FRANKLIN TEMPLETON INVESTMENTS

Semiannual Report and Shareholder Letter
June 30, 2015

Franklin Mutual Shares Fund

A SERIES OF FRANKLIN MUTUAL SERIES FUNDS

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Franklin Templeton Investments

Gain From Our Perspective®

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

Focus on Investment Excellence

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

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

Global Perspective Shaped by Local Expertise

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

Strength and Experience

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

1. As of 12/31/14. Clients are represented by the total number of shareholder accounts.

Not FDIC Insured | May Lose Value | No Bank Guarantee

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Shareholder Letter

Dear Franklin Mutual Shares Fund Shareholder:

During the six months ended June 30, 2015, the U.S. economy grew unevenly amid changing but still accommodative monetary policy and some factors that curbed exports and business spending in the first quarter of 2015. The U.S. Federal Reserve Board cautiously considered when to begin raising short-term interest rates and waited as labor markets improved. Despite concerns about moderating economic growth in some regions and tensions in Greece and Ukraine, investors were generally optimistic about U.S. financial markets during the period. U.S. stocks, as measured by the Standard & Poor's® 500 Index and Dow Jones Industrial Average, reached all-time highs during the period and posted positive total returns. Investment-grade bonds, as measured by the Barclays U.S. Aggregate Bond Index, were also positive.

We remained encouraged as the U.S. showed signs of continued economic growth and low inflation. With this economic environment, we believe companies generally should continue to deliver healthy earnings and cash flow, which are characteristics that have historically been favorable for stock markets. In addition, we believe that current accommodative monetary policy and low interest rates have supported many bond markets and limited losses in others. Keep in mind, in all economic environments we remain committed to our long-term perspective and disciplined investment approach. First and foremost for us, this means conducting diligent, fundamental analysis of securities with a continual emphasis on investment risk management.

Franklin Mutual Shares Fund's semiannual report goes into greater detail about prevailing conditions during the period under review. In addition, you will find Fund performance data, financial information and a discussion from the portfolio managers. Please remember all securities markets fluctuate in value, as do mutual fund share prices.

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

We believe active management serves investors well. We also recognize the important role financial advisors serve in today's markets and encourage investors to continue to seek their counsel. While headwinds remain and the global recovery since 2009 may continue to be uneven, we are confident investors with a well-diversified portfolio and a patient, long-term outlook will be well positioned for the years ahead.

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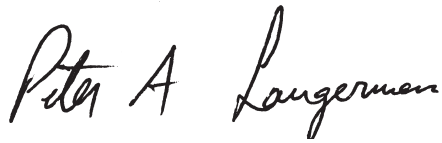
We thank you for investing with Franklin Templeton, welcome your questions and comments, and look forward to continuing to serve your investment needs.

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, 2015. The information is not a complete analysis of every aspect of any market, country, industry, security or fund.

Semiannual Report

Franklin Mutual Shares Fund

We are pleased to bring you Franklin Mutual Shares Fund's semiannual report for the period ended June 30, 2015.

Your Fund's Goals and Main Investments

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

Performance Overview

The Fund's Class Z shares delivered a +2.37% cumulative total return for the six months ended June 30, 2015. In comparison, the Fund's benchmark, the Standard & Poor's 500 Index, which is a broad measure of U.S. stock performance, generated a +1.23% total return.[1] You can find more of the Fund's performance data in the Performance Summary beginning on page 8.

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

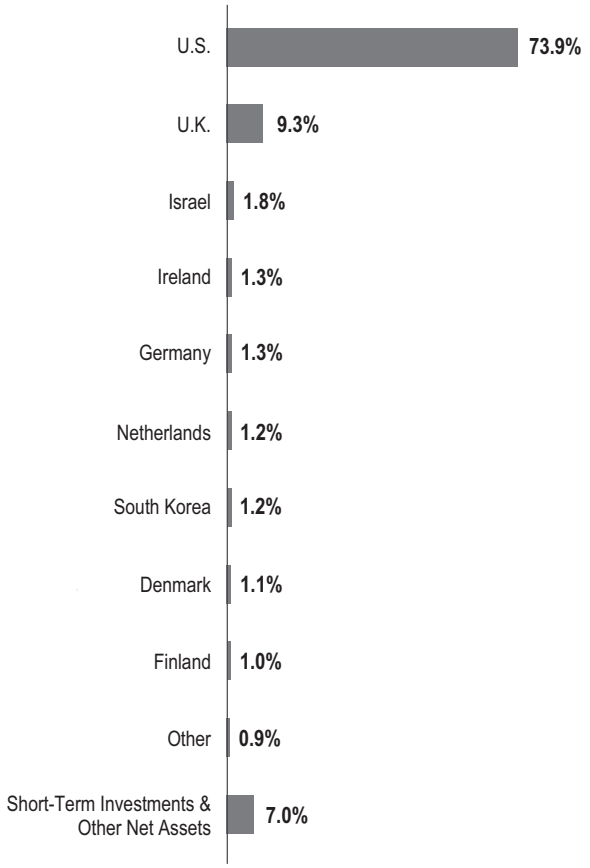
Economic and Market Overview

The global economy expanded moderately during the six months under review despite slowing growth in some countries. As measured by the MSCI World Index, stocks in global developed markets overall advanced during the six-month period amid a generally accommodative monetary policy environment and signs of economic improvement in Europe and Japan. Oil prices rebounded from earlier lows as demand picked up despite rising inventories and strong global supply, while the price of gold declined marginally during the period under review.

U.S. economic growth was mixed during the six months under review. In 2015's first quarter, U.S. dollar strength, low energy prices, and a labor dispute at West Coast ports led exports to decline. In the second quarter, business capital spending rebounded and manufacturing and non-manufacturing activities increased, contributing to strong job gains. During the six-month period, the U.S. Federal Reserve Board (Fed) kept its target interest rate at 0%–0.25% while considering when an increase would be appropriate, based on labor market and inflation data.

Outside the U.S., the U.K. economy slowed in 2015's first quarter as the mining and agriculture sectors contracted. In the eurozone, economic growth improved somewhat during the six-month period. The region avoided deflation as the annual inflation rate rose in May and June. The European Central Bank (ECB) maintained its benchmark interest rates during

Geographic Breakdown*
Based on Total Net Assets as of 6/30/15



*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.

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

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 18.

the period and also expanded its asset purchases to boost inflation and the economy. The region generally benefited from a weaker euro that helped exports, the ECB's accommodative policy and an improved 2015 eurozone growth forecast, which helped lessen fears about Greece's debt situation.

The Japanese economy continued to grow in 2015's first quarter after exiting recession in the previous quarter, driven by an increase in private demand as business investment and private consumption rose. The Bank of Japan maintained its monetary policy during the review period but lowered its economic growth and inflation forecasts at its April meeting.

In emerging markets, economic growth generally moderated. Greece's credit default due to the lack of progress in negotiations weighed on emerging market stocks toward period-end. China's government implemented market-friendly policies to support new economic drivers that could help steer the economy toward more sustainable growth. Lower interest rates there fueled massive stock market speculation and a 60% price gain up to mid-June 2015 for the domestic A-share market.[2] Concerned the market was overheated, the People's Bank of China reduced liquidity, which led to a market panic in the last two weeks of June, exacerbated by certain government intervention measures. Central bank actions varied across emerging markets, as some banks raised interest rates in response to rising inflation and weakening currencies, while others lowered interest rates to promote economic growth. In the recent global environment, emerging market stocks, as measured by the MSCI Emerging Markets Index, rose modestly for the six-month period.

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

Top 10 Sectors/Industries
Based on Equity Securities as of 6/30/15

	% of Total Net Assets
Banks	10.9%
Insurance	10.3%
Media	8.4%
Pharmaceuticals	8.0%
Oil, Gas & Consumable Fuels	6.0%
Tobacco	5.0%
Software	4.6%
Technology Hardware, Storage & Peripherals	4.5%
Health Care Equipment & Supplies	3.7%
Food & Staples Retailing	3.1%

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

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

In addition, it is our practice to hedge the Fund's currency exposure when we deem it advantageous for our shareholders.

2. Source: MSCI.
See www.franklintempletondatasources.com for additional data provider information.

What is meant by "hedge"?

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

Manager's Discussion

During the six months ended June 30, 2015, European equities rebounded while overall global markets slowed after a three-year ascent. Globally, major central banks remained accommodative while fiscal authorities focused on budgetary discipline. Large companies also remained disciplined about operating costs, with margins in many industries and regions — except Europe — at historically high levels. To drive further growth, companies started looking externally to mergers and acquisitions (M&A), taking advantage of low interest rates to finance deals. In this environment, we saw many opportunities.

Equity prices are typically forward looking, reflecting investors' beliefs about how various factors and events will play out in the future. Global equity prices at period-end were not at distressed levels but, from our perspective, they reflected a consensus view of a modest global recovery and the persistence of historically high profit margins. Some countries, such as Greece and China, and sectors, such as energy, have been subject to significant market movements, but the global equity market as a whole has been relatively stable. Global quantitative easing has provided a supportive backdrop, and corporations, in general, have built strong balance sheets and focused intensely on improving efficiency.

The acceleration of M&A that we have been waiting for is now well under way, with announcements of mega mergers in health care, telecommunications and technology. At the same time, regulatory scrutiny increased, as happened with Comcast's failed attempt to acquire Time Warner Cable. Environments like this — active M&A combined with regulatory uncertainty and market volatility — have historically presented opportunities for us. As we discussed in the 2014 annual report, we seek to use a mixture of merger arbitrage positions — positions constructed solely to benefit from deal completion — and investments in one or both of the companies involved in a deal to benefit from a deal spread and from possible value creation once the deal is completed.

Distressed debt remained a difficult market in which we could find compelling new opportunities. Low interest rates have kept credit widely available, and we saw little real distress. The biggest exception continued to be energy, where lower commodity prices created strain for some issuers. However, the modest recovery in energy prices since the beginning of the year relieved some of the pressure, and in the past six months we found fewer new opportunities in this sector than we expected.

The Fund recently added positions in Macy's and Holcim. Macy's is a retailer that we believe to be well run and that owns valuable real estate and other potential sources of incremental value. Macy's owns more than two-thirds of its stores and, in our view, could extract meaningful value without jeopardizing its retail franchise. Another possible source of value may be the company's outsourced credit card operations. Macy's management acknowledged that the financial markets seemed receptive to such transactions and the company indicated an increased willingness to explore these options.

Holcim is a Swiss manufacturer of cement, aggregates and other construction products. At period-end, the company was in the process of merging with France's Lafarge, another major European cement maker, with the deal expected to close in July 2015. The merger would create a global company with a presence in over 90 countries that, in our view, would likely produce significant synergies, help to improve operating profitability and generate strong cash flows.

Turning to Fund performance, top contributors included pharmaceutical companies Hospira and Eli Lilly & Co., and health care insurer Cigna.

Hospira is a global pharmaceutical and medical device company specializing in injectable generic drugs and biosimilars — drugs highly similar to medications licensed by other firms. Shares of Hospira benefited from an early February announcement that Pfizer had reached an agreement to acquire Hospira. We believed the deal made sense as Hospira offered Pfizer a strong leadership position in injectables and an attractive high-growth market in the generic segment, and the deal positioned Pfizer as a top-tier biosimilars company with a strong pipeline. This acquisition news was in line with our views on industry consolidation and more specifically on Hospira as a highly attractive asset in the generics industry. Hospira also made substantial progress with its core business performance on an organic basis as demonstrated by its solid first-quarter results.

