

SEMIANNUAL REPORT AND SHAREHOLDER LETTER

# FRANKLIN MUTUAL SHARES FUND

A Series of Franklin Mutual Series Funds

June 30, 2019



FRANKLIN  
TEMPLETON®

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

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

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# FRANKLIN TEMPLETON

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

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

Dear Franklin Mutual Shares Fund Shareholder:

The markets came into 2019 in a fog of uncertainty. The outlook for economic growth had become less bright and fears were mounting that the U.S. Federal Reserve (Fed) would make a policy misstep in raising interest rates too far. Over the past six months, many of these economic concerns have eased, as the Fed and other major central banks like the European Central Bank (ECB) turned more dovish amid signs that growth was becoming a bit more sluggish. The ECB suggested it would act should growth soften and inflation not materialize. This dovishness helped propel the U.S. equity market back toward record highs in June. Bond yields, meanwhile, fell on the prospect for increased central bank-driven liquidity, with some sovereign European bonds sliding back into negative territory.

Although the prospects of a more accommodative monetary policy eased fears about the economic outlook, persistent trade tensions between the U.S. and China, among other nations, kept markets on edge. This was on full display in May when markets fell sharply on a ratcheting up of tensions and after the U.S. government threatened to place tariffs on Mexican goods. Mideast tensions also began to heat up in June with attacks on oil tankers in the Persian Gulf and greater tensions between the U.S. and Iran.

How, and even whether, the U.K. will leave the European Union has also remained unresolved. At period-end, the U.K. Conservative Party was conducting a leadership contest,

which has the potential to complicate future Brexit negotiations and leave markets vulnerable to increased volatility.

Despite all this uncertainty, for the six-month period ended June 30, 2019, U.S. stocks, as measured by the Standard & Poor's 500® Index (S&P 500®), posted a +18.54% total return, while stocks in global developed markets, as measured by the MSCI World Index, posted a +17.38% total return.<sup>1</sup>

As has been the case in recent years, growth stocks, particularly in the technology sector, have outperformed over the six-month period. Value stocks generally have remained disfavored in this environment where, at times, economic factors and monetary policy have had greater sway on equity returns than corporate fundamentals.

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

On the following pages, the Fund's portfolio management team reviews investment decisions that pertain to performance during the past six months considering the

1. Source: Morningstar.

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

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economic environment and other factors. Please remember all securities markets fluctuate, as do mutual fund share prices.

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

Sincerely,



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

*This letter reflects our analysis and opinions as of June 30, 2019, unless otherwise indicated. The information is not a complete analysis of every aspect of any market, country, industry, security or fund. Statements of fact are from sources considered reliable.*

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# SEMIANNUAL REPORT

## Franklin Mutual Shares Fund

This semiannual report for Franklin Mutual Shares Fund covers the period ended June 30, 2019.

### Your Fund's Goal and Main Investments

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

### Performance Overview

The Fund's Class Z shares posted a cumulative total return of +13.77% for the six months ended June 30, 2019. 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, posted a total return of +18.54%.<sup>1</sup> You can find more of the Fund's performance data in the Performance Summary beginning on page 9.

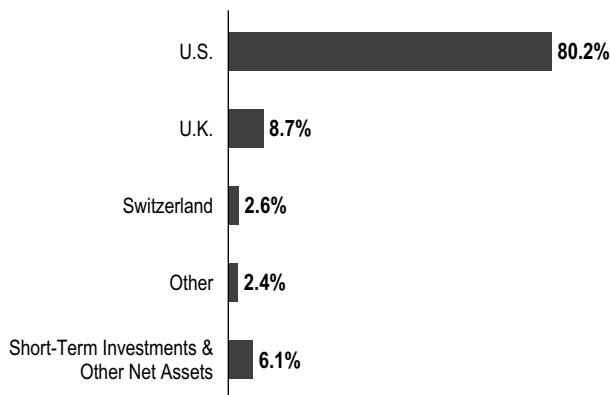
*Performance data represent past performance, which does not guarantee future results. Investment return and principal value will fluctuate, and you may have a gain or loss when you sell your shares. Current performance may differ from figures shown. For most recent month-end performance, go to [franklintempleton.com](http://franklintempleton.com)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

### Economic and Market Overview

The global economy expanded during the six months ended June 30, 2019 despite weakness in certain regions. Global developed and emerging market stocks were aided by upbeat economic data in some regions, encouraging corporate earnings reports and periods of optimism about a

### Geographic Composition\*

Based on Total Net Assets as of 6/30/19



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

potential U.S.-China trade deal. Further supporting markets were the U.S. Federal Reserve's (Fed's) patient approach to its monetary policy in 2019 and recent indication it will act as appropriate to sustain U.S. economic expansion.

However, markets reflected concerns about political uncertainties in the U.S. and the European Union, geopolitical risks in certain regions, and the impact of U.S. trade disputes with China and other trading partners on global growth and corporate earnings. In this environment, global developed and emerging market stocks, as measured by the MSCI All Country World Index, posted a +16.60% total return for the six-month period.<sup>1</sup>

The U.S. economy grew during the six months ended June 30, 2019. After moderating for two consecutive quarters, the economy grew significantly faster in 2019's first quarter, driven by growth in consumer spending, inventory investment, exports, business investment, and state and local government spending. However, the economy moderated again in the second quarter, due to weakness in inventory investment, exports, business investment and housing investment. The unemployment rate decreased from

1. Source: Morningstar.

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

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 17.

3.9% in December 2018 to 3.7% at period-end.<sup>2</sup> The annual inflation rate, as measured by the Consumer Price Index, decreased from 1.9% in December 2018 to 1.6% at period-end.<sup>2</sup>

The Fed held its target range for the federal funds rate unchanged, at 2.25%–2.50%, during the reporting period. In March, the Fed mentioned it would end its balance sheet normalization program by the end of September 2019. In June, the Fed indicated increased uncertainties around its views on economic activity and the labor market. With market-based inflation measures remaining low recently, the market has interpreted the Fed's recent statements to mean it will likely cut rates in 2019's second half to foster continued economic growth while attempting to achieve its inflation objective.

In Europe, the U.K.'s quarterly gross domestic product (GDP) growth accelerated in 2019's first quarter, but GDP contracted in the second quarter compared with the first quarter as Brexit uncertainties weighed on business sentiment. The Bank of England left its key policy rate unchanged during the period. The eurozone's quarterly GDP accelerated in 2019's first quarter but moderated in the second quarter, and the bloc's annual inflation rate marginally decreased by period-end. The European Central Bank (ECB) kept its benchmark interest rate unchanged for the same time. In June, the ECB mentioned it would leave interest rates unchanged through the first half of 2020, provided details of its new stimulus, and indicated its openness to cut rates or increase stimulus.

In Asia, Japan's quarterly GDP growth accelerated in 2019's first quarter. In June, the Bank of Japan also left its benchmark interest rate unchanged, while continuing its stimulus measures, and expressed its openness to cut interest rates or increase stimulus.

In larger emerging markets, Brazil's quarterly GDP growth contracted in 2019's first quarter. The Central Bank of Brazil left its benchmark interest rate unchanged during the period. Russia's annual GDP growth moderated in 2019's first quarter. The Bank of Russia cut its key rate once during the period. China's annual GDP growth rate stabilized in 2019's first quarter. The People's Bank of China left its benchmark interest rate unchanged, but it took measures to improve financial liquidity to mitigate the effects of the U.S.-China trade dispute and support economic growth. Overall, global

emerging market stocks, as measured by the MSCI Emerging Markets Index, posted a +10.78% total return during the six-month period.<sup>1</sup>

## Investment Strategy

At Franklin Mutual Series, we are committed to our distinctive value approach to investing, which we believe can generate above-average risk-adjusted returns over time for our shareholders. Our major investment strategy is investing in undervalued stocks. When selecting undervalued equities, we are attracted to what we believe are fundamentally strong companies with healthy balance sheets, high-quality assets, substantial free cash flow and shareholder-oriented management teams and whose stocks are trading at discounts to our assessment of the companies' intrinsic or business value. We also look for asset-rich companies whose shares may be trading at depressed levels due to concerns over short-term earnings disappointments, litigation, management strategy or other perceived negatives. This strict value approach is not only intended to improve the likelihood of capital appreciation, but also reduces the risk of substantial declines, in our opinion. While the vast majority of our undervalued equity investments are made in publicly traded companies globally, we may invest occasionally in privately held companies as well.

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

The other piece of our investment strategy is participating in arbitrage situations, another highly specialized field. When companies announce proposed mergers or takeovers, commonly referred to as "deals," the target company may trade at a discount to the bid it ultimately accepts. One form of arbitrage involves purchasing the target company's stock when it is trading below the value we believe it would receive in a deal. In keeping with our commitment to a relatively conservative investment approach, we typically focus our

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

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

arbitrage efforts on announced deals, and avoid rumored deals or other situations we consider relatively risky. In addition, it is our practice to hedge the Fund's currency exposure when we deem it advantageous for our shareholders.

#### What is meant by "hedge"?

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

## Manager's Discussion

Franklin Mutual Series has long analyzed companies in many ways beyond just looking at the numbers. We analyze the way a company is run and how decisions are made at the executive and board levels. We look at the sustainability of a company, including the relationships with employees and customers, as well as the environmental impacts of a company's business. In many ways this is common sense. A company that takes advantage of customers and unsustainably produces environmental waste is worth less than one that does not do these things. Similarly, a company that is well-run and responsive to shareholders is worth more than one whose executives manage the company for their private benefit. However, disclosure has been limited on many relevant issues, and there is disagreement among companies, shareholders and data providers about which factors should be measured and how they should be measured.

This type of analysis is labeled ESG analysis, where ESG stands for environmental, social, and governance factors. Many firms, including Franklin Templeton, are incorporating ESG factors in their investment research. In addition, there are other bodies such as the Sustainable Accounting Standards Board that are working on standardizing metrics for companies and industries to improve their reporting on these factors, particularly in the environmental and social areas. As a result, ESG analysis is improving across the market, and Franklin Mutual Series analysts are better able to analyze non-traditional factors, including greenhouse gas emissions, water consumption, energy usage, talent management, diversity and inclusion, executive compensation, and enterprise risk management, to name a few. ESG investing should not be confused with social or exclusionary types of investing, but should rather be viewed as an additional tool analysts and portfolio managers use in the investment process to identify and measure non-traditional, potential business risks and opportunities at a company.

## Top 10 Sectors/Industries

Based on Equity Securities as of 6/30/19

	% of Total Net Assets
Banks	10.6%
Oil, Gas & Consumable Fuels	10.0%
Insurance	8.3%
Pharmaceuticals	6.8%
Media	6.5%
Health Care Equipment & Supplies	3.8%
Technology Hardware, Storage & Peripherals	3.5%
Entertainment	2.9%
Tobacco	2.8%
Software	2.6%

Today, Franklin Mutual Series analysts review and analyze ESG reports produced by third parties or the companies themselves to assess potential risks that could have an impact on shareholder value. In addition, we have discussions with management teams around ESG risks, how they deal with them and the potential impact on stakeholders. Our discussions have included issues such as water consumption in mining, the impact of changing carbon dioxide emission standards on the automotive industry and discussions with boards and management teams around management pay. Although more work needs to be done to standardize data from companies within industries so that comparisons can be relevant, the identification and discussion of ESG risk factors is an input we consider in helping frame the potential negative events individual companies or industries may face. In our view, solid ESG ratings are an output of fundamentally good business practices, not an input. As the data and information regarding ESG risk factors continue to evolve, we believe the increased information will highlight additional risk factors to enterprises and help us make more informed investment decisions going forward.

## Mergers and Acquisitions

Merger and acquisition (M&A) activity remained healthy in the first half of 2019. The health care sector led the way, with pharmaceuticals megamergers among the biggest transactions. The pending acquisitions of Celgene and Allergan (not a Fund holding), each worth almost \$90 billion, exemplify this strength. The Top 10 Sectors/Industries table on this page lists pharmaceuticals and also other leading industries in which the Fund currently invests. Large deals have also been announced in the defense, oil and gas exploration and production, and diversified financial services industries, underlying the broad strength of the M&A boom.



In addition, U.S. and foreign regulators appear to be more amenable to deals, leading markets to expect fewer regulatory surprises. We are closely monitoring the U.S.-China trade conflict, because flare-ups could potentially impact pending and future deals. We expect M&A activity to remain strong for as long as the equity markets remain positive, as has been the historical pattern.

