DECEMBER 31, 2013 ANNUAL REPORT AND SHAREHOLDER LETTER



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VALUE

MUTUAL BEACON FUND



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Gain From Our Perspective®

Franklin Templeton's distinct multi-manager structure combines the specialized expertise of three world-class investment management groups—Franklin, Templeton and Mutual Series.

SPECIALIZED EXPERTISE

Each of our portfolio management groups operates autonomously, relying on its own research and staying true to the unique investment disciplines that underlie its success.

Franklin. Founded in 1947, Franklin is a recognized leader in fixed income investing and also brings expertise in growth- and value-style U.S. equity investing.

Templeton. Founded in 1940, Templeton pioneered international investing and, in 1954, launched what has become the industry's oldest global fund. Today, with offices in over 25 countries, Templeton offers investors a truly global perspective.

Mutual Series. Founded in 1949, Mutual Series is dedicated to a unique style of value investing, searching aggressively for opportunity among what it believes are undervalued stocks, as well as arbitrage situations and distressed securities.

TRUE DIVERSIFICATION

Because our management groups work independently and adhere to different investment approaches, Franklin, Templeton and Mutual Series funds typically have distinct portfolios. That's why our funds can be used to build truly diversified allocation plans covering every major asset class.

RELIABILITY YOU CAN TRUST

At Franklin Templeton Investments, we continuously seek to provide investors with strong risk-adjusted returns over the long term, as well as the reliable, accurate and personal service that has helped us become one of the most trusted names in financial services.

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MUTUAL FUNDS | RETIREMENT PLANS | 529 COLLEGE SAVINGS PLANS | SEPARATELY MANAGED ACCOUNTS

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Shareholder Letter

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Shareholder Letter

Average Annual Total Return

Class Z	12/31/13
1-Year	+29.11%
5-Year	+16.23%
10-Year	+7.03%

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.

Dear Mutual Beacon Fund Shareholder:

In 2013, most major equity markets ended significantly higher, led by Japan and the U.S. Optimism about global growth appeared to overcome concerns about Federal Reserve Board (Fed) tapering, European peripheral fiscal problems, China's new emphasis on consumption and most other major potentially negative developments. Highlighting the breadth of the advance, nearly every industry in the Standard & Poor's® 500 Index (S&P 500®) rose by double digits for the first time in nearly 20 years, and the index posted a one-year total return of +32.39%. 1 Emerging markets were the exception to the strong upward moves. For Mutual Beacon Fund, 2013 was strong in absolute terms, and Class Z shares returned +29.11% with below-market volatility. Given our value investing strategy in a significant bull market, combined with a dearth of opportunities in traditional distressed and merger arbitrage activity, modest underperformance relative to the broad market index was a typical result.

The U.S. economy and market made strong progress, with the market perhaps the stronger of the two. Economic growth has been slowly accelerating and unemployment dropping. The recovery's strength is somewhat more impressive considering that growth came despite far-reaching federal spending cuts in 2013. On the other hand, some point out that the suppression of interest rates resulting from the Fed's ongoing quantitative easing (QE) program artificially stimulated the economy and equity markets. Toward year-end, fixed income markets started to price in the long-awaited taper of QE but without any negative impact on stocks.

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Now that the S&P 500 finished its best year in well over a decade and doubled over the past five years since the heart of the global financial crisis, where are we?

So five years on, U.S. equity markets reached new highs and the U.S. recovery appeared to be real as extraordinary fiscal and monetary measures fade. Investments in U.S. equities remained attractive, but new opportunities became harder for us to find. In part this was because markets anticipated future growth, or perhaps became less fearful about another recession. In 2013, earnings for the S&P 500 rose by just 5%, but the prices investors were willing to pay for those earnings, expressed as a price-to-earnings multiple, rose by 21% — the average price-to-earnings multiple on current year earnings rose from 14.2 times to 17.1 times over the course of the year. We do not think this price rise signaled a new U.S. stock market bubble, and we continued to hold many attractively valued U.S. companies, but we found more new opportunities outside the U.S. in markets that have lagged the U.S. stock market rise.

Europe's past five years were much rockier than those of the U.S. Initially Europe began to recover much like the U.S., but an intra-Europe crisis over the euro and the still-incomplete European integration stalled the recovery. These concerns peaked in 2011 and only faded once the European Central Bank committed to unlimited support of the euro. This commitment triggered a resumption of the natural process of economic recovery. This past year was good for Europe, but European markets remained below 2007 highs and have lagged those of the U.S. As was the case with U.S. markets, stock market advances in 2013 were more a reflection of price-earnings multiple expansion than actual earnings growth — stocks appreciated almost 20% while underlying earnings were up less than 1%, as measured by the MSCI Pan-Euro Index.² Most of our funds invest globally, and their exposure to Europe and the euro crisis has hindered returns over the past five years. We continue to believe the euro crisis is fading, Europe's recovery is gaining momentum and our investments in Europe can yield benefits for our shareholders.

The diverse Asian economies and markets told different stories in 2013. China entered 2013 with a new leader amid a peaceful and orderly transition of power. The new administration continued to focus on rebalancing the Chinese economy away from excessive investment toward consumption. China's massive stimulus program helped its economy power through the global downturn. Now the country needs to reallocate resources in a way that discourages speculative

^{2.} Source: Bloomberg LP. The MSCI Pan-Euro Index captures large cap representation across 15 developed markets (DM) countries in Europe. With 199 constituents, the index covers a major portion of the free float-adjusted market capitalization across the European DM equity universe. DM countries in Europe include: Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the U.K.

investment (and corruption) and allows China to grow without as much dependency on the health of trade partners. As a result, China's role as the engine of global growth may be fading, and firms that prospered by supplying China with the materials used for the past 10 years' massive investments could face significant headwinds.

The Japanese stock market was the 2013 global leader in local currency returns as Japan continued to struggle with the deflationary pressures that began when the Nikkei Index collapsed 24 years ago. Prime Minister Shinzō Abe pursued aggressive financial policies, including market reform and ambitious new monetary experiments. The result was an almost 60% rise in the Nikkei Index and a 20% drop in the value of the yen relative to the U.S. dollar. Whether the policies and the monetary stimulus can generate real economic growth remains to be seen.

The diverse opportunities available in Asia have been a modest portion of most of the Mutual Series portfolios, including the Fund's, but we continued to spend considerable time and effort on this region. The underperformance of many Asian markets could help us find attractive opportunities that offer a sufficient margin of safety and material upside potential for us.

The Fund's notable new investments in 2013 included duty free chain Dufry and European retailer Tesco.3

The Fund invested in Dufry, one of the world's leading duty free and travel related retailers. Investors had become skeptical of Dufry's ability to sustain high operating margins amid higher airport property rental charges, particularly in the company's core Brazilian operations. We analyzed the risk and concluded the market was being unduly pessimistic about Dufry's ability to win profitable franchise extensions considering its position as the incumbent operator. In addition, the market did not seem to credit Dufry for the longterm benefits of its 2013 acquisition of Hellenic Duty Free, focusing instead on the short-term disruption to reported earnings. We concluded Dufry was trading at a significant discount to intrinsic value even if we assigned no extra value to the long-term growth opportunities as middle class consumers in emerging markets travel more and make more duty free purchases. By yearend, Dufry was able to successfully tender for contract extensions and space expansion in its Brazil operations. In addition, the integration of Hellenic Duty Free was proceeding as planned, giving investors greater confidence that the company's financial targets will be met.

^{3.} Mutual Beacon Fund's holdings are based on total net assets as of 12/31/13: Dufry 2.0% and Tesco 1.5%.

Tesco is a global food retailer, with operations in the U.K., continental Europe and Asia. It was one of the star companies of its sector a decade ago, growing sales and profits mostly via international expansion. Much of this expansion happened without proper regard for returns on capital, and as profits were invested in growth, the marginal returns on capital fell sharply. As a result, Tesco shares materially underperformed the market and traded at a significant discount to high-quality retailers, which enabled us to invest. Management has been pursuing profit growth by eliminating poorly performing businesses, or "shrinking to grow." Loss making or low profit activities such as those in the U.S. and China were being sold, and the company materially improved its capital discipline by cutting capital expenditures and selling surplus property assets. Although management still had much to do, and the economic backdrop continued to be challenging, we believed that the new emphasis on cash flow generation and capital discipline could create significant value for shareholders.

The Fund's distressed debt investing has been more limited lately, as globally low interest rates and easy credit have meant few bankruptcies and distressed opportunities. Although the Fund made a material investment in the Lehman bankruptcy in the first half of the year, the second half yielded few new opportunities. Economic growth, Fed tapering and ample liquidity suggested to us a continuation of this environment in 2014.

Merger arbitrage was a very small part of the Fund's activities in 2013. Few major mergers were announced, and globally depressed short-dated interest rates led to anemic returns available from the few potential arbitrage positions. We did have substantial exposure to two of the larger announced or potential deals, Vodafone's sale of its Verizon Wireless stake to Verizon Communications and the potential acquisition of Time Warner Cable by Charter, Comcast or another firm, but these were exceptions to the general state of the deal landscape. The fundamentals for acquisitions remained strong, with potential buyers having ample cash and credit, and market reaction (from the acquirer's perspective) to many of the announced deals was quite positive, unlike the negative market reaction we typically see. Nevertheless, the expected wave of activity, particularly from private equity firms, has yet to materialize. When attractive arbitrage opportunities appear, we will be ready.

The past year was strong for equities in almost all markets. Despite market gains, significant questions remain about the future of the global economic recovery. We believe the Fed will proceed with a gradual withdrawal of monetary stimulus. Although the Bank of Japan has added liquidity to the global economy, this transition may have unexpected effects. Meanwhile, the normal forces of economic recovery appear to be making progress in the U.S. and Europe. In 2013, financial markets began to anticipate these improvements, but unexpected delays or setbacks could produce a significant market reaction. These different forces should continue to provide us with attractive opportunities to allocate capital and generate attractive long-term returns for our investors.

We thank you for your trust and your support.

Sincerely,

Peter A. Langerman

Chairman, President and Chief Executive Officer

Franklin Mutual Advisers, LLC

Peter A Langerman

The letter reflects our analysis, opinions and portfolio holdings as of December 31, 2013, the end of the reporting period. The way we implement our main investment strategies and the resulting portfolio holdings may change depending on factors such as market and economic conditions. These opinions may not be relied upon as investment advice or an offer for a particular security. The information is not a complete analysis of every aspect of any market, country, industry, security or the Fund. Statements of fact are from sources considered reliable, but the investment manager makes no representation or warranty as to their completeness or accuracy. Although historical performance is no guarantee of future results, these insights may help you understand our investment management philosophy.

Annual Report

Mutual Beacon Fund

Your Fund's Goals and Main Investments: Mutual Beacon 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 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.

This annual report for Mutual Beacon Fund covers the fiscal year ended December 31, 2013.

Performance Overview

Mutual Beacon Fund - Class Z delivered a +29.11% cumulative total return for the 12 months ended December 31, 2013. In comparison, the Fund's benchmark, the Standard & Poor's 500 Index (S&P 500), which is a broad measure of U.S. stock performance, generated a +32.39% total return. You can find more of the Fund's performance data in the Performance Summary beginning on page 13.

Economic and Market Overview

The 12 months under review were characterized by reinvigorated policy support and an economic recovery in developed markets. However, differences in global economic trends corresponded with increasingly divergent monetary policies, and growth in emerging market economies tended to slow. The central banks of key developed markets generally reaffirmed their accommodative monetary stances while some emerging market counterparts tightened policy rates as they sought to control inflation and currency depreciation.

In the U.S., economic growth and employment trends generally exceeded expectations, underpinned by consumer and business spending and rising inventories. Historically low mortgage rates and improving sentiment aided the housing market recovery, evidenced by increased new and existing home

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 25.

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sales, rising home prices, low inventories and multi-year lows in new foreclosures. The U.S. Federal Reserve Board (Fed) expanded its asset purchase program to \$85 billion per month from \$40 billion early in the year. After encouraging economic and employment reports, the Fed announced in December it would reduce its monthly bond purchases by \$10 billion beginning in January 2014; however, the Fed committed to keeping interest rates low. In October, the federal government temporarily shut down after Congress failed to authorize routine federal funding amid a disagreement over a new health care law. However, Congress subsequently agreed to fund the government through early 2014 and later passed a two-year budget deal that could ease automatic spending cuts and lower the risk of another shutdown.

Outside the U.S., the eurozone emerged from its longest recession on record during 2013's second half and Japan's growth moderated. The European Central Bank reduced its key interest rate to a record low and pledged to maintain systemic support following political turmoil in Greece, Spain, Portugal and Italy. Germany's re-election of Chancellor Angela Merkel was largely perceived as a vote of support for ongoing eurozone reform measures. In Asia, the Bank of Japan set an explicit inflation target and pledged to double bond purchases in an unprecedented wave of policy reform. The U.S. dollar fell versus the euro but rose versus the Japanese ven in 2013.

Growth in many emerging markets moderated based on lower domestic demand, falling exports and weakening commodity prices. Political turmoil in certain emerging markets, the Fed's potential tapering of its asset purchase program and the Chinese central bank's effort to tighten liquidity to curb real estate and credit speculation led to a sell-off in emerging market equities and a sharp depreciation in regional currencies against the U.S. dollar. Central banks in Brazil, India and Indonesia raised interest rates in the second half of 2013 as they sought to curb inflation.

The stock market rally in developed markets accelerated during 2013 amid ongoing central bank commitments, continued corporate earnings strength and increasing signs of economic progress. Emerging market stocks rebounded toward period-end, although Latin American stocks trailed their emerging market peers. Oil prices rallied in the third quarter and rose for the year mainly owing to supply concerns related to geopolitical turmoil, but gold posted its largest annual price decline in more than three decades. Increasingly divergent economic and political circumstances during the period resulted in declining market correlations across regions and between asset classes, which many bottom-up investors perceived as more favorable.

Geographic Breakdown

Based on Total Net Assets as of 12/31/13



What is meant by "hedge"?