Eli Lilly, a U.S.-based pharmaceutical company, performed well during the period as the market, in our view, gained more appreciation for the company's research and development

capabilities and deep pipeline. Eli Lilly has many attractive assets targeting end markets with high unmet medical needs that, in our assessment, position its business to generate strong revenues and free cash flows in the long term.

Shares of Cigna, a U.S.-based global health care insurer, jumped in mid-June after competitor Anthem announced it had made four bids to acquire the company, all of which Cigna had rejected. Prior to that news, Cigna had been the subject of increased investor speculation that it might seek to acquire a competitor or could itself be a potential takeover target, which had helped push the stock higher. Operationally, Cigna reported better-than-expected earnings results and raised its 2015 guidance in April, providing earnings support for its shares.

During the period under review, some of the Fund's investments that negatively affected performance were document technology and business process solutions company Xerox, global media company Twenty-First Century Fox and information technology products provider Hewlett-Packard (HP).

Xerox lowered its 2015 earnings guidance in April and reported disappointing quarterly results as margins deteriorated in its services unit. Company management attributed the margin decline to execution difficulties, particularly with its large health care-related projects. Xerox struggled with its biggest government health care contracts within its services unit for a considerable time, causing a series of cost-driven misses. Outside of services, the company's document technology unit performed well and its capital management has been favorable as the company continued to repurchase shares.

Twenty-First Century Fox comprises the global television and entertainment assets that were part of News Corporation before the company's mid-2013 split. In February, Twenty-First Century Fox lowered its 2015 earnings outlook due to a stronger U.S. dollar, worse-than-expected ratings at its broadcast network and lower-than-expected box office performance during the 2014 winter holiday season. The company maintained its earnings guidance in May but cautioned that currency exchange rates could hinder its earnings growth outlook. In June, the company stated that Rupert Murdoch would hand over the role of chief executive officer to James Murdoch, his son, and remain executive co-chairman, effective July 1. Market reaction was slightly negative due to uncertainty over how James Murdoch may run the company, particularly regarding any changes in the capital structure or capital returns to shareholders.

Top 10 Equity Holdings
6/30/15

Company *Sector/Industry, Country*	% of Total Net Assets
White Mountains Insurance Group Ltd. *Insurance, U.S.*	2.6%
Merck & Co. Inc. *Pharmaceuticals, U.S.*	2.6%
Microsoft Corp. *Software, U.S.*	2.6%
Medtronic PLC *Health Care Equipment & Supplies, U.S.*	2.5%
Eli Lilly & Co. *Pharmaceuticals, U.S.*	2.1%
PNC Financial Services Group Inc. *Banks, U.S.*	2.0%
Time Warner Cable Inc. *Media, U.S.*	1.9%
American International Group Inc. *Insurance, U.S.*	1.9%
Teva Pharmaceutical Industries Ltd., ADR *Pharmaceuticals, Israel*	1.8%
Apple Inc. *Technology Hardware, Storage & Peripherals, U.S.*	1.8%

HP reported a mixed set of quarterly results in February and lowered its 2015 full-year guidance due to a stronger U.S. dollar. HP also lowered its earnings outlook for 2015 and its full-year free cash flow estimate, a result of separation costs from its plan to break into two companies, higher working capital and lower earnings. Although the cost of splitting into two separate companies was viewed as expensive, we believed it would be a positive move with the potential to unlock some value.

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

What is a currency forward contract?

A currency forward contract, or a currency forward, is an agreement between the Fund and a counterparty to buy or sell a foreign currency at a specific exchange rate on a future date.

What is a futures contract?

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

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

Peter A. Langerman
Co-Portfolio Manager

F. David Segal, CFA
Co-Portfolio Manager

Debbie A. Turner, CFA
Assistant Portfolio Manager

The foregoing information reflects our analysis, opinions and portfolio holdings as of June 30, 2015, 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.

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

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

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

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Performance Summary as of June 30, 2015

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

Net Asset Value

Share Class (Symbol)	**6/30/15**	**12/31/14**	**Change**
Z (MUTHX)	$30.22	$29.52	+$0.70
A (TESIX)	$29.94	$29.29	+$0.65
C (TEMTX)	$29.56	$29.02	+$0.54
R (TESRX)	$29.76	$29.14	+$0.62
R6 (FMSHX)	$30.23	$29.51	+$0.72

Performance as of 6/30/15[1]

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

Share Class	Cumulative Total Return[2]	Average Annual Total Return[3]	Value of $10,000 Investment[4]	Total Annual Operating Expenses[5]
Z				0.80%
6-Month	+2.37%	+2.37%	$10,237	
1-Year	+1.98%	+1.98%	$10,198	
5-Year	+87.23%	+13.36%	$18,723	
10-Year	+87.20%	+6.47%	$18,720	
A				1.10%
6-Month	+2.22%	-3.67%	$9,633	
1-Year	+1.69%	-4.16%	$9,584	
5-Year	+84.43%	+11.69%	$17,381	
10-Year	+81.56%	+5.52%	$17,112	
C				1.80%
6-Month	+1.86%	+0.86%	$10,086	
1-Year	+0.97%	-0.02%	$9,998	
5-Year	+78.08%	+12.23%	$17,808	
10-Year	+69.42%	+5.41%	$16,942	
R				1.30%
6-Month	+2.13%	+2.13%	$10,213	
1-Year	+1.47%	+1.47%	$10,147	
5-Year	+82.59%	+12.80%	$18,259	
10-Year	+78.08%	+5.94%	$17,808	
R6				0.69%
6-Month	+2.44%	+2.44%	$10,244	
1-Year	+2.10%	+2.10%	$10,210	
Since Inception (5/1/13)	+27.68%	+11.95%	$12,768	

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

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

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

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

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

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

1. The Fund has a fee waiver associated with any investment in a Franklin Templeton money fund, contractually guaranteed through at least its current fiscal year-end. Fund investment results reflect the fee waiver, to the extent applicable; without this reduction, the results would have been lower.
2. Cumulative total return represents the change in value of an investment over the periods indicated.
3. Average annual total return represents the average annual change in value of an investment over the periods indicated. Six-month return has not been annualized.
4. These figures represent the value of a hypothetical $10,000 investment in the Fund over the periods indicated.
5. Figures are as stated in the Fund's current prospectus. In periods of market volatility, assets may decline significantly, causing total annual Fund operating expenses to become higher than the figures shown.

Your Fund's Expenses

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

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

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

Actual Fund Expenses

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

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

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

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

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

Hypothetical Example for Comparison with Other Funds

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

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

Share Class	Beginning Account Value 1/1/15	Ending Account Value 6/30/15	Expenses Paid During Period* 1/1/15–6/30/15
Z			
Actual	$1,000	$1,023.70	$4.06
Hypothetical (5% return before expenses)	$1,000	$1,020.78	$4.06
A			
Actual	$1,000	$1,022.20	$5.57
Hypothetical (5% return before expenses)	$1,000	$1,019.29	$5.56
C			
Actual	$1,000	$1,018.60	$9.06
Hypothetical (5% return before expenses)	$1,000	$1,015.82	$9.05
R			
Actual	$1,000	$1,021.30	$6.57
Hypothetical (5% return before expenses)	$1,000	$1,018.30	$6.56
R6			
Actual	$1,000	$1,024.40	$3.51
Hypothetical (5% return before expenses)	$1,000	$1,021.32	$3.51

*Expenses are calculated using the most recent six-month expense ratio, net of expense waivers, annualized for each class (Z: 0.81%; A: 1.11%; C: 1.81%; R: 1.31% and R6: 0.70%), multiplied by the average account value over the period, multiplied by 181/365 to reflect the one-half year period.

Financial Highlights

	Six Months Ended June 30, 2015 (unaudited)	Year Ended December 31, 2014	2013	2012	2011	2010
Class Z						
Per share operating performance (for a share outstanding throughout the period)						
Net asset value, beginning of period	$29.52	$28.34	$22.48	$19.96	$20.80	$19.19
Income from investment operations[a]:						
Net investment income[b]	0.32	0.78[c]	0.47	0.39	0.47[d]	0.56[e]
Net realized and unrealized gains (losses)	0.38	1.38	5.83	2.62	(0.80)	1.68
Total from investment operations	0.70	2.16	6.30	3.01	(0.33)	2.24
Less distributions from net investment income	—	(0.98)	(0.44)	(0.49)	(0.51)	(0.63)
Net asset value, end of period	$30.22	$29.52	$28.34	$22.48	$19.96	$20.80
Total return[f]	2.37%	7.60%	28.10%	15.14%	(1.50)%	11.75%
Ratios to average net assets[g]						
Expenses[h]	0.81%[i,j]	0.80%[i]	0.79%[i]	0.82%	0.86%	0.85%[j]
Expenses incurred in connection with securities sold short	0.04%	0.03%	—%[k]	—%[k]	—%[k]	0.02%
Net investment income	2.10%	2.67%[c]	1.85%	1.82%	2.24%[d]	2.83%[e]
Supplemental data						
Net assets, end of period (000's)	$7,433,465	$7,363,765	$7,025,908	$7,575,308	$7,540,502	$8,635,954
Portfolio turnover rate	12.03%	19.24%	24.29%	21.57%	29.44%	28.25%

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

[b]Based on average daily shares outstanding.

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

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

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

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

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

[h]Includes dividend 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(f).

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

[j]Benefit of waiver and payments by affiliates rounds to less than 0.01%.

[k]Rounds to less than 0.01%.

	Six Months Ended June 30, 2015 (unaudited)	Year Ended December 31, 2014	2013	2012	2011	2010
Class A						
Per share operating performance (for a share outstanding throughout the period)						
Net asset value, beginning of period	$29.29	$28.12	$22.32	$19.81	$20.64	$19.06
Income from investment operations[a]:						
Net investment income[b]	0.27	0.69[c]	0.40	0.33	0.40[d]	0.49[e]
Net realized and unrealized gains (losses)	0.38	1.37	5.76	2.60	(0.79)	1.66
Total from investment operations	0.65	2.06	6.16	2.93	(0.39)	2.15
Less distributions from net investment income	—	(0.89)	(0.36)	(0.42)	(0.44)	(0.57)
Net asset value, end of period	$29.94	$29.29	$28.12	$22.32	$19.81	$20.64
Total return[f]	2.22%	7.30%	27.74%	14.75%	(1.79)%	11.41%
Ratios to average net assets[g]						
Expenses[h]	1.11%[i,j]	1.10%[i]	1.09%[i]	1.12%	1.16%	1.15%[j]
Expenses incurred in connection with securities sold short	0.04%	0.03%	—%[k]	—%[k]	—%[k]	0.02%
Net investment income	1.80%	2.37%[c]	1.55%	1.52%	1.94%[d]	2.53%[e]
Supplemental data						
Net assets, end of period (000's)	$5,357,146	$5,392,130	$5,477,733	$4,633,895	$4,681,967	$5,368,887
Portfolio turnover rate	12.03%	19.24%	24.29%	21.57%	29.44%	28.25%

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

[b]Based on average daily shares outstanding.

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

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

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

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

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

[h]Includes dividend 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(f).

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

[j]Benefit of waiver and payments by affiliates rounds to less than 0.01%.