### Credit Markets

Opportunities to invest in mispriced risk across global fixed income markets remained limited in the first half of 2019. The low interest-rate environment kept credit widely available, and default rates are still at historically low levels. Debt covenant terms, which include restrictions on the borrower's financial activities, remain loose or nonexistent. In such an environment, we believe it is prudent to focus our efforts on investing in short-term mispriced risk and catalyst-driven credit opportunities.

On the restructuring side, Cumulus Media and iHeartMedia, two long-term distressed credit positions, emerged from bankruptcy or had reached a confirmable restructuring agreement in 2018, reducing further the purely distressed portion of the credit holdings within the Funds. PG&E, which recently filed for bankruptcy, became a new distressed credit position. Furthermore, Windstream Services became a new distressed credit position after parent company Windstream Holdings and its subsidiaries filed for bankruptcy. We are hopeful more opportunities may emerge as the business and economic cycles elongate amid persistent uncertainties. We will continue to seek to invest across the capital structures of companies that avail themselves of opportunities to bolster liquidity through internally generated free cash flow and corporate actions, including asset sales and debt refinancing.

### Fund Performance

Top positive contributors to performance included Charter Communications, American International Group and Walt Disney. These companies are listed among the Fund's largest positions in the Top 10 Equity Holdings table on this page.

In late January, U.S.-based Charter Communications, a telecommunications and mass media company, reported quarterly earnings, revenues and free cash flow that topped market expectations. Charter also estimated that 2019 capital spending and operating costs per customer could likely be lower than 2018, providing a boost to operating margins. In our view, Charter's integration plan following the 2016 acquisition of Time Warner Cable is starting to produce positive results.

### Top 10 Equity Holdings

6/30/19

Company Sector/Industry, Country	% of Total Net Assets
Medtronic PLC <i>Health Care Equipment &amp; Supplies, U.S.</i>	3.8%
The Walt Disney Co. <i>Entertainment, U.S.</i>	2.9%
Novartis AG <i>Pharmaceuticals, Switzerland</i>	2.6%
Charter Communications Inc. <i>Media, U.S.</i>	2.6%
JPMorgan Chase & Co. <i>Banks, U.S.</i>	2.4%
American International Group Inc. <i>Insurance, U.S.</i>	2.3%
Royal Dutch Shell PLC <i>Oil, Gas &amp; Consumable Fuels, U.K.</i>	2.0%
Alleghany Corp. <i>Insurance, U.S.</i>	1.9%
Citigroup Inc. <i>Banks, U.S.</i>	1.9%
Wells Fargo & Co. <i>Banks, U.S.</i>	1.9%

Shares of American International Group (AIG), a U.S.-based insurer, rose following its fiscal first-quarter 2019 earnings release in May, which indicated a stabilization in its business. AIG has been repositioning itself to focus on writing more profitable business and reducing its overall risk exposure. As a result, the insurer expects to report an underwriting profit for its full fiscal year.

The stock of U.S.-based diversified international family entertainment and media enterprise Walt Disney surged following an investor event outlining the strategy and expectations for its new streaming service. The breadth and depth of content, the price point, and the technology and user interface supporting it have increased optimism about the service. Market expectations for the service's growth and profitability rose significantly on the back of this event.

During the period under review, Fund investments that detracted from performance included Kroger, Walgreens Boots Alliance and CVS Health.

U.S.-based grocery retailer Kroger reported weaker-than-expected quarterly revenues and earnings per share (EPS), and its 2019 EPS guidance was below the consensus estimate. Investments, stronger growth in its lower-margin specialty pharmacy business and the opening of a new



warehouse caused a decline in Kroger's gross margin. In our view, the immediate stock price decline was an over-reaction, but earnings announcements can be high volatility events, as a small change in the margin has a significant effect on earnings.

Shares of U.S.-based Walgreens Boots Alliance did not keep up with the market rebound in January and February. In March, the stock price fell when the chief financial officer cited negative industry trends in drug prices and pharmacy benefit manager (PBM) reimbursement rates, as well as the company's limited success offsetting those challenges by increasing its volume of drug sales or renegotiating with PBMs. These pressures and weakness in both its U.S. and U.K. stores resulted in a cut to full-year guidance in April. However, Walgreens is reducing costs throughout the enterprise, and within the front end of the store, it is attempting to reduce exposure to lower margin categories, which we believe can help boost growth and profitability over the longer term.

In January, the chief executive officer of U.S.-based CVS Health, an integrated pharmacy health care provider, highlighted probable headwinds for 2019, and in February the company detailed the financial drag from those headwinds. Possible negative factors included: higher costs from increased investments in its workforce, which could have a year-over-year drag on earnings through the first half of 2019; greater price competition in nursing care; and lower-than-expected branded drug price increases.

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

#### What is a currency forward?

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

#### What is a future?

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

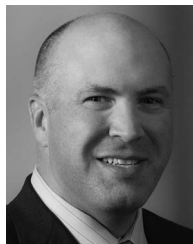
As fellow shareholders, we found recent relative performance disappointing, but it is not uncommon for our strategy to lag the equity markets at times. We remain committed to our disciplined, value investment approach as we seek to generate attractive, long-term, risk-adjusted returns for shareholders.

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



*Peter A. Langerman*

Peter A. Langerman  
Co-Portfolio Manager



*F. David Segal*

F. David Segal, CFA  
Co-Portfolio Manager



*Debbie Turner*

Debbie A. Turner, CFA  
Co-Portfolio Manager

*The foregoing information reflects our analysis, opinions and portfolio holdings as of June 30, 2019, the end of the reporting period. The way we implement our main investment strategies and the resulting portfolio holdings may change depending on factors such as market and economic conditions. These opinions may not be relied upon as investment advice or an offer for a particular security. The information is not a complete analysis of every aspect of any market, country, industry, security or the Fund. Statements of fact are from sources considered reliable, but the investment manager makes no representation or warranty as to their completeness or accuracy. Although historical performance is no guarantee of future results, these insights may help you understand our investment management philosophy.*

## Performance Summary as of June 30, 2019

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

### Performance as of 6/30/19

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

Share Class	Cumulative Total Return <sup>1</sup>	Average Annual Total Return <sup>2</sup>
<b>Z</b>		
6-Month	+13.77%	+13.77%
1-Year	+4.51%	+4.51%
5-Year	+24.81%	+4.53%
10-Year	+166.16%	+10.28%
<b>A<sup>3</sup></b>		
6-Month	+13.63%	+7.36%
1-Year	+4.23%	-1.49%
5-Year	+23.17%	+3.08%
10-Year	+158.80%	+9.36%

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

See page 10 for Performance Summary footnotes.

## Total Annual Operating Expenses<sup>4</sup>

### Share Class

Z	0.77%
A	1.02%

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

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

1. Cumulative total return represents the change in value of an investment over the periods indicated.
2. Average annual total return represents the average annual change in value of an investment over the periods indicated. Return for less than one year, if any, has not been annualized.
3. Prior to 9/10/18, these shares were offered at a higher initial sales charge of 5.75%, thus actual returns (with sales charges) would have differed. Average annual total returns (with sales charges) have been restated to reflect the current maximum initial sales charge of 5.50%.
4. Figures are as stated in the Fund's current prospectus and may differ from the expense ratios disclosed in the Your Fund's Expenses and Financial Highlights sections in this report. In periods of market volatility, assets may decline significantly, causing total annual Fund operating expenses to become higher than the figures shown.

## Your Fund's Expenses

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

### Actual Fund Expenses

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

### Hypothetical Example for Comparison with Other Funds

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

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

Share Class	Beginning Account Value 1/1/19	Actual (actual return after expenses)		Hypothetical (5% annual return before expenses)		Net Annualized Expense Ratio <sup>2</sup>
		Ending Account Value 6/30/19	Expenses Paid During Period 1/1/19–6/30/19 <sup>1, 2</sup>	Ending Account Value 6/30/19	Expenses Paid During Period 1/1/19–6/30/19 <sup>1, 2</sup>	
Z	\$1,000	\$1,137.70	\$4.13	\$1,020.93	\$3.91	0.78%
A	\$1,000	\$1,136.30	\$5.46	\$1,019.69	\$5.16	1.03%
C	\$1,000	\$1,132.20	\$9.41	\$1,015.97	\$8.90	1.78%
R	\$1,000	\$1,135.10	\$6.78	\$1,018.45	\$6.41	1.28%
R6	\$1,000	\$1,138.30	\$3.71	\$1,021.32	\$3.51	0.70%

1. Expenses are equal to the annualized expense ratio for the six-month period as indicated above—in the far right column—multiplied by the simple average account value over the period indicated, and then multiplied by 181/365 to reflect the one-half year period.

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

## Financial Highlights

## Franklin Mutual Shares Fund

	Six Months Ended	Year Ended December 31,				
	June 30, 2019 (unaudited)	2018	2017	2016	2015	2014
<b>Class Z</b>						
<b>Per share operating performance</b> (for a share outstanding throughout the period)						
Net asset value, beginning of period . . . . .	\$24.25	\$28.63	\$28.22	\$26.00	\$29.52	\$28.34
Income from investment operations <sup>a</sup> :						
Net investment income <sup>b</sup> . . . . .	0.31	0.51	0.65 <sup>c</sup>	0.63 <sup>d</sup>	0.54	0.78 <sup>e</sup>
Net realized and unrealized gains (losses) . . . . .	3.03	(3.11)	1.73	3.48	(1.71)	1.38
Total from investment operations . . . . .	3.34	(2.60)	2.38	4.11	(1.17)	2.16
Less distributions from:						
Net investment income . . . . .	—	(0.53)	(0.68)	(0.64)	(0.59)	(0.98)
Net realized gains . . . . .	—	(1.25)	(1.29)	(1.25)	(1.76)	—
Total distributions . . . . .	—	(1.78)	(1.97)	(1.89)	(2.35)	(0.98)
Net asset value, end of period . . . . .	\$27.59	\$24.25	\$28.63	\$28.22	\$26.00	\$29.52
Total return <sup>f</sup> . . . . .	13.77%	(8.95)%	8.49%	15.88%	(3.81)%	7.60%
<b>Ratios to average net assets<sup>g</sup></b>						
Expenses <sup>h,i</sup> . . . . .	0.78% <sup>j</sup>	0.76% <sup>j</sup>	0.78%	0.80% <sup>j</sup>	0.81% <sup>j</sup>	0.80%
Expenses incurred in connection with securities sold short . . . . .	0.01%	—% <sup>k</sup>	—%	0.01%	0.02%	0.03%
Net investment income . . . . .	2.37%	1.77%	2.23% <sup>c</sup>	2.33% <sup>d</sup>	1.82%	2.67% <sup>e</sup>
<b>Supplemental data</b>						
Net assets, end of period (000's) . . . . .	\$5,357,029	\$5,189,476	\$6,229,996	\$7,681,881	\$6,770,056	\$7,363,765
Portfolio turnover rate . . . . .	10.06%	20.72%	18.15%	20.56%	19.99%	19.24%

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

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

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

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

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

<sup>f</sup>Total return is not annualized for periods less than one year.

<sup>g</sup>Ratios are annualized for periods less than one year.

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

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

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

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

**Franklin Mutual Shares Fund** (continued)

	Six Months Ended June 30, 2019 (unaudited)	Year Ended December 31,				
		2018	2017	2016	2015	2014
<b>Class A</b>						
<b>Per share operating performance</b> (for a share outstanding throughout the period)						
Net asset value, beginning of period . . . . .	\$24.00	\$28.35	\$27.97	\$25.78	\$29.29	\$28.12
Income from investment operations <sup>a</sup> :						
Net investment income <sup>b</sup> . . . . .	0.28	0.43	0.58 <sup>c</sup>	0.56 <sup>d</sup>	0.45	0.69 <sup>e</sup>
Net realized and unrealized gains (losses) . . . . .	2.99	(3.07)	1.70	3.45	(1.69)	1.37
Total from investment operations . . . . .	3.27	(2.64)	2.28	4.01	(1.24)	2.06
Less distributions from:						
Net investment income . . . . .	—	(0.46)	(0.61)	(0.57)	(0.51)	(0.89)
Net realized gains . . . . .	—	(1.25)	(1.29)	(1.25)	(1.76)	—
Total distributions . . . . .	—	(1.71)	(1.90)	(1.82)	(2.27)	(0.89)
Net asset value, end of period . . . . .	\$27.27	\$24.00	\$28.35	\$27.97	\$25.78	\$29.29
Total return <sup>f</sup> . . . . .	13.63%	(9.18)%	8.21%	15.61%	(4.10)%	7.30%
<b>Ratios to average net assets<sup>g</sup></b>						
Expenses <sup>h,i</sup> . . . . .	1.03% <sup>j</sup>	1.01% <sup>i</sup>	1.03%	1.05% <sup>j</sup>	1.09% <sup>j</sup>	1.10%
Expenses incurred in connection with securities sold short . . . . .	0.01%	—% <sup>k</sup>	—%	0.01%	0.02%	0.03%
Net investment income . . . . .	2.12%	1.52%	1.98% <sup>c</sup>	2.08% <sup>d</sup>	1.54%	2.37% <sup>e</sup>
<b>Supplemental data</b>						
Net assets, end of period (000's) . . . . .	\$4,128,726	\$3,852,134	\$4,386,829	\$4,737,576	\$4,819,868	\$5,392,130
Portfolio turnover rate . . . . .	10.06%	20.72%	18.15%	20.56%	19.99%	19.24%

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

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

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

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

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

<sup>f</sup>Total return does not reflect sales commissions or contingent deferred sales charges, if applicable, and is not annualized for periods less than one year.