To hedge a position is to seek to reduce the risk of adverse price movements in an asset. Normally, a hedge is implemented as an offsetting position in a related security, such as a currency forward contract.

What is a currency forward contract?

A currency forward contract, also called 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.

Investment Strategy

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

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

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

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

Manager's Discussion

In an environment of generally rising equity prices, many Fund holdings increased in value during the 12-month period. Three of the top contributors were U.K.-based mobile telephony operator Vodafone Group, software firm Microsoft and media company Twenty-First Century Fox.

Vodafone Group is a global mobile telecommunications company that provides a range of services, including voice and data communications. The company's stock rallied in the second half of the year, driven largely by the long-anticipated sale of its 45% stake in Verizon Wireless to Verizon Communications at what we considered to be an attractive price. Vodafone said it planned to return two-thirds of the capital from the sale to shareholders and use the balance to invest in growth initiatives in its core markets and to reduce debt. Following the deal, we continued to view Vodafone as a potentially compelling stock, given that the economic environment in Europe has shown signs of stabilizing, the regulatory environment is easing and we believe the company may be close to monetizing its investments in data services.

Shares of global software firm Microsoft benefited from improved investor sentiment. In the first half of 2013, the company reported earnings that modestly beat expectations, generally reassuring the market of its status as a stable business with a reasonable future. The stock also rallied following chief executive officer (CEO) Steve Ballmer's announcement that he would retire in 2014. At period-end, we remained optimistic about the company's plans to shift toward a subscription model for its business software such as the Office suite. In our view, if implemented broadly, such a move may have the potential to generate greater revenues and higher profits.

Twenty-First Century Fox consists of the television and entertainment assets that were part of News Corporation prior to the media conglomerate's June 2013 split. During the second half of the year, Twenty-First Century Fox reported quarterly earnings that were generally in line with expectations. However, shares benefited from the company's newfound status as a standalone entity with attractive media assets and what we judged to be multiple near-term growth drivers. At period-end, we continued to believe Fox had the potential to benefit from growth in subscriber fees for its broadcast and cable networks in the U.S. and overseas, an inflection point in profitability from investments in the launch of a new U.S. sports network and the potential for an increase in its capital returns to shareholders.

Top 10 Sectors/Industries

Based on Equity Securities as of 12/31/13

	% of Total Net Assets
Media	10.2%
Software	7.9%
Oil, Gas & Consumable Fuels	7.1%
Pharmaceuticals	6.1%
Insurance	5.7%
Tobacco	5.0%
Wireless Telecommunication Service	s 4.1%
Food & Staples Retailing	3.6%
Energy Equipment & Services	3.5%
Commercial Banks	3.2%

Top 10 Equity Holdings 12/31/13

	of Total et Assets
Vodafone Group PLC Wireless Telecommunication Services, U.K.	3.1%
Microsoft Corp. Software, U.S.	2.9%
Twenty-First Century Fox Inc., B <i>Media, U.S.</i>	2.9%
Medtronic Inc. Health Care Equipment & Supplies, U.	2.7% .S.
Apple Inc. Computers & Peripherals, U.S.	2.4%
British American Tobacco PLC <i>Tobacco, U.K.</i>	2.4%
Merck & Co. Inc. Pharmaceuticals, U.S.	2.3%
Wells Fargo & Co. Commercial Banks, U.S.	2.3%
WPX Energy Inc. Oil, Gas & Consumable Fuels, U.S.	2.2%
Check Point Software Technologies Ltd. Software, Israel	2.2%

What is return on equity?

Return on equity is an amount, expressed as a percentage, earned on a company's common stock investment for a given period. Return on equity tells common shareholders how effectually their money is being employed. Comparing percentages for current and prior periods also reveals trends, and comparison with industry composites reveals how well a company is holding its own against its competitors.

What is a futures contract?

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

During the period under review, some of the Fund's investments negatively affected performance. These included Australia-listed mining services company Boart Longyear, U.K.-headquartered RSA Insurance Group and Brazilian integrated energy firm Petroleo Brasileiro (Petrobras).

Boart Longyear is a global provider of mineral exploration drilling services and products. Declining commodity prices contributed to reduced demand for the company's products and services during the year as mining companies sought to reduce expenses. At its annual general meeting in May, the company announced it anticipated a sizable decline in rig utilization rates and anticipated 2013 revenues and earnings to come in at the low end of consensus forecasts. By year-end, we exited our position in Boart Longyear as we believed demand would remain weak and significant uncertainty about management's efforts to cut costs and fortify the balance sheet remained.

After cutting its dividend early in 2013, RSA Insurance Group suffered substantial weather-related losses, which precluded the company from achieving its annual return on equity target. RSA's share price came under additional pressure in November when the company announced it would suspend the CEO, chief financial officer and claims director of its Irish unit amid an investigation into aggressive reserve accounting practices.

Although Petrobras possesses several exploration and production assets we feel are highly attractive, its refining and marketing (downstream) operations hurt results during the year and led the stock to decline. The Brazilian government regulates domestic fuel prices, and its reluctance to increase them continued to result in significant losses in Petrobras's downstream business. Although the government did allow some modest price increases, recent protests against bus fare hikes, particularly in light of sluggish economic growth and a weakening Brazilian real, contributed to political pressure limiting the company's ability to bring domestic prices in line with global prices.

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

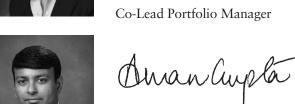
Thank you for your participation in Mutual Beacon Fund. We look forward to continuing to serve your investment needs.



Christian Correa, CFA Co-Lead Portfolio Manager



Mandana Hormozi





Aman Gupta, CFA Assistant Portfolio Manager

Mutual Beacon Fund

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The foregoing information reflects our analysis, opinions and portfolio holdings as of December 31, 2013, 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.

Christian Correa has been portfolio manager for Mutual Beacon Fund since 2007 and a co-portfolio manager since December 2010. He joined Franklin Templeton Investments in 2003 and serves as Director of Research for Franklin Mutual Advisers. Previously, he covered merger arbitrage and special situations at Lehman Brothers Holdings Inc.

Mandana Hormozi has been a co-portfolio manager for Mutual Beacon Fund since 2010 and was assistant portfolio manager for the Fund since 2009. Before that, she was assistant portfolio manager for Mutual Global Discovery Fund since 2007. She has been an analyst for Franklin Mutual Advisers since 2003, when she joined Franklin Templeton Investments. Previously, she was a senior vice president in the equity research department at Lazard Freres and an economic research analyst at Mitsubishi Bank.

Aman Gupta assumed assistant portfolio manager responsibilities for Mutual Beacon Fund in December 2013 and has been an analyst for Franklin Mutual Advisers since 2010. Previously, Mr. Gupta was a senior equity analyst and director at Evergreen Investments, where he covered the health care industry with additional responsibilities in the consumer and industrials sectors.

Performance Summary as of 12/31/13

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

Price and Distribution Information

Class Z (Symbol: BEGRX)		Change	12/31/13	12/31/12
Net Asset Value (NAV)		+\$3.55	\$16.91	\$13.36
Distributions (1/1/13-12/31/13)				
Dividend Income	\$0.3231			
Class A (Symbol: TEBIX)		Change	12/31/13	12/31/12
Net Asset Value (NAV)		+\$3.52	\$16.80	\$13.28
Distributions (1/1/13-12/31/13)				
Dividend Income	\$0.2760			
Class C (Symbol: TEMEX)		Change	12/31/13	12/31/12
Net Asset Value (NAV)		+\$3.49	\$16.70	\$13.21
Distributions (1/1/13-12/31/13)				
Dividend Income	\$0.1655			
Class R (Symbol: n/a)		Change	12/31/13	12/31/12
Net Asset Value (NAV)		+\$3.49	\$16.68	\$13.19
Distributions (1/1/13-12/31/13)				
Dividend Income	\$0.2445			
Class R6 (Symbol: n/a)		Change	12/31/13	5/1/13
Net Asset Value (NAV)		+\$2.11	\$16.88	\$14.77
Distributions (5/1/13-12/31/13)				
Dividend Income	\$0.3399			

Performance

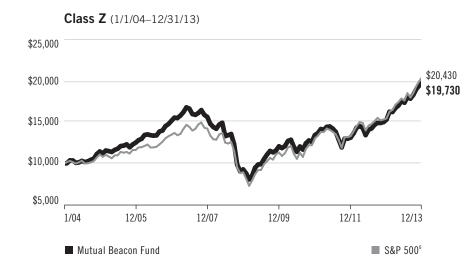
Cumulative total return excludes sales charges. Aggregate and average annual total returns and value of \$10,000 investment include maximum sales charges. Class Z/R/R6: no sales charges; Class A: 5.75% maximum initial sales charge; Class C: 1% contingent deferred sales charge in first year only.

0		4.1/		40.7
Class Z		1-Year	5-Year	10-Year
Cumulative Total Return ¹		+29.11%	+112.15%	+97.30%
Average Annual Total Return ²		+29.11%	+16.23%	+7.03%
Value of \$10,000 Investment ³		\$12,911	\$21,215	\$19,730
Total Annual Operating Expenses ⁴	0.84%			
Class A		1-Year	5-Year	10-Year
Cumulative Total Return ¹		+28.70%	+108.74%	+91.28%
Average Annual Total Return ²		+21.30%	+14.49%	+6.07%
Value of \$10,000 Investment ³		\$12,130	\$19,671	\$18,033
Total Annual Operating Expenses ⁴	1.14%			
Class C		1-Year	5-Year	10-Year
Cumulative Total Return ¹		+27.79%	+101.64%	+78.52%
Average Annual Total Return ²		+26.79%	+15.06%	+5.97%
Value of \$10,000 Investment ³		\$12,679	\$20,164	\$17,852
Total Annual Operating Expenses ⁴	1.84%			
Class R		1-Year	3-Year	Inception (10/30/09)
Cumulative Total Return ¹		+28.34%	+44.81%	+70.18%
Average Annual Total Return ²		+28.34%	+13.13%	+13.60%
Value of \$10,000 Investment ³		\$12,834	\$14,481	\$17,018
Total Annual Operating Expenses ⁴	1.34%			
Class R6				Inception (5/1/13)
Cumulative Total Return ¹				+16.83%
Aggregate Total Return ⁵				+16.83%
Value of \$10,000 Investment ³				\$11,683
Total Annual Operating Expenses ⁴	0.73%			

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

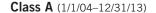
Total Return Index Comparison for a Hypothetical \$10,000 Investment

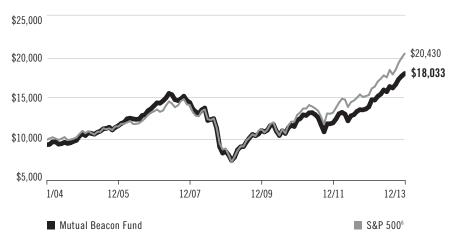
Total return represents the change in value of an investment over the periods shown. It includes any applicable, maximum sales charge, Fund expenses, account fees and reinvested distributions. The unmanaged index includes reinvestment of any income or distributions. It differs from the Fund in composition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



Average Annual Total Return

Class Z	12/31/13
1-Year	+29.11%
5-Year	+16.23%
10-Year	+7.03%





Average Annual Total Return

Class A	12/31/13
1-Year	+21.30%
5-Year	+14.49%
10-Year	+6.07%

Average Annual Total Return

Class C	12/31/13
1-Year	+26.79%
5-Year	+15.06%
10-Year	+5.97%

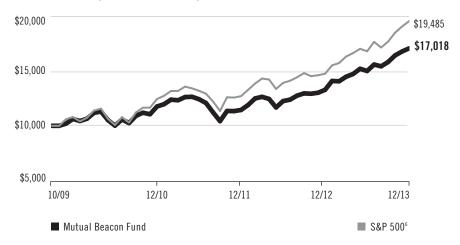
Class C (1/1/04-12/31/13)

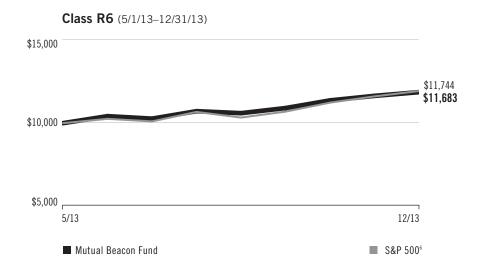


Average Annual Total Return

Class R	12/31/13
1-Year	+28.34%
3-Year	+13.13%
Since Inception (10/30/09)	+13.60%

Class R (10/30/09-12/31/13)





Aggregate Total Return⁵

Class R6	12/31/13
Since Inception (5/1/13)	+16.83%

Endnotes

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 smaller company stocks and foreign securities involve special risks. Smaller company stocks have exhibited greater price volatility than larger company stocks, particularly over the short term. Foreign securities risks include currency fluctuations, and economic and political uncertainties. The Fund may also invest in companies engaged in mergers, reorganizations or liquidations, which involve special risks as pending deals may not be completed on time or on favorable terms, as well as lower rated bonds, which entail higher credit risk. The Fund is actively managed but there is no guarantee that the manager's investment decisions will produce the desired results. The Fund's prospectus also includes a description of the main investment risks.

- Class Z: Shares are available to certain eligible investors as described in the prospectus.
- Class C: These shares have higher annual fees and expenses than Class A shares.
- Class R: Shares are available to certain eligible investors as described in the prospectus. These shares have higher annual fees and expenses than Class A shares.
- Class R6: Shares are available to certain eligible investors as described in the prospectus.
- 1. Cumulative total return represents the change in value of an investment over the periods indicated.
- 2. Average annual total return represents the average annual change in value of an investment over the periods indicated.
- 3. These figures represent the value of a hypothetical \$10,000 investment in the Fund over the periods indicated.
- 4. Figures are as stated in the Fund's current prospectus. In periods of market volatility, assets may decline significantly, causing total annual Fund operating expenses to become higher than the figures shown.
- 5. Aggregate total return represents the change in value of an investment for the period indicated. Since Class R6 shares have existed for less than one year, average annual total return is not available.
- 6. Source: © 2014 Morningstar. The S&P 500 is a market capitalization-weighted index of 500 stocks designed to measure total U.S. equity market performance.