[k]Rounds to less than 0.01%.

	Six Months Ended June 30, 2015 (unaudited)	Year Ended December 31, 2014	2013	2012	2011	2010
Class C						
Per share operating performance (for a share outstanding throughout the period)						
Net asset value, beginning of period	$29.02	$27.88	$22.13	$19.65	$20.46	$18.89
Income from investment operations[a]:						
Net investment income[b]	0.16	0.48[c]	0.22	0.17	0.25[d]	0.35[e]
Net realized and unrealized gains (losses)	0.38	1.34	5.71	2.57	(0.77)	1.65
Total from investment operations	0.54	1.82	5.93	2.74	(0.52)	2.00
Less distributions from net investment income	—	(0.68)	(0.18)	(0.26)	(0.29)	(0.43)
Net asset value, end of period	$29.56	$29.02	$27.88	$22.13	$19.65	$20.46
Total return[f]	1.86%	6.56%	26.82%	13.97%	(2.44)%	10.62%
Ratios to average net assets[g]						
Expenses[h]	1.81%[i,j]	1.80%[i]	1.79%[i]	1.82%	1.86%	1.85%[j]
Expenses incurred in connection with securities sold short	0.04%	0.03%	—%[k]	—%[k]	—%[k]	0.02%
Net investment income	1.10%	1.67%[c]	0.85%	0.82%	1.24%[d]	1.83%[e]
Supplemental data						
Net assets, end of period (000's)	$1,232,551	$1,240,845	$1,236,603	$1,043,695	$1,065,446	$1,292,711
Portfolio turnover rate	12.03%	19.24%	24.29%	21.57%	29.44%	28.25%

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

[b]Based on average daily shares outstanding.

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

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

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

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

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

[h]Includes dividend 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(f).

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

[j]Benefit of waiver and payments by affiliates rounds to less than 0.01%.

[k]Rounds to less than 0.01%.

	Six Months Ended June 30, 2015 (unaudited)	Year Ended December 31, 2014	2013	2012	2011	2010
Class R						
Per share operating performance (for a share outstanding throughout the period)						
Net asset value, beginning of period	$29.14	$27.98	$22.20	$19.70	$20.52	$18.95
Income from investment operations[a]:						
Net investment income[b]	0.24	0.64[c]	0.34	0.28	0.36[d]	0.45[e]
Net realized and unrealized gains (losses)	0.38	1.34	5.73	2.59	(0.78)	1.66
Total from investment operations	0.62	1.98	6.07	2.87	(0.42)	2.11
Less distributions from net investment income	—	(0.82)	(0.29)	(0.37)	(0.40)	(0.54)
Net asset value, end of period	$29.76	$29.14	$27.98	$22.20	$19.70	$20.52
Total return[f]	2.13%	7.10%	27.47%	14.52%	(1.94)%	11.18%
Ratios to average net assets[g]						
Expenses[h]	1.31%[i,j]	1.30%[i]	1.29%[i]	1.32%	1.36%	1.35%[j]
Expenses incurred in connection with securities sold short	0.04%	0.03%	—%[k]	—%[k]	—%[k]	0.02%
Net investment income	1.60%	2.17%[c]	1.35%	1.32%	1.74%[d]	2.33%[e]
Supplemental data						
Net assets, end of period (000's)	$159,945	$172,938	$192,658	$191,304	$218,757	$259,834
Portfolio turnover rate	12.03%	19.24%	24.29%	21.57%	29.44%	28.25%

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

[b]Based on average daily shares outstanding.

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

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

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

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

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

[h]Includes dividend 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(f).

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

[j]Benefit of waiver and payments by affiliates rounds to less than 0.01%.

[k]Rounds to less than 0.01%.

	Six Months Ended June 30, 2015 (unaudited)	Year Ended December 31, 2014	2013[a]
Class R6			
Per share operating performance (for a share outstanding throughout the period)			
Net asset value, beginning of period	$29.51	$28.33	$24.91
Income from investment operations[b]:			
Net investment income[c]	0.33	0.82[d]	0.38
Net realized and unrealized gains (losses)	0.39	1.37	3.51
Total from investment operations	0.72	2.19	3.89
Less distributions from net investment income	—	(1.01)	(0.47)
Net asset value, end of period	$30.23	$29.51	$28.33
Total return[e]	2.44%	7.72%	15.70%
Ratios to average net assets[f]			
Expenses[g,h]	0.70%[i]	0.69%	0.67%
Expenses incurred in connection with securities sold short	0.04%	0.03%	—%[j]
Net investment income	2.21%	2.78%[d]	1.97%
Supplemental data			
Net assets, end of period (000's)	$2,161,349	$2,249,991	$2,221,889
Portfolio turnover rate	12.03%	19.24%	24.29%

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

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

[c]Based on average daily shares outstanding.

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

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

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

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

[h]Includes dividend 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(f).

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

[j]Rounds to less than 0.01%.

Statement of Investments, June 30, 2015 (unaudited)

	Country	Shares	Value
Common Stocks and Other Equity Interests 87.3%			
Aerospace & Defense 1.4%			
B/E Aerospace Inc.	United States	1,412,070	$ 77,522,643
Huntington Ingalls Industries Inc.	United States	1,099,372	123,778,293
[a] KLX Inc.	United States	706,035	31,157,325
			232,458,261
Auto Components 0.4%			
[a,b,c] International Automotive Components Group Brazil LLC	Brazil	7,234,813	631,411
[a,b,c,d] International Automotive Components Group North America LLC	United States	63,079,866	56,141,964
			56,773,375
Automobiles 1.3%			
General Motors Co.	United States	6,183,080	206,082,056
Banks 10.9%			
Barclays PLC	United Kingdom	38,190,870	156,294,426
CIT Group Inc.	United States	3,410,929	158,574,089
Citigroup Inc.	United States	3,362,406	185,739,307
Citizens Financial Group Inc.	United States	5,418,154	147,969,786
Columbia Banking System Inc.	United States	1,603,629	52,182,088
[a] FCB Financial Holdings Inc., A	United States	1,647,570	52,392,726
[c] Guaranty Bancorp	United States	1,146,366	18,926,503
ING Groep NV, IDR	Netherlands	5,211,996	86,024,018
JPMorgan Chase & Co.	United States	3,550,940	240,611,694
KB Financial Group Inc.	South Korea	1,361,848	44,882,454
PNC Financial Services Group Inc.	United States	3,438,533	328,895,683
Societe Generale SA	France	627,835	29,296,050
State Bank Financial Corp.	United States	1,467,000	31,833,900
SunTrust Banks Inc.	United States	2,963,080	127,471,702
Wells Fargo & Co.	United States	2,093,160	117,719,318
			1,778,813,744
Beverages 1.1%			
PepsiCo Inc.	United States	1,930,319	180,175,975
Chemicals 0.0%			
[a,e,f] Dow Corning Corp., Contingent Distribution	United States	12,630,547	—
Communications Equipment 2.4%			
Cisco Systems Inc.	United States	8,126,460	223,152,591
Nokia Corp., ADR	Finland	10,897,776	74,649,766
Nokia OYJ, A	Finland	13,670,039	92,778,562
			390,580,919
Construction Materials 0.7%			
[a] Holcim Ltd., B	Switzerland	1,637,989	120,865,406
Consumer Finance 0.4%			
[a] Ally Financial Inc.	United States	3,254,500	72,998,435
Containers & Packaging 1.0%			
MeadWestvaco Corp.	United States	3,395,925	160,253,701
Diversified Consumer Services 0.1%			
Cengage Learning Holdings II LP	United States	837,095	23,647,934

	Country	Shares	Value
Common Stocks and Other Equity Interests (continued)			
Diversified Telecommunication Services 0.7%			
[a,e,f] Global Crossing Holdings Ltd., Contingent Distribution	United States	105,649,309	$ —
Koninklijke KPN NV	Netherlands	30,410,640	116,246,603
			116,246,603
Energy Equipment & Services 1.1%			
Baker Hughes Inc.	United States	2,931,168	180,853,066
Food & Staples Retailing 3.1%			
CVS Health Corp.	United States	1,528,221	160,279,819
The Kroger Co.	United States	2,105,142	152,643,846
Walgreens Boots Alliance Inc.	United States	2,283,129	192,787,413
			505,711,078
Health Care Equipment & Supplies 3.7%			
Medtronic PLC	United States	5,511,394	408,394,295
Stryker Corp.	United States	2,053,179	196,222,317
			604,616,612
Health Care Providers & Services 0.5%			
Cigna Corp.	United States	492,860	79,843,320
Independent Power & Renewable Electricity Producers 0.6%			
NRG Energy Inc.	United States	4,399,652	100,664,038
Insurance 10.3%			
ACE Ltd.	United States	1,939,640	197,222,595
[a] Alleghany Corp.	United States	377,389	176,904,868
The Allstate Corp.	United States	2,478,208	160,761,353
American International Group Inc.	United States	5,079,039	313,986,191
MetLife Inc.	United States	3,551,930	198,872,561
[c] White Mountains Insurance Group Ltd.	United States	655,346	429,212,309
XL Group PLC	Ireland	5,665,070	210,740,604
			1,687,700,481
IT Services 1.0%			
Xerox Corp.	United States	15,854,785	168,694,912
Machinery 1.8%			
Caterpillar Inc.	United States	1,881,427	159,582,638
CNH Industrial NV (EUR Traded)	United Kingdom	4,351,332	39,667,618
CNH Industrial NV, special voting (EUR Traded)	United Kingdom	5,296,616	48,285,016
[c] Federal Signal Corp.	United States	3,360,800	50,109,528
			297,644,800
Marine 1.1%			
A.P. Moeller-Maersk AS, B	Denmark	100,690	182,304,238
Media 8.4%			
CBS Corp., B	United States	3,336,259	185,162,374
[a] DIRECTV	United States	2,769,168	256,951,099
Reed Elsevier PLC	United Kingdom	12,648,470	205,662,237
Time Warner Cable Inc.	United States	1,769,704	315,308,162
Time Warner Inc.	United States	1,428,918	124,901,722
Tribune Media Co., A	United States	77,807	4,154,116
Tribune Publishing Co.	United States	135,522	2,106,012
Twenty-First Century Fox Inc., B	United States	8,524,052	274,644,955
			1,368,890,677