<sup>g</sup>Ratios are annualized for periods less than one year.

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

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

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

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



**Franklin Mutual Shares Fund** (continued)

	Six Months Ended June 30, 2019 (unaudited)	Year Ended December 31,				
		2018	2017	2016	2015	2014
<b>Class C</b>						
<b>Per share operating performance</b> (for a share outstanding throughout the period)						
Net asset value, beginning of period . . . . .	\$23.97	\$28.04	\$27.68	\$25.54	\$29.02	\$27.88
Income from investment operations <sup>a</sup> :						
Net investment income <sup>b</sup> . . . . .	0.18	0.21	0.35 <sup>c</sup>	0.35 <sup>d</sup>	0.24	0.48 <sup>e</sup>
Net realized and unrealized gains (losses) . . . . .	2.99	(3.00)	1.67	3.40	(1.67)	1.34
Total from investment operations . . . . .	3.17	(2.79)	2.02	3.75	(1.43)	1.82
Less distributions from:						
Net investment income . . . . .	—	(0.03)	(0.37)	(0.36)	(0.29)	(0.68)
Net realized gains . . . . .	—	(1.25)	(1.29)	(1.25)	(1.76)	—
Total distributions . . . . .	—	(1.28)	(1.66)	(1.61)	(2.05)	(0.68)
Net asset value, end of period . . . . .	\$27.14	\$23.97	\$28.04	\$27.68	\$25.54	\$29.02
Total return <sup>f</sup> . . . . .	13.22%	(9.87)%	7.37%	14.77%	(4.79)%	6.56%
<b>Ratios to average net assets<sup>g</sup></b>						
Expenses <sup>h,i</sup> . . . . .	1.78% <sup>j</sup>	1.76% <sup>j</sup>	1.78%	1.80% <sup>j</sup>	1.81% <sup>j</sup>	1.80%
Expenses incurred in connection with securities sold short . . . . .	0.01%	—% <sup>k</sup>	—%	0.01%	0.02%	0.03%
Net investment income . . . . .	1.37%	0.77%	1.23% <sup>c</sup>	1.33% <sup>d</sup>	0.82%	1.67% <sup>e</sup>
<b>Supplemental data</b>						
Net assets, end of period (000's) . . . . .	\$311,307	\$309,756	\$995,665	\$1,114,760	\$1,101,302	\$1,240,845
Portfolio turnover rate . . . . .	10.06%	20.72%	18.15%	20.56%	19.99%	19.24%

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

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

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

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

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

<sup>f</sup>Total return does not reflect sales commissions or contingent deferred sales charges, if applicable, and is not annualized for periods less than one year.

<sup>g</sup>Ratios are annualized for periods less than one year.

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

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

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

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

**Franklin Mutual Shares Fund** (continued)

	Six Months Ended June 30, 2019 (unaudited)	Year Ended December 31,				
		2018	2017	2016	2015	2014
<b>Class R</b>						
<b>Per share operating performance</b> (for a share outstanding throughout the period)						
Net asset value, beginning of period . . . . .	\$23.91	\$28.21	\$27.83	\$25.66	\$29.14	\$27.98
Income from investment operations <sup>a</sup> :						
Net investment income <sup>b</sup> . . . . .	0.24	0.36	0.50 <sup>c</sup>	0.49 <sup>d</sup>	0.38	0.64 <sup>e</sup>
Net realized and unrealized gains (losses) . . . . .	2.99	(3.05)	1.70	3.42	(1.67)	1.34
Total from investment operations . . . . .	3.23	(2.69)	2.20	3.91	(1.29)	1.98
Less distributions from:						
Net investment income . . . . .	—	(0.36)	(0.53)	(0.49)	(0.43)	(0.82)
Net realized gains . . . . .	—	(1.25)	(1.29)	(1.25)	(1.76)	—
Total distributions . . . . .	—	(1.61)	(1.82)	(1.74)	(2.19)	(0.82)
Net asset value, end of period . . . . .	\$27.14	\$23.91	\$28.21	\$27.83	\$25.66	\$29.14
Total return <sup>f</sup> . . . . .	13.51%	(9.41)%	7.96%	15.31%	(4.32)%	7.10%
<b>Ratios to average net assets<sup>g</sup></b>						
Expenses <sup>h,i</sup> . . . . .	1.28% <sup>j</sup>	1.26% <sup>j</sup>	1.28%	1.30% <sup>j</sup>	1.31% <sup>j</sup>	1.30%
Expenses incurred in connection with securities sold short . . . . .	0.01%	—% <sup>k</sup>	—%	0.01%	0.02%	0.03%
Net investment income . . . . .	1.87%	1.27%	1.73% <sup>c</sup>	1.83% <sup>d</sup>	1.32%	2.17% <sup>e</sup>
<b>Supplemental data</b>						
Net assets, end of period (000's) . . . . .	\$79,980	\$74,345	\$107,660	\$123,013	\$134,050	\$172,938
Portfolio turnover rate . . . . .	10.06%	20.72%	18.15%	20.56%	19.99%	19.24%

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

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

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

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

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

<sup>f</sup>Total return is not annualized for periods less than one year.

<sup>g</sup>Ratios are annualized for periods less than one year.

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

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

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

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

**Franklin Mutual Shares Fund** (continued)

	Six Months Ended June 30, 2019 (unaudited)	Year Ended December 31,				
		2018	2017	2016	2015	2014
<b>Class R6</b>						
<b>Per share operating performance</b> (for a share outstanding throughout the period)						
Net asset value, beginning of period . . . . .	\$24.23	\$28.61	\$28.21	\$25.98	\$29.51	\$28.33
Income from investment operations <sup>a</sup> :						
Net investment income <sup>b</sup> . . . . .	0.32	0.53	0.70 <sup>c</sup>	0.66 <sup>d</sup>	0.57	0.82 <sup>e</sup>
Net realized and unrealized gains (losses) . . . . .	3.03	(3.11)	1.71	3.49	(1.71)	1.37
Total from investment operations . . . . .	3.35	(2.58)	2.41	4.15	(1.14)	2.19
Less distributions from:						
Net investment income . . . . .	—	(0.55)	(0.72)	(0.67)	(0.63)	(1.01)
Net realized gains . . . . .	—	(1.25)	(1.29)	(1.25)	(1.76)	—
Total distributions . . . . .	—	(1.80)	(2.01)	(1.92)	(2.39)	(1.01)
Net asset value, end of period . . . . .	\$27.58	\$24.23	\$28.61	\$28.21	\$25.98	\$29.51
Total return <sup>f</sup> . . . . .	13.83%	(8.88)%	8.61%	16.05%	(3.71)%	7.72%
<b>Ratios to average net assets<sup>g</sup></b>						
Expenses <sup>h,i</sup> . . . . .	0.70% <sup>j</sup>	0.69% <sup>i</sup>	0.67%	0.68% <sup>j</sup>	0.69% <sup>i</sup>	0.69%
Expenses incurred in connection with securities sold short . . . . .	0.01%	—% <sup>k</sup>	—%	0.01%	0.02%	0.03%
Net investment income . . . . .	2.45%	1.84%	2.34% <sup>c</sup>	2.45% <sup>d</sup>	1.94%	2.78% <sup>e</sup>
<b>Supplemental data</b>						
Net assets, end of period (000's) . . . . .	\$3,352,932	\$3,160,186	\$3,741,430	\$1,896,497	\$1,923,466	\$2,249,991
Portfolio turnover rate . . . . .	10.06%	20.72%	18.15%	20.56%	19.99%	19.24%

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

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

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

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

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

<sup>f</sup>Total return is not annualized for periods less than one year.

<sup>g</sup>Ratios are annualized for periods less than one year.

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

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

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

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

## Statement of Investments, June 30, 2019 (unaudited)

## Franklin Mutual Shares Fund

	Country	Shares/ Units/ Warrants	Value
<b>Common Stocks and Other Equity Interests 90.6%</b>			
<b>Aerospace &amp; Defense 1.8%</b>			
BAE Systems PLC . . . . .	United Kingdom	18,114,621	\$ 113,965,097
Huntington Ingalls Industries Inc. . . . .	United States	557,981	125,400,650
			<u>239,365,747</u>
<b>Auto Components 0.1%</b>			
The Goodyear Tire & Rubber Co. . . . .	United States	1,184,447	18,122,039
<sup>a,b,c,d</sup> International Automotive Components Group Brazil LLC . . . . .	Brazil	7,234,813	185,776
			<u>18,307,815</u>
<b>Automobiles 1.3%</b>			
General Motors Co. . . . .	United States	4,507,470	173,672,819
<b>Banks 10.6%</b>			
Barclays PLC. . . . .	United Kingdom	38,190,870	72,653,740
Cadence Bancorp . . . . .	United States	1,864,557	38,782,786
CIT Group Inc. . . . .	United States	2,759,673	144,993,219
Citigroup Inc. . . . .	United States	3,576,406	250,455,712
Citizens Financial Group Inc. . . . .	United States	6,757,671	238,951,247
Columbia Banking System Inc. . . . .	United States	88,096	3,187,313
Independent Bank Group Inc. . . . .	United States	515,864	28,351,885
JPMorgan Chase & Co. . . . .	United States	2,871,890	321,077,302
Synovus Financial Corp. . . . .	United States	1,738,186	60,744,179
Wells Fargo & Co. . . . .	United States	5,171,930	244,735,728
			<u>1,403,933,111</u>
<b>Biotechnology 1.1%</b>			
<sup>a</sup> Celgene Corp. . . . .	United States	1,590,143	146,992,819
<b>Building Products 1.5%</b>			
Johnson Controls International PLC . . . . .	United States	4,783,800	197,618,778
<b>Chemicals 0.1%</b>			
<sup>a,c,e</sup> Dow Corning Corp. (Revolver/Term Loan Claims), Contingent Distribution. . . . .	United States	11,630,547	6,204,374
<sup>a,c,e</sup> Dow Corning Corp. (Swap Agreement Claims), Contingent Distribution . . . . .	United States	1,000,000	20,786
			<u>6,225,160</u>
<b>Communications Equipment 1.1%</b>			
Cisco Systems Inc. . . . .	United States	2,588,110	141,647,260
<b>Construction &amp; Engineering 0.6%</b>			
Fluor Corp. . . . .	United States	2,399,827	80,850,172
<b>Consumer Finance 1.6%</b>			
Ally Financial Inc. . . . .	United States	1,008,976	31,268,166
Capital One Financial Corp. . . . .	United States	2,011,505	182,523,964
			<u>213,792,130</u>
<b>Containers &amp; Packaging 1.5%</b>			
International Paper Co. . . . .	United States	3,741,837	162,096,379
WestRock Co. . . . .	United States	1,125,212	41,036,481
			<u>203,132,860</u>