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 \div $1,000 = 8.6$.
- 2. Multiply the result by the number under the heading "Expenses Paid During Period." If Expenses Paid During Period were \$7.50, then $8.6 \times 7.50 = 64.50$.

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.

Your Fund's Expenses (continued)

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.

Class Z	Beginning Account Value 7/1/13	Ending Account Value 12/31/13	Expenses Paid During Period* 7/1/13–12/31/13
Actual	\$1,000	\$1,140.10	\$4.26
Hypothetical (5% return before expenses)	\$1,000	\$1,021.22	\$4.02
Class A			
Actual	\$1,000	\$1,138.60	\$5.88
Hypothetical (5% return before expenses)	\$1,000	\$1,019.71	\$5.55
Class C			
Actual	\$1,000	\$1,134.40	\$9.63
Hypothetical (5% return before expenses)	\$1,000	\$1,016.18	\$9.10
Class R			
Actual	\$1,000	\$1,136.90	\$6.95
Hypothetical (5% return before expenses)	\$1,000	\$1,018.70	\$6.56
Class R6			
Actual	\$1,000	\$1,140.50	\$3.83
Hypothetical (5% return before expenses)	\$1,000	\$1,021.63	\$3.62

^{*}Expenses are calculated using the most recent six-month expense ratio, annualized for each class (Z: 0.79%; A: 1.09%; C: 1.79%; R: 1.29%; and R6: 0.71%), multiplied by the average account value over the period, multiplied by 184/365 to reflect the one-half year period.

Financial Highlights

0. 7	0012		Ended Decemb		0000
Class Z Per share operating performance	2013	2012	2011	2010	2009
(for a share outstanding throughout the year)					
Net asset value, beginning of year	\$13.36	\$11.68	\$12.32	\$11.49	\$ 9.07
Income from investment operations ^a :					
Net investment income ^b	0.31	0.24	0.28	0.36c	0.08d
Net realized and unrealized gains (losses)	3.56	1.68	(0.57)	0.91	2.61
Total from investment operations	3.87	1.92	(0.29)	1.27	2.69
Less distributions from net investment income	(0.32)	(0.24)	(0.35)	(0.44)	(0.27)
Net asset value, end of year	\$16.91	\$13.36	\$11.68	\$12.32	\$11.49
Total return	29.11%	16.44%	(2.15)	% 11.10%	29.81%
Ratios to average net assets					
Expenses ^e	0.80% ^f	0.84%	0.84%	0.88%	1.41% ^{f,g}
Expenses incurred in connection with securities sold short	—%h	0.01%	—%h	0.02%	0.55%
Net investment income	2.02%	1.87%	2.24%	3.06%℃	0.79% ^d
Supplemental data					
Net assets, end of year (000's)	\$2,876,322	\$2,450,546	\$2,423,177	\$2,860,233	\$2,833,233
Portfolio turnover rate	32.95%	43.23%	51.38%	34.54%	54.36%

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

^bBased on average daily shares outstanding.

Net investment income per share includes approximately \$0.18 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 1.53%.

⁴Net investment income per share includes approximately \$(0.06) per share related to an adjustment for uncollectible interest. Excluding the effect of this adjustment, the ratio of net investment income to average net assets would have been 1.35%.

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

^fBenefit of expense reduction rounds to less than 0.01%.

gTotal expenses net of a one-time unaffiliated fee reimbursement are 1.30%.

hRounds to less than 0.01%.

Financial Highlights (continued)

	2010		Ended December		
Class A	2013	2012	2011	2010	2009
Per share operating performance (for a share outstanding throughout the year)					
Net asset value, beginning of year	\$13.28	\$11.61	\$12.24	\$11.40	\$ 8.99
Income from investment operations ^a :					
Net investment income ^b	0.26	0.20	0.24	0.32°	0.04^{d}
Net realized and unrealized gains (losses)	3.54	1.67	(0.56)	0.90	2.58
Total from investment operations	3.80	1.87	(0.32)	1.22	2.62
Less distributions from net investment income	(0.28)	(0.20)	(0.31)	(0.38)	(0.21)
Net asset value, end of year	\$16.80	\$13.28	\$11.61	\$12.24	\$11.40
Total returne	28.70%	16.10%	(2.50)%	10.82%	29.30%
Ratios to average net assets					
Expenses ^f	1.10%g	1.14%	1.14%	1.18%	1.72%g,h
Expenses incurred in connection with securities sold short \hdots	—%i	0.01%	—%i	0.02%	0.55%
Net investment income	1.72%	1.57%	1.94%	2.76%⁰	0.48% ^d
Supplemental data					
Net assets, end of year (000's)	\$1,148,409	\$983,981	\$1,062,477	\$1,327,189	\$1,361,152
Portfolio turnover rate	32.95%	43.23%	51.38%	34.54%	54.36%

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

bBased on average daily shares outstanding.

Net investment income per share includes approximately \$0.18 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%.

Net investment income per share includes approximately \$(0.06) per share related to an adjustment for uncollectible interest. Excluding the effect of this adjustment, the ratio of net investment income to average net assets would have been 1.04%.

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

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

gBenefit of expense reduction rounds to less than 0.01%.

hTotal expenses net of a one-time unaffiliated fee reimbursement are 1.61%.

Rounds to less than 0.01%.

Financial Highlights (continued)

Class C	2013	Year I 2012	Ended Decem 2011	ber 31, 2010	2009
Per share operating performance (for a share outstanding throughout the year)	2010	2012	2011	2010	2005
Net asset value, beginning of year	\$13.21	\$11.54	\$12.16	\$11.29	\$ 8.84
Income from investment operations ^a :					
Net investment income (loss) ^b	0.15	0.11	0.15	0.24 ^c	$(0.02)^d$
Net realized and unrealized gains (losses)	3.51	1.66	(0.55)	0.88	2.54
Total from investment operations	3.66	1.77	(0.40)	1.12	2.52
Less distributions from net investment income	(0.17)	(0.10)	(0.22)	(0.25)	(0.07)
Net asset value, end of year	\$16.70	\$13.21	\$11.54	\$12.16	\$11.29
Total returne	27.79%	15.29%	(3.15)%	9.96%	28.51%
Ratios to average net assets					
Expenses ^f	1.80%g	1.84%	1.84%	1.88%	2.41% ^{g,h}
Expenses incurred in connection with securities sold short	—% ⁱ	0.01%	—%i	0.02%	0.55%
Net investment income (loss)	1.02%	0.87%	1.24%	2.06% ^c	(0.21)% ^d
Supplemental data					
Net assets, end of year (000's)	\$336,222	\$295,958	\$315,390	\$400,949	\$437,340
Portfolio turnover rate	32.95%	43.23%	51.38%	34.54%	54.36%

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

bBased on average daily shares outstanding.

Net investment income per share includes approximately \$0.18 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 0.53%.

Net investment income per share includes approximately \$(0.06) per share related to an adjustment for uncollectible interest. Excluding the effect of this adjustment, the ratio of net investment income to average net assets would have been 0.35%.

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

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

gBenefit of expense reduction rounds to less than 0.01%.

hTotal expenses net of a one-time unaffiliated fee reimbursement are 2.30%.

Rounds to less than 0.01%.

Financial Highlights (continued)

Class B	2013	Year Er 2012	nded Decemb 2011	er 31, 2010	2009a
Class R Per share operating performance (for a share outstanding throughout the year)	2013	2012	2011	2010	20094
Net asset value, beginning of year	\$13.19	\$11.52	\$12.16	\$11.38	\$10.78
Income from investment operations ^b :					
Net investment income ^c	0.23	0.18	0.21	0.26 ^d	0.01
Net realized and unrealized gains (losses)	3.50	1.66	(0.55)	0.93	0.66
Total from investment operations	3.73	1.84	(0.34)	1.19	0.67
Less distributions from net investment income	(0.24)	(0.17)	(0.30)	(0.41)	(0.07)
Net asset value, end of year	\$16.68	\$13.19	\$11.52	\$12.16	\$11.38
Total returne	28.34%	15.95%	(2.69)%	10.63%	6.23%
Ratios to average net assets ^f					
Expenses ^g	1.30% ^h	1.34%	1.34%	1.38%	1.91% ^{h,i}
Expenses incurred in connection with securities sold short	—% ^j	0.01%	—% ^j	0.02%	0.55%
Net investment income	1.52%	1.37%	1.74%	2.56% ^d	0.29%
Supplemental data					
Net assets, end of year (000's)	\$1,956	\$1,905	\$2,039	\$976	\$34
Portfolio turnover rate	32.95%	43.23%	51.38%	34.54%	54.36%

^aFor the period October 30, 2009 (effective date) to December 31, 2009.

Rounds to less than 0.01%.

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

Based on average daily shares outstanding.

⁴Net investment income per share includes approximately \$0.18 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 1.03%.

eTotal return is not annualized for periods less than one year.

fRatios are annualized for periods less than one year.

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

^hBenefit of expense reduction rounds to less than 0.01%.

^{&#}x27;Total expenses net of a one-time unaffiliated fee reimbursement are 1.80%.

Financial Highlights (continued)

Class R6	Period Ended December 31 2013a
Per share operating performance (for a share outstanding throughout the period)	
Net asset value, beginning of period	\$14.77
Income from investment operations ^b :	
Net investment income ^c	0.24
Net realized and unrealized gains (losses)	2.21
Total from investment operations	2.45
Less distributions from net investment income	(0.34)
Net asset value, end of period	\$16.88
Total return ^d	16.83%
Ratios to average net assets ^e	
Expenses before waiver, payments by affiliates and expense reduction ^f	2.10%
Expenses net of waiver, payments by affiliates and expense reduction ^f	0.71%g
Expenses incurred in connection with securities sold short	—%h
Net investment income	2.11%
Supplemental data	
Net assets, end of period (000's)	\$6
Portfolio turnover rate	32.95%

^aFor the period May 1, 2013 (effective date) to December 31, 2013.

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

^cBased on average daily shares outstanding.

dTotal return is not annualized for periods less than one year.

eRatios are annualized for periods less than one year.

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

 $^{{\}ensuremath{\tt g}}\mbox{Benefit}$ of expense reduction rounds to less than 0.01%.

hRounds to less than 0.01%.

Statement of Investments, December 31, 2013

	Country	Shares	Value
Common Stocks and Other Equity Interests 84.2% Auto Components 0.3%			
^{a,b} International Automotive Components Group Brazil LLC	Brazil	2,846,329	\$ 554,522
^{a,b,c} International Automotive Components Group North America, LLC	United States	22,836,904	12,921,577
			13,476,099
Capital Markets 0.5%			
^a China Cinda Asset Management Co. Ltd., H	China	1,979,063	1,230,159
Morgan Stanley	United States	624,398	19,581,121
			20,811,280
Chemicals 0.4%			
^{a,d,e} Dow Corning Corp., Contingent Distribution	United States	12,598,548	_
Tronox Ltd., A	United States	851,461	19,643,205
			19,643,205
Commercial Banks 3.2%			
a,b,f First Southern Bancorp Inc.	United States	1,065,450	5,135,682
SunTrust Banks Inc	United States	1,011,186	37,221,757
Wells Fargo & Co	United States	2,188,070	99,338,378
			141,695,817
Communications Equipment 1.1%			
Cisco Systems Inc.	United States	2,094,362	47,018,427
Computers & Peripherals 3.0%			
Apple Inc	United States	185,640	104,164,460
SanDisk Corp	United States	371,025	26,172,104
			130,336,564
Consumer Finance 0.0% [†]			
^a Comdisco Holding Co. Inc.	United States	1,223	6,604
Diversified Financial Services 3.1%			
a ING Groep NV, IDR	Netherlands	3,728,869	51,803,496
JPMorgan Chase & Co	United States	1,444,570	84,478,454
			136,281,950
Diversified Telecommunication Services 2.2%			
a,d,e Global Crossing Holdings Ltd., Contingent Distribution	United States	60,632,757	_
TDC AS	Denmark	6,263,530	60,745,940
Telenor ASA	Norway	1,520,290	36,245,723
			96,991,663
Energy Equipment & Services 3.5%			
Fugro NV, IDR	Netherlands United States	592,014	35,272,063
a Rowan Cos. PLC Transocean Ltd	United States United States	1,001,305 1,620,235	35,406,145 80,072,014
manovocan Eta	Jinica Jiaies	1,020,200	
			150,750,222

