIM Coinvestors LLC	43,105,703	—	—	43,105,703	$ —	$ —	$ —
Non-Controlled Affiliates							
Alexander's Inc.	326,675	—	—	326,675	$142,815,777	$4,246,775	$ —
FCB Financial Holdings Inc., A,	1,647,570	—	—	1,647,570	—[b]	—	—
Federal Signal Corp.	3,360,800	—	—	3,360,800	51,890,752	302,472	—
Guaranty Bancorp	1,146,366	—	—	1,146,366	16,553,525	229,273	—
International Automotive Components Group Brazil LLC	7,234,813	—	—	7,234,813	684,268	—	—
International Automotive Components Group North America LLC	63,079,866	—	—	63,079,866	47,762,813	—	—
White Mountains Insurance Group Ltd.	655,346	—	—	655,346	412,940,068	655,346	—
Total Non-Controlled Affiliates					$672,647,203	$5,433,866	$ —
Total Affiliated Securities (Value is 4.10% of Net Assets)					$672,647,203	$5,433,866	$ —

[a]Issuer in which the Fund owns 25% or more of the outstanding voting securities.
[b]As of December 31, 2014, no longer an affiliate.

12. Credit Facility

The Fund, together with other U.S. registered and foreign investment funds (collectively, Borrowers), managed by Franklin Templeton Investments, are borrowers in a joint syndicated senior unsecured credit facility totaling $1.5 billion (Global Credit Facility) which matured on February 13, 2015. 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 13, 2015, the Borrowers renewed the Global Credit Facility for a total of $2 billion, which matures on February 12, 2016.

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 0.07% based upon the unused portion of the Global Credit Facility. These fees are reflected in other expenses on the Statement of Operations. During the year ended December 31, 2014, 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.

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

A summary of inputs used as of December 31, 2014, in valuing the Fund's assets and liabilities carried at fair value, is as follows:

	Level 1	Level 2	Level 3	Total
Assets:				
Investments in Securities:				
Equity Investments:[a]				
Auto Components	$ —	$ —	$ 48,447,081	$ 48,447,081
Banks	1,512,896,418	2,432,332	—	1,515,328,750
Machinery	172,689,428	42,939,665	—	215,629,093
Real Estate Management & Development	13,650,344	—	120,251,997	133,902,341
All Other Equity Investments[b]	12,094,285,279	—	—[c]	12,094,285,279
Corporate Bonds, Notes and Senior Floating Rate Interests	—	731,138,456	—	731,138,456
Corporate Notes and Senior Floating Rate Interests in Reorganization	—	196,033,767	—[c]	196,033,767
Companies in Liquidation	239,922	105,240,219	—[c]	105,480,141
Municipal Bonds	—	42,286,879	—	42,286,879
Short Term Investments	1,230,927,758	26,844,100	—	1,257,771,858
Total Investments in Securities	$15,024,689,149	$1,146,915,418	$168,699,078	$16,340,303,645

	Level 1	Level 2	Level 3	Total
Assets: (continued)				
Other Financial Instruments				
Futures Contracts	$ 6,757,442	$ —	$ —	$ 6,757,442
Forward Exchange Contracts	—	81,078,719	—	81,078,719
Total Other Financial Instruments	$ 6,757,442	$ 81,078,719	$ —	$ 87,836,161
Liabilities:				
Other Financial Instruments				
Securities Sold Short	$ 104,153,151	$ —	$ —	$ 104,153,151
Forward Exchange Contracts	—	13,347,636	—	13,347,636
Total Other Financial Instruments	$ 104,153,151	$ 13,347,636	$ —	$ 117,500,787

[a]Includes common, convertible preferred and preferred stocks as well as other equity investments.
[b]For detailed categories, see the accompanying Statement of Investments.
[c]Includes securities determined to have no value at December 31, 2014.