	Country	Shares	Value
Common Stocks and Other Equity Interests (continued)			
Metals & Mining 1.3%			
Freeport-McMoRan Inc., B	United States	5,933,533	$ 110,482,384
ThyssenKrupp AG	Germany	3,973,743	103,339,932
			213,822,316
Multiline Retail 0.8%			
Macy's Inc.	United States	1,874,696	126,485,739
Oil, Gas & Consumable Fuels 6.0%			
Anadarko Petroleum Corp.	United States	903,460	70,524,088
Apache Corp.	United States	2,665,464	153,610,690
BG Group PLC	United Kingdom	6,608,007	109,988,598
BP PLC	United Kingdom	15,851,497	104,628,708
CONSOL Energy Inc.	United States	2,383,474	51,816,725
Marathon Oil Corp.	United States	5,828,073	154,677,057
Murphy Oil Corp.	United States	1,576,220	65,523,465
Royal Dutch Shell PLC, A	United Kingdom	7,135,311	201,740,905
[a] Whiting Petroleum Corp.	United States	2,209,479	74,238,494
			986,748,730
Paper & Forest Products 1.2%			
International Paper Co.	United States	4,045,267	192,514,257
Personal Products 0.7%			
Avon Products Inc.	United States	4,186,145	26,205,268
Edgewell Personal Care Co.	United States	635,933	83,656,986
			109,862,254
Pharmaceuticals 8.0%			
Eli Lilly & Co.	United States	4,197,321	350,434,330
[a] Hospira Inc.	United States	2,595,187	230,219,039
Merck & Co. Inc.	United States	7,460,200	424,709,186
Teva Pharmaceutical Industries Ltd., ADR	Israel	5,090,923	300,873,549
			1,306,236,104
Real Estate Investment Trusts (REITs) 0.8%			
[c] Alexander's Inc.	United States	326,675	133,936,750
Real Estate Management & Development 0.1%			
[a] Forestar Group Inc.	United States	886,386	11,664,840
Semiconductors & Semiconductor Equipment 0.4%			
Altera Corp.	United States	1,223,021	62,618,675
Software 4.9%			
CA Inc.	United States	4,956,032	145,162,177
Microsoft Corp.	United States	9,580,700	422,987,905
Symantec Corp.	United States	10,127,147	235,456,168
			803,606,250
Specialty Retail 0.3%			
[a] Office Depot Inc.	United States	5,872,340	50,854,464
Technology Hardware, Storage & Peripherals 4.5%			
Apple Inc.	United States	2,383,220	298,915,368
EMC Corp.	United States	5,570,822	147,013,993
Hewlett-Packard Co.	United States	5,001,424	150,092,734
Samsung Electronics Co. Ltd.	South Korea	127,520	144,417,277
			740,439,372

	Country	Shares	Value
Common Stocks and Other Equity Interests (continued)			
Tobacco 5.0%			
Altria Group Inc.	United States	3,225,589	$ 157,763,558
British American Tobacco PLC	United Kingdom	4,864,275	260,966,667
Imperial Tobacco Group PLC	United Kingdom	3,810,199	183,585,191
Philip Morris International Inc.	United States	944,754	75,740,928
Reynolds American Inc.	United States	1,748,720	130,559,435
			808,615,779
Wireless Telecommunication Services 1.3%			
Vodafone Group PLC	United Kingdom	58,574,055	211,507,616
Total Common Stocks and Other Equity Interests (Cost $10,356,122,590)			14,274,732,777
Convertible Preferred Stocks (Cost $755,800) 0.0%†			
Banks 0.0%†			
Columbia Banking System Inc., cvt. pfd., B	United States	7,558	2,866,645
Preferred Stocks (Cost $117,489,716) 0.6%			
Automobiles 0.6%			
Volkswagen AG, pfd.	Germany	450,280	104,377,426
		Principal Amount*	
Corporate Bonds, Notes and Senior Floating Rate Interests 3.2%			
Avaya Inc.,			
[g] senior note, 144A, 10.50%, 3/01/21	United States	53,494,000	44,400,020
[g] senior secured note, 144A, 7.00%, 4/01/19	United States	37,416,000	36,761,220
[h,i] Term B-3 Loan, 4.687%, 10/26/17	United States	37,242,834	37,100,864
[h,i] Term B-6 Loan, 6.50%, 3/31/18	United States	9,087,294	9,054,025
[h,i] Cengage Learning Acquisitions Inc., Original Term Loans, 7.00%, 3/31/20	United States	5,127,370	5,146,598
iHeartCommunications Inc.,			
senior secured note, first lien, 9.00%, 12/15/19	United States	74,295,000	71,081,741
[h,i] Tranche D Term Loan, 6.937%, 1/30/19	United States	94,620,527	87,602,806
[h,i] Tranche E Term Loan, 7.687%, 7/30/19	United States	30,412,812	28,569,035
[h,i] JC Penney Corp. Inc., Term Loan, 6.00%, 5/22/18	United States	43,272,542	43,218,451
NGPL PipeCo LLC,			
[g,j] senior secured note, 144A, 9.625%, 6/01/19	United States	43,741,000	44,506,468
[h,i] Term Loan, 6.75%, 9/15/17	United States	2,292,576	2,199,727
Samson Investment Co., senior note, 9.75%, 2/15/20	United States	55,052,000	3,440,750
[h,i] Toys R Us-Delaware Inc.,			
FILO Loans, 8.25%, 10/24/19	United States	8,171,000	8,232,283
Term B-4 Loan, 9.75%, 4/24/20	United States	68,790,965	65,041,857
Walter Energy Inc.,			
[h,i] B Term Loan, 7.25%, 4/01/18	United States	35,970,965	19,843,994
[g] first lien, 144A, 9.50%, 10/15/19	United States	20,046,000	11,075,415
[g,k] second lien, 144A, PIK, 11.50%, 4/01/20	United States	17,468,800	946,739
Total Corporate Bonds, Notes and Senior Floating Rate Interests (Cost $555,480,741)			518,221,993

	Country	Principal Amount*	Value
Corporate Notes and Senior Floating Rate Interests in Reorganization 1.5%			
[b,l] Broadband Ventures III LLC, secured promissory note, 5.00%, 2/01/12	United States	19,594	$ —
[h,i,l] Caesars Entertainment Operating Co. Inc., 1.50%, 3/01/17,			
Term B-5-B Loans	United States	9,541,623	8,489,020
Term B-6-B Loans	United States	45,490,495	40,860,199
Term B-7 Loans	United States	30,701,720	26,879,356
[h,i,l] Texas Competitive Electric Holdings Co. LLC, Term Loans, 4.671%, 10/10/17	United States	194,177,556	112,228,608
[g,l] Texas Competitive Electric Holdings Co. LLC/Texas Competitive Electric Holdings Finance Inc., senior secured note, first lien, 144A, 11.50%, 10/01/20	United States	98,672,000	60,436,600
Total Corporate Notes and Senior Floating Rate Interests in Reorganization (Cost $342,886,578)			248,893,783
		Shares	
Companies in Liquidation 0.4%			
[a] Adelphia Recovery Trust	United States	99,967,609	199,935
[a,e] Adelphia Recovery Trust, Arahova Contingent Value Vehicle, Contingent Distribution	United States	12,005,115	133,257
[a,b,c,d] CB FIM Coinvestors LLC	United States	43,105,703	—
[a,e,f] Century Communications Corp., Contingent Distribution	United States	33,138,000	—
[a,b] FIM Coinvestor Holdings I, LLC	United States	53,924,666	—
[a,m] Lehman Brothers Holdings Inc., Bankruptcy Claim	United States	420,480,670	55,713,689
[a,e,f] Tribune Media Litigation Trust, Contingent Distribution	United States	995,729	—
[a,e,f] Tropicana Litigation Trust, Contingent Distribution	United States	76,355,000	—
Total Companies in Liquidation (Cost $83,617,124)			56,046,881
		Principal Amount*	
Municipal Bonds (Cost $56,006,774) 0.3%			
Puerto Rico Commonwealth GO, Refunding, Series A, 8.00%, 7/01/35	United States	64,157,000	43,466,367
Total Investments before Short Term Investments (Cost $11,512,359,323)			15,248,605,872
Short Term Investments 7.4%			
U.S. Government and Agency Securities 7.4%			
[n] U.S. Treasury Bills,			
8/20/15	United States	238,000,000	238,000,714
9/03/15	United States	240,000,000	239,997,840
[o] 7/02/15 - 12/10/15	United States	737,900,000	737,864,089
Total U.S. Government and Agency Securities (Cost $1,215,704,042)			1,215,862,643
Total Investments before Money Market Funds and Repurchase Agreements (Cost $12,728,063,365)			16,464,468,515
		Shares	
[p] **Investments from Cash Collateral Received for Loaned Securities 0.0%†**			
Money Market Funds (Cost $1,000,000) 0.0%†			
[a,q] Institutional Fiduciary Trust Money Market Portfolio	United States	1,000,000	1,000,000

	Country	Principal Amount*	Value
Repurchase Agreements 0.0%†			
[r] Joint Repurchase Agreement, 0.20%, 7/01/15 (Maturity Value $361,579)			
Barclays Capital Inc.	United States	361,577	$ 361,577
Collateralized by U.S. Treasury Bonds, 3.375%, 5/15/44; U.S. Treasury Notes, 0.50% - 2.75%, 2/28/17 - 2/15/24; and U.S. Treasury Strips, 8/15/15 - 2/15/45 (valued at $368,809)			
[r] Joint Repurchase Agreement, 0.11%, 7/01/15 (Maturity Value $1,000,003)			
RBS Securities Inc.	United States	1,000,000	1,000,000
Collateralized by U.S. Treasury Bonds, 3.625%, 2/15/44; and U.S. Treasury Notes, 1.00% - 3.625%, 9/30/15 - 2/15/24 (valued at $1,020,003)			
Total Repurchase Agreements (Cost $1,361,577)			1,361,577
Total Investments from Cash Collateral Received for Loaned Securities (Cost $2,361,577)			2,361,577
Total Investments (Cost $12,730,424,942) 100.7%			16,466,830,092
Securities Sold Short (0.3)%			(51,185,163)
Other Assets, less Liabilities (0.4)%			(71,188,180)
Net Assets 100.0%			$16,344,456,749
		Shares	
[s] **Securities Sold Short (0.3)%**			
Common Stocks (0.3)%			
Energy Equipment & Services (0.0)%†			
Halliburton Co.	United States	79,368	$ (3,418,380)
Software (0.3)%			
VMware Inc., A	United States	557,112	(47,766,783)
Total Securities Sold Short (Proceeds $49,776,734)			$ (51,185,163)

†Rounds to less than 0.1% of net assets.

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

[a]Non-income producing.

[b]See Note 9 regarding restricted securities.

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

[d]At June 30, 2015, pursuant to the Fund's policies and the requirements of applicable securities law, the Fund may be restricted from trading these securities for a limited or extended period of time.

[e]Contingent distributions represent the right to receive additional distributions, if any, during the reorganization of the underlying company. Shares represent total underlying principal of debt securities.

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

[g]Security was purchased pursuant to Rule 144A under the Securities Act of 1933 and may be sold in transactions exempt from registration only to qualified institutional buyers or in a public offering registered under the Securities Act of 1933. These securities have been deemed liquid under guidelines approved by the Trust's Board of Trustees. At June 30, 2015, the aggregate value of these securities was $198,126,462, representing 1.21% of net assets.

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

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

[j]A portion or all of the security is on loan at June 30, 2015. See Note 1(g).

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

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

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

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

[o]Security or a portion of the security has been pledged as collateral for securities sold short and open forwards contracts. At June 30, 2015, the aggregate value of these securities and/or cash pledged as collateral was $111,683,027, representing 0.68% of net assets.

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

[q]See Note 3(f) regarding investments in Institutional Fiduciary Trust Money Market Portfolio.

[r]See Note 1(c) regarding joint repurchase agreement.

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

At June 30, 2015, the Fund had the following futures contracts outstanding. See Note 1(d).

Futures Contracts

Description	Type	Number of Contracts	Notional Value	Expiration Date	Unrealized Appreciation	Unrealized Depreciation
Currency Contracts						
EUR/USD	Short	1,892	$263,839,400	9/14/15	$ 3,242,135	$ —
GBP/USD	Short	3,923	385,557,344	9/14/15	—	(9,355,330)
Totals					$ 3,242,135	$(9,355,330)
Net unrealized appreciation (depreciation)						$(6,113,195)

At June 30, 2015, the Fund had the following forward exchange contracts outstanding. See Note 1(d).