	Country	Shares	Value
Common Stocks and Other Equity Interests (continued)			
Food & Staples Retailing 3.6%			
CVS Caremark Corp	United States	564,440	\$ 40,396,971
Tesco PLC	United Kingdom	12,050,300	66,731,471
Walgreen Co	United States	897,779	51,568,426
			158,696,868
Health Care Equipment & Supplies 2.7%			
Medtronic Inc	United States	2,043,050	117,250,640
Health Care Providers & Services 2.3%			
Cigna Corp.	United States	721,733	63,137,203
UnitedHealth Group Inc.	United States	486,384	36,624,715
omtournouten aroup mo	Omica States	100,001	
			99,761,918
Insurance 5.7%			
ACE Ltd	United States	417,424	43,215,907
American International Group Inc	United States	1,306,516	66,697,642
B,b Olympus Re Holdings Ltd.	United States	106,700	_
RSA Insurance Group PLC	United Kingdom	34,299,294	51,954,325
White Mountains Insurance Group Ltd	United States	146,141	88,134,714
'		,	250,002,588
Internat Cathurara & Caminas O CO/			
Internet Software & Services 0.6%	United Ctates	22.474	0F 10C 027
^a Google Inc., A	United States	22,474	25,186,837
IT Services 0.4%			
^f Polaris Financial Technology Ltd	India	7,108,509	15,598,717
Machinery 0.5%			
^a CNH Industrial NV (EUR Traded)	Netherlands	408,023	4,649,837
aCNH Industrial NV, special voting (EUR Traded)	Netherlands	1,463,251	16,675,233
one made and my openial teams (2011 mades) The first teams (2011)		1, .00,201	
Madia 10 20/			21,325,070
Media 10.2% British Sky Broadcasting Group PLC	United Kingdom	195,037	2,726,605
	United States		
CBS Corp., B		709,201	45,204,472
Comcast Corp., Special A	United States	731,577	36,491,061
Reed Elsevier PLC	United Kingdom	3,983,176	59,279,223
RTL Group SA	Germany	528,912	68,263,053
Time Warner Cable Inc	United States	424,034	57,456,607
^a Tribune Co., A	United States	382,415	29,598,921
^a Tribune Co., B	United States	234,472	18,077,791
Twenty-First Century Fox Inc., B	United States	3,687,347	127,582,206
			444,679,939
Metals & Mining 2.9%			
Freeport-McMoRan Copper & Gold Inc., B	United States	2,255,259	85,113,475
p.f PMG LLC	United States	17,621	934,094
^a ThyssenKrupp AG	Germany	1,603,543	39,018,360
7		_,000,010	125,065,929
Office Fleetrenies 1 09/			123,003,929
Office Electronics 1.9% Xerox Corp.	United States	6,681,997	81,319,904
λοιολ σοιμ	Officed States	0,001,337	01,313,304

	Country	Shares	Value
Common Stocks and Other Equity Interests (continued)			
Oil, Gas & Consumable Fuels 7.1%			
Apache Corp	United States	823,010	\$ 70,729,479
BG Group PLC	United Kingdom	1,888,700	40,587,110
CONSOL Energy Inc.	United States	1,149,913	43,742,691
Marathon Oil Corp	United States	1,115,777	39,386,928
Petroleo Brasileiro SA, ADR	Brazil	1,483,826	20,447,122
WPX Energy Inc.	United States	4,709,759	95,984,888
			310,878,218
Personal Products 0.9% Avon Products Inc	United States	2 197 055	27 676 595
	United States	2,187,955	37,676,585
Pharmaceuticals 6.1%			
Hospira Inc.	United States	1,148,000	47,389,440
Merck & Co. Inc.	United States	2,005,510	100,375,776
Novartis AG, ADR	Switzerland	677,230	54,435,747
Teva Pharmaceutical Industries Ltd., ADR	Israel	1,620,652	64,955,732
			267,156,695
Real Estate Management & Development 1.4%			
Brookfield Office Properties Inc.	United States	551,389	10,614,238
Canary Wharf Group PLC		10,069,634	52,039,512
	5	,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,	62,653,750
Semiconductors & Semiconductor Equipment 1.0%			
ON Semiconductor Corp	United States	5,183,381	42,711,059
Software 7.9%		, ,	. ,
	lovool	1 475 104	05 170 517
Check Point Software Technologies Ltd	Israel United States	1,475,194	95,179,517
Microsoft Corp.	Canada	3,409,670	127,623,948
Open Text Corp.		604,097	55,552,760
Symantec Corp	United States	2,810,122	66,262,677 344,618,902
Specialty Retail 2.6%			
Dufry AG	Switzerland	488,180	85,700,340
Kingfisher PLC		4,256,823	27,109,966
Milghaner i Lo	Officed Kingdom	4,230,023	
			112,810,306
Tobacco 5.0%		1 060 500	FC 227 5
Altria Group Inc.	United States	1,362,530	52,307,526
British American Tobacco PLC	United Kingdom	1,926,205	103,247,445
Lorillard Inc.	United States	1,276,635	64,699,862
			220,254,833
Wireless Telecommunication Services 4.1%			
Tele2 AB, B	Sweden	3,789,690	42,917,046
Vodafone Group PLC	United Kingdom	34,881,127	136,933,710
			179,850,756
Total Common Stocks and Other Equity Interests			
(Cost \$2,559,000,989)			3,674,511,345

	Country	Shares	Value
Convertible Preferred Stocks (Cost \$1,821,000) 0.1%			
Commercial Banks 0.1%			
^{a,b,f} First Southern Bancorp Inc., cvt. pfd., C	United States	1,821	\$ 3,399,518
Preferred Stocks 2.0%			
Automobiles 1.2%			
Porsche Automobile Holding SE, pfd	Germany	482,830	50,248,275
	,	,	
Semiconductors & Semiconductor Equipment 0.8% Samsung Electronics Co. Ltd., pfd	South Korea	37,325	35,814,464
	Journ Norca	37,323	
Total Preferred Stocks (Cost \$59,502,406)			86,062,739
		Principal Amount*	
Corporate Bonds, Notes and Senior Floating Rate			
Interests 6.1%			
g American Airlines Inc., senior secured note, 144A, 7.50%,			
3/15/16	United States	48,302,000	50,354,835
h,i Caesars Entertainment Operating Co. Inc., Senior Tranche Term			
Loan, first lien, 1/28/18,			
B5, 4.488%	United States	8,410,000	7,940,445
B6, 5.488%	United States	35,475,000	33,942,267
Clear Channel Communications Inc.,			
senior secured note, first lien, 9.00%, 12/15/19	United States	18,873,000	19,344,825
h,i Tranche B Term Loan, 3.819%, 1/29/16	United States	226,261	219,784
h.i Tranche C Term Loan, 3.819%, 1/29/16	United States	46,542	44,665
h,i Tranche D Term Loan, 6.919%, 1/30/19	United States United States	15,813,482 5,080,935	15,141,409 5,017,424
hiThe Great Atlantic & Pacific Tea Co. Inc., senior secured, First Lien	Officed States	3,060,933	3,017,424
Exit Term Loan, 11.00%, 3/13/17	United States	14,220,848	14,754,130
h,i JC Penney Corp. Inc., Term Loan, 6.00%, 5/22/18	United States	18,115,888	17,725,889
h,i,j KIK Custom Products Inc., Second Lien Term Loan, 9.50%,		,,	,,
11/17/19	United States	22,739,000	22,696,364
NGPL PipeCo LLC,			
g secured note, 144A, 7.119%, 12/15/17	United States	8,028,000	7,305,480
g,k senior secured note, 144A, 9.625%, 6/01/19	United States	11,912,000	11,703,540
^{h,i} Term Loan B, 6.75%, 9/15/17	United States	707,822	662,035
h,i Texas Competitive Electric Holdings Co. LLC, Extended Term Loan,			
4.668%, 10/10/17	United States	46,282,735	31,969,799
Texas Competitive Electric Holdings Co. LLC/Texas Competitive			
Electric Holdings Finance Inc.,		04.000.000	1 707 440
senior note, A, 10.25%, 11/01/15	United States	24,392,000	1,707,440
g senior secured note, 144A, 11.50%, 10/01/20	United States	28,306,000	20,946,440
senior secured notesenior secured note	Italy	853,000	908,445
third lien	Italy Italy	1,992,000 EUR	,
	italy	1,332,000 LON	2,310,424
Total Corporate Bonds, Notes and Senior Floating Rate			
Interests (Cost \$272,104,920)			265,303,640

	Country	Principal Amount*	Value
Corporate Notes in Reorganization 0.3%			
b,I Broadband Ventures III LLC, secured promissory note, 5.00%,			
2/01/12	United States	10,848	\$ —
h,I Cengage Learning Acquisitions Inc., FRN, 2.70%, 7/03/14	United States	15,289,223	12,002,040
Total Corporate Notes in Reorganization			
(Cost \$12,147,736)			12,002,040
		Shares	
Companies in Liquidation 1.7%			
^a Adelphia Recovery Trust	United States	48,268,724	96,537
a,d Adelphia Recovery Trust, Arahova Contingent Value Vehicle,		6 161 007	0.001
Contingent Distribution	United States	6,161,087	3,081
a,b,c,f CB FIM Coinvestors LLC	United States	15,831,950	_
a.d.e Century Communications Corp., Contingent Distribution	United States	16,986,000	_
a,b FIM Coinvestor Holdings I, LLC	United States United States	19,805,560 163,140,446	72 412 201
a.d.e Tribune Litigation Trust, Contingent Distribution	United States	496,443	73,413,201
	Officed States	430,443	
Total Companies in Liquidation (Cost \$77,636,913)			73,512,819
	Counterparty	Notional Amount*	
Options Purchased 0.3%	Counterparty	rrotional rimount	
Payer Swaptions - Over-the-Counter			
Interest Rate 0.1%			
Receive floating 6-month JPY LIBOR, pay fixed 3.00%,			
Expires 3/08/17	UBSW	5,500,000,000 JPY	522,060
Receive floating 6-month JPY LIBOR, pay fixed 3.00%,		-,,	,
Expires 3/14/17	MSCS	5,583,183,000 JPY	538,219
Receive floating 6-month JPY LIBOR, pay fixed 3.00%,			
Expires 3/16/17	MSCS	5,107,000,000 JPY	497,473
Receive floating 6-month JPY LIBOR, pay fixed 3.00%,			
Expires 6/15/17	MSCS	6,058,062,500 JPY	724,665
			2,282,417
Puts - Over-the-Counter			
Currency Options 0.2%			
JPY/USD, June Strike Price 90 JPY, Expires 6/15/17	BANT	1,764,720,000 JPY	2,827,434
JPY/USD, June Strike Price 95 JPY, Expires 6/15/17	BANT	2,393,646,600 JPY	2,846,147
JPY/USD, June Strike Price 100 JPY, Expires 6/15/17	BANT	3,166,692,000 JPY	
			8,384,681
Total Options Purchased (Cost \$10,808,994)			10,667,098
Total Investments before Short Term Investments			
(Cost \$2,993,022,958)			4,125,459,199
(

Statement of Investments, December 31, 2013 (continued)

	Country	Principal Amount*	Value
Short Term Investments 5.3% U.S. Government and Agency Securities (Cost \$232,871,666) 5.3% n.o U.S. Treasury Bills, 1/02/14 - 6/26/14	United States	232,900,000	\$ 232,879,891
Total Investments before Money Market Funds (Cost \$3,225,894,624)			4,358,339,090
PInvestments from Cash Collateral Received for Loaned Securities (Cost \$1,698,820) 0.0%† Money Market Funds 0.0%† BNY Mellon Overnight Government Fund, 0.017%	United States	Shares 1,698,820	1 609 920
Total Investments (Cost \$3,227,593,444) 100.0%	Officer States	1,030,020	1,698,820 4,360,037,910 (23,996,782) 26,873,281 \$4,362,914,409
Common Stocks (0.6)% Diversified Telecommunication Services (0.6)% Verizon Communications Inc.	United States	488,335	\$ (23,996,782)

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

^fSee Note 11 regarding holdings of 5% voting securities.

*Security was purchased pursuant to Rule 144A under the Securities Act of 1933 and may be sold in transactions exempt from registration only to qualified institutional buyers or in a public offering registered under the Securities Act of 1933. These securities have been deemed liquid under guidelines approved by the Trust's Board of Trustees. At December 31, 2013, the aggregate value of these securities was \$94,137,164, representing 2.16% of net assets.

hThe coupon rate shown represents the rate at period end.

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

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

kA portion or all of the security is on loan at December 31, 2013. See Note 1(g).

See Note 8 regarding credit risk and defaulted securities.

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

ⁿThe security is traded on a discount basis with no stated coupon rate.

eSecurity or a portion of the security has been pledged as collateral for securities sold short, open futures and forward contracts. At December 31, 2013, the aggregate value of these securities and/or cash pledged as collateral was \$43,595,616, representing 1.00% of net assets.

PSee Note 1(g) regarding securities on loan.

^qThe rate shown is the annualized seven-day yield at period end.

'See Note 1(f) regarding securities sold short.

^{*}The principal/notional amount is stated in U.S. dollars unless otherwise indicated.

^aNon-income producing.

bSee Note 9 regarding restricted securities.

At December 31, 2013, 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 due to ownership limits and/or potential possession of material non-public information.

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.

^{*}Security has been deemed illiquid because it may not be able to be sold within seven days. At December 31, 2013, the aggregate value of these securities was \$52,039,512, representing 1.19% of net assets.

Statement of Investments, December 31, 2013 (continued)

At December 31, 2013, the Fund had the following futures contracts outstanding. See Note 1(d).

Futures Contracts

Description	Туре	Number of Contracts	Notional Value	Expiration Date	Unrealized Appreciation	Unrealized Depreciation
Currency Contracts						
EUR/USD	Short	507	\$87,381,450	3/17/14	\$ —	\$ (375,958)
GBP/USD	Short	913	94,484,088	3/17/14		(878,743)
Unrealized appreciation (depreciation)					_	(1,254,701)
Net unrealized appreciation (depreciation)						\$(1,254,701)

At December 31, 2013, the Fund had the following forward exchange contracts outstanding. See Note 1(d).