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 end of the year. At December 31, 2014, the reconciliations of assets, is as follows:

	Balance at Beginning of Year	Purchases	Sales	Transfers Into Level 3	Transfers Out of Level 3[a]	Cost Basis Adjustments[b]	Net Realized Gain (Loss)	Net Unrealized Appreciation (Depreciation)	Balance at End of Year	Net Change in Unrealized Appreciation (Depreciation) on Assets Held at Year End
Assets:										
Investments in Securities:										
Equity Investments:[c]										
Auto Components	$ 37,101,336	$ —	$ —	$ —	$ —	$ —	$ —	$ 11,345,745	$ 48,447,081	$ 11,345,745
Banks	37,831,649	—	(11,231,302)	—	(45,564,117)	—	898,664	18,065,106	—	—
Insurance	—[d]	—	—	—		(52,708)	—	52,708	—[d]	52,708
Real Estate Management & Development	73,710,322	—	—	—	—	—	—	46,541,675	120,251,997	46,541,675
Total	$148,643,307	$ —	$(11,231,302)	$ —	$ (45,564,117)	$ (52,708)	$ 898,664	$ 76,005,234	$168,699,078	$ 57,940,128

[a]The investments were transferred out of Level 3 as a result of the removal of a significant unobservable valuation input.
[b]May include accretion, amortization, partnership adjustments, and/or other cost basis adjustments.
[c]Includes common stock as well as other equity investments.
[d]Includes securities determined to have no value.

13. Fair Value Measurements (continued)

Significant unobservable valuation inputs developed by the VLOC for material Level 3 financial instruments and impact to fair value as a result of changes in unobservable valuation inputs as of December 31, 2014, are as follows:

Description	Fair Value at End of Year	Valuation Technique	Unobservable Inputs	Amount	Impact to Fair Value if Input Increases[a]
Assets:					
Investments in Securities:					
Equity Investments:					
Auto Components	$ 47,762,813	Market comparables	Discount for lack of marketability	10%	Decrease[b]
			EV / EBITDA multiple	3.6x	Increase[c]
Real Estate Management & Development	120,251,997	Market comparables	Discount for lack of marketability	8%	Decrease[b]
All Other Investments[d]	684,268				
Total	$168,699,078				

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

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

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

[d]Includes fair value of immaterial financial instruments developed using various valuation techniques and unobservable inputs. May also include financial instruments with values derived using prior transaction prices or third party pricing information without adjustment for which such inputs are also unobservable.

Abbreviations List

EBITDA Earnings before interest, taxes, depreciation and amortization
EV Enterprise value

14. New Accounting Pronouncements

In June 2014, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2014-11, Transfers and Servicing (Topic 860), Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures. The ASU changes the accounting for certain repurchase agreements and expands disclosure requirements related to repurchase agreements, securities lending, repurchase-to-maturity and similar transactions. The ASU is effective for interim and annual reporting periods beginning after December 15, 2014. Management has reviewed the requirements and believes the adoption of this ASU will not have a material impact on the financial statements.

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	
BANT	Bank of America N.A.	**CAD**	Canadian Dollar	**ADR**	American Depositary Receipt
BBU	Barclays Bank PLC	**CHF**	Swiss Franc	**FHLB**	Federal Home Loan Bank
BONY	Bank of New York Mellon	**EUR**	Euro	**GO**	General Obligation
DBFX	Deutsche Bank AG	**GBP**	British Pound	**IDR**	International Depositary Receipt
FBCO	Credit Suisse Group AG	**USD**	United States Dollar	**PIK**	Payment-In-Kind
HSBC	HSBC Bank USA, N.A.				
SCBT	Standard Chartered Bank				
SSBT	State Street Bank and Trust Co., N.A.				

Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying statement of assets and liabilities, including the statement of investments, of Franklin Mutual Shares Fund (formerly, Mutual Shares Fund) (the "Fund") (one of the funds constituting Franklin Mutual Series Funds), as of December 31, 2014, 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, and the financial highlights for each of the periods indicated therein. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. We were not engaged to perform an audit of the Fund's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, 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. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of December 31, 2014, by correspondence with the custodian and brokers or by other appropriate auditing procedures where replies from the brokers were not received. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above 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, 2014, 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 the financial highlights for each of the periods indicated therein, in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

Boston, Massachusetts
February 18, 2015

Tax Information (unaudited)

Under Section 854(b)(1)(A) of the Internal Revenue Code (Code), the Fund hereby reports 37.88% of the ordinary income dividends as income qualifying for the dividends received deduction for the fiscal year ended December 31, 2014.