**Franklin Mutual Shares Fund** (continued)

	Country	Shares/ Units/ Warrants	Value
<b>Common Stocks and Other Equity Interests</b> (continued)			
<b>Diversified Financial Services 1.4%</b>			
Voya Financial Inc. . . . .	United States	3,413,030	\$ 188,740,559
<b>Diversified Telecommunication Services 0.7%</b>			
Koninklijke KPN NV . . . . .	Netherlands	30,410,640	93,345,310
<b>Electrical Equipment 1.6%</b>			
<sup>a</sup> Sensata Technologies Holding PLC . . . . .	United States	4,363,870	213,829,630
<b>Electronic Equipment, Instruments &amp; Components 0.5%</b>			
Corning Inc. . . . .	United States	2,006,414	66,673,137
<b>Energy Equipment &amp; Services 1.3%</b>			
Baker Hughes a GE Co., A . . . . .	United States	5,908,552	145,527,636
<sup>a</sup> McDermott International Inc. . . . .	United States	2,645,956	25,559,935
			<u>171,087,571</u>
<b>Entertainment 2.9%</b>			
The Walt Disney Co. . . . .	United States	2,716,200	379,290,168
<b>Equity Real Estate Investment Trusts (REITs) 1.8%</b>			
<sup>b</sup> Alexander's Inc. . . . .	United States	299,604	110,943,361
Vornado Realty Trust . . . . .	United States	2,036,522	130,541,060
			<u>241,484,421</u>
<b>Food &amp; Staples Retailing 2.2%</b>			
The Kroger Co. . . . .	United States	7,402,986	160,718,826
Walgreens Boots Alliance Inc. . . . .	United States	2,446,029	133,724,405
			<u>294,443,231</u>
<b>Food Products 1.6%</b>			
Archer-Daniels-Midland Co. . . . .	United States	1,639,797	66,903,718
The Kraft Heinz Co. . . . .	United States	4,507,800	139,922,112
			<u>206,825,830</u>
<b>Health Care Equipment &amp; Supplies 3.8%</b>			
Medtronic PLC . . . . .	United States	5,180,794	504,557,528
<b>Health Care Providers &amp; Services 1.2%</b>			
CVS Health Corp. . . . .	United States	3,015,915	164,337,208
<b>Household Durables 2.6%</b>			
Lennar Corp., A . . . . .	United States	2,378,700	115,271,802
Newell Brands Inc. . . . .	United States	9,867,795	152,161,399
Toll Brothers Inc. . . . .	United States	1,993,600	73,005,632
			<u>340,438,833</u>
<b>Household Products 0.5%</b>			
Energen Holdings Inc. . . . .	United States	1,787,933	69,085,731
<b>Independent Power &amp; Renewable Electricity Producers 0.5%</b>			
Vistra Energy Corp. . . . .	United States	3,124,828	70,746,106
<b>Industrial Conglomerates 1.1%</b>			
General Electric Co. . . . .	United States	13,594,500	142,742,250

Franklin Mutual Shares Fund (continued)

	Country	Shares/ Units/ Warrants	Value
<b>Common Stocks and Other Equity Interests (continued)</b>			
<b>Insurance 8.3%</b>			
<sup>a</sup> Alleghany Corp. . . . .	United States	377,389	\$ 257,043,422
American International Group Inc. . . . .	United States	5,664,539	301,806,638
<sup>a</sup> Brighthouse Financial Inc. . . . .	United States	726,194	26,644,058
Chubb Ltd. . . . .	United States	1,084,658	159,759,277
The Hartford Financial Services Group Inc. . . . .	United States	3,734,899	208,108,572
MetLife Inc. . . . .	United States	2,841,530	141,138,795
			<u>1,094,500,762</u>
<b>IT Services 1.6%</b>			
Cognizant Technology Solutions Corp., A . . . . .	United States	3,320,050	210,457,969
<b>Machinery 0.8%</b>			
CNH Industrial NV . . . . .	United Kingdom	4,351,332	44,610,350
CNH Industrial NV, special voting . . . . .	United Kingdom	5,296,616	54,301,508
			<u>98,911,858</u>
<b>Media 6.5%</b>			
<sup>a</sup> Charter Communications Inc., A . . . . .	United States	865,529	342,039,750
<sup>a</sup> Clear Channel Outdoor Holdings Inc. . . . .	United States	4,530,372	21,383,356
Comcast Corp., A. . . . .	United States	5,111,400	216,109,992
<sup>a</sup> Cumulus Media Inc., A . . . . .	United States	134,131	2,488,130
<sup>a</sup> Cumulus Media Inc., B . . . . .	United States	199,632	3,703,174
<sup>a</sup> Cumulus Media Inc., wts., 6/04/38 . . . . .	United States	171,135	2,780,944
<sup>a</sup> Discovery Inc., C . . . . .	United States	4,772,200	135,769,090
<sup>a</sup> DISH Network Corp., A. . . . .	United States	2,879,437	110,599,175
<sup>a,c,d</sup> iHeartMedia Inc., A . . . . .	United States	2,086,072	30,279,932
<sup>a,c,d</sup> iHeartMedia Inc., B . . . . .	United States	35,201	510,952
<sup>a,c,d</sup> iHeartMedia Inc., wts., A, 5/01/39. . . . .	United States	1,786	25,922
			<u>865,690,417</u>
<b>Metals &amp; Mining 0.0%†</b>			
Warrior Met Coal Inc. . . . .	United States	68,967	1,801,418
<b>Oil, Gas &amp; Consumable Fuels 10.0%</b>			
Anadarko Petroleum Corp. . . . .	United States	3,198,080	225,656,525
BP PLC. . . . .	United Kingdom	14,266,349	99,392,876
Kinder Morgan Inc. . . . .	United States	11,533,040	240,809,875
Marathon Oil Corp. . . . .	United States	10,959,685	155,737,124
Occidental Petroleum Corp. . . . .	United States	1,183,200	59,491,296
Plains All American Pipeline LP . . . . .	United States	3,862,400	94,049,440
Royal Dutch Shell PLC, A (EUR Traded) . . . . .	United Kingdom	4,955,823	161,752,930
Royal Dutch Shell PLC, A (GBP Traded) . . . . .	United Kingdom	3,159,359	103,214,561
The Williams Cos. Inc. . . . .	United States	6,351,184	178,087,199
			<u>1,318,191,826</u>
<b>Pharmaceuticals 7.1%</b>			
Eli Lilly & Co. . . . .	United States	1,561,543	173,003,349
GlaxoSmithKline PLC . . . . .	United Kingdom	11,675,992	233,777,075
Merck & Co. Inc. . . . .	United States	2,133,471	178,891,543

**Franklin Mutual Shares Fund** (continued)

	Country	Shares/ Units/ Warrants	Value
<b>Common Stocks and Other Equity Interests</b> (continued)			
<b>Pharmaceuticals</b> (continued)			
Novartis AG, ADR . . . . .	Switzerland	3,798,680	\$ 346,857,471
			<u>932,529,438</u>
<b>Software 2.6%</b>			
<sup>a</sup> Avaya Holdings Corp., wts., 12/15/22 . . . . .	United States	276,741	276,741
<sup>a</sup> Red Hat Inc. . . . .	United States	747,300	140,313,048
Symantec Corp. . . . .	United States	9,445,251	205,528,662
			<u>346,118,451</u>
<b>Specialty Retail 0.2%</b>			
<sup>a,b,c</sup> TRU Kids Parent LLC . . . . .	United States	7,469	27,261,772
<b>Technology Hardware, Storage &amp; Peripherals 3.5%</b>			
Hewlett Packard Enterprise Co. . . . .	United States	7,491,354	111,995,742
Samsung Electronics Co. Ltd. . . . .	South Korea	5,521,050	224,289,376
<sup>a,b,c</sup> Wayne Services Legacy Inc. . . . .	United States	7,469	2,612,332
Western Digital Corp. . . . .	United States	2,716,857	129,186,550
			<u>468,084,000</u>
<b>Textiles, Apparel &amp; Luxury Goods 1.1%</b>			
PVH Corp. . . . .	United States	1,494,300	141,420,552
<b>Tobacco 2.8%</b>			
Altria Group Inc. . . . .	United States	2,351,460	111,341,631
British American Tobacco PLC. . . . .	United Kingdom	4,377,848	152,834,721
British American Tobacco PLC, ADR . . . . .	United Kingdom	1,655,688	57,733,841
Imperial Brands PLC. . . . .	United Kingdom	1,751,865	41,087,254
			<u>362,997,447</u>
<b>Wireless Telecommunication Services 1.1%</b>			
<sup>a</sup> T-Mobile U.S. Inc. . . . .	United States	2,007,091	148,805,727
<b>Total Common Stocks and Other Equity Interests</b> <b>(Cost \$9,402,522,068)</b> . . . . .			<u>11,989,937,821</u>
		<b>Principal Amount</b>	
<b>Corporate Notes and Senior Floating Rate Interests 3.5%</b>			
<sup>f</sup> Banff Merger Sub Inc., senior note, 144A, 9.75%, 9/01/26 . . . . .	United States	\$ 68,188,000	59,494,030
Frontier Communications Corp.,			
senior note, 10.50%, 9/15/22. . . . .	United States	82,365,000	56,214,112
senior note, 11.00%, 9/15/25. . . . .	United States	93,006,000	58,128,750
<sup>f</sup> senior secured note, first lien, 144A, 8.00%, 4/01/27 . . . . .	United States	22,878,000	23,850,315
<sup>f</sup> McDermott Technology Americas Inc., senior note, 144A, 10.625%, 5/01/24. . . . .	United States	36,543,000	34,259,062
<sup>g,h</sup> Veritas U.S. Inc.,			
Term Loan B1, 6.902%, (1-month USD LIBOR + 4.50%), 1/27/23 . . . . .	United States	55,788,393	50,767,438
Term Loan B1, 6.83%, (3-month USD LIBOR + 4.50%), 1/27/23 . . . . .	United States	11,073,404	10,076,798
<sup>f</sup> Veritas U.S. Inc./Veritas Bermuda Ltd.,			
senior note, 144A, 7.50%, 2/01/23 . . . . .	United States	10,656,000	10,016,640
senior note, 144A, 10.50%, 2/01/24 . . . . .	United States	87,705,000	75,426,300



Franklin Mutual Shares Fund (continued)

	Country	Principal Amount	Value
<b>Corporate Notes and Senior Floating Rate Interests (continued)</b>			
<sup>g,h,i</sup> Windstream Services LLC,			
<sup>j</sup> Revolving Commitment, 8.50%, (Prime + 3.00%), 4/24/20 . . . . .	United States	\$ 66,297,554	\$ 66,660,202
<sup>k</sup> Term Loan B6, TBD, 3/30/21 . . . . .	United States	14,465,000	14,917,031
<b>Total Corporate Notes and Senior Floating Rate Interests (Cost \$516,451,220)</b> . . . . .			459,810,678
<b>Corporate Bonds and Notes in Reorganization 0.1%</b>			
<sup>c,d,l</sup> Broadband Ventures III LLC, secured promissory note, 5.00%, 2/01/12. . . . .	United States	19,594	—
<sup>l</sup> Pacific Gas & Electric Co.,			
senior bond, 4.45%, 4/15/42 . . . . .	United States	3,947,000	3,798,988
senior bond, 3.75%, 8/15/42 . . . . .	United States	6,225,000	5,664,750
senior bond, 4.00%, 12/01/46 . . . . .	United States	6,835,000	6,236,937
senior bond, 3.95%, 12/01/47 . . . . .	United States	3,273,000	2,957,974
<b>Total Corporate Bonds and Notes in Reorganization (Cost \$15,364,087)</b> . . . . .			18,658,649
			<b>Shares</b>
<b>Companies in Liquidation 0.0%†</b>			
<sup>a,c,e</sup> Avaya Holdings Corp., Contingent Distribution . . . . .	United States	67,859,000	—
<sup>a,c,e</sup> Avaya Inc., Contingent Distribution . . . . .	United States	131,491,379	—
<sup>a,c,e</sup> Clear Channel Communications Inc., Contingent Distribution . . . . .	United States	74,295,000	—
<sup>a,c,e</sup> iHeartCommunications Inc., Contingent Distribution . . . . .	United States	125,033,338	—
<sup>a,c,e</sup> Tribune Media, Litigation Trust, Contingent Distribution . . . . .	United States	1,007,002	—
<sup>a,e</sup> Vistra Energy Corp., Litigation Trust, Contingent Distribution . . . . .	United States	194,177,556	291,266
<b>Total Companies in Liquidation (Cost \$6,075,215)</b> . . . . .			291,266
<b>Total Investments before Short Term Investments (Cost \$9,940,412,590)</b> . . . . .			12,468,698,414
			<b>Principal Amount</b>
<b>Short Term Investments 5.1%</b>			
<b>U.S. Government and Agency Securities 5.1%</b>			
<sup>m</sup> FHLB, 7/01/19 . . . . .	United States	\$115,700,000	115,700,000
<sup>m</sup> U.S. Treasury Bill,			
7/02/19 - 10/17/19 . . . . .	United States	508,300,000	507,112,672
<sup>n</sup> 10/24/19 - 10/31/19 . . . . .	United States	50,000,000	49,671,960
<b>Total U.S. Government and Agency Securities (Cost \$672,170,898)</b> . . . . .			672,484,632
<b>Total Investments (Cost \$10,612,583,488) 99.3%</b> . . . . .			13,141,183,046
<b>Securities Sold Short (0.3)%</b> . . . . .			(33,713,190)
<b>Other Assets, less Liabilities 1.0%</b> . . . . .			122,504,554
<b>Net Assets 100.0%</b> . . . . .			\$13,229,974,410

**Franklin Mutual Shares Fund** (continued)

	Country	Shares	Value
<b>°Securities Sold Short (Proceeds \$35,677,892) (0.3)%</b>			
<b>Common Stocks (0.3)%</b>			
<b>Pharmaceuticals (0.3)%</b>			
Bristol-Myers Squibb Co. . . . .	United States	743,400	<u>\$(33,713,190)</u>

†Rounds to less than 0.1% of net assets.