Forward Exchange Contracts

Currency	Counterparty ^a	Туре	Quantity	Contract Amount	Settlement Date	Unrealized Appreciation	Unrealized Depreciation
Euro	BANT	Buy	541,221	\$ 746,566	1/17/14	\$ —	\$ (2,122)
Euro	SCBT	Buy	3,937,869	5,331,126	1/17/14	85,367	_
Euro	BANT	Sell	14,159,982	18,534,502	1/17/14	_	(942,392)
Euro	BONY	Sell	227,375	311,508	1/17/14	_	(1,243)
Euro	BBU	Sell	13,573,357	17,724,904	1/17/14	_	(945,093)
Euro	HSBC	Sell	586,748	802,337	1/17/14	_	(4,728)
Euro	SCBT	Sell	1,072,067	1,430,212	1/17/14	_	(44,403)
Euro	SSBT	Sell	248,258	339,602	1/17/14	_	(1,874)
British Pound	BANT	Sell	43,244,104	65,812,524	1/21/14	_	(5,785,289)
British Pound	FBCO	Sell	764,298	1,215,309	1/21/14	_	(50,114)
British Pound	DBFX	Sell	17,876,079	27,137,676	1/21/14	_	(2,459,149)
British Pound	HSBC	Sell	890,099	1,424,707	1/21/14	_	(49,000)
British Pound	SCBT	Sell	3,559,068	5,856,241	1/21/14	_	(36,388)
South Korean Won	HSBC	Buy	2,574,609,394	2,376,719	2/12/14	56,769	(1,756)
Swiss Franc	BANT	Buy	5,800,000	6,490,382	2/12/14	13,808	_
Swiss Franc	BONY	Buy	353,427	398,680	2/12/14	_	(2,342)
Swiss Franc	BBU	Buy	8,730,407	9,761,777	2/12/14	28,606	_
Swiss Franc	FBCO	Buy	394,608	424,378	2/12/14	18,140	_
South Korean Won	BANT	Sell	4,864,815,741	4,330,212	2/12/14	_	(264,634)
Swiss Franc	BANT	Sell	61,166,916	66,874,550	2/12/14	26,930	(1,745,693)
Swiss Franc	BBU	Sell	9,614,174	10,621,754	2/12/14	_	(159,696)
South Korean Won	FBCO	Sell	12,421,576,282	11,171,477	2/12/14	_	(560,771)
Swiss Franc	FBCO	Sell	10,086,728	11,096,371	2/12/14	_	(215,007)
South Korean Won	DBFX	Sell	8,943,883,649	7,961,761	2/12/14	_	(485,787)
South Korean Won	HSBC	Sell	14,154,558,722	13,124,945	2/12/14	2,092	(246,206)
Swiss Franc	HSBC	Sell	1,619,857	1,731,786	2/12/14	_	(84,741)
Swiss Franc	SCBT	Sell	8,702,007	9,604,654	2/12/14	_	(153,881)
Danish Krone	BONY	Buy	4,222,816	762,684	2/14/14	16,191	_
Danish Krone	BANT	Sell	290,319,238	52,419,014	2/14/14	_	(1,128,796)
Danish Krone	BBU	Sell	4,489,051	830,803	2/14/14	2,822	_
British Pound	BANT	Buy	6,238,310	10,044,523	2/19/14	281,996	_
British Pound	BBU	Buy	659,510	1,067,887	2/19/14	23,827	_
British Pound	SSBT	Buy	439,185	707,324	2/19/14	19,675	_
British Pound	BANT	Sell	39,435,881	62,065,915	2/19/14	_	(3,213,841)
British Pound	BBU	Sell	26,324,019	41,848,828	2/19/14	_	(1,726,349)

Statement of Investments, December 31, 2013 (continued)

Forward Exchange Contracts (continued)

				Contract	Settlement	Unrealized	Unrealized
Currency	Counterpartya	Type	Quantity	Amount	Date	Appreciation	Depreciation
Euro	BANT	Sell	728,668	\$ 969,492	2/28/14	\$ —	\$ (32,790
Euro	BONY	Sell	214,536	282,151	2/28/14	_	(12,944
Euro	FBCO	Sell	4,038,534	5,393,878	2/28/14	_	(161,123
Euro	HSBC	Sell	2,691,980	3,619,187	2/28/14	_	(83,629
Euro	SCBT	Sell	1,543,133	2,069,830	2/28/14	_	(52,748
Euro	SSBT	Sell	563,414	755,630	2/28/14	_	(19,345
Euro	BANT	Buy	5,813,231	7,953,049	4/16/14	43,580	(540
Euro	BONY	Buy	505,618	695,786	4/16/14	_	(309
Euro	BBU	Buy	291,110	400,073	4/16/14	348	_
Euro	HSBC	Buy	533,598	733,011	4/16/14	1,301	(349
Euro	SCBT	Buy	4,999,520	6,850,213	4/16/14	29,009	(2,391
Euro	SSBT	Buy	237,981	327,315	4/16/14	28	_
Euro	BANT	Sell	36,791,152	50,003,774	4/16/14	_	(602,396
Euro	BONY	Sell	176,497	241,529	4/16/14	_	(1,242
Euro	BBU	Sell	40,488,514	55,052,435	4/16/14	_	(639,451
Euro	FBCO	Sell	500,958	681,837	4/16/14	_	(7,230
Euro	HSBC	Sell	682,350	925,936	4/16/14	_	(12,636
Euro	SCBT	Sell	721,831	981,669	4/16/14	_	(11,209
Euro	SSBT	Sell	164,260	224,622	4/16/14	_	(1,317
British Pound	BANT	Sell	18,999,796	30,803,346	4/22/14	_	(632,247
British Pound	BONY	Sell	905,405	1,480,722	4/22/14	_	(17,291
British Pound	FBCO	Sell	16,180,906	26,083,620	4/22/14	_	(688,055
British Pound	HSBC	Sell	1,408,310	2,322,374	4/22/14	_	(7,707
British Pound	SCBT	Sell	28,316,585	45,646,335	4/22/14	_	(1,204,097
Swedish Krona	BANT	Buy	6,770,000	1,029,943	5/12/14	20,112	_
Swedish Krona	BANT	Sell	183,884,300	27,853,856	5/12/14	_	(667,350
Swedish Krona	BONY	Sell	28,339,749	4,292,201	5/12/14	_	(103,410
Swedish Krona	BBU	Sell	66,351,160	10,113,506	5/12/14	_	(177,830
Euro	BANT	Sell	18,221,719	24,537,161	5/15/14	4,721	(532,449
Euro	BONY	Sell	851,806	1,175,359	5/15/14	3,657	_
Euro	BBU	Sell	726,450	997,710	5/15/14	769	(2,327
Euro	HSBC	Sell	924,640	1,274,060	5/15/14	4,161	(1,990
Euro	SCBT	Sell	856,024	1,178,804	5/15/14	2,576	(1,277
Euro	SSBT	Sell	207,050	283,754	5/15/14	_	(1,054
Euro	HSBC	Sell	981,121	1,322,968	5/19/14	_	(26,620
Euro	SCBT	Sell	1,829,865	2,470,153	5/19/14	_	(46,931
British Pound	BANT	Buy	14,901,399	24,382,892	5/21/14	265,837	_
British Pound	BBU	Buy	5,859,164	9,590,268	5/21/14	101,503	_
Norwegian Krone	BANT	Buy	4,298,850	695,551	5/21/14	9,537	_
	DDII	Buy	4,848,000	785,199	5/21/14	9,959	_
Norwegian Krone	BBU				E (O 1 /1 4		(100.007
Norwegian Krone Norwegian Krone	BANT	Sell	206,489,671	33,678,079	5/21/14	_	(189,907
			206,489,671 49,899,259	33,678,079 80,215,553	5/21/14 5/21/14	_	
Norwegian Krone	BANT	Sell				_ _ _	(189,907 (2,323,899 (1,624,807
Norwegian KroneBritish Pound	BANT BBU HSBC	Sell Sell Sell	49,899,259 35,228,605	80,215,553 56,647,597	5/21/14 5/21/14	1,073,321	(2,323,899

^aMay be comprised of multiple contracts using the same currency and settlement date.

See Abbreviations on page 59.

Financial Statements

Statement of Assets and Liabilities

December 31, 2013

Cost - Unaffiliated issuers (Note 11)	Assets:	
Cost - Controlled affiliated issuers (Note 11) 1,233.477 Cost - Non-controlled affiliated issuers \$3,227,593.444 Value - Unaffiliated issuers \$4,334.969.899 Value - Controlled affiliated issuers (Note 11) 24,133.917 Total value of investments (includes securities loaned in the amount of \$1,652,565) 4,360.037,910 Cash 410,024 Restricted Cash (Note 1e) 2,524,000 Foreign currency, at value (cost \$26,916,355) 26,886,684 Receivables: 22,73,858 Capital shares sold 1,838,33 Dividends and interest 18,936,694 Due from brokers 24,540,742 Unrealized appreciation on forward exchange contracts 1,073,221 Other assets 1,073,221 Other assets 1,00 Total assets 5,16,774 Management fees 2,187,506 Capital shares redeemed 5,716,774 Management fees 2,187,506 Trustees' fees and expenses 212,894 Variation margin 1,73,63 Due to brokers 2,23,96,782 Due to brokers		40.4====
Cost - Non-controlled affiliated issuers (Note 11) 48,641,127 Total cost of investments \$3,227,593,444 Value - Controlled affiliated issuers (Note 11) 934,094 Value - Controlled affiliated issuers (Note 11) 24,133,917 Total value in or investments (includes securities loaned in the amount of \$1,652,565) 4360,037,910 Cash 410,024 Restricted Cash (Note 1e) 2,524,000 Foreign currency, at value (cost \$26,916,355) 26,886,684 Receivables: 1,183,833 Investment securities sold 2,273,858 Capital shares sold 1,183,833 Dividends and interest 18,936,694 Unrealized appreciation on forward exchange contracts 1,073,321 Other assets 1,007,321 Other assets 4,437,867,166 Liabilities: 2,277,813 Investment securities purchased 5,802,919 Capital shares redeemed 5,802,919 Capital shares redeemed 5,716,774 Management fees 2,277,813 Distribution fees 1,120,658 Transfer agent fee 738,137		
Total cost of investments \$3,227,593,444 Value - Unaffiliated issuers \$4,334,969,899 Value - Controlled affiliated issuers (Note 11) 934,094 Value - Non-controlled affiliated issuers (Note 11) 24,133,917 Total value of investments (includes securities loaned in the amount of \$1,652,565) 4,360,037,910 Cash (Note 1e) 2,524,000 Foreign currency, at value (cost \$26,916,355) 26,886,684 Receivables: 2,273,858 Reapital shares sold 2,273,858 Capital shares sold 1,183,833 Dividends and interest 18,936,694 Due from brokers 24,540,742 Unrealized appreciation on forward exchange contracts 1,073,321 Other assets 3 Investment securities purchased 5,802,919 Capital shares redeemed 5,716,774 Management fees 2,187,506 Administrative fees 2,277,813 Distribution fees 1,120,658 Transfer agent fees 2,277,813 Turseles es and expenses 2,24,000 Payable upon return of securities loaned 1,		
Value - Unaffiliated issuers \$4,334,969,899 Value - Controlled affiliated issuers (Note 11) 934,094 Value - Ontrolled affiliated issuers (Note 11) 24,133,917 Total value of investments (includes securities loaned in the amount of \$1,652,565) 4,360,037,910 Cash 410,024 Restricted Cash (Note 1e) 2,524,000 Foreign currency, at value (cost \$26,916,355) 26,886,684 Receivables: 1 Investment securities sold 2,273,858 Capital shares sold 18,936,694 Due from brokers 24,540,742 Unrealized appreciation on forward exchange contracts 1,073,321 Other assets 100 Total assets 5,02,919 Capital shares redeemed 5,716,774 Management fees 2,187,506 Administrative fees 2,187,506 Administrative fees 2,187,506 Administrative fees 2,218,750 Variation margin 1,120,658 Transfer agent fees 2,24,804 Variation margin 23,996,782 Due to brokers 2,524,000		
Value - Ontrolled affiliated issuers (Note 11) 934,094 Value - Non-controlled affiliated issuers (Note 11) 24,133,917 Total value of investments (includes securities loaned in the amount of \$1,652,565) 4,360,037,910 Cash 410,024 Restricted Cash (Note 1e) 2,524,000 Foreign currency, at value (cost \$25,916,355) 22,73,858 Receivables: 11,83,833 Dividends and interest 18,936,694 Due from brokers 24,540,742 Unrealized appreciation on forward exchange contracts 1,073,321 Offer assets 1,073,321 Total assets 4,437,867,166 Liabilities: 2,187,506 Payables: 5,802,919 Capital shares redeemed 5,716,774 Management fees 2,187,506 Administrative fees 2,187,506 Administrative fees 2,78,813 Distribution fees 1,120,658 Transfer agent fees 212,894 Variation margin 173,763 Securities sold short, at value (proceeds \$23,097,587) 23,967,82 Due to brokers <	Total cost of investments	\$3,227,593,444
Value - Non-controlled affiliated issuers (Note 11) 24,133,917 Total value of investments (includes securities loaned in the amount of \$1,652,565) 4,360,037,910 Cash 410,024 Restricted Cash (Note 1e) 2,524,000 Foreign currency, at value (cost \$26,916,355) 26,886,688 Receivables: "** Investment securities sold 2,273,858 Capital shares sold 18,936,694 Due from brokers 24,540,742 Unrealized appreciation on forward exchange contracts 1,073,321 Other assets 100 Total assets 4,437,867,166 Liabilities: *** Payables: *** Investment securities purchased 5,716,774 Management fees 2,187,506 Administrative fee 2,187,506 Distribution fees 738,137 Trustees' fees and expenses 212,894 Variation margin 13,763 Securities sold short, at value (proceeds \$23,097,587) 23,996,782 Due to brokers 2,524,000 Payable upon return of securities loaned 1,698,		
Total value of investments (includes securities loaned in the amount of \$1,652,565) 4,360,037,910 Cash 410,024 Restricted Cash (Note 1e) 2,524,000 Foreign currency, at value (cost \$26,916,355) 26,886,684 Receivables: Investment securities sold 2,273,858 Capital shares sold 1,183,833 Dividends and interest 18,936,694 Due from brokers 24,540,742 Unrealized appreciation on forward exchange contracts 1,073,321 Other assets 1,00 Total assets 5,802,919 Capital shares redeemed 5,716,774 Management fees 2,187,506 Administrative fees 2,187,506 Administrative fees 2,187,506 Administrative fees 1,120,658 Transfer agent fees 738,137 Trustees' fees and expenses 212,894 Variation margin 137,63 Securities sold short, at value (proceeds \$23,097,587) 23,996,782 Due to brokers 2,524,000 Payable upon return of securities loaned 1,698,820 Unrealize		
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Paid-in capital\$3,341,127,704Undistributed net investment income34,607,622Net unrealized appreciation (depreciation)1,101,226,311Accumulated net realized gain (loss)(114,047,228)	Net assets, at value	\$4,362,914,409
Undistributed net investment income34,607,622Net unrealized appreciation (depreciation)1,101,226,311Accumulated net realized gain (loss)(114,047,228)		
Net unrealized appreciation (depreciation)1,101,226,311Accumulated net realized gain (loss)(114,047,228)		
Accumulated net realized gain (loss) (114,047,228)		
Net assets, at value	Accumulated net realized gain (loss)	
	Net assets, at value	\$4,362,914,409

Financial Statements (continued)

Statement of Assets and Liabilities (continued)

December 31, 2013

Class Z:	
Net assets, at value	\$2,876,321,624
Shares outstanding	170,117,395
Net asset value and maximum offering price per share	\$16.91
Class A:	
Net assets, at value	\$1,148,408,828
Shares outstanding	68,353,673
Net asset value per share ^a	\$16.80
Maximum offering price per share (net asset value per share ÷ 94.25%)	\$17.82
Class C:	
Net assets, at value	\$ 336,222,103
Shares outstanding	20,136,903
Net asset value and maximum offering price per share ^a	\$16.70
Class R:	
Net assets, at value	\$ 1,956,132
Shares outstanding	117,299
Net asset value and maximum offering price per share	\$16.68
Class R6:	
Net assets, at value	\$ 5,722
Shares outstanding	339
Net asset value and maximum offering price per share	\$16.88

^aRedemption price is equal to net asset value less contingent deferred sales charges, if applicable.