Under Section 854(b)(1)(B) of the Code, the Fund hereby reports the maximum amount allowable but no less than $456,542,838 as qualified dividends for purposes of the maximum rate under Section 1(h)(11) of the Code for the fiscal year ended December 31, 2014. Distributions, including qualified dividend income, paid during calendar year 2014 will be reported to shareholders on Form 1099-DIV by mid-February 2015. Shareholders are advised to check with their tax advisors for information on the treatment of these amounts on their individual income tax returns.

Under Section 871(k)(1)(C) of the Code, the Fund hereby reports the maximum amount allowable but no less than $57,866,451 as interest related dividends for purposes of the tax imposed under Section 871(a)(1)(A) of the Code for the fiscal year ended December 31, 2014.

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 Fund, principal occupations during at least the past five years and number of portfolios overseen in the Franklin Templeton Investments fund complex are shown below. Generally, each board member serves until that person's successor is elected and qualified.

Independent Board Members

Name, Year of Birth and Address	Position	Length of Time Served	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years
Edward I. Altman, Ph.D. (1941) c/o Franklin Mutual Advisers, LLC 101 John F. Kennedy Parkway Short Hills, NJ 07078-2789	Trustee	Since 1987	10	None
Principal Occupation During at Least the Past 5 Years: Max L. Heine Professor of Finance and Director of The Credit and Debt Markets Research Program, Salomon Center, Stern School of Business, New York University; editor and author of numerous financial publications; financial consultant; an adviser to numerous financial and publishing organizations; and **formerly,** Vice Director, Salomon Center, Stern School of Business, New York University.				
Ann Torre Bates (1958) c/o Franklin Mutual Advisers, LLC 101 John F. Kennedy Parkway Short Hills, NJ 07078-2789	Trustee	Since 1995	36	Navient Corporation (loan management, servicing and asset recovery) (May 2014), 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) and SLM Corporation (Sallie Mae) (1997-2014).
Principal Occupation During at Least the Past 5 Years: Director of various companies; and **formerly,** Executive Vice President and Chief Financial Officer, NHP Incorporated (manager of multifamily housing) (1995-1997); and Vice President and Treasurer, US Airways, Inc. (until 1995).				
Burton J. Greenwald (1929) c/o Franklin Mutual Advisers, LLC 101 John F. Kennedy Parkway Short Hills, NJ 07078-2789	Trustee	Since 2002	17	Franklin Templeton Emerging Markets Debt Opportunities Fund PLC and Fiduciary International Ireland Limited.
Principal Occupation During at Least the Past 5 Years: Managing Director, B.J. Greenwald Associates (management consultants to the financial services industry); and **formerly,** Chairman, Fiduciary Trust International Funds; Executive Vice President, L.F Rothschild Fund Management, Inc.; President and Director, Merit Mutual Funds; President, Underwriting Division and Director, National Securities & Research Corporation; Governor, Investment Company Institute; and Chairman, ICI Public Information Committee.				
Keith E. Mitchell (1954) c/o Franklin Mutual Advisers, LLC 101 John F. Kennedy Parkway Short Hills, NJ 07078-2789	Trustee	Since 2009	10	None
Principal Occupation During at Least the Past 5 Years: Managing Member, Mitchell, Hartley & Bechtel Advisers, LLC (formerly, Mitchell Advisers, LLC) (advisory firm); director of various boards of asset management firms; and **formerly,** Managing Director, Putnam 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
Charles Rubens II (1930) c/o Franklin Mutual Advisers, LLC 101 John F. Kennedy Parkway Short Hills, NJ 07078-2789	Trustee	Since 1998	17	None
Principal Occupation During at Least the Past 5 Years: Private investor and president of non-profit organizations; and **formerly,** an executive of Time, Inc.; and Trustee of Colorado College.				
Jan Hopkins Trachtman (1947) c/o Franklin Mutual Advisers, LLC 101 John F. Kennedy Parkway Short Hills, NJ 07078-2789	Trustee	Since 2009	10	None
Principal Occupation During at Least the Past 5 Years: President and Founder, The Jan Hopkins Group (communications consulting firm); President, Economic Club of New York; serves on Advisory Board of Knight Bagehot Fellowship; and **formerly,** 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.				
Robert E. Wade (1946) c/o Franklin Mutual Advisers, LLC 101 John F. Kennedy Parkway Short Hills, NJ 07078-2789	Trustee and Chairman of the Board	Trustee since 1993 and Chairman of the Board since 2005	43	El Oro Ltd (investments).
Principal Occupation During at Least the Past 5 Years: Attorney at law engaged in private practice (1972-2008) and member of various boards.				