Forward Exchange Contracts

Currency	Counterparty[a]	Type	Quantity	Contract Amount	Settlement Date	Unrealized Appreciation	Unrealized Depreciation
OTC Forward Exchange Contracts							
Euro	BANT	Buy	2,630,012	$ 2,931,851	7/20/15	$ —	$ (27)
Euro	BANT	Sell	17,178,666	19,902,562	7/20/15	752,531	—
Euro	BBU	Sell	1,066,870	1,201,581	7/20/15	12,281	—
Euro	BONY	Sell	571,307	663,590	7/20/15	26,722	—
Euro	FBCO	Buy	1,106,349	1,233,109	7/20/15	201	—
Euro	FBCO	Sell	16,293,680	18,949,370	7/20/15	785,882	—
Euro	DBFX	Buy	2,630,011	2,931,187	7/20/15	635	—
Euro	DBFX	Sell	20,675,836	24,080,903	7/20/15	1,032,378	—
Euro	HSBC	Sell	24,443,075	28,489,825	7/20/15	1,241,746	—
Euro	SSBT	Buy	22,473,966	25,208,470	7/20/15	—	(155,468)
Euro	SSBT	Sell	18,093,861	21,181,937	7/20/15	1,011,686	—
British Pound	BANT	Sell	50,176,611	75,997,215	7/21/15	—	(2,818,406)
British Pound	FBCO	Buy	8,088,773	11,996,322	7/21/15	709,233	—
British Pound	DBFX	Buy	3,635,298	5,394,902	7/21/15	315,294	—
British Pound	DBFX	Sell	3,124,230	4,799,348	7/21/15	—	(108,080)
British Pound	HSBC	Sell	67,508,940	102,324,196	7/21/15	—	(3,716,426)
South Korean Won	BANT	Buy	17,718,086,503	16,289,584	8/12/15	—	(481,593)
South Korean Won	BANT	Sell	59,936,422,180	53,932,553	8/12/15	487,033	(29,466)
South Korean Won	FBCO	Buy	6,560,144,846	5,974,067	8/12/15	—	(121,137)
South Korean Won	FBCO	Sell	68,675,215,949	61,746,622	8/12/15	490,537	(15,610)
South Korean Won	HSBC	Buy	16,652,115,388	15,225,797	8/12/15	—	(368,860)
South Korean Won	HSBC	Sell	121,068,601,159	108,678,598	8/12/15	711,022	(49,244)
British Pound	BANT	Buy	92,914,276	143,489,760	8/19/15	2,469,988	(44,348)
British Pound	BANT	Sell	62,833,716	95,707,945	8/19/15	—	(2,968,029)
British Pound	BBU	Sell	6,056,658	9,301,005	8/19/15	—	(210,555)
British Pound	FBCO	Buy	6,218,610	9,659,482	8/19/15	146,817	(40,405)
British Pound	FBCO	Sell	39,466,034	60,413,335	8/19/15	—	(1,565,322)
British Pound	DBFX	Sell	4,604,065	7,068,400	8/19/15	—	(161,963)
British Pound	HSBC	Sell	41,571,270	63,716,665	8/19/15	—	(1,568,119)
British Pound	SSBT	Buy	7,289,977	11,513,375	8/19/15	—	(64,974)
British Pound	SSBT	Sell	9,767,963	14,915,035	8/19/15	—	(424,871)
Euro	BANT	Sell	9,319,072	10,192,469	8/31/15	48,921	(251,251)
Euro	FBCO	Sell	15,332,917	16,862,496	8/31/15	149,863	(390,207)

Forward Exchange Contracts (continued)

Currency	Counterparty[a]	Type	Quantity	Contract Amount	Settlement Date	Unrealized Appreciation	Unrealized Depreciation
OTC Forward Exchange Contracts (continued)							
Euro	DBFX	Sell	11,065,126	$ 12,068,596	8/31/15	$ 50,458	$ (324,267)
Euro	HSBC	Sell	9,311,727	10,126,678	8/31/15	21,285	(281,213)
Euro	SSBT	Sell	3,637,965	3,953,859	8/31/15	10,046	(114,092)
Euro	BANT	Sell	46,456,663	50,041,373	10/16/15	13,237	(1,830,676)
Euro	BBU	Sell	2,149,008	2,419,912	10/16/15	21,010	—
Euro	FBCO	Sell	35,968,803	38,727,223	10/16/15	27,281	(1,451,444)
Euro	DBFX	Sell	21,667,151	23,377,706	10/16/15	—	(808,980)
Euro	HSBC	Sell	28,014,817	30,585,583	10/16/15	41,734	(728,632)
Euro	SSBT	Sell	15,400,205	16,709,564	10/16/15	34,676	(516,109)
British Pound	BANT	Buy	2,924,885	4,596,059	10/22/15	—	(4,787)
British Pound	BANT	Sell	61,187,308	91,169,089	10/22/15	—	(4,878,299)
British Pound	FBCO	Buy	7,625,710	11,709,891	10/22/15	260,394	—
British Pound	FBCO	Sell	59,152,282	88,136,901	10/22/15	—	(4,716,052)
British Pound	DBFX	Buy	6,565,279	10,178,581	10/22/15	130,327	(3,211)
British Pound	HSBC	Buy	2,655,044	4,169,375	10/22/15	—	(1,680)
Euro	BANT	Sell	98,662,120	112,353,874	11/18/15	2,150,783	—
Euro	FBCO	Sell	7,854,010	8,767,577	11/18/15	65,417	(70,571)
Euro	DBFX	Sell	66,150,815	74,904,310	11/18/15	1,161,775	(146,251)
Euro	HSBC	Sell	61,105,224	69,433,202	11/18/15	1,181,888	(1,676)
Euro	SSBT	Sell	38,735,032	43,614,527	11/18/15	365,372	(16,895)
British Pound	BANT	Sell	58,237,426	90,268,010	11/23/15	—	(1,130,728)
British Pound	SSBT	Sell	55,248,641	85,635,394	11/23/15	—	(1,072,699)
Totals Forward Exchange Contracts unrealized appreciation (depreciation)						$15,928,453	$(33,652,623)
Net unrealized appreciation (depreciation)							$(17,724,170)

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

See Abbreviations on page 41.

Financial Statements

Statement of Assets and Liabilities

June 30, 2015 (unaudited)

Assets:	
Investments in securities:	
Cost - Unaffiliated issuers	$12,447,579,203
Cost - Non-controlled affiliated issuers (Note 11)	280,484,162
Cost - Sweep Money Fund (Note 3f)	1,000,000
Cost - Repurchase agreements	1,361,577
Total cost of investments	$12,730,424,942
Value - Unaffiliated issuers	$15,775,510,050
Value - Non-controlled affiliated issuers (Note 11)	688,958,465
Value - Sweep Money Fund (Note 3f)	1,000,000
Value - Repurchase agreements	1,361,577
Total value of investments (includes securities loaned in the amount of $2,288,358)	16,466,830,092
Cash	1,711,267
Restricted Cash (Note 1e)	680,000
Foreign currency, at value (cost $1,290,515)	1,280,965
Receivables:	
Investment securities sold	3,311,149
Capital shares sold	9,224,111
Dividends and interest	35,985,075
Due from brokers	65,737,275
Variation margin	2,651,406
Unrealized appreciation on OTC forward exchange contracts	15,928,453
Other assets	6,790
Total assets	16,603,346,583
Liabilities:	
Payables:	
Investment securities purchased	141,188,086
Capital shares redeemed	12,770,000
Management fees	8,819,976
Distribution fees	5,018,127
Transfer agent fees	1,639,752
Trustees' fees and expenses	776,097
Securities sold short, at value (proceeds $49,776,734)	51,185,163
Payable upon return of securities loaned	2,361,577
Due to Brokers	680,000
Unrealized depreciation on OTC forward exchange contracts	33,652,623
Accrued expenses and other liabilities	798,433
Total liabilities	258,889,834
Net assets, at value	$16,344,456,749
Net assets consist of:	
Paid-in capital	$11,681,333,909
Undistributed net investment income	162,857,336
Net unrealized appreciation (depreciation)	3,711,289,081
Accumulated net realized gain (loss)	788,976,423
Net assets, at value	$16,344,456,749

Statement of Assets and Liabilities (continued)
June 30, 2015 (unaudited)

Class Z:	
Net assets, at value	$7,433,465,195
Shares outstanding	245,947,491
Net asset value and maximum offering price per share	$30.22
Class A:	
Net assets, at value	$5,357,146,047
Shares outstanding	178,933,060
Net asset value per share[a]	$29.94
Maximum offering price per share (net asset value per share ÷ 94.25%)	$31.77
Class C:	
Net assets, at value	$1,232,551,017
Shares outstanding	41,691,216
Net asset value and maximum offering price per share[a]	$29.56
Class R:	
Net assets, at value	$ 159,945,395
Shares outstanding	5,373,748
Net asset value and maximum offering price per share	$29.76
Class R6:	
Net assets, at value	$2,161,349,095
Shares outstanding	71,498,424
Net asset value and maximum offering price per share	$30.23

[a]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, 2015 (unaudited)

Investment income:	
Dividends:	
Unaffiliated issuers	$ 199,470,903
Non-controlled affiliated issuers (Note 11)	3,574,640
Interest	34,788,523
Income from securities loaned	1,731,685
Total investment income	239,565,751
Expenses:	
Management fees (Note 3a)	53,084,410
Distribution fees: (Note 3c)	
Class A	8,136,091
Class C	6,237,426
Class R	415,163
Transfer agent fees: (Note 3e)	
Class Z	4,156,471
Class A	3,025,190
Class C	695,739
Class R	92,607
Class R6	717
Custodian fees (Note 4)	223,349
Reports to shareholders	467,435
Registration and filing fees	158,107
Professional fees	61,220
Trustees' fees and expenses	191,103
Dividends on securities sold short	3,216,952
Other	115,474
Total expenses	80,277,454
Expense reductions (Note 4)	(1,302)
Expenses waived/paid by affiliates (Note 3f)	(9,869)
Net expenses	80,266,283
Net investment income	159,299,468
Realized and unrealized gains (losses):	
Net realized gain (loss) from:	
Investments	655,776,374
Foreign currency transactions	104,849,529
Futures contracts	20,477,156
Securities sold short	(205,095)
Net realized gain (loss)	780,897,964
Net change in unrealized appreciation (depreciation) on:	
Investments	(463,562,439)
Translation of other assets and liabilities denominated in foreign currencies	(85,153,243)
Futures contracts	(12,870,637)
Net change in unrealized appreciation (depreciation)	(561,586,319)
Net realized and unrealized gain (loss)	219,311,645
Net increase (decrease) in net assets resulting from operations	$ 378,611,113

Statements of Changes in Net Assets

	Six Months Ended June 30, 2015 (unaudited)	Year Ended December 31, 2014
Increase (decrease) in net assets:		
Operations:		
Net investment income	$ 159,299,468	$ 410,619,019
Net realized gain (loss)	780,897,964	553,059,954
Net change in unrealized appreciation (depreciation)	(561,586,319)	216,900,748
Net increase (decrease) in net assets resulting from operations	378,611,113	1,180,579,721
Distributions to shareholders from:		
Net investment income:		
Class Z	—	(239,045,203)
Class A	—	(160,771,009)
Class C	—	(28,860,009)
Class R	—	(4,880,076)
Class R6	—	(76,100,480)
Total distributions to shareholders	—	(509,656,777)
Capital share transactions: (Note 2)		
Class Z	(105,496,941)	45,622,128
Class A	(156,117,743)	(311,543,956)
Class C	(31,807,706)	(45,734,382)
Class R	(16,615,273)	(27,313,743)
Class R6	(143,786,533)	(67,074,130)
Total capital share transactions	(453,824,196)	(406,044,083)
Net increase (decrease) in net assets	(75,213,083)	264,878,861
Net assets:		
Beginning of period	16,419,669,832	16,154,790,971
End of period	$16,344,456,749	$16,419,669,832
Undistributed net investment income included in net assets:		
End of period	$ 162,857,336	$ 3,557,868

Notes to Financial Statements (unaudited)

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 financial statements of the remaining funds in the Trust are presented separately. The Fund offers five classes of shares: Class Z, Class A, Class C, Class R and Class R6. Each class of shares differs by its initial sales load, contingent deferred sales charges, voting rights on matters affecting a single class, its exchange privilege and fees primarily due to differing arrangements for distribution and transfer agent fees.