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

<sup>b</sup>See Note 12 regarding holdings of 5% voting securities.

<sup>c</sup>Fair valued using significant unobservable inputs. See Note 14 regarding fair value measurements.

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

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

<sup>f</sup>Security was purchased pursuant to Rule 144A under the Securities Act of 1933 and may be sold in transactions exempt from registration only to qualified institutional buyers or in a public offering registered under the Securities Act of 1933. These securities have been deemed liquid under guidelines approved by the Trust's Board of Trustees. At June 30, 2019, the aggregate value of these securities was \$203,046,347, representing 1.5% of net assets.

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

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

<sup>i</sup>A portion or all of the security purchased on a delayed delivery basis. See Note 1(c).

<sup>j</sup>See Note 10 regarding unfunded loan commitments.

<sup>k</sup>A portion or all of the security represents an unsettled loan commitment. The coupon rate is to-be determined (TBD) at the time of settlement and will be based upon a reference index/floor plus a spread.

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

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

<sup>n</sup>A portion or all of the security has been segregated as collateral for securities sold short and/or open forward exchange contracts. At June 30, 2019, the aggregate value of these securities pledged amounted to \$17,098,183, representing 0.1% of net assets.

<sup>o</sup>See Note 1(e) regarding securities sold short.

At June 30, 2019, the Fund had the following futures contracts outstanding. See Note 1(d).

**Futures Contracts**

Description	Type	Number of Contracts	Notional Amount*	Expiration Date	Value/ Unrealized Appreciation (Depreciation)
<b>Currency Contracts</b>					
EUR/USD . . . . .	Short	784	\$112,175,700	9/16/19	\$(366,973)
GBP/USD . . . . .	Short	2,203	175,537,794	9/16/19	153,499
Total Futures Contracts . . . . .					<u>\$(213,474)</u>

\*As of period end.

**Franklin Mutual Shares Fund** (continued)

At June 30, 2019, the Fund had the following forward exchange contracts outstanding. See Note 1(d).

**Forward Exchange Contracts**

Currency	Counterparty <sup>a</sup>	Type	Quantity	Contract Amount	Settlement Date	Unrealized Appreciation	Unrealized Depreciation
<b>OTC Forward Exchange Contracts</b>							
Euro	BOFA	Buy	900,000	\$ 1,005,092	7/15/19	\$ 19,568	\$ —
Euro	BOFA	Sell	5,602,335	6,417,648	7/15/19	39,327	—
Euro	BOFA	Sell	5,814,244	6,606,173	7/15/19	—	(13,408)
Euro	HSBK	Sell	26,147,511	30,015,897	7/15/19	246,667	—
Euro	UBSW	Sell	134,125	153,211	7/15/19	508	—
British Pound	BOFA	Buy	1,661,585	2,105,770	7/16/19	6,326	—
British Pound	BOFA	Sell	6,405,658	8,411,935	7/16/19	269,490	—
British Pound	HSBK	Buy	1,653,273	2,090,201	7/16/19	11,329	—
British Pound	HSBK	Sell	7,869,232	10,268,981	7/16/19	266,137	—
British Pound	BOFA	Sell	4,752,122	6,233,845	8/14/19	185,057	—
British Pound	BONY	Sell	1,550,469	2,009,020	8/14/19	35,490	—
British Pound	HSBK	Sell	2,097,920	2,732,581	8/14/19	62,222	—
British Pound	UBSW	Sell	1,550,469	2,009,780	8/14/19	36,250	—
South Korean Won	HSBK	Buy	16,287,097,500	13,788,234	8/16/19	307,353	—
South Korean Won	HSBK	Sell	80,684,307,466	71,916,352	8/16/19	2,088,525	—
South Korean Won	UBSW	Sell	33,749,933,184	30,403,976	8/16/19	1,195,266	—
Euro	BONY	Sell	10,516,734	12,067,742	10/18/19	5,514	—
Euro	SSBT	Sell	1,596,798	1,806,857	10/18/19	—	(24,600)
Euro	SSBT	Sell	10,516,735	12,067,827	10/18/19	5,598	—
British Pound	BONY	Sell	13,121,429	17,225,747	10/24/19	477,783	—
Euro	HSBK	Sell	13,492,373	15,292,727	11/07/19	—	(206,437)
Euro	UBSW	Sell	2,696,239	3,055,027	11/07/19	—	(42,237)
South Korean Won	HSBK	Sell	94,142,264,623	80,869,969	11/15/19	—	(841,290)
South Korean Won	UBSW	Sell	58,918,367,227	50,971,855	11/15/19	—	(166,642)
Euro	BOFA	Sell	2,273,762	2,608,028	11/21/19	—	(6,763)
Euro	HSBK	Sell	3,732,730	4,238,440	11/21/19	—	(54,141)
Euro	SSBT	Sell	22,566,499	25,599,436	11/21/19	—	(351,684)
British Pound	BOFA	Sell	3,346,955	4,289,966	11/22/19	13,272	—
British Pound	HSBK	Sell	2,204,721	2,823,498	11/22/19	6,335	—
British Pound	SSBT	Sell	88,694,627	113,008,041	11/22/19	—	(324,765)
Total Forward Exchange Contracts						\$ 5,278,017	\$ (2,031,967)
Net unrealized appreciation (depreciation)						\$ 3,246,050	

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

See Note 11 regarding other derivative information.

See Abbreviations on page 42.

## Statement of Assets and Liabilities

June 30, 2019 (unaudited)

### Franklin Mutual Shares Fund

Assets:

Investments in securities:	
Cost - Unaffiliated issuers . . . . .	\$10,557,159,210
Cost - Non-controlled affiliates (Note 3f and 12) . . . . .	55,424,278
Value - Unaffiliated issuers . . . . .	\$13,000,179,805
Value - Non-controlled affiliates (Note 3f and 12) . . . . .	141,003,241
Cash . . . . .	1,396,639
Foreign currency, at value (cost \$6,747,138) . . . . .	6,755,751
Receivables:	
Investment securities sold . . . . .	82,123,285
Capital shares sold . . . . .	3,894,749
Dividends and interest . . . . .	34,671,861
European Union tax reclaims . . . . .	6,455,039
Deposits with brokers for:	
Securities sold short . . . . .	34,198,339
Futures contracts . . . . .	6,559,070
Unrealized appreciation on OTC forward exchange contracts . . . . .	5,278,017
Unrealized appreciation on unfunded loan commitments (Note 10) . . . . .	32,442
Other assets . . . . .	713,710
Total assets . . . . .	<u>13,323,261,948</u>

Liabilities:

Payables:	
Investment securities purchased . . . . .	32,789,095
Capital shares redeemed . . . . .	11,499,374
Management fees . . . . .	7,000,350
Distribution fees . . . . .	2,304,769
Transfer agent fees . . . . .	1,505,784
Trustees' fees and expenses . . . . .	1,063,452
Variation margin on futures contracts . . . . .	626,356
Securities sold short, at value (proceeds \$35,677,892) . . . . .	33,713,190
Unrealized depreciation on OTC forward exchange contracts . . . . .	2,031,967
Accrued expenses and other liabilities . . . . .	753,201
Total liabilities . . . . .	<u>93,287,538</u>
Net assets, at value . . . . .	<u>\$13,229,974,410</u>

Net assets consist of:

Paid-in capital . . . . .	\$ 9,952,441,766
Total distributable earnings (loss) . . . . .	3,277,532,644
Net assets, at value . . . . .	<u>\$13,229,974,410</u>

## Statement of Assets and Liabilities (continued)

June 30, 2019 (unaudited)

### Franklin Mutual Shares Fund

**Class Z:**

Net assets, at value	\$5,357,028,733
Shares outstanding	194,160,674
Net asset value and maximum offering price per share	\$27.59

**Class A:**

Net assets, at value	\$4,128,726,247
Shares outstanding	151,385,836
Net asset value per share <sup>a</sup>	\$27.27
Maximum offering price per share (net asset value per share ÷ 94.50%)	\$28.86

**Class C:**

Net assets, at value	\$ 311,307,022
Shares outstanding	11,471,793
Net asset value and maximum offering price per share <sup>a</sup>	\$27.14

**Class R:**

Net assets, at value	\$ 79,980,056
Shares outstanding	2,947,160
Net asset value and maximum offering price per share	\$27.14

**Class R6:**

Net assets, at value	\$3,352,932,352
Shares outstanding	121,584,516
Net asset value and maximum offering price per share	\$27.58

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

## Statement of Operations

for the six months ended June 30, 2019 (unaudited)

### Franklin Mutual Shares Fund

Investment income:

Dividends: (net of foreign taxes)*	
Unaffiliated issuers . . . . .	\$ 160,014,104
Non-controlled affiliates (Note 3f and 12) . . . . .	2,898,806
Interest:	
Unaffiliated issuers . . . . .	42,732,064
Income from securities loaned:	
Unaffiliated issuers (net of fees and rebates) . . . . .	1,068,265
Non-controlled affiliates (Note 3f) . . . . .	72,310
Total investment income . . . . .	<u>206,785,549</u>

Expenses:

Management fees (Note 3a) . . . . .	42,816,018
Distribution fees: (Note 3c)	
Class A . . . . .	5,096,566
Class C . . . . .	1,594,217
Class R . . . . .	195,348
Transfer agent fees: (Note 3e)	
Class Z . . . . .	2,630,934
Class A . . . . .	2,010,523
Class C . . . . .	157,204
Class R . . . . .	38,703
Class R6 . . . . .	357,590
Custodian fees (Note 4) . . . . .	412,073
Reports to shareholders . . . . .	363,652
Registration and filing fees . . . . .	99,540
Professional fees . . . . .	75,288
Trustees' fees and expenses . . . . .	465,486
Dividends on securities sold short . . . . .	304,794
Other . . . . .	141,674
Total expenses . . . . .	56,759,610
Expense reductions (Note 4) . . . . .	(24,866)
Expenses waived/paid by affiliates (Note 3f and 3g) . . . . .	(36,794)
Net expenses . . . . .	<u>56,697,950</u>
Net investment income . . . . .	<u>150,087,599</u>

Realized and unrealized gains (losses):

Net realized gain (loss) from:	
Investments:	
Unaffiliated issuers . . . . .	245,350,786
Non-controlled affiliates (Note 3f and 12) . . . . .	(33,179,342)
Foreign currency transactions . . . . .	1,157,150
Forward exchange contracts . . . . .	18,416,609
Futures contracts . . . . .	4,444,658
Securities sold short . . . . .	(14,512,515)
Net realized gain (loss) . . . . .	<u>221,677,346</u>

Net change in unrealized appreciation (depreciation) on:

Investments:	
Unaffiliated issuers . . . . .	1,296,699,737
Non-controlled affiliates (Note 3f and 12) . . . . .	47,381,217
Translation of other assets and liabilities denominated in foreign currencies . . . . .	(271,608)
Forward exchange contracts . . . . .	(4,517,241)

**Statement of Operations** (continued)  
for the six months ended June 30, 2019 (unaudited)

**Franklin Mutual Shares Fund**

Futures contracts . . . . .	(678,487)
Securities sold short . . . . .	<u>(23,540,623)</u>
Net change in unrealized appreciation (depreciation) . . . . .	1,315,072,995
Net realized and unrealized gain (loss) . . . . .	<u>1,536,750,341</u>
Net increase (decrease) in net assets resulting from operations . . . . .	<u>\$1,686,837,940</u>

\*Foreign taxes withheld on dividends. . . . . \$ 3,760,167



## Statements of Changes in Net Assets

### Franklin Mutual Shares Fund

	Six Months Ended June 30, 2019 (unaudited)	Year Ended December 31, 2018
Increase (decrease) in net assets:		
Operations:		
Net investment income . . . . .	\$ 150,087,599	\$ 244,198,602
Net realized gain (loss) . . . . .	221,677,346	1,079,036,473
Net change in unrealized appreciation (depreciation) . . . . .	1,315,072,995	(2,582,054,169)
Net increase (decrease) in net assets resulting from operations . . . . .	1,686,837,940	(1,258,819,094)
Distributions to shareholders:		
Class Z . . . . .	—	(359,738,797)
Class A . . . . .	—	(258,843,422)
Class C . . . . .	—	(16,133,984)
Class R . . . . .	—	(4,696,240)
Class R6 . . . . .	—	(218,275,931)
Total distributions to shareholders . . . . .	—	(857,688,374)
Capital share transactions: (Note 2)		
Class Z . . . . .	(522,227,861)	(162,098,601)
Class A . . . . .	(241,321,376)	114,605,103
Class C . . . . .	(38,330,388)	(631,170,380)
Class R . . . . .	(4,234,354)	(21,048,937)
Class R6 . . . . .	(236,646,377)	(59,462,529)
Total capital share transactions . . . . .	(1,042,760,356)	(759,175,344)
Net increase (decrease) in net assets . . . . .	644,077,584	(2,875,682,812)
Net assets:		
Beginning of period . . . . .	12,585,896,826	15,461,579,638
End of period . . . . .	\$13,229,974,410	\$12,585,896,826

# Notes to Financial Statements (unaudited)

## Franklin Mutual Shares Fund

### 1. Organization and Significant Accounting Policies

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

The following summarizes the Fund's significant accounting policies.