Financial Statements (continued)

Statement of Operations

for the year ended December 31, 2013

Investment income:	
Dividends:	
Unaffiliated issuers	\$ 81,830,723
Non-controlled affiliated issuers (Note 11)	588,715
Interest	32,805,759
Income from securities loaned	70,543
Total investment income	115,295,740
Expenses:	
Management fees (Note 3a)	24,571,061
Administrative fees (Note 3b)	3,122,851
Distribution fees: (Note 3c)	
Class A	3,215,366
Class B	1,651
Class C	3,175,836
Class R	9,194
Transfer agent fees: (Note 3e)	
Class Z	2,812,603
Class A	1,114,869
Class B	194
Class C	330,560
Class R	1,912
Class R6	51
Custodian fees (Note 4)	145,595
Reports to shareholders	238,334
Registration and filing fees	109,376
Professional fees	247,333
Trustees' fees and expenses	116,288
Dividends on securities sold short	13,769
Other	68,118
Total expenses	39,294,961
Expense reductions (Note 4)	(908)
Expenses waived/paid by affiliates (Note 3f)	(50)
Net expenses	39,294,003
Net investment income	76,001,737

Financial Statements (continued)

Statement of Operations (continued)

for the year ended December 31, 2013

Realized a	nd unrealized	gains (losses):
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Net realized	gain	(loss)	from:
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Investments:	
Unaffiliated issuers	\$ 382,188,964
Controlled affiliated issuers (Note 11)	31,392
Written options	439,816
Foreign currency transactions	(9,384,411)
Futures contracts	(6,876,999)
Net realized gain (loss)	366,398,762
Net change in unrealized appreciation (depreciation) on:	
Investments	599,618,776
Translation of other assets and liabilities denominated in foreign currencies	(12,372,742)
Change in deferred taxes on unrealized appreciation	(8,455)
Net change in unrealized appreciation (depreciation)	587,237,579
Net realized and unrealized gain (loss)	953,636,341
Net increase (decrease) in net assets resulting from operations	\$ 1,029,638,078

Financial Statements (continued)

Statements of Changes in Net Assets

	Year Ended December 31,		
	2013	2012	
Increase (decrease) in net assets:			
Operations:			
Net investment income	\$ 76,001,737	\$ 65,588,549	
futures contracts and securities sold short	366,398,762	327,115,629	
assets and liabilities denominated in foreign currencies and deferred taxes	587,237,579	188,521,123	
Net increase (decrease) in net assets resulting from operations	1,029,638,078	581,225,301	
Distributions to shareholders from:			
Net investment income:			
Class Z	(55,178,018)	(44,549,983)	
Class A	(18,870,498)	(15,179,473)	
Class B	_	(23,941)	
Class C	(3,387,637)	(2,423,022)	
Class R	(27,980)	(33,585)	
Class R6	(115)		
Total distributions to shareholders	(77,464,248)	(62,210,004)	
Capital share transactions: (Note 2)			
Class Z	(202,452,718)	(306,646,621)	
Class A	(84,966,969)	(220,069,461)	
Class B	(1,429,101)	(9,738,275)	
Class C	(33,769,334)	(61,639,577)	
Class R	(387,734)	(466,843)	
Class R6	5,000		
Total capital share transactions	(323,000,856)	(598,560,777)	
Net increase (decrease) in net assets	629,172,974	(79,545,480)	
Net assets:			
Beginning of year	3,733,741,435	3,813,286,915	
End of year	\$4,362,914,409	\$3,733,741,435	
Undistributed net investment income included in net assets:			
End of year	\$ 34,607,622	\$ 38,445,635	

Notes to Financial Statements

1. Organization and Significant Accounting Policies

Franklin Mutual Series Funds (Trust) is registered under the Investment Company Act of 1940, as amended, (1940 Act) as an open-end investment company, consisting of seven separate funds. The Mutual Beacon 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. Effective May 1, 2013, the Fund began offering a new class of shares, Class R6. Effective March 22, 2013, all Class B shares were converted to Class A. 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 4p.m. Eastern time (NYSE close) on each day the NYSE is open for trading. Under procedures approved by the Trust's Board of Trustees (the Board), the Fund's administrator, investment manager and other affiliates have formed the Valuation and Liquidity Oversight Committee (VLOC). The VLOC provides administration and oversight of the Fund's valuation policies and procedures, which are approved annually by the Board. Among other things, these procedures allow the Fund to utilize independent pricing services, quotations from securities and financial instrument dealers, and other market sources to determine fair value.

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

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

Notes to Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

a. Financial Instrument Valuation (continued)

sufficient market activity may not exist or is limited, the pricing services also utilize proprietary valuation models which may consider market characteristics such as benchmark yield curves, credit spreads, estimated default rates, anticipated market interest rate volatility, coupon rates, anticipated timing of principal repayments, underlying collateral, and other unique security features in order to estimate the relevant cash flows, which are then discounted to calculate the fair value. Securities denominated in a foreign currency are converted into their U.S. dollar equivalent at the foreign exchange rate in effect at the NYSE close on the date that the values of the foreign debt securities are determined.

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

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

Notes to Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

a. Financial Instrument Valuation (continued)

event has occurred that may call into question the reliability of the values of the foreign securities held by the Fund. If such an event occurs, the securities may be valued using fair value procedures, which may include the use of independent pricing services.

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

b. Foreign Currency Translation

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

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

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

c. Securities Purchased on a Delayed Delivery Basis

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

Notes to Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

d. Derivative Financial Instruments

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

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

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.

Notes to Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

d. Derivative Financial Instruments (continued)

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

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

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

See Notes 7 and 10 regarding investment transactions and other derivative information, respectively.

e. Restricted Cash

At December 31, 2013, the Fund received 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 market 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

Notes to Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

f. Securities Sold Short (continued)

sold short. The Fund is obligated to pay fees for borrowing the securities sold short and is required to pay the counterparty any dividends or interest due on securities sold short. Such dividends or interest and any security borrowing fees are recorded as an expense to the Fund.

g. Securities Lending

The Fund participates in an agency based securities lending program. The Fund receives cash collateral against the loaned securities in an amount equal to at least 102% of the market value of the loaned securities. Collateral is maintained over the life of the loan in an amount not less than 100% of the market value of loaned securities, as determined at the close of fund business each day; any additional collateral required due to changes in security values is delivered to the Fund on the next business day. The collateral is invested in a non-registered money fund as indicated on the Statement of Investments. The Fund receives income from the investment of cash collateral, in addition to lending fees and rebates paid by the borrower. The Fund bears the market risk with respect to the collateral investment, securities loaned, and the risk that the agent may default on its obligations to the Fund. The securities lending agent has agreed to indemnify the Fund in the event of default by a third party borrower.

h. Senior Floating Rate Interests

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

Senior secured corporate loans in which the Fund invests are generally readily marketable, but may be subject to certain restrictions on resale.

i. Income and Deferred Taxes

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

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

Notes to Financial Statements (continued)

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 December 31, 2013, and for all open tax years, the Fund has determined that no liability for unrecognized tax benefits is required in the Fund's financial statements related to uncertain tax positions taken on a tax return (or expected to be taken on future tax returns). Open tax years are those that remain subject to examination and are based on each tax jurisdiction statute of limitation.

i. Security Transactions, Investment Income, Expenses and Distributions

Security transactions are accounted for on trade date. Realized gains and losses on security transactions are determined on a specific identification basis. Interest income and estimated expenses are accrued daily. Amortization of premium and accretion of discount on debt securities are included in interest income. Dividend income and dividends declared on securities sold short are recorded on the ex-dividend date except that certain dividends from foreign securities are recognized as soon as the Fund is notified of the ex-dividend date. 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 accounting principles generally accepted in the United States of America. 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.

Distributions received by the Fund from certain securities may be a return of capital (ROC). Such distributions reduce the cost basis of the securities, and any distributions in excess of the cost basis are recognized as capital gains.

Notes to Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

k. Accounting Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America 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.

1. Guarantees and Indemnifications

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

2. SHARES OF BENEFICIAL INTEREST

At December 31, 2013, there were an unlimited number of shares authorized (without par value). Transactions in the Fund's shares were as follows:

	Year Ended December 31,			
	2013		20	012
	Shares	Amount	Shares	Amount
Class Z Shares:				
Shares sold	5,766,527	\$ 88,484,550	6,033,846	\$ 77,047,538
Shares issued in reinvestment of				
distributions	3,192,842	51,701,130	3,100,559	41,435,724
Shares redeemed	(22,237,269)	(342,638,398)	(33,245,503)	(425,129,883)
Net increase (decrease)	(13,277,900)	\$(202,452,718)	(24,111,098)	\$(306,646,621)
Class A Shares:				
Shares sold	6,524,792	\$ 99,232,404	6,494,698	\$ 82,298,658
Shares issued in reinvestment of distributions	1,140,730	18,260,693	1,107,862	14,671,619
Shares redeemed	(13,397,621)	(202,460,066)	(25,052,269)	(317,039,738)
Net increase (decrease)	(5,732,099)	(5,732,099) \$ (84,966,969)		\$(220,069,461)
Class B Shares ^a :				
Shares sold	8	\$ 118	8,564	\$ 106,832
Shares issued in reinvestment of distributions	_	_	1,674	21,631
Shares redeemed	(102,482)	(1,429,219)	(793,560)	(9,866,738)
Net increase (decrease)	(102,474)	\$ (1,429,101)	(783,322)	\$ (9,738,275)

Notes to Financial Statements (continued)

2. Shares of Beneficial Interest (continued)

	Year Ended December 31,					
	20	013		2	2012	
	Shares		Amount	Shares		Amount
Class C Shares:						
Shares sold	1,182,680	\$	17,946,283	1,042,329	\$	13,107,853
Shares issued in reinvestment of						
distributions	204,523		3,174,069	173,772		2,256,012
Shares redeemed	(3,662,772)		(54,889,686)	(6,134,184)		(77,003,442)
Net increase (decrease)	(2,275,569)	\$	(33,769,334)	(4,918,083)	\$	(61,639,577)
Class R Shares:						_
Shares sold	18,668	\$	278,978	83,478	\$	1,032,374
Shares issued in reinvestment of						
distributions	1,768		27,980	2,566		33,585
Shares redeemed	(47,578)		(694,692)	(118,562)		(1,532,802)
Net increase (decrease)	(27,142)	\$	(387,734)	(32,518)	\$	(466,843)
Class R6 Sharesb:						_
Shares sold	339	\$	5,000	i		

^aEffective March 22, 2013, all Class B shares were converted to Class A.

3. TRANSACTIONS WITH AFFILIATES

Franklin Resources, Inc. is the holding company for various subsidiaries that together are referred to as Franklin Templeton 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
0.600%	Up to and including \$5 billion
0.570%	Over \$5 billion, up to and including \$7 billion
0.550%	Over \$7 billion, up to and including \$10 billion
0.540%	In excess of \$10 billion

^bFor the period May 1, 2013 (effective date) to December 31, 2013.

Notes to Financial Statements (continued)

3. Transactions with Affiliates (continued)

b. Administrative Fees

The Fund pays its allocated share of an administrative fee to FT Services based on the Trust's aggregate average daily net assets as follows:

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

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 B, C and R compensation distribution plans, the Fund pays Distributors for costs incurred in connection with the servicing, sale and distribution of the Fund's shares up to the maximum annual plan rate for each class. The plan year, for purposes of monitoring compliance with the maximum annual plan rates, is February 1 through January 31.

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

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

The Board has set the current rate at 0.30% per year for Class A shares until further notice and approval by the Board.

d. Sales Charges/Underwriting Agreements

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

Sales charges retained net of commissions paid to unaffiliated	
broker/dealers	\$255,480
CDSC retained	\$ 8,835

Notes to Financial Statements (continued)

3. Transactions with Affiliates (continued)

e. Transfer Agent Fees

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

For the year ended December 31, 2013, the Fund paid transfer agent fees of \$4,260,189, of which \$1,968,024 was retained by Investor Services.

f. Waiver and Expense Reimbursements

Investor Services has contractually agreed in advance to waive or limit its fees so that the Class R6 transfer agent fees do not exceed 0.01% until April 30, 2014.

4. EXPENSE OFFSET ARRANGEMENT

The Fund has entered into an arrangement with its custodian whereby credits realized as a result of uninvested cash balances are used to reduce a portion of the Fund's custodian expenses. During the year ended December 31, 2013, the custodian fees were reduced as noted in the Statement of Operations.