The following summarizes the Fund's significant accounting policies.

a. Financial Instrument Valuation

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

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

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

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

The Fund has procedures to determine the fair value of financial instruments for which market prices are not reliable or readily available. Under these procedures, the VLOC convenes on a regular basis to review such financial instruments and considers a number of factors, including significant unobservable valuation inputs, when arriving at fair value. The VLOC primarily employs a market-based approach which may use related or comparable assets or liabilities, recent transactions, market multiples, book values, and other relevant information for the investment to determine the fair value of the investment. An income-based valuation approach may also be used

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

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

When the last day of the reporting period is a non-business day, certain foreign markets may be open on those days that the NYSE is closed, which could result in differences between the value of the Fund's portfolio securities on the last business day and the last calendar day of the reporting period. Any significant security valuation changes due to an open foreign market are adjusted and reflected by the Fund for financial reporting purposes.

b. Foreign Currency Translation

Portfolio securities and other assets and liabilities denominated in foreign currencies are translated into U.S. dollars based on the exchange rate of such currencies against U.S. dollars on the date of valuation. The Fund may enter into foreign currency exchange contracts to facilitate transactions denominated in a foreign currency. Purchases and sales of securities, income and expense items denominated in foreign currencies are translated into U.S. dollars at the exchange rate in effect on the transaction date. Portfolio securities and assets and liabilities denominated in foreign currencies contain risks that those currencies will decline in value relative to the U.S. dollar. Occasionally, events may impact the availability or reliability of foreign exchange rates used to convert the U.S. dollar equivalent value. If such an event occurs, the foreign exchange rate will be valued at fair value using procedures established and approved by the Board.

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

The Fund enters into a joint repurchase agreement whereby its uninvested cash balance is deposited into a joint cash account with other funds managed by the investment manager or an affiliate of the investment manager and is used to invest in one or more repurchase agreements. The value and face amount of the joint repurchase agreement are allocated to the funds based on their pro-rata interest. A repurchase agreement is accounted for as a loan by the Fund to the seller, collateralized by securities which are delivered to the Fund's custodian. The fair value, including accrued interest, of the initial collateralization is required to be at least 102% of the dollar amount invested by the funds, with the value of the underlying securities marked to market daily to maintain coverage of at least 100%. Repurchase agreements are subject to the terms of Master Repurchase Agreements (MRAs) with approved counterparties (sellers). The MRAs contain various provisions, including but not limited to events of default and maintenance of collateral for repurchase agreements. In the event of default by either

1. Organization and Significant Accounting Policies (continued)

c. Joint Repurchase Agreement *(continued)*

the seller or the Fund, certain MRAs may permit the non-defaulting party to net and close-out all transactions, if any, traded under such agreements. The Fund may sell securities it holds as collateral and apply the proceeds towards the repurchase price and any other amounts owed by the seller to the Fund in the event of default by the seller. This could involve costs or delays in addition to a loss on the securities if their value falls below the repurchase price owed by the seller. The joint repurchase agreement held by the Fund at period end, as indicated in the Statement of Investments, had been entered into on June 30, 2015.

d. Derivative Financial Instruments

The Fund invested in derivatives in order to manage risk or gain exposure to various other investments or markets. Derivatives are financial contracts based on an underlying or notional amount, require no initial investment or an initial net investment that is smaller than would normally be required to have a similar response to changes in market factors, and require or permit net settlement. Derivatives contain various risks including the potential inability of the counterparty to fulfill their obligations under the terms of the contract, the potential for an illiquid secondary market, and/or the potential for market movements which expose the Fund to gains or losses in excess of the amounts shown 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, 2015, the Fund had OTC derivatives in a net liability position of $17,945,679 and the aggregate value of collateral pledged for such contracts was $19,740,626.

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

At June 30, 2015, the Fund received $104,469 in U.S. Treasury Notes as collateral for derivatives.

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

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

See Note 10 regarding other derivative information.

e. Restricted Cash

At June 30, 2015, the Fund held restricted cash in connection with investments in certain derivative securities. Restricted cash is held in a segregated account with the Fund's custodian/counterparty broker and is reflected in the Statement of Assets and Liabilities.

f. Securities Sold Short

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

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

g. Securities Lending

The Fund participates in an agency based securities lending program 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 total cash collateral received at period end was $2,361,577. 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 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.

h. Senior Floating Rate Interests

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

i. Income and Deferred Taxes

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

The Fund may be subject to foreign taxation related to income received, capital gains on the sale of securities and certain foreign currency transactions in the foreign jurisdictions in which it invests. Foreign taxes, if any, are recorded based on the tax regulations and rates that exist in the foreign markets in which the Fund invests. When a capital gain tax is determined to apply, the Fund records an estimated deferred tax liability in an amount that would be payable if the securities were disposed of on the valuation date. As a result of several court cases, in certain countries across the European Union, the Fund has filed additional tax reclaims for previously withheld taxes on dividends earned in those countries. These additional filings are subject to various administrative proceedings by the local jurisdictions' tax authorities within the European Union, as well as a number of related judicial proceedings. At this time, uncertainty exists as to the ultimate resolution of these proceedings, the likelihood of receipt of these reclaims, and the potential timing of payment, and accordingly, no amounts are reflected in the financial statements.

1. Organization and Significant Accounting Policies (continued)

i. Income and Deferred Taxes *(continued)*

The Fund recognizes the tax benefits of uncertain tax positions only when the position is "more likely than not" to be sustained upon examination by the tax authorities based on the technical merits of the tax position. As of June 30, 2015, and for all open tax years, the Fund has determined that no liability for unrecognized tax benefits is required in the Fund's financial statements related to uncertain tax positions taken on a tax return (or expected to be taken on future tax returns). Open tax years are those that remain subject to examination and are based on each tax jurisdiction's statute of limitation.

j. Security Transactions, Investment Income, Expenses and Distributions

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

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

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

k. Accounting Estimates

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

l. Guarantees and Indemnifications

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

2. Shares of Beneficial Interest

At June 30, 2015, 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, 2015		Year Ended December 31, 2014	
	Shares	Amount	Shares	Amount
Class Z Shares:				
Shares sold	9,009,300	$ 273,391,978	22,793,740	$ 670,723,079
Shares issued in reinvestment of distributions	—	—	7,266,342	217,049,081
Shares redeemed	(12,499,364)	(378,888,919)	(28,537,599)	(842,150,032)
Net increase (decrease)	(3,490,064)	$(105,496,941)	1,522,483	$ 45,622,128

	Six Months Ended June 30, 2015		Year Ended December 31, 2014	
	Shares	Amount	Shares	Amount
Class A Shares:				
Shares sold	8,065,366	$ 242,513,005	17,328,653	$ 506,435,075
Shares issued in reinvestment of distributions	—	—	5,000,232	148,238,236
Shares redeemed	(13,246,963)	(398,630,748)	(33,005,127)	(966,217,267)
Net increase (decrease)	(5,181,597)	$(156,117,743)	(10,676,242)	$(311,543,956)
Class C Shares:				
Shares sold	1,611,844	$ 47,956,858	3,259,585	$ 93,998,595
Shares issued in reinvestment of distributions	—	—	926,812	27,251,988
Shares redeemed	(2,678,763)	(79,764,564)	(5,790,089)	(166,984,965)
Net increase (decrease)	(1,066,919)	$ (31,807,706)	(1,603,692)	$ (45,734,382)
Class R Shares:				
Shares sold	325,111	$ 9,719,663	768,981	$ 22,249,134
Shares issued in reinvestment of distributions	—	—	164,329	4,850,146
Shares redeemed	(885,216)	(26,334,936)	(1,884,250)	(54,413,023)
Net increase (decrease)	(560,105)	$ (16,615,273)	(950,940)	$ (27,313,743)
Class R6 Shares:				
Shares sold	158,940	$ 4,862,775	3,360,357	$ 98,879,499
Shares issued in reinvestment of distributions	—	—	2,548,288	76,100,480
Shares redeemed	(4,905,025)	(148,649,308)	(8,093,000)	(242,054,109)
Net increase (decrease)	(4,746,085)	$(143,786,533)	(2,184,355)	$ (67,074,130)

3. Transactions with Affiliates

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

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

a. Management Fees

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

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

3. Transactions with Affiliates (continued)

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. Distribution fees are not charged on shares held by affiliates. Under the Fund's Class A reimbursement distribution plan, the Fund reimburses Distributors for costs incurred in connection with the servicing, sale and distribution of the Fund's shares up to the maximum annual plan rate. Under the Class A reimbursement distribution plan, costs exceeding the maximum for the current plan year cannot be reimbursed in subsequent periods. In addition, under the Fund's Class C and R compensation distribution plans, the Fund pays Distributors for costs incurred in connection with the servicing, sale and distribution of the Fund's shares up to the maximum annual plan rate for each class. The plan year, for purposes of monitoring compliance with the maximum annual plan rates, is February 1 through January 31 for each fund.

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

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

The Board set the current rate at 0.30% per year for Class A shares. On May 18, 2015, the Board approved to set the rate at 0.25% per year for Class A shares, effective August 1, 2015, until further notice and approval by the Board.

d. Sales Charges/Underwriting Agreements

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

Sales charges retained net of commissions paid to unaffiliated broker/dealers	$654,882
CDSC retained	$ 22,300

e. Transfer Agent Fees

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

For the period ended June 30, 2015, the Fund paid transfer agent fees of $7,970,724, of which $3,763,799 was retained by Investor Services.

f. Investments in Institutional Fiduciary Trust Money Market Portfolio

The Fund invests in Institutional Fiduciary Trust Money Market Portfolio (Sweep Money Fund), an affiliated open-end management investment company. Management fees paid by the Fund are waived on assets invested in the Sweep Money Fund, as noted in the Statement of Operations, in an amount not to exceed the management and administrative fees paid directly or indirectly by the Sweep Money Fund.

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 0.01% until April 30, 2016. There were no Class R6 transfer agent fees waived during the period ended June 30, 2015.

h. Other Affiliated Transactions

At June 30, 2015, one or more of the funds in Franklin Fund Allocator Series owned 12.55% of the Fund's outstanding shares.