#### a. Financial Instrument Valuation

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

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

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

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

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

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

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

## Franklin Mutual Shares Fund (continued)

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

#### a. Financial Instrument Valuation (continued)

Trading in securities on foreign securities stock exchanges and OTC markets may be completed before 4 p.m. Eastern time. In addition, trading in certain foreign markets may not take place on every Fund's business day. Occasionally, events occur between the time at which trading in a foreign security is completed and 4 p.m. Eastern time that might call into question the reliability of the value of a portfolio security held by the Fund. As a result, differences may arise between the value of the Fund's portfolio securities as determined at the foreign market close and the latest indications of value at 4 p.m. Eastern time. In order to minimize the potential for these differences, the VC monitors price movements following the close of trading in foreign stock markets through a series of country specific market proxies (such as baskets of American 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.

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

#### b. Foreign Currency Translation

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

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

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

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

#### c. 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 derivative financial instruments in order to manage risk or gain exposure to various other investments or markets. Derivatives are financial contracts based on an underlying or notional amount, require no initial investment or an initial net investment that is smaller than would normally be required to have a similar response to changes in market factors, and require or permit net settlement. Derivatives contain various risks including the potential inability of the counterparty to fulfill their obligations under the terms of the contract, the potential for an illiquid secondary market, and/or the potential for market movements which expose the Fund to

**Franklin Mutual Shares Fund** (continued)

gains or losses in excess of the amounts shown in the Statement of Assets and Liabilities. Realized gain and loss and unrealized appreciation and depreciation on these contracts for the period are included in the Statement of Operations.

Derivative counterparty credit risk is managed through a formal evaluation of the creditworthiness of all potential counterparties. The Fund attempts to reduce its exposure to counterparty credit risk on OTC derivatives, whenever possible, by entering into International Swaps and Derivatives Association (ISDA) master agreements with certain counterparties. These agreements contain various provisions, including but not limited to collateral requirements, events of default, or early termination. Termination events applicable to the counterparty include certain deteriorations in the credit quality of the counterparty. Termination events applicable to the Fund include failure of the Fund to maintain certain net asset levels and/or limit the decline in net assets over various periods of time. In the event of default or early termination, the ISDA master agreement gives the non-defaulting party the right to net and close-out all transactions traded, whether or not arising under the ISDA agreement, to one net amount payable by one counterparty to the other. However, absent an event of default or early termination, OTC derivative assets and liabilities are presented gross and not offset in the Statement of Assets and Liabilities. Early termination by the counterparty may result in an immediate payment by the Fund of any net liability owed to that counterparty under the ISDA agreement. At June 30, 2019, the Fund had OTC derivatives in a net liability position of \$695,451 and the aggregate value of collateral pledged for such contracts was \$640,925.

Collateral requirements differ by type of derivative. Collateral or initial margin requirements are set by the broker or exchange clearing house for exchange traded and centrally cleared derivatives. Initial margin deposited is held at the exchange and can be in the form of cash and/or securities. For OTC derivatives traded under an ISDA master agreement, posting of collateral is required by either the Fund or the applicable counterparty if the total net exposure of all OTC derivatives with the applicable counterparty exceeds the minimum transfer amount, which typically ranges from \$100,000 to \$250,000, and can vary depending on the counterparty and the type of the agreement. Generally, collateral is determined at the close of Fund business each day and any additional collateral required due to changes in derivative values may be delivered by the Fund or the

counterparty the next business day, or within a few business days. Collateral pledged and/or received by the Fund for OTC derivatives, if any, is held in segregated accounts with the Fund's custodian/counterparty broker and can be in the form of cash and/or securities. Unrestricted cash may be invested according to the Fund's investment objectives. To the extent that the amounts due to the Fund from its counterparties are not subject to collateralization or are not fully collateralized, the Fund bears the risk of loss from counterparty non-performance.

At June 30, 2019, the Fund received \$3,530,015 in U.K. Treasury Bonds and U.S. Treasury Bills, Bonds and Notes as collateral for derivatives.

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

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

See Note 11 regarding other derivative information.

**e. 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

## Franklin Mutual Shares Fund (continued)

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

#### e. Securities Sold Short (continued)

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.

#### f. Securities Lending

The Fund participates in an agency based securities lending program to earn additional income. The Fund receives cash collateral against the loaned securities in an amount equal to at least 102% of the fair value of the loaned securities. Collateral is maintained over the life of the loan in an amount not less than 100% of the fair value of loaned securities, as determined at the close of Fund business each day; any additional collateral required due to changes in security values is delivered to the Fund on the next business day. The collateral is deposited into a joint cash account with other funds and is used to invest in a money market fund managed by Franklin Advisers, Inc., an affiliate of the Fund, and/or a joint repurchase agreement. The Fund may receive income from the investment of cash collateral, in addition to lending fees and rebates paid by the borrower. Income from securities loaned, net of fees paid to the securities lending agent and/or third-party vendor, is reported separately in the Statement of Operations. The Fund bears the market risk with respect to the collateral investment, securities loaned, and the risk that the agent may default on its obligations to the Fund. If the borrower defaults on its obligation to return the securities loaned, the Fund has the right to repurchase the securities in the open market using the collateral received. The securities lending agent has agreed to indemnify the Fund in the event of default by a third party borrower. At June 30, 2019, the Fund had no securities on loan.

#### g. 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.

#### h. Income and Deferred Taxes

It is the Fund's policy to qualify as a regulated investment company under the Internal Revenue Code. The Fund intends to distribute to shareholders substantially all of its taxable income and net realized gains to relieve it from federal income and excise taxes. As a result, no provision for U.S. federal income taxes is required.

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

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

The Fund may recognize an income tax liability related to its uncertain tax positions under U.S. GAAP when the uncertain tax position has a less than 50% probability that it will be sustained upon examination by the tax authorities based on its technical merits. As of June 30, 2019, the Fund has



**Franklin Mutual Shares Fund** (continued)

determined that no tax liability is required in its financial statements related to uncertain tax positions for any open tax years (or expected to be taken in future tax years). Open tax years are those that remain subject to examination and are based on the statute of limitations in each jurisdiction in which the Fund invests.

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

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

Common expenses incurred by the Trust are allocated among the Funds based on the ratio of net assets of each Fund to the combined net assets of the Trust or based on the ratio of

number of shareholders of each Fund to the combined number of shareholders of the Trust. Fund specific expenses are charged directly to the Fund that incurred the expense.

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

**j. 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.

**k. 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 June 30, 2019, there were an unlimited number of shares authorized (without par value). Transactions in the Fund's shares were as follows:

	Six Months Ended June 30, 2019		Year Ended December 31, 2018	
	Shares	Amount	Shares	Amount
<b>Class Z Shares:</b>				
Shares sold . . . . .	2,785,139	\$ 73,790,254	10,029,587	\$ 284,766,342
Shares issued in reinvestment of distributions . . . . .	—	—	13,492,550	320,309,753
Shares redeemed . . . . .	(22,631,431)	(596,018,115)	(27,123,733)	(767,174,696)
Net increase (decrease) . . . . .	(19,846,292)	\$(522,227,861)	(3,601,596)	\$(162,098,601)

**Franklin Mutual Shares Fund** (continued)

**2. Shares of Beneficial Interest** (continued)

	Six Months Ended June 30, 2019		Year Ended December 31, 2018	
	Shares	Amount	Shares	Amount
<b>Class A Shares:</b>				
Shares sold <sup>a</sup> . . . . .	4,538,729	\$ 118,993,928	25,412,499	\$ 710,808,675
Shares issued in reinvestment of distributions . . . . .	—	—	10,148,432	238,431,075
Shares redeemed . . . . .	(13,663,002)	(360,315,304)	(29,787,083)	(834,634,647)
Net increase (decrease) . . . . .	(9,124,273)	\$(241,321,376)	5,773,848	\$ 114,605,103
<b>Class C Shares:</b>				
Shares sold . . . . .	679,319	\$ 17,549,559	2,074,273	\$ 57,275,560
Shares issued in reinvestment of distributions . . . . .	—	—	675,227	15,942,868
Shares redeemed <sup>a</sup> . . . . .	(2,130,819)	(55,879,947)	(25,329,240)	(704,388,808)
Net increase (decrease) . . . . .	(1,451,500)	\$(38,330,388)	(22,579,740)	\$(631,170,380)
<b>Class R Shares:</b>				
Shares sold . . . . .	139,497	\$ 3,653,382	347,792	\$ 9,776,448
Shares issued in reinvestment of distributions . . . . .	—	—	199,115	4,662,921
Shares redeemed . . . . .	(301,696)	(7,887,736)	(1,253,910)	(35,488,306)
Net increase (decrease) . . . . .	(162,199)	\$(4,234,354)	(707,003)	\$(21,048,937)
<b>Class R6 Shares:</b>				
Shares sold . . . . .	4,520,371	\$ 120,323,441	14,420,824	\$ 412,295,163
Shares issued in reinvestment of distributions . . . . .	—	—	9,195,249	218,103,352
Shares redeemed . . . . .	(13,374,269)	(356,969,818)	(23,959,670)	(689,861,044)
Net increase (decrease) . . . . .	(8,853,898)	\$(236,646,377)	(343,597)	\$(59,462,529)

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

**3. Transactions with Affiliates**

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

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

**Franklin Mutual Shares Fund** (continued)

**a. Management Fees**

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

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

For the period ended June 30, 2019, the annualized gross effective investment management fee rate was 0.651% of the Fund's average daily net assets.

**b. Administrative Fees**

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

**c. Distribution Fees**

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

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

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

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



**Franklin Mutual Shares Fund** (continued)

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

**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 period:

Sales charges retained net of commissions paid to unaffiliated brokers/dealers . . . . .	\$116,300
CDSC retained . . . . .	\$ 2,362

**e. Transfer Agent Fees**

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

For the period ended June 30, 2019, the Fund paid transfer agent fees of \$5,194,954, of which \$2,647,591 was retained by Investor Services.

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

The Fund invests in one or more affiliated management investment companies for purposes other than exercising a controlling influence over the management or policies. Management fees paid by the Fund are waived on assets invested in the affiliated management investment companies, as noted in the Statement of Operations, in an amount not to exceed the management and administrative fees paid directly or indirectly by each affiliate. During the period ended June 30, 2019, the Fund held investments in affiliated management investment companies as follows:

	Value at Beginning of Period	Purchases	Sales	Realized Gain (Loss)	Net Change in Unrealized Appreciation (Depreciation)	Value at End of Period	Number of Shares Held at End of Period	Income from securities loaned
<b>Non-Controlled Affiliates</b>								
Institutional Fiduciary Trust Money Market Portfolio, 2.05% . . . . .	\$ —	\$176,535,000	\$(176,535,000)	\$ —	\$ —	\$ —	—	\$72,310

**g. 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 0.02% based on the average net assets of the class until April 30, 2020.

**h. Other Affiliated Transactions**

At June 30, 2019, one or more of the funds in Franklin Fund Allocator Series owned 11.3% of the Fund's outstanding shares.