Interested Board Members and Officers

Name, Year of Birth and Address	Position	Length of Time Served	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years
****Gregory E. Johnson (1961)** One Franklin Parkway San Mateo, CA 94403-1906	Trustee	Since 2007	147	None
Principal Occupation During at Least the Past 5 Years: Chairman of the Board, Member – Office of the Chairman, Director, President 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 44 of the investment companies in Franklin Templeton Investments; and Vice Chairman, Investment Company Institute.				
****Peter A. Langerman (1955)** c/o Franklin Mutual Advisers, LLC 101 John F. Kennedy Parkway Short Hills, NJ 07078-2702	Trustee, President, and Chief Executive Officer – Investment Management	Trustee since 2007, President, and Chief Executive Officer – Investment Management since 2005	10	American International Group, Inc. (AIG) Credit Facility Trust (2010–2011).
Principal Occupation During at Least the Past 5 Years: Chairman of the Board, Chief Executive Officer and President, Franklin Mutual Advisers, LLC; officer and/or director, as the case may be, of four of the investment companies in Franklin Templeton Investments.				

Interested Board Members and Officers (continued)

Name, Year of Birth and Address	Position	Length of Time Served	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years
Alison E. Baur (1964) One Franklin Parkway San Mateo, CA 94403-1906	Vice President	Since 2012	Not Applicable	Not Applicable
Principal Occupation During at Least the Past 5 Years: Deputy General Counsel, Franklin Templeton Investments; and officer of some of the other subsidiaries of Franklin Resources, Inc. and of 46 of the investment companies in Franklin Templeton Investments.				
Philippe Brugere-Trelat (1949) 101 John F. Kennedy Parkway Short Hills NJ 07078-2789	Vice President	Since 2005	Not Applicable	Not Applicable
Principal Occupation During at Least the Past 5 Years: Executive Vice President, Franklin Mutual Advisers, LLC; officer of three of the investment companies in Franklin Templeton Investments; and **formerly,** Portfolio Manager of Eurovest SA (French registered Investment Company, Sicav).				
Laura F. Fergerson (1962) One Franklin Parkway San Mateo, CA 94403-1906	Chief Executive Officer – Finance and Administration	Since 2009	Not Applicable	Not Applicable
Principal Occupation During at Least the Past 5 Years: Senior Vice President, Franklin Templeton Services, LLC; and officer of 46 of the investment companies in Franklin Templeton Investments..				
Aliya S. Gordon (1973) One Franklin Parkway San Mateo, CA 94403-1906	Vice President	Since 2009	Not Applicable	Not Applicable
Principal Occupation During at Least the Past 5 Years: Senior Associate General Counsel, Franklin Templeton Investments; officer of 46 of the investment companies in Franklin Templeton Investments; and **formerly,** Litigation Associate, Steefel, Levitt & Weiss, LLP (2000-2004).				
Steven J. Gray (1955) One Franklin Parkway San Mateo, CA 94403-1906	Secretary and Vice President	Secretary since 2005 and Vice President since 2009	Not Applicable	Not Applicable
Principal Occupation During at Least the Past 5 Years: Senior Associate General Counsel, Franklin Templeton Investments; Vice President, Franklin Templeton Distributors, Inc. and Franklin Alternative Strategies Advisers, LLC; and officer of 46 of the investment companies in Franklin Templeton Investments.				
Selena L. Holmes (1965) 100 Fountain Parkway St. Petersburg, FL 33716-1205	Vice President – AML Compliance	Since 2012	Not Applicable	Not Applicable
Principal Occupation During at Least the Past 5 Years: Director, Global Compliance Monitoring; Chief Compliance Officer, Franklin Alternative Strategies Advisers, LLC; Vice President, Franklin Templeton Companies, LLC; and officer of 46 of the investment companies in Franklin Templeton Investments.				