4. Expense Offset Arrangement

The Fund has entered into an arrangement with its custodian whereby credits realized as a result of uninvested cash balances are used to reduce a portion of the Fund's custodian expenses. During the period ended June 30, 2015, 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, 2015, the Fund's projected benefit obligation and benefit payments under the Plan were as follows:

[a]Projected benefit obligation at June 30, 2015	$719,913
[b]Increase in projected benefit obligation	$ 11,570
Benefit payments made to retired trustees	$ (7,341)

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

6. Income Taxes

At June 30, 2015, the cost of investments and net unrealized appreciation (depreciation) for income tax purposes were as follows:

Cost of investments	$12,754,053,330
Unrealized appreciation	$ 4,483,849,766
Unrealized depreciation	(771,073,004)
Net unrealized appreciation (depreciation)	$ 3,712,776,762

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

7. Investment Transactions

Purchases and sales of investments (excluding short term securities and securities sold short) for the period ended June 30, 2015, aggregated $1,835,004,051 and $1,875,336,777, respectively.

8. Credit Risk and Defaulted Securities

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

At June 30, 2015, the aggregate long value of distressed company securities for which interest recognition has been discontinued was $248,893,783, representing 1.52% of the Fund's net assets. For information as to specific securities, see the accompanying Statement of Investments.

9. Restricted Securities

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

At June 30, 2015, the Fund held investments in restricted securities, excluding certain securities exempt from registration under the 1933 Act deemed to be liquid, as follows:

Principal Amount/ Shares	Issuer	Acquisition Dates	Cost	Value
19,594	Broadband Ventures III LLC, secured promissory note, 5.00%, 2/01/12	7/01/10 - 11/30/12	$ 19,594	$ —
43,105,703	CB FIM Coinvestors LLC	1/15/09 - 6/02/09	—	—
53,924,666	FIM Coinvestor Holdings I, LLC	11/20/06 - 6/02/09	—	—
7,234,813	International Automotive Components Group Brazil LLC	4/13/06 - 12/26/08	4,804,678	631,411
63,079,866	International Automotive Components Group North America LLC	1/12/06 - 3/18/13	51,662,536	56,141,964
	Total Restricted Securities (Value is 0.35% of Net Assets)		$56,486,808	$56,773,375

10. Other Derivative Information

At June 30, 2015, the Fund's investments in derivative contracts are reflected in the Statement of Assets and Liabilities as follows:

Derivative Contracts Not Accounted for as Hedging Instruments	Asset Derivatives		Liability Derivatives	
	Statement of Assets and Liabilities Location	Fair Value	Statement of Assets and Liabilities Location	Fair Value
Foreign exchange contracts	Variation margin	$ 3,242,135[a]	Variation margin	$ 9,355,330[a]
	Unrealized appreciation on OTC forward exchange contracts	15,928,453	Unrealized depreciation on OTC forward exchange contracts	33,652,623
Totals		$19,170,588		$43,007,953

[a]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, 2015, the effect of derivative contracts in the Fund's Statement of Operations was as follows:

Derivative Contracts Not Accounted for as Hedging Instruments	Statement of Operations Locations	Net Realized Gain (Loss) for the Period	Statement of Operations Locations	Net Change in Unrealized Appreciation (Depreciation) for the Period
	Net realized gain (loss) from:		Net change in unrealized	
Foreign exchange contracts . . .	Foreign currency transactions	$108,389,722[a]	appreciation (depreciation) on:	
			Translation of other assets and liabilities denominated in foreign currencies	$(85,455,253)[a]
	Futures contracts	20,477,156	Futures contracts	(12,870,637)
Totals		$128,866,878		$(98,325,890)

[a]Forward exchange contracts are included in net realized gain (loss) from foreign currency transactions and net change in unrealized appreciation (depreciation) on translation of other assets and liabilities denominated in foreign currencies in the Statement of Operations.

For the period ended June 30, 2015, the average month end fair value of derivatives represented 0.51% of average month end net assets. The average month end number of open derivative contracts for the period was 220.

See Note 1(d) regarding derivative financial instruments.

11. Holdings of 5% Voting Securities of Portfolio Companies

The 1940 Act defines "affiliated companies" to include investments in portfolio companies in which a fund owns 5% or more of the outstanding voting securities. Investments in "affiliated companies" for the Fund for the period ended June 30, 2015, were as shown below.

Name of Issuer	Number of Shares Held at Beginning of Period	Gross Additions	Gross Reductions	Number of Shares Held at End of Period	Value at End of Period	Investment Income	Realized Gain (Loss)
Controlled Affiliates[a]							
CB FIM Coinvestors LLC	43,105,703	—	—	43,105,703	$ —	$ —	$ —
Non-Controlled Affiliates							
Alexander's Inc.	326,675	—	—	326,675	$133,936,750	$2,286,725	$ —
Federal Signal Corp.	3,360,800	—	—	3,360,800	50,109,528	403,296	—
Guaranty Bancorp	1,146,366	—	—	1,146,366	18,926,503	229,273	—
International Automotive Components Group Brazil LLC	7,234,813	—	—	7,234,813	631,411	—	—
International Automotive Components Group North America LLC	63,079,866	—	—	63,079,866	56,141,964	—	—
White Mountains Insurance Group Ltd.	655,346	—	—	655,346	429,212,309	655,346	—
Total Non-Controlled Affiliates					$688,958,465	$3,574,640	$ —
Total Affiliated Securities (Value is 4.22% of Net Assets)					$688,958,465	$3,574,640	$ —

[a]Issuer in which the Fund owns 25% or more of the outstanding voting securities.

12. Credit Facility

The Fund, together with other U.S. registered and foreign investment funds (collectively, Borrowers), managed by Franklin Templeton Investments, are borrowers in a joint syndicated senior unsecured credit facility totaling $2 billion (Global Credit Facility) which matures on February 12, 2016. 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 0.07% 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, 2015, the Fund did not use the Global Credit Facility.

13. Fair Value Measurements

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

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

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

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

A summary of inputs used as of June 30, 2015, in valuing the Fund's assets and liabilities carried at fair value, is as follows:

	Level 1	Level 2	Level 3	Total
Assets:				
Investments in Securities:				
Equity Investments:[a]				
Auto Components	$ —	$ —	$ 56,773,375	$ 56,773,375
Banks	1,778,813,744	2,866,645	—	1,781,680,389
Machinery	249,359,784	48,285,016	—	297,644,800
All Other Equity Investments[b]	12,245,878,284	—	—[c]	12,245,878,284
Corporate Bonds, Notes and Senior Floating Rate Interests	—	518,221,993	—	518,221,993
Corporate Notes and Senior Floating Rate Interests in Reorganization	—	248,893,783	—[c]	248,893,783
Companies in Liquidation	—	56,046,881	—[c]	56,046,881
Municipal Bonds	—	43,466,367	—	43,466,367
Short Term Investments	1,216,862,643	1,361,577	—	1,218,224,220
Total Investments in Securities	$ 15,490,914,455	$ 919,142,262	$ 56,773,375	$ 16,466,830,092

	Level 1	Level 2	Level 3	Total
Assets: *(continued)*				
Other Financial Instruments				
Futures Contracts	$ 3,242,135	$ —	$ —	$ 3,242,135
Forward Exchange Contracts	—	15,928,453	—	15,928,453
Total Other Financial Instruments	$ 3,242,135	$ 15,928,453	$ —	$ 19,170,588
Liabilities:				
Other Financial Instruments				
Securities Sold Short	$ 51,185,163	$ —	$ —	$ 51,185,163
Futures Contracts	9,355,330	—	—	9,355,330
Forward Exchange Contracts	—	33,652,623	—	33,652,623
Total Other Financial Instruments	$ 60,540,493	$ 33,652,623	$ —	$ 94,193,116

[a]Includes common, convertible preferred and preferred stocks as well as other equity investments.
[b]For detailed categories, see the accompanying Statement of Investments.
[c]Includes securities determined to have no value at June 30, 2015.

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

14. New Accounting Pronouncements

In June 2014, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2014-11, Transfers and Servicing (Topic 860), Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures. The ASU changes the accounting for certain repurchase agreements and expands disclosure requirements related to repurchase agreements, securities lending, repurchase-to-maturity and similar transactions. The ASU is effective for certain transactions accounted for as a sale for interim and annual reporting periods beginning after December 15, 2014, and transactions accounted for as secured borrowings for annual periods beginning after December 15, 2014, and for interim periods beginning after March 15, 2015. Management has reviewed the requirements and believes the adoption of this ASU will not have a material impact on the financial statements.

15. Subsequent Events

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

Abbreviations

Counterparty		Currency		Selected Portfolio	
BANT	Bank of America N.A.	**EUR**	Euro	**ADR**	American Depositary Receipt
BBU	Barclays Bank PLC	**GBP**	British Pound	**GO**	General Obligation
BONY	Bank of New York Mellon	**USD**	United States Dollar	**IDR**	International Depositary Receipt
DBFX	Deutsche Bank AG			**PIK**	Payment-In-Kind
FBCO	Credit Suisse Group AG				
HSBC	HSBC Bank USA, N.A.				
SSBT	State Street Bank and Trust Co., N.A.				

Meeting of Shareholders

Meeting of Shareholders, April 7, 2015 (unaudited)

A Special Joint Meeting of Shareholders of the Franklin Mutual Series Funds (the "Trust"), Franklin Alternative Strategies Funds, Franklin Managed Trust and Franklin Value Investors Trust was held at the offices of Franklin Templeton Investments, One Franklin Parkway, San Mateo, California, on April 7, 2015. The purpose of the meeting was to elect Trustees of the Trust and to vote on the following Proposals: to approve an amendment to the current fundamental investment restriction regarding investments in commodities, to approve the use of a "manager of managers" structure whereby the Fund's investment manager would be able to hire and replace subadvisers without shareholder approval and, if properly presented, one or more shareholder proposals requesting that the Board of Trustees of the Trust institute procedures to prevent holding investments in companies that, in the judgment of the Board, substantially contribute to genocide or crimes against humanity. At the meeting, the following persons were elected by the shareholders to serve as Independent Trustees of the Trust: Edward I. Altman, Ann Torre Bates, Burton J. Greenwald, Keith Mitchell, David W. Niemiec, Charles Rubens II, Jan Hopkins Trachtman, Robert E. Wade and Gregory H. Williams. Gregory E. Johnson and Peter A. Langerman were elected by the shareholders to serve as Interested Trustees. Shareholders also approved an amendment to the current fundamental investment restriction regarding investments in commodities, and the use of a "manager of managers" structure whereby the Fund's investment manager would be able to hire and replace subadvisers without shareholder approval. Sufficient votes were not received to pass the shareholder proposal that was properly presented on behalf of Ms. Aya Betensky. The other two shareholder proposals were not properly presented at the Meeting and, therefore, such shareholder proposals were not voted upon. No other business was transacted at the meeting with respect to the Fund.