**Franklin Mutual Shares Fund** (continued)

**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 period ended June 30, 2019, 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 period ended June 30, 2019, the Fund's projected benefit obligation and benefit payments under the Plan were as follows:

<sup>a</sup> Projected benefit obligation at June 30, 2019 . . . . .	\$1,063,452
<sup>b</sup> Increase in projected benefit obligation . . . . .	\$ 116,062
Benefit payments made to retired trustees . . . . .	\$ (8,315)
<sup>a</sup> The projected benefit obligation is included in trustees' fees and expenses in the Statement of Assets and Liabilities.	
<sup>b</sup> The increase in projected benefit obligation is included in trustees' fees and expenses in the Statement of Operations.	

**6. Income Taxes**

At June 30, 2019, the cost of investments and net unrealized appreciation (depreciation) for income tax purposes were as follows:

Cost of investments . . . . .	<u>\$10,595,568,956</u>
Unrealized appreciation . . . . .	\$ 3,179,874,920
Unrealized depreciation . . . . .	<u>(664,934,067)</u>
Net unrealized appreciation (depreciation) . . . . .	<u>\$ 2,514,940,853</u>

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

**7. Investment Transactions**

Purchases and sales of investments (excluding short term securities and securities sold short) for the period ended June 30, 2019, aggregated \$1,226,502,771 and \$1,528,618,714, respectively.

**8. Credit Risk and Defaulted Securities**

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

**Franklin Mutual Shares Fund** (continued)

**8. Credit Risk and Defaulted Securities** (continued)

At June 30, 2019, the aggregate long value of distressed company securities for which interest recognition has been discontinued was \$18,658,649, representing 0.1% of the Fund's net assets. For information as to specific securities, see the accompanying Statement of Investments.

**9. Restricted Securities**

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

At June 30, 2019, investments in restricted securities, excluding securities exempt from registration under the 1933 Act deemed to be liquid, were as follows:

Principal Amount/ Shares/ Warrants	Issuer	Acquisition Date	Cost	Value
19,594	Broadband Ventures III LLC, secured promissory note, 5.00%, 2/01/12 . . .	7/01/10 - 11/30/12	\$ 19,594	\$ —
2,086,072	iHeartMedia Inc., A . . . . .	1/03/11 - 12/19/13	48,894,322	30,279,932
35,201	iHeartMedia Inc., B . . . . .	1/03/11 - 12/19/13	822,964	510,952
1,786	iHeartMedia Inc., wts., A, 5/01/39 . . . . .	1/03/11 - 12/19/13	41,802	25,922
7,234,813	International Automotive Components Group Brazil LLC . . . . .	4/13/06 - 12/26/08	4,804,678	185,776
<b>Total Restricted Securities</b> (Value is 0.2% of Net Assets) . . . . .			<b>\$54,583,360</b>	<b>\$31,002,582</b>

**10. Unfunded Loan Commitments**

The Fund enters into certain credit agreements, all or a portion of which may be unfunded. The Fund is obligated to fund these loan commitments at the borrowers' discretion. Unfunded loan commitments and funded portions of credit agreements are marked to market daily and any unrealized appreciation or depreciation is included in the Statement of Assets and Liabilities and the Statement of Operations. Funded portions of credit agreements are presented in the Statement of Investments.

At June 30, 2019, unfunded commitments were as follows:

Borrower	Unfunded Commitment
Windstream Services LLC, Revolving Commitment. . . . .	\$199,500

**Franklin Mutual Shares Fund** (continued)

**11. Other Derivative Information**

At June 30, 2019, investments in derivative contracts are reflected in the Statement of Assets and Liabilities as follows:

Derivative Contracts Not Accounted for as Hedging Instruments	Asset Derivatives		Liability Derivatives	
	Statement of Assets and Liabilities Location	Fair Value	Statement of Assets and Liabilities Location	Fair Value
Foreign exchange contracts . . . . .	Variation margin on futures contracts	\$ 153,499 <sup>a</sup>	Variation margin on futures contracts	\$ 366,973 <sup>a</sup>
	Unrealized appreciation on OTC forward exchange contracts	5,278,017	Unrealized depreciation on OTC forward exchange contracts	2,031,967
Totals . . . . .		<u>\$5,431,516</u>		<u>\$2,398,940</u>

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

For the period ended June 30, 2019, the effect of derivative contracts in the Statement of Operations was as follows:

Derivative Contracts Not Accounted for as Hedging Instruments	Statement of Operations Location	Net Realized Gain (Loss) for the Period	Statement of Operations Location	Net Change in Unrealized Appreciation (Depreciation) for the Period
	Net realized gain (loss) from:		Net change in unrealized appreciation (depreciation) on:	
Foreign exchange contracts . . . . .	Forward exchange contracts	\$18,416,609	Forward exchange contracts	\$(4,517,241)
	Futures contracts	4,444,658	Futures contracts	(678,487)
Totals . . . . .		<u>\$22,861,267</u>		<u>\$(5,195,728)</u>

For the period ended June 30, 2019, the average month end notional amount of futures contracts represented \$317,075,136. The average month end contract value of forward exchange contracts was \$596,002,841.

See Note 1(d) regarding derivative financial instruments.

**12. Holdings of 5% Voting Securities of Portfolio Companies**

The 1940 Act defines "affiliated companies" to include investments in portfolio companies in which a fund owns 5% or more of the outstanding voting securities. During the period ended June 30, 2019, investments in "affiliated companies" were as follows:

Name of Issuer	Value at Beginning of Period	Purchases	Sales	Realized Gain (Loss)	Net Change in Unrealized Appreciation (Depreciation)	Value at End of Period	Number of Shares/Units Held at End of Period	Dividend Income
<b>Non-Controlled Affiliates</b>								
Alexander's Inc. . . . .	\$99,550,939	\$ —	\$(10,386,145)	\$ 9,084,294	\$12,694,273	\$110,943,361	299,604	\$2,898,806
International Automotive Components Group Brazil LLC. . . . .	306,590	—	—	—	(120,814)	185,776	7,234,813	—
International Automotive Components Group North America LLC . . . . .	7,519,120	—	(9,398,900)	\$(42,263,636)	44,143,416	—	—	—

**Franklin Mutual Shares Fund** (continued)

**12. Holdings of 5% Voting Securities of Portfolio Companies** (continued)

Name of Issuer	Value at Beginning of Period	Purchases	Sales	Realized Gain (Loss)	Net Change in Unrealized Appreciation (Depreciation)	Value at End of Period	Number of Shares/Units Held at End of Period	Dividend Income
<b>Non-Controlled Affiliates</b> (continued)								
TRU Kids Parent LLC . . . . .	\$ —	\$36,597,430 <sup>a</sup>	\$ —	\$ —	\$ (9,335,658)	\$ 27,261,772	7,469	\$ —
Wayne Services Legacy Inc. . . . .	—	2,612,332 <sup>a</sup>	—	—	—	2,612,332	7,469	—
<b>Total Affiliated Securities</b> (Value is 1.1% of Net Assets) . . . . .	\$107,376,649	\$39,209,762	\$(19,785,045)	\$(33,179,342)	\$47,381,217	\$141,003,241		\$2,898,806

<sup>a</sup>Purchase was the result of a corporate action.

**13. Credit Facility**

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

Under the terms of the Global Credit Facility, the Fund shall, in addition to interest charged on any borrowings made by the Fund and other costs incurred by the Fund, pay its share of fees and expenses incurred in connection with the implementation and maintenance of the Global Credit Facility, based upon its relative share of the aggregate net assets of all of the Borrowers, including an annual commitment fee of 0.15% based upon the unused portion of the Global Credit Facility. These fees are reflected in other expenses in the Statement of Operations. During the period ended June 30, 2019, the Fund did not use the Global Credit Facility.

**14. 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.

**Franklin Mutual Shares Fund** (continued)

A summary of inputs used as of June 30, 2019, in valuing the Fund's assets and liabilities carried at fair value, is as follows:

	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Investments in Securities: <sup>a</sup>				
Equity Investments: <sup>b</sup>				
Auto Components . . . . .	\$ 18,122,039	\$ —	\$ 185,776	\$ 18,307,815
Chemicals . . . . .	—	—	6,225,160	6,225,160
Machinery . . . . .	44,610,350	54,301,508	—	98,911,858
Media . . . . .	832,092,667	2,780,944	30,816,806	865,690,417
Specialty Retail . . . . .	—	—	27,261,772	27,261,772
Technology Hardware, Storage & Peripherals . . . . .	465,471,668	—	2,612,332	468,084,000
All Other Equity Investments . . . . .	10,505,456,799	—	—	10,505,456,799
Corporate Notes and Senior Floating Rate Interests . . . . .				
	—	459,810,678	—	459,810,678
Corporate Bonds and Notes in Reorganization . . . . .				
	—	18,658,649	— <sup>c</sup>	18,658,649
Companies in Liquidation . . . . .				
	—	291,266	— <sup>c</sup>	291,266
Short Term Investments . . . . .				
	556,784,632	115,700,000	—	672,484,632
Total Investments in Securities . . . . .	\$ 12,422,538,155	\$ 651,543,045	\$ 67,101,846	\$ 13,141,183,046
Other Financial Instruments:				
Futures Contracts . . . . .	\$ 153,499	\$ —	\$ —	\$ 153,499
Forward Exchange Contracts . . . . .	—	5,278,017	—	5,278,017
Unfunded Loan Commitments . . . . .	—	32,442	—	32,442
Total Other Financial Instruments . . . . .	\$ 153,499	\$ 5,310,459	\$ —	\$ 5,463,958
<b>Liabilities:</b>				
Other Financial Instruments:				
Securities Sold Short <sup>a</sup> . . . . .	\$ 33,713,190	\$ —	\$ —	\$ 33,713,190
Futures Contracts . . . . .	366,973	—	—	366,973
Forward Exchange Contracts . . . . .	—	2,031,967	—	2,031,967
Total Other Financial Instruments . . . . .	\$ 34,080,163	\$ 2,031,967	\$ —	\$ 36,112,130

<sup>a</sup>For detailed categories, see the accompanying Statement of Investments.

<sup>b</sup>Includes common stocks as well as other equity interests.

<sup>c</sup>Includes securities determined to have no value at June 30, 2019.

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

**15. New Accounting Pronouncements**

In August 2018, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2018-14, Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans. The amendments in the ASU modify the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. The ASU is effective for annual reporting periods ending after December 15, 2020. Management has reviewed the requirements and believes the adoption of this ASU will not have a material impact on the financial statements.

**Franklin Mutual Shares Fund** (continued)

**16. 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.

**Abbreviations**

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

## Shareholder Information

### Board Approval of Investment Management Agreements

#### FRANKLIN MUTUAL SERIES FUNDS Franklin Mutual Shares Fund (Fund)

The Board of Trustees (Board), including a majority of trustees that are not “interested persons” as such term is defined in section 2(a)(19) of the Investment Company Act of 1940 (hereinafter referred to as “independent trustees”), at an in-person meeting held on May 22, 2019, unanimously approved the renewal of the Fund’s investment management agreement. Prior to a meeting of all of the trustees for the purpose of considering such renewal, the independent trustees participated in two other meetings held in connection with the renewal process. Throughout the process, the independent trustees received assistance and advice from and met separately with independent counsel. The independent trustees met with and interviewed officers of the investment manager (including portfolio managers), the transfer agent and shareholder services group and the distributor. In approving the renewal of the investment management agreement for the Fund, the Board, including the independent trustees, determined that the investment management fee structure was fair and reasonable and that continuance of the agreement was in the best interests of the Fund and its shareholders.

In reaching their decision on the investment management agreement, the trustees took into account information furnished throughout the year at regular Board meetings, as well as information specifically requested and furnished for the renewal process, which culminated in the meetings referred to above for the specific purpose of considering such agreement. Information furnished throughout the year included, among others, reports on the Fund’s investment performance, expenses, portfolio composition, portfolio brokerage execution, client commission arrangements, derivatives, securities lending, asset segregation, portfolio turnover, Rule 12b-1 plan, distribution, shareholder servicing, legal and compliance matters, pricing of securities, sales and redemptions, and marketing support payments made to financial intermediaries, as well as a third-party survey of transfer agent fees charged to funds within the Franklin Templeton Investments (FTI) complex in comparison with those charged to other fund complexes deemed comparable. Also, related financial statements and other information about the scope and quality of services provided by the investment manager and its affiliates and enhancements to

such services over the past year were provided. In addition, the trustees received periodic reports throughout the year and during the renewal process relating to compliance with the Fund’s investment policies and restrictions. During the renewal process, the independent trustees considered the investment manager’s methods of operation within the Franklin Templeton group and its activities on behalf of other clients. The Board also noted that it received an annual report on all payments made by FTI or the Fund to financial intermediaries engaged in the sale of Fund shares, as well as a memorandum relating to third-party servicing arrangements in response to a Guidance Update from the U.S. Securities and Exchange Commission (SEC) relating to mutual fund distribution and sub-accounting fees.