Interested Board Members and Officers (continued)

Name, Year of Birth and Address	Position	Length of Time Served	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years
Robert G. Kubilis (1973) 300 S.E. 2nd Street Fort Lauderdale, FL 33301-1923	Treasurer, Chief Financial Officer and Chief Accounting Officer	Since 2012	Not Applicable	Not Applicable
Principal Occupation During at Least the Past 5 Years: Assistant Treasurer, Fund Accounting, Franklin Templeton Investments; and officer of four of the investment companies in Franklin Templeton Investments.				
Kimberly H. Novotny (1972) 300 S.E. 2nd Street Fort Lauderdale, FL 33301-1923	Vice President	Since 2013	Not Applicable	Not Applicable
Principal Occupation During at Least the Past 5 Years: Associate General Counsel, Franklin Templeton Investments; Vice President and Secretary, Fiduciary Trust International of the South; Vice President, Templeton Investment Counsel, LLC; Assistant Secretary, Franklin Resources, Inc.; and officer of 46 of the investment companies in Franklin Templeton Investments.				
Robert C. Rosselot (1960) 300 S.E. 2nd Street Fort Lauderdale, FL 33301-1923	Chief Compliance Officer	Since 2013	Not Applicable	Not Applicable
Principal Occupation During at Least the Past 5 Years: Director, Global Compliance, Franklin Templeton Investments; Vice President, Franklin Templeton Companies, LLC; officer of 46 of the investment companies in Franklin Templeton Investments; and **formerly,** Senior Associate General Counsel, Franklin Templeton Investments (2007-2013); and Secretary and Vice President, Templeton Group of Funds (2004-2013).				
Karen L. Skidmore (1952) One Franklin Parkway San Mateo, CA 94403-1906	Vice President	Since 2009	Not Applicable	Not Applicable
Principal Occupation During at Least the Past 5 Years: Senior Associate General Counsel, Franklin Templeton Investments; and officer of 46 of the investment companies in Franklin Templeton Investments.				
Craig S. Tyle (1960) One Franklin Parkway San Mateo, CA 94403-1906	Vice President	Since 2005	Not Applicable	Not Applicable
Principal Occupation During at Least the Past 5 Years: General Counsel and Executive Vice President, Franklin Resources, Inc.; and officer of some of the other subsidiaries of Franklin Resources, Inc. and of 46 of the investment companies in Franklin Templeton Investments.				

Interested Board Members and Officers (continued)

Name, Year of Birth and Address	Position	Length of Time Served	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years
Lori A. Weber (1964) 300 S.E. 2nd Street Fort Lauderdale, FL 33301-1923	Vice President	Since 2011	Not Applicable	Not Applicable

Principal Occupation During at Least the Past 5 Years:
Senior Associate General Counsel, Franklin Templeton Investments; Assistant Secretary, Franklin Resources, Inc.; Vice President and Secretary, Templeton Investment Counsel, LLC; Vice President, Fiduciary Trust International of the South; and officer of 46 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., 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 an affiliate of 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 Fund's Board has determined that certain of the members of the Audit Committee, including Ann Torre Bates, are audit committee financial experts, and "independent," under those provisions of the Sarbanes-Oxley Act of 2002, and the rules and form amendments adopted by the Securities and Exchange Commission, relating to audit committee financial experts.

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

Shareholder Information

Proxy Voting Policies and Procedures

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

Quarterly Statement of Investments

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

Householding of Reports and Prospectuses

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

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FRANKLIN TEMPLETON
INVESTMENTS

Annual Report and Shareholder Letter
Franklin Mutual Shares Fund
Formerly, Mutual Shares Fund

Investment Manager
Franklin Mutual Advisers, LLC

Distributor
Franklin Templeton Distributors, Inc.
(800) DIAL BEN® / 342-5236
franklintempleton.com

Shareholder Services
(800) 632-2301 - (Class A, C, R & R6)
(800) 448-FUND - (Class Z)

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

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

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