5. INDEPENDENT TRUSTEES' RETIREMENT PLAN

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

During the year ended December 31, 2013, the Fund's projected benefit obligation and benefit payments under the Plan were as follows:

^a Projected benefit obligation at December 31, 2013	\$2	12,894
^b Decrease in projected benefit obligation	\$	4,338
Benefit payments made to retired trustees	\$	4,934

^aThe projected benefit obligation is included in accrued expenses and other liabilities in the Statement of Assets and Liabilities.

bThe decrease in projected benefit obligation is included in trustees' fees and expenses in the Statement of Operations.

Notes to Financial Statements (continued)

6. INCOME TAXES

For tax purposes, capital losses may be carried over to offset future capital gains. Capital loss carryforwards with no expiration, if any, must be fully utilized before those losses with expiration dates.

At December 31, 2013, the Fund had capital loss carryforwards of \$139,540,058 expiring in 2017. During the year ended December 31, 2013, the Fund utilized \$349,399,796 of capital loss carryforwards.

The tax character of distributions paid during the years ended December 31, 2013 and 2012, was as follows:

Distributions paid from ordinary income . .

2013	2012
\$77,464,248	\$62,210,004

At December 31, 2013, the cost of investments, net unrealized appreciation (depreciation) and undistributed ordinary income for income tax purposes were as follows:

Cost of investments	\$3,238,470,783
Unrealized appreciation	(129,622,507)
Distributable earnings - undistributed ordinary income	· / / /

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, corporate actions and wash sales.

7. Investment Transactions

Purchases and sales of investments (excluding short term securities and securities sold short) for the year ended December 31, 2013, aggregated \$1,227,950,812 and \$1,588,126,214, respectively.

Transactions in options written during the year ended December 31, 2013, were as follows:

	Number of Contracts	Premiums Received
Options outstanding at December 31, 2012	23,172	\$ 704,427
Options written	_	_
Options expired	(14,048)	(221,256)
Options exercised	(2,100)	(165,845)
Options closed	(7,024)	(317,326)
Options outstanding at December 31, 2013		\$ —

Notes to Financial Statements (continued)

7. INVESTMENT TRANSACTIONS (continued)

See Notes 1(d) and 10 regarding derivative financial instruments and other derivative information, respectively.

8. CREDIT RISK AND DEFAULTED SECURITIES

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

At December 31, 2013, the aggregate value of distressed company securities for which interest recognition has been discontinued was \$12,002,040, representing 0.28% 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.

Notes to Financial Statements (continued)

9. RESTRICTED SECURITIES (continued)

At December 31, 2013, 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
10,848	Broadband Ventures III LLC, secured promissory note, 5.00%, 2/01/12	7/01/10 - 11/30/12	\$ 10,848	\$ —
15,831,950	CB FIM Coinvestors LLC	1/15/09 - 6/02/09	— 10,010 —	_
19,805,560	FIM Coinvestor Holdings I, LLC	11/20/06 - 6/02/09	_	_
1,065,450	First Southern Bancorp Inc	1/27/10 - 7/07/10	22,480,995	5,135,682
1,821	First Southern Bancorp Inc., cvt. pfd., C	1/27/10 - 7/07/10	1,821,000	3,399,518
2,846,329	International Automotive Components Group Brazil LLC	4/13/06 - 12/26/08	1,890,264	554,522
22,836,904	International Automotive Components Group North America, LLC	1/12/06 - 3/18/13	18,692,218	12,921,577
106,700	Olympus Re Holdings Ltd	12/19/01	9,995,768	_
17,621	PMG LLC	3/22/04	1,233,477	934,094
	Total Restricted Securities (Value is 0.5	3% of Net Assets)	\$56,124,570	\$22,945,393

10. OTHER DERIVATIVE INFORMATION

At December 31, 2013, the Fund's investments in derivative contracts are reflected on the Statement of Assets and Liabilities as follows:

	Asset Derivatives	Liability Derivatives
Derivative Contracts		

Derivative Contracts Not Accounted for as Hedging Instruments	Statement of Assets and Liabilities Location	Fair Value Amount	Statement of Assets and Liabilities Location	Fair Value Amount
Interest rate contracts	Investments, at value	\$2,282,417		
Foreign exchange contracts	Investments, at value / Unrealized appreciation on forward exchange contracts	9,458,002	Unrealized depreciation on forward exchange contracts / Net assets consist of – net unrealized appreciation (depreciation)	\$31,456,893°

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

Notes to Financial Statements (continued)

10. OTHER DERIVATIVE INFORMATION (continued)

For the year ended December 31, 2013, the effect of derivative contracts on the Fund's Statement of Operations was as follows:

Derivative Contracts Not Accounted for as Hedging Instruments	Statement of Operations Locations	Realized Gain (Loss) for the Year	Change in Unrealized Appreciation (Depreciation) for the Year
Interest rate contracts	Net change in unrealized appreciation (depreciation) on investments		\$(1,503,307)
Foreign exchange contracts	Net realized gain (loss) from foreign currency transactions and futures contracts / Net change in unrealized appreciation (depreciation) on investments and translation of other assets and liabilities denominated in foreign currencies	\$(17,237,881)	(8,806,419)
Equity contracts	Net realized gain (loss) from investments and written options / Net change in unrealized appreciation (depreciation) on investments	(7,235,571)	5,938,413

For the year ended December 31, 2013, the average month end fair value of derivatives represented 0.82% of average month end net assets. The average month end number of open derivative contracts for the year was 156.

At December 31, 2013, the Fund's OTC derivative assets and liabilities, are as follows:

	Gross and Net Amounts of Assets and Liabilities Presented in the Statement of Assets and Liabilities		
	Assets ^a Liabilities ^a		
Derivatives			
Options Purchased	\$10,667,098	\$ —	
Forward Exchange Contracts	1,073,321	30,202,192	
Total	\$11,740,419	\$30,202,192	

^aAbsent 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.

Notes to Financial Statements (continued)

10. OTHER DERIVATIVE INFORMATION (continued)

At December 31, 2013, Fund's OTC derivative assets which may be offset against the Fund's OTC derivative liabilities and collateral received from the counterparty, is as follows:

	Amounts Not Offset in the Statement of Assets and Liabilities					
	Gross and Net Amounts of Assets Presented in the Statement of Assets and Liabilities	ints of esented Financial Financial tement Instruments Instruments Cash s and Available for Collateral Collateral		Net Amount (Not less than zero)		
Counterparty						
BANT	\$ 9,051,202	\$(9,051,202)	\$ —	\$ —	\$—	
BBU	167,834	(167,834)	_	_	_	
BONY	19,848	(19,848)		_	_	
DBFX	_	_	_	_	_	
FBCO	18,140	(18,140)	_	_	_	
HSBC	64,323	(64,323)	_	_	_	
MSCS	1,760,357	_	_	(1,760,357)	_	
SCBT	116,952	(116,952)	_	_	_	
SSBT	19,703	(19,703)	_	_	_	
UBSW	522,060	_	(522,060)	_	_	
Total	\$11,740,419	\$(9,458,002)	\$(522,060)	\$(1,760,357)	\$—	

^aAt December 31, 2013, the Fund received U.S. Treasury Bonds and Notes as collateral for derivatives.

In some instances, the collateral amounts disclosed in the table above were adjusted due to the requirement to limit the collateral amounts to avoid the effect of overcollateralization. Actual collateral received and/or pledged may be more than the amounts disclosed herein.

Notes to Financial Statements (continued)

10. OTHER DERIVATIVE INFORMATION (continued)

At December 31, 2013, the Fund's OTC derivative liabilities which may be offset against the Fund's OTC derivative assets and collateral pledged to the counterparty, is as follows:

	Amounts Not Offset in the Statement of Assets and Liabilities					
	Gross and Net Amounts of Liabilities Presented in the Statement of Assets and Liabilities	Financial Instruments Available for Offset	Financial Instruments Collateral Pledged ^a	Cash Collateral Pledged	Net Amount (Not less than zero)	
Counterparty						
BANT	\$15,740,446	\$(9,051,202)	\$ (5,138,830)	\$—	\$1,550,414	
BBU	5,974,645	(167,834)	(4,870,313)	_	936,498	
BONY	138,781	(19,848)	_	_	118,933	
DBFX	2,944,936	_	(2,801,620)	_	143,316	
FBCO	1,682,300	(18,140)	(1,263,874)	_	400,286	
HSBC	2,144,169	(64,323)	(1,398,718)	_	681,128	
MSCS	_	_	_	_	_	
SCBT	1,553,325	(116,952)	(1,008,849)	_	427,524	
SSBT	23,590	(19,703)	_	_	3,887	
UBSW	· —	· —	_	_	· —	
Total	\$30,202,192	\$(9,458,002)	\$(16,482,204)	\$—	\$4,261,986	

^aSee the accompanying Statement of Investments for securities pledged as collateral for derivatives.

See Notes 1(d) and 7 regarding derivative financial instruments and investment transactions, respectively.

11. Holdings of 5% Voting Securities of Portfolio Companies

The 1940 Act defines "affiliated companies" to include investments in portfolio companies in which a fund owns 5% or more of the outstanding voting securities. Investments in "affiliated companies" for the Fund for the year ended December 31, 2013, were as shown below.

Name of Issuer	Number of Shares Held at Beginning of Year	Gross Additions	Gross Reductions	Number of Shares Held at End of Year	Value at End of Year	Investment Income	Realized Capital Gain (Loss)
Controlled Affiliates ^a							
PMG LLC	23,726	_	6,105	17,621	\$ 934,094	\$ —	\$31,392
Non-Controlled Affiliates							
CB FIM Coinvestors LLC	15,831,950	_	_	15,831,950	\$ —	\$ —	\$ —
First Southern Bancorp Inc	1,065,450	_	_	1,065,450	5,135,682	_	_
First Southern Bancorp Inc., cvt.							
pfd., C	1,821	_	_	1,821	3,399,518	_	_
Polaris Financial Technology Ltd	6,942,715	165,794	_	7,108,509	15,598,717	588,715	_
Total Non-Controlled Affiliates					\$24,133,917	\$ 588,715	\$ —
Total Affiliated Securities (Value is 0	.57% of Net Ass	ets)			\$25,068,011	\$ 588,715	\$31,392

^aIssuer in which the Fund owns 25% or more of the outstanding voting securities.

Notes to Financial Statements (continued)

12. CREDIT FACILITY

The Fund, together with other U.S. registered and foreign investment funds (collectively, Borrowers), managed by Franklin Templeton Investments, are borrowers in a joint syndicated senior unsecured credit facility totaling \$1.5 billion (Global Credit Facility) which, after an extension of the original terms, matured on February 14, 2014. This Global Credit Facility provides a source of funds to the Borrowers for temporary and emergency purposes, including the ability to meet future unanticipated or unusually large redemption requests. Effective February 14, 2014, the Borrowers renewed the Global Credit Facility which matures on February 13, 2015.

Under the terms of the Global Credit Facility, the Fund shall, in addition to interest charged on any borrowings made by the Fund and other costs incurred by the Fund, pay its share of fees and expenses incurred in connection with the implementation and maintenance of the Global Credit Facility, based upon its relative share of the aggregate net assets of all of the Borrowers, including an annual commitment fee of 0.07% based upon the unused portion of the Global Credit Facility. These fees are reflected in other expenses on the Statement of Operations. During the year ended December 31, 2013, 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.

Notes to Financial Statements (continued)

13. FAIR VALUE MEASUREMENTS (continued)

A summary of inputs used as of December 31, 2013, 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	\$ —	\$ —	\$13,476,099	\$ 13,476,099
Commercial Banks	136,560,135	_	8,535,200	145,095,335
Machinery	4,649,837	16,675,233	_	21,325,070
Media	426,602,148	18,077,791	_	444,679,939
Metals & Mining	124,131,835	_	934,094	125,065,929
Real Estate Management & Development	10,614,238	_	52,039,512	62,653,750
Investments ^b	2,951,677,480	_	с	2,951,677,480
Corporate Bonds, Notes and Senior Floating Rate Interests	_	265,303,640	_	265,303,640
Corporate Notes in				
Reorganization	_	12,002,040	c	12,002,040
Companies in Liquidation	96,537	73,416,282	c	73,512,819
Options Purchased	_	10,667,098	_	10,667,098
Short Term Investments	232,879,891	1,698,820		234,578,711
Total Investments in Securities	\$3,887,212,101	\$397,840,904	\$74,984,905	\$4,360,037,910
Forward Exchange Contracts	\$ —	\$ 1,073,321	\$ —	\$ 1,073,321
Liabilities:				
Securities Sold Short	23,996,782	_	_	23,996,782
Futures Contracts	1,254,701	_	_	1,254,701
Forward Exchange Contracts	_	30,202,192	_	30,202,192

^alncludes common, convertible preferred and preferred stocks as well as other equity investments.

 $^{{}^{\}mathrm{b}}\mathsf{For}$ detailed categories, see the accompanying Statement of Investments.

clncludes securities determined to have no value at December 31, 2013.

Notes to Financial Statements (continued)

13. FAIR VALUE MEASUREMENTS (continued)

A reconciliation of assets in which Level 3 inputs are used in determining fair value is presented when there are significant Level 3 investments at the end of the year. At December 31, 2013, the reconciliation of assets is as follows:

	Balance at Beginning of Year	Purchases	Sales	Transfers Into Level 3	Transfers Out of Level 3 ^a	Cost Basis Adjustments ^b	Net Realized Gain (Loss)	Net Unrealized Gain (Loss)	Balance at End of Year	Net Change in Unrealized Appreciation (Depreciation) on Assets Held at Year End
Assets:										
Investments in Securities:										
Equity Investments:										
Auto Components	\$ 9,090,582	\$2,076,062	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 2,309,455	\$13,476,099	\$ 2,309,455
Commercial Banks	8,910,160	_	_	_	_	_	_	(374,960)	8,535,200	(374,960)
Diversified										
Telecommunication										
Services	800,511 ^d	_	_	_	_	_	1,708,371	(2,508,882)	d	_
Insurance	d	_	_	_	_	(25,936)	_	25,936	d	25,936
Metals & Mining	1,857,765	_	(458,753)	_	_	_	31,392	(496,310)	934,094	(445,637)
Real Estate Management & Development	50,398,206	_	_	_	(14,158,652)	_	_	15,799,958	52,039,512	13,854,944
Corporate Notes in Reorganization	d	_	(1,205)		_	_	_	1,205	d	
Total	\$71,057,224	\$2,076,062	\$(459,958)	\$ —	\$ (14,158,652)	\$ (25,936)	\$1,739,763	\$14,756,402	\$74,984,905	\$15,369,738

^aThe investment was transferred out of Level 3 as a result of the removal of a significant unobservable valuation input.