The information obtained by the trustees during the renewal process also included a special report prepared by Broadridge Financial Solutions, Inc., an independent third-party analyst that utilizes data from Lipper, Inc. (“Lipper”), comparing the Fund’s investment performance and expenses with those of other mutual funds deemed comparable to the Fund as selected by Lipper (Broadridge Section 15(c) Report). The trustees reviewed the Broadridge Section 15(c) Report and its usefulness in the renewal process with respect to matters such as comparative fees, expenses, expense ratios, performance and volatility. They concluded that the report continues to be a reliable resource in the performance of their duties.

In addition, the trustees received a Profitability Study (Profitability Study) prepared by management discussing the profitability to FTI from its overall U.S. fund operations, as well as on an individual fund-by-fund basis. Over the past year, the Board and counsel to the independent trustees continued to receive reports on management’s handling of recent regulatory inquiries and pending legal actions against the investment manager and its affiliates. The independent trustees were satisfied with the actions taken to date by management in response to such regulatory and legal matters.

The trustees reviewed the personnel, operations, financial condition, and investment management capabilities, methodologies and resources of the investment manager. As part of this review, particular attention was given to management’s diligent risk management program, including continual monitoring and management of cybersecurity, liquidity and counterparty credit risk, and attention given to derivatives and other complex instruments that are held and expected to be held by the Fund and how such instruments



are used to carry out the Fund's investment goal(s). The Board also took into account, among other things, management's efforts in establishing a global credit facility for the benefit of the Fund and other accounts managed by FTI to provide a source of cash for temporary and emergency purposes or to meet unusual redemption requests as well as the strong financial position of the investment manager's parent company and its commitment to the mutual fund business. The Board noted management's continuing efforts and expenditures in establishing effective business continuity plans and developing strategies to address areas of heightened concern in the mutual fund industry, such as cybersecurity and liquidity risk management. The Board also recognized management's commitment to facilitating Board oversight of particular areas, including derivatives and payments to intermediaries, by enhanced reporting.

In addition to the above and other matters considered by the trustees throughout the course of the year, the following discussion relates to certain primary factors relevant to the Board's decision. This discussion of the information and factors considered by the Board (including the information and factors discussed above) is not intended to be exhaustive, but rather summarizes certain factors considered by the Board. In view of the wide variety of factors considered, the Board did not, unless otherwise noted, find it practicable to quantify or otherwise assign relative weights to the foregoing factors. In addition, individual trustees may have assigned different weights to various factors.

**NATURE, EXTENT AND QUALITY OF SERVICES.** The trustees reviewed the nature, extent and quality of the services provided, and to be provided, by the investment manager. The trustees cited the investment manager's ability to implement the Fund's disciplined value investment approach and its long-term relationship with the Fund as reasons that shareholders choose to invest, and remain invested, in the Fund. The trustees reviewed the Fund's portfolio management team, including its performance, staffing, skills and compensation program. With respect to portfolio manager compensation, management assured the trustees that the Fund's long-term performance is a significant component of incentive-based compensation and noted that a portion of a portfolio manager's incentive-based compensation is paid in shares of pre-designated funds from the portfolio manager's fund management area. The trustees noted that the portfolio manager compensation program aligned the interests of the portfolio managers with that of shareholders of the Fund. The trustees discussed with

management various other products, portfolios and entities that are advised by the investment manager and the allocation of assets and expenses among and within them, as well as their relative fees and reasons for differences with respect thereto and any potential conflicts. During regular Board meetings and the aforementioned meetings of the independent trustees, the trustees received reports and presentations on the investment manager's best execution trading policies. The trustees considered periodic reports provided to them showing that the investment manager complied with the investment policies and restrictions of the Fund as well as other reports periodically furnished to the Board covering matters such as the compliance of portfolio managers and other management personnel with the code of ethics covering the investment management personnel, the adherence to fair value pricing procedures established by the Board and the accuracy of net asset value calculations. The Board noted the extent of the benefits provided to Fund shareholders from being part of the Franklin Templeton group of funds, including the right to exchange investments between funds (same class) without a sales charge, the ability to reinvest Fund dividends into other funds and the right to combine holdings of other funds to obtain reduced sales charges. The Board considered the investment manager's significant efforts in developing and implementing compliance procedures established in accordance with SEC and other requirements.

The Board considered the nature, extent and quality of the services to be provided under the Fund's other service agreements to determine that, on an overall basis, Fund shareholders were well served. In this connection, the Board also took into account transfer agent and shareholder services provided to Fund shareholders by an affiliate of the investment manager, noting continuing expenditures by management to increase and improve the scope of such services and favorable periodic reports on shareholder services conducted by independent third parties. While such considerations directly affected the trustees' decision in renewing the Fund's transfer agent and shareholder services agreement, the Board also considered these commitments as incidental benefits to Fund shareholders deriving from the investment management relationship.

Based on their review, the trustees were satisfied with the nature and quality of the overall services provided, and to be provided, by the investment manager and its affiliates to the Fund and its shareholders and were confident in the abilities of the management team to continue the disciplined value

investment approach of the Fund and to provide quality services to the Fund and its shareholders.

**INVESTMENT PERFORMANCE.** The trustees reviewed and placed significant emphasis on the investment performance of the Fund over the one-, three-, five- and 10-year periods ended December 31, 2018. They considered the history of successful performance of the Fund relative to various benchmarks. As part of their review, they inquired of management regarding benchmarks, style drift and restrictions on permitted investments. Consideration was also given to performance in the context of available levels of cash during the periods.

The trustees had meetings during the year, including the meetings referred to above held in connection with the renewal process, with the Fund's portfolio managers to discuss performance and the management of the Fund. In addition to the materials provided by management in connection with the renewal process, the independent trustees requested throughout the year (and received) additional presentations from the investment manager and senior management of FTI regarding the performance of the investment manager and the Fund. As part of these presentations, the investment manager and senior management of FTI reviewed enhancements that have been made, and are being made, to the investment manager's investment process. In addition, particular attention in assessing performance was given to the Broadridge Section 15(c) Report. That report showed the investment performance of the Fund (Class A shares) in comparison to other funds determined comparable by Lipper.

The comparable funds to the Fund, as chosen by Lipper, included all retail and institutional multi-cap value funds. The Fund had total returns in the second-best performing quintile for the one-year period ended December 31, 2018, and had annualized total returns for the three- and five-year periods in the second-lowest performing quintile. The trustees noted that the Fund's total return on an annualized basis for the 10-year period ended December 31, 2018 was in the lowest performing quintile. The trustees also compared Fund performance to other industry benchmarks, including measures of risk-adjusted performance of a fund, as part of their evaluation of investment performance. The trustees noted that the Fund exhibited improved relative performance in 2018 and discussed with management the reasons for the relative underperformance for the three-, five- and 10-year periods ended December 31, 2018. Encouraged by the improved relative performance and enhancements to the

investment process noted above, the Board did not believe that any changes with respect to the Fund were warranted at the time and noted that it would continue to monitor future performance.

#### **COMPARATIVE EXPENSES AND MANAGEMENT**

**PROFITABILITY.** The trustees considered the cost of the services provided and to be provided and the profits realized by the investment manager and its affiliates from their respective relationships with the Fund. As part of the renewal process, the trustees explored with management the trends in expense ratios over the past three fiscal years and the reasons for any increases in the Fund's expense ratios (or components thereof). In considering the appropriateness of the management fee and other expenses charged to the Fund, the Board took into account various factors including investment performance and matters relating to Fund operations, including, but not limited to, the quality and experience of its portfolio managers and research staff. Consideration was also given to a comparative analysis in the Broadridge Section 15(c) Report of the investment management fee and total expense ratio of the Fund in comparison with those of a group of other funds selected by Lipper as its appropriate Lipper expense group. Lipper expense data is based upon information taken from each fund's most recent annual report, which reflects historical asset levels that may be quite different from those currently existing, particularly in a period of market volatility. While recognizing such inherent limitation and the fact that expense ratios generally increase as assets decline and decrease as assets grow, the Board believed the independent analysis conducted by Lipper to be an appropriate measure of comparative expenses.

In reviewing comparative costs, emphasis was given to the Fund's contractual management fee in comparison with the contractual management fee that would have been charged by other funds within its Lipper expense group assuming they were similar in size to the Fund, as well as the actual total expenses of the Fund in comparison with those of its Lipper expense group. The Lipper contractual management fee analysis includes administrative charges as being part of the management fee, and total expenses, for comparative consistency, are shown by Lipper for Fund Class A shares.

The Fund's contractual management fee rate was in the second-least expensive quintile of its Lipper expense group and its total expenses were in the least expensive quintile of such group. The Board was satisfied with such comparative fees and expenses.

The trustees also reviewed the Profitability Study addressing profitability of Franklin Resources, Inc., from its overall U.S. fund business, as well as profitability to the Fund's investment manager and its affiliates, from providing investment management and other services to the Fund during the 12-month period ended September 30, 2018, the most recent fiscal year-end of Franklin Resources, Inc. The trustees reviewed the basis on which such reports are prepared and the cost allocation methodology utilized in the Profitability Study, it being recognized that allocation methodologies may each be reasonable while producing different results. In this respect, the Board noted that the reasonableness of the cost allocation methodologies was reviewed by independent accountants on an every other year basis.

The independent trustees met with management to discuss the Profitability Study. This included, among other things, a comparison of investment management income with investment management expenses of the Fund; comparison of underwriting revenues and expenses; the relative relationship of investment management and underwriting expenses; shareholder servicing profitability; economies of scale; and the relative contribution of the Fund to the profitability of the investment manager and its parent. In discussing the Profitability Study with the Board, the investment manager stated its belief that the costs incurred in establishing the infrastructure necessary to operate the type of mutual fund operations conducted by it and its affiliates may not be fully reflected in the expenses allocated to the Fund in determining its profitability.

The Board also took into account management's expenditures in improving shareholder services provided to the Fund, as well as the need to meet additional regulatory and compliance requirements. The trustees also considered the extent to which the investment manager may derive ancillary benefits from Fund operations, including those derived from economies of scale, discussed below, the allocation of Fund brokerage and the use of commission dollars to pay for research and other similar services.

Based upon their consideration of all these factors, the trustees determined that the level of profits realized by the investment manager and its affiliates in providing services to the Fund was not excessive in view of the nature, quality and extent of services provided.

**ECONOMIES OF SCALE.** The Board considered economies of scale realized by the investment manager and its affiliates as the Fund grows larger and the extent to which they are

shared with Fund shareholders, as for example, in the level of the investment management fee charged, in the quality and efficiency of services rendered and in increased capital commitments benefiting the Fund directly or indirectly. While recognizing that any precise determination is inherently subjective, the trustees noted that, based upon the Profitability Study, as some funds increase in size, at some point economies of scale may result in the investment manager realizing a larger profit margin on investment management services provided to such a fund. The trustees also noted that benefits of economies of scale will be shared with Fund shareholders due to the decline in the effective investment management fee rate as breakpoints are achieved by the Fund.

The trustees noted that breakpoints had been instituted as part of the Fund's investment management fee and that the Board regularly evaluates whether additional breakpoints are appropriate. The trustees assessed the savings to shareholders resulting from such breakpoints and believed they were, and continue to be, appropriate and they agreed to continue to monitor the appropriateness of the breakpoints. The trustees also considered the effects an increase in assets under management would have on the investment management fee and expense ratio of the Fund. To the extent further economies of scale may be realized by the investment manager and its affiliates, the Board believed the investment management fees provide a sharing of benefits with the Fund and its shareholders.

## Proxy Voting Policies and Procedures

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

## Quarterly Statement of Investments

The Trust, on behalf of the Fund, files a complete statement of investments with the U.S. Securities and Exchange Commission for the first and third quarters for each fiscal year as an exhibit to its report on Form N-PORT.

Shareholders may view the filed Form N-PORT by visiting the Commission's website at [sec.gov](http://sec.gov). The filed form may also be viewed and copied at the Commission's Public Reference Room in Washington, DC. Information regarding the operations of the Public Reference Room may be obtained by calling (800) SEC-0330.

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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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