The results of the voting at the meeting are as follows:

Proposal 1. The Election of Trustees:

Name	For	% of Outstanding Shares	% of Shares Present	Withheld	% of Outstanding Shares	% of Shares Present
Edward I. Altman	1,236,485,215.809	58.623%	96.480%	45,113,387.353	2.139%	3.520%
Ann Torre Bates	1,234,563,307.049	58.532%	96.330%	47,035,296.113	2.230%	3.670%
Burton J. Greenwald	1,233,208,194.741	58.468%	96.224%	48,390,408.421	2.294%	3.776%
Keith Mitchell	1,237,640,726.035	58.678%	96.570%	43,957,877.127	2.084%	3.430%
David W. Niemiec	1,236,141,837.871	58.607%	96.453%	45,456,765.291	2.155%	3.547%
Charles Rubens II	1,232,596,562.441	58.439%	96.176%	49,002,040.721	2.323%	3.824%
Jan Hopkins Trachtman	1,235,533,578.967	58.578%	96.406%	46,065,024.195	2.184%	3.594%
Robert E. Wade	1,235,129,695.816	58.559%	96.374%	46,468,907.346	2.203%	3.626%
Gregory H. Williams	1,235,660,731.763	58.584%	96.416%	45,937,871.399	2.178%	3.584%
Gregory E. Johnson	1,236,519,365.270	58.625%	96.483%	45,079,237.892	2.137%	3.517%
Peter A. Langerman	1,237,976,469.621	58.694%	96.596%	43,622,133.541	2.068%	3.404%

Proposal 2. To approve an amendment to the current fundamental investment restriction regarding investments in commodities.

	Shares Voted	% of Outstanding Shares	% of Shares Present
For	263,762,507.124	47.465%	75.190%
Against	28,206,425.878	5.077%	8.041%
Abstain	15,683,971.044	2.822%	4.471%
Broker Non-Votes	43,140,072.000	7.763%	12.298%

Proposal 3. To approve the use of a "manager of managers" structure whereby the Fund's investment manager would be able to hire and replace subadvisers without shareholder approval.

	Shares Voted	% of Outstanding Shares	% of Shares Present
For	265,703,280.262	47.815%	75.743%
Against	28,666,780.641	5.159%	8.172%
Abstain	13,282,843.143	2.390%	3.787%
Broker Non-Votes	43,140,072.000	7.763%	12.298%

Proposal 6(b). If properly presented, a shareholder proposal submitted by Ms. Aya Betensky requesting the Trust's Board of Trustees institute procedures to prevent holding investments in companies that, in the judgment of the Board, substantially contribute to genocide or crimes against humanity, the most egregious violations of human rights.

	Shares Voted	% of Outstanding Shares	% of Shares Present
For	58,358,211.038	10.502%	16.636%
Against	231,187,364.903	41.603%	65.904%
Abstain	18,107,328.105	3.259%	5.162%
Broker Non-Votes	43,140,072.000	7.763%	12.298%

Shareholder Information

Board Review of Investment Management Agreement

The Board of Trustees (Board), including the independent trustees, at a Board meeting held on May 18, 2015, 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 approval, the independent trustees participated in two other meetings held in connection with the renewal process (those trustees unable to attend in person were present by telephonic conference means). 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 plans, distribution, shareholder servicing, legal and compliance matters, pricing of securities and sales and redemptions, and marketing support payments made to financial intermediaries, as well as a third-party survey of transfer agent fees charged funds within the Franklin Templeton Investments (FTI) complex in comparison with those charged 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 information obtained by the trustees during the renewal process also included a special report prepared by Lipper, Inc. (Lipper), an independent third-party analyst, comparing the Fund's investment performance and expenses with those of other mutual funds deemed comparable to the Fund as selected by Lipper (Lipper Section 15(c) Report). The trustees reviewed the Lipper Section 15(c) Report and its usefulness in the approval 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.

Particular attention was given to management's diligent risk management program, including continual monitoring and management of 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 goals. 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. In addition, the Board received updates from management on the Securities and Exchange Commission's (SEC) progress in implementing the rule-making requirements established by the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), which was enacted July 21, 2010, and the investment manager's compliance with rules and regulations already promulgated by the SEC under such act.

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 (as well as the discussion 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 by the investment manager. In this regard, they reviewed the Fund's investment approach and concluded that, in their view, it continues to differentiate the Fund from typical core investment products in the mutual fund field. 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 predesignated 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 Fund shareholders. 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, 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 trustees considered the investment manager's significant efforts in developing and implementing compliance procedures established in accordance with SEC and other requirements.

The trustees also reviewed the nature, extent and quality of 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 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, 2014. 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 approval process, with the Fund's portfolio managers to discuss performance and the management of the Fund. In addition, particular attention in assessing performance was given to the Lipper 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 lowest performing quintile for the

Board Review of Investment Management Agreement (continued)

one-year period ended December 31, 2014, and had annualized total returns for the three- and five-year periods also in the lowest performing quintile. The trustees noted that the Fund's total return on an annualized basis for the 10-year period ended December 31, 2014, was in the middle 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 Board discussed with management the reasons for the relative underperformance for the one-, three- and five-year periods ended December 31, 2014. As part of such discussions, management discussed in detail the attractive risk-adjusted performance of the Fund and the impact that holdings in European securities had on performance. Taking into account such discussions and intending to continuously monitor future performance, the Board did not believe such comparative performance warranted any change in portfolio management, particularly in light of the attractive overall risk-adjusted performance of the Fund, and concluded that the Fund had continued to perform well on a risk-adjusted basis and in the context of the Fund's objectives.

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 approval process, they 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 Lipper 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 the 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-most expensive quintile of its Lipper expense group and its total expenses were in the second-most expensive quintile of such group. The Board found such comparative fees and expenses to be acceptable in view of factors relating to the Fund's operations, such as the quality and experience of its portfolio managers.

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, 2014, 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 resulting from the Sarbanes-Oxley Act, the Dodd-Frank Act and recent SEC and other regulatory 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 trustees 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 in 2004, with additional breakpoints being added as deemed appropriate by the Board. 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 and administrative 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. Alternatively, shareholders may request copies of the Policies free of charge by calling the Proxy Group collect at (954) 527-7678 or by sending a written request to: Franklin Templeton Companies, LLC, 300 S.E. 2nd Street, Fort Lauderdale, FL 33301, Attention: Proxy Group. Copies of the Fund's proxy voting records are also made available online at franklintempleton.com and posted on the U.S. Securities and Exchange Commission's website at sec.gov and reflect the most recent 12-month period ended June 30.

Quarterly Statement of Investments

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

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SUPPLEMENT DATED JUNE 1, 2015
TO THE PROSPECTUS DATED MAY 1, 2015
OF
FRANKLIN MUTUAL SERIES FUNDS

(Franklin Mutual Beacon Fund, Franklin Mutual European Fund, Franklin Mutual Financial Services Fund, Franklin Mutual Global Discovery Fund, Franklin Mutual International Fund, Franklin Mutual Quest Fund, Franklin Mutual Shares Fund)

The prospectus is amended as follows:

I. For the Franklin Mutual Global Discovery Fund, the "Fund Summary – Principle Investment Strategies" section, the fourth paragraph beginning on page 3 is revised as follows:

The Fund may invest substantially and potentially up to 100% of its assets in foreign securities, which may include sovereign debt and participations in foreign government debt. The Fund presently does not intend to invest more than a portion (no more than 25%) of its assets in securities of issuers located in emerging market countries.

II. For the "Fund Details – Principle Investment Policies and Practices" section, the fifth paragraph beginning on page 58 is revised as follows:

The Franklin Mutual Beacon and Franklin Mutual Shares Funds may invest a significant portion (up to 35%) of their assets in foreign securities, Franklin Mutual Quest Fund expects to invest a significant portion (up to 50%) of its assets in foreign securities and Franklin Mutual Global Discovery Fund may invest substantially and potentially up to 100% of its assets in foreign securities, which may include sovereign debt and participations in foreign government debt. The Franklin Mutual Global Discovery Fund presently does not intend to invest more than a portion (no more than 25%) of its assets in securities of issuers located in emerging market countries.

III. For the "Fund Details – Management" section beginning on page 102 is revised as follows:

Effective July 1, 2014, the Franklin Mutual Global Discovery Fund's investment management fees became:

- 0.875% of the value of net assets up to and including $4 billion;
- 0.845% of the value of net assets over $4 billion, up to and including $7 billion;
- 0.825% of the value of net assets over $7 billion, up to and including $10 billion;
- 0.805% of the value of net assets over $10 billion, up to and including $13 billion;
- 0.785% of the value of net assets over $13 billion, up to and including $16 billion;
- 0.765% of the value of net assets over $16 billion, up to and including $19 billion;
- 0.745% of the value of net assets over $19 billion, up to and including $22 billion;
- 0.725% of the value of net assets over $22 billion, up to and including $25 billion; and
- 0.705% of the value of net assets in excess of $25 billion.

Effective July 1, 2015, the Franklin Mutual Global Discovery Fund's investment management fees became:

- 0.875% of the value of net assets up to and including $4 billion;
- 0.845% of the value of net assets over $4 billion, up to and including $7 billion;
- 0.825% of the value of net assets over $7 billion, up to and including $10 billion;
- 0.805% of the value of net assets over $10 billion, up to and including $13 billion;
- 0.785% of the value of net assets over $13 billion, up to and including $16 billion;
- 0.765% of the value of net assets over $16 billion, up to and including $19 billion;
- 0.745% of the value of net assets over $19 billion, up to and including $22 billion;
- 0.725% of the value of net assets over $22 billion, up to and including $25 billion;
- 0.705% of the value of net assets over $25 billion, up to and including 28 billion; and
- 0.685% of the value of net assets in excess of $28 billion.

IV. For the "Fund Details – Management" section beginning on page 103 is revised to add the following:

Manager of Managers Structure

Franklin Mutual and the Trust have received an exemptive order from the SEC that allows the Fund to operate in a "manager of managers" structure whereby Franklin Mutual, as the Fund's investment manager, can appoint and replace both wholly-owned and unaffiliated sub-advisors, and enter into, amend and terminate sub-advisory agreements with such sub-advisors, each subject to board approval but without obtaining prior shareholder approval (the "Manager of Managers Structure"). The Fund will, however, inform shareholders of the hiring of any new sub-advisor within 90 days after the hiring. The SEC exemptive order provides the Fund with greater efficiency and without incurring the expense and delays associated with obtaining shareholder approval of sub-advisory agreements with such sub-advisors.

While there is no current intent for the Fund to operate in a Manager of Managers Structure, the use of the Manager of Managers Structure with respect to the Fund is subject to certain conditions that are set forth in the SEC exemptive order. Under the Manager of Managers Structure, Franklin Mutual has the ultimate responsibility, subject to oversight by the Fund's board of trustees, to oversee sub-advisors and recommend their hiring, termination and replacement. Franklin Mutual will also, subject to the review and approval of the Fund's board of trustees: set the Fund's overall investment strategy; evaluate, select and recommend sub-advisors to manage all or a portion of the Fund's assets; and implement procedures reasonably designed to ensure that each sub-advisor complies with the Fund's investment goal, policies and restrictions. Subject to review by the Fund's board of trustees, Franklin Mutual will allocate and, when appropriate, reallocate the Fund's assets among sub-advisors and monitor and evaluate the sub-advisors' performance.

Please keep this supplement with your prospectus for future reference.

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FRANKLIN TEMPLETON
INVESTMENTS

Semiannual Report and Shareholder Letter
Franklin Mutual Shares Fund

Investment Manager
Franklin Mutual Advisers, LLC

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

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

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

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

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