^bMay include accretion, amortization, partnership adjustments, and/or other cost basis adjustments.

clncludes common and convertible preferred stocks as well as other equity investments.

dIncludes securities determined to have no value.

Notes to Financial Statements (continued)

13. FAIR VALUE MEASUREMENTS (continued)

Significant unobservable valuation inputs developed by the VLOC for material Level 3 investments and impact to fair value as a result of changes in unobservable valuation inputs as of December 31, 2013, are as follows:

Description	Fair Value at End of Year	Valuation Technique	Unobservable Inputs	Amount	Impact to Fair Value if Input Increases ^a
Assets:					
Investments in Securities:					
Equity Investments:b					
Auto Components	\$12,921,577	Market comparables	Discount for lack of marketability	15%	Decrease
			EV / EBITDA multiple	5.1x	Increasec
Commercial Banks	8,535,200	Market comparables	Discount for lack of marketability	10%	Decrease
			Price / tangible book multiple	1.0x	Increasec
Real Estate Management &					
Development	52,039,512	Market comparables	Discount for lack of marketability	8%	Decreasec
All Other Investments ^d	1,488,616				
Total	\$74,984,905				

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

Abbreviations List

EBITDA - Earnings before interest, taxes, depreciation and amortization

E۷ - Enterprise value

14. New Accounting Pronouncements

In June 2013, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2013-08, Investment Companies (Topic 946): Amendments to the Scope, Measurement, and Disclosure Requirements. The ASU modifies the criteria used in defining an investment company under U.S. Generally Accepted Accounting Principles and also sets forth certain measurement and disclosure requirements. Under the ASU, an entity that is registered under the 1940 Act automatically qualifies as an investment company. The ASU is effective for interim and annual reporting periods beginning after December 15, 2013. Management has reviewed the requirements and believes the adoption of this ASU will not have a material impact on the financial statements.

blncludes common and convertible preferred stocks.

cRepresents a significant impact to fair value but not net assets.

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

Notes to Financial Statements (continued)

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. BBU - Barclays Bank PLC BONY - Bank of New York Mellon DBFX - Deutsche Bank AG FBCO - Credit Suisse Group AG HSBC - HSBC Bank USA, N.A. MSCS - Morgan Stanley Capital Services, LLC	EUR - Euro GBP - British Pound JPY - Japanese Yen USD - United States Dollar	ADR - American Depositary Receipt FRN - Floating Rate Note IDR - International Depositary Receipt LIBOR - London InterBank Offered Rate		
SCBT - Standard Chartered Bank SSBT - State Street Bank and Trust Co., N.A. UBSW - UBS AG				

Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying statement of assets and liabilities, including the statement of investments, of Mutual Beacon Fund (the "Fund") (one of the funds constituting Franklin Mutual Series Funds), as of December 31, 2013, and the related statement of operations for the year then ended, the statements of changes in net assets for each of the two years in the period then ended, and the financial highlights for each of the periods indicated therein. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. We were not engaged to perform an audit of the Fund's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of December 31, 2013, by correspondence with the custodian and brokers, or by other appropriate auditing procedures where replies from the brokers were not received. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Mutual Beacon Fund (one of the funds constituting Franklin Mutual Series Funds) at December 31, 2013, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the periods indicated therein, in conformity with U.S. generally accepted accounting principles.

Ernst + Young LLP

Boston, Massachusetts February 19, 2014

Tax Information (unaudited)

Under Section 854(b)(1)(A) of the Internal Revenue Code (Code), the Fund hereby reports 51.34% of the ordinary income dividends as income qualifying for the dividends received deduction for the fiscal year ended December 31, 2013.

Under Section 854(b)(1)(B) of the Code, the Fund hereby reports the maximum amount allowable but no less than \$78,198,632 as qualified dividends for purposes of the maximum rate under Section 1(h)(11) of the Code for the fiscal year ended December 31, 2013. Distributions, including qualified dividend income, paid during calendar year 2013 will be reported to shareholders on Form 1099-DIV by mid-February 2014. Shareholders are advised to check with their tax advisors for information on the treatment of these amounts on their individual income tax returns.

Under Section 871(k)(1)(C) of the Code, the Fund hereby reports the maximum amount allowable but no less than \$23,613,904 as interest related dividends for purposes of the tax imposed under Section 871(a)(1)(A) of the Code for the fiscal year ended December 31, 2013.

Board Members and Officers

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

Independent Board Members

Name, Year of Birth and Address	Position	Length of Time Served	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years
Edward I. Altman, Ph.D. (1941)	Trustee	Since 1987	11	None
c/o Franklin Mutual Advisers, LLC				
101 John F. Kennedy Parkway				
Short Hills, NJ 07078-2789				

Principal Occupation During at Least the Past 5 Years:

Max L. Heine Professor of Finance and Director of The Credit and Debt Markets Research Program, Salomon Center, Stern School of Business, New York University; editor and author of numerous financial publications; financial consultant; an adviser to numerous financial publishing organizations; and formerly, Vice Director, Salomon Center, Stern School of Business, New York University.

Ann Torre Bates (1958)	Trustee	Since 1995	38	SLM Corporation (Sallie Mae), Ares
c/o Franklin Mutual Advisers, LLC				Capital Corporation (specialty finance
101 John F. Kennedy Parkway				company), Allied Capital Corporation
Short Hills, NJ 07078-2789				(financial services) (2003-2010)
				and United Natural Foods, Inc.,
				(October 2013)

Principal Occupation During at Least the Past 5 Years:

Director of various companies; and formerly, Executive Vice President and Chief Financial Officer, NHP Incorporated (manager of multifamily housing) (1995-1997); and Vice President and Treasurer, US Airways, Inc. (until 1995).

Burton J. Greenwald (1929)	Trustee	Since 2002	18	Franklin Templeton Emerging Markets
c/o Franklin Mutual Advisers, LLC				Debt Opportunities Fund PLC and
101 John F. Kennedy Parkway				Fiduciary International Ireland
Short Hills, NJ 07078-2789				Limited.

Principal Occupation During at Least the Past 5 Years:

Managing Director, B.J. Greenwald Associates (management consultants to the financial services industry); and formerly, Chairman, Fiduciary Trust International Funds; Executive Vice President, L.F Rothschild Fund Management, Inc.; President and Director, Merit Mutual Funds; President, Underwriting Division and Director, National Securities & Research Corporation; Governor, Investment Company Institute; and Chairman, ICI Public Information Committee.

Name, Year of Birth and Address	Position	Length of Time Served	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years
Keith E. Mitchell (1954) c/o Franklin Mutual Advisers, LLC	Trustee	Since 2009	11	None
101 John F. Kennedy Parkway Short Hills, NJ 07078-2789				

Principal Occupation During at Least the Past 5 Years:

Managing Member, Mitchell, Hartley & Bechtel Advisers, LLC (formerly, Mitchell Advisers, LLC) (advisory firm); director of various boards of asset management firms; and formerly, Managing Director, Putnam Lovell NBF.

Charles Rubens II (1930)	Trustee	Since 1998	18	None
c/o Franklin Mutual Advisers, LLC	;			
101 John F. Kennedy Parkway				
Short Hills, NJ 07078-2789				

Principal Occupation During at Least the Past 5 Years:

Private investor and president of non-profit organizations; and formerly, an executive of Time, Inc.; and Trustee of Colorado College.

Jan Hopkins Trachtman (1947)	Trustee	Since 2009	11	None
c/o Franklin Mutual Advisers, LLC				
101 John F. Kennedy Parkway				
Short Hills, NJ 07078-2789				

Principal Occupation During at Least the Past 5 Years:

President and Founder, The Jan Hopkins Group (communications consulting firm); President, Economic Club of New York; serves on Advisory Board of Knight Bagehot Fellowship; and formerly, Anchor/Correspondent, CNN Financial News (until 2003); Managing Director and Head of Client Communications, Citigroup Private Bank (until 2005); Off-Air Reporter, ABC News' World News Tonight; and Editor, CBS Network News.

	Trustee and Chairman of the Board	Trustee since 1993 and Chairman of the	45	El Oro Ltd (investments).		
Short Hills, NJ 07078-2789 Board since 2005 Principal Occupation During at Least the Past 5 Years:						

Attorney at law engaged in private practice (1972-2008) and member of various boards.

Interested Board Members and Officers

Name, Year of Birth and Address	Position	Length of Time Served	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years
**Gregory E. Johnson (1961)	Trustee	Since 2007	152	None
One Franklin Parkway				
San Mateo, CA 94403-1906				

Principal Occupation During at Least the Past 5 Years:

Chairman of the Board, Member - Office of the Chairman, Director, President and Chief Executive Officer, Franklin Resources, Inc.; officer and/or director or trustee, as the case may be, of some of the other subsidiaries of Franklin Resources, Inc. and of 44 of the investment companies in Franklin Templeton Investments; and Chairman, Investment Company Institute.

Name, Year of Birth and Address	Position	Length of Time Served	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years
**Peter A. Langerman (1955) c/o Franklin Mutual Advisers, LLC 101 John F. Kennedy Parkway Short Hills, NJ 07078-2702	Trustee, President and Chief Executive Officer – Investment Management	Trustee since 2007, President and Chief Executive Officer – Investment Management since 2005	11	American International Group, Inc. (AIG) Credit Facility Trust (2010–2011).

Principal Occupation During at Least the Past 5 Years:

Chairman of the Board, Chief Executive Officer and President, Franklin Mutual Advisers, LLC; officer and/or director, as the case may be, of four of the investment companies in Franklin Templeton Investments.

Alison E. Baur (1964)	Vice President	Since 2012	Not Applicable	Not Applicable	
One Franklin Parkway					
San Mateo, CA 94403-1906					

Principal Occupation During at Least the Past 5 Years:

Deputy General Counsel, Franklin Templeton Investments; and officer of some of the other subsidiaries of Franklin Resources, Inc. and of 46 of the investment companies in Franklin Templeton Investments.

Philippe Brugere-Trelat (1949)	Vice President	Since 2005	Not Applicable	Not Applicable
101 John F. Kennedy Parkway				
Short Hills, NJ 07078-2789				

Principal Occupation During at Least the Past 5 Years:

Executive Vice President, Franklin Mutual Advisers, LLC; officer of three of the investment companies in Franklin Templeton Investments; and formerly, Portfolio Manager of Eurovest SA (French registered Investment Company, Sicav).

Laura F. Fergerson (1962)	Chief Executive Since 2009	Not Applicable	Not Applicable
One Franklin Parkway	Officer –		
San Mateo, CA 94403-1906	Finance and		
	Administration		

Principal Occupation During at Least the Past 5 Years:

Senior Vice President, Franklin Templeton Services, LLC; and officer of 46 of the investment companies in Franklin Templeton Investments.

Aliya S. Gordon (1973)	Vice President	Since 2009	Not Applicable	Not Applicable
One Franklin Parkway				
San Mateo, CA 94403-1906				

Principal Occupation During at Least the Past 5 Years:

Senior Associate General Counsel, Franklin Templeton Investments; officer of 46 of the investment companies in Franklin Templeton Investments; and formerly, Litigation Associate, Steefel, Levitt & Weiss, LLP (2000-2004).

Steven J. Gray (1955) One Franklin Parkway San Mateo, CA 94403-1906	,	Secretary since 2005 and Vice President since	Not Applicable	Not Applicable	
,		2009			

Principal Occupation During at Least the Past 5 Years:

Senior Associate General Counsel, Franklin Templeton Investments; Vice President, Franklin Templeton Distributors, Inc.; and officer of 46 of the investment companies in Franklin Templeton Investments.

Name, Year of Birth and Address	Position	Length of	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years
Selena L. Holmes (1965)		Since 2012	Not Applicable	Not Applicable
100 Fountain Parkway St. Petersburg, FL 33716-1205	– AMLCompliance			

Principal Occupation During at Least the Past 5 Years:

Director, Global Compliance Monitoring; and officer of 46 of the investment companies in Franklin Templeton Investments.

Robert Kubilis (1973) Treasurer, Since 2012 Not Applicable Not Applicable 300 S.E. 2nd Street Chief Financial Fort Lauderdale, FL 33301-1923 Officer and Chief Accounting Officer

Principal Occupation During at Least the Past 5 Years:

Assistant Treasurer, Fund Accounting, Franklin Templeton Investments; and officer of five of the investment companies in Franklin Templeton Investments.

Vice President Since March 2013 Not Applicable Kimberly H. Novotny (1972) Not Applicable 300 S.E. 2nd Street Fort Lauderdale, FL 33301-1923

Principal Occupation During at Least the Past 5 Years:

Associate General Counsel, Franklin Templeton Investments; Vice President and Secretary, Fiduciary Trust International of the South; Vice President, Templeton Investment Counsel, LLC; Assistant Secretary, Franklin Resources, Inc.; and officer of 46 of the investment companies in Franklin Templeton Investments.

Robert C. Rosselot (1960)	Chief	Since March 2013	Not Applicable	Not Applicable
300 S.E. 2nd Street	Compliance			
Fort Lauderdale, FL 33301-1923	Officer			

Principal Occupation During at Least the Past 5 Years:

Director, Global Compliance, Franklin Templeton Investments; officer of 46 of the investment companies in Franklin Templeton Investments; and formerly, Senior Associate General Counsel, Franklin Templeton Investments (2007-2013); and Secretary and Vice President, Templeton Group of Funds (2004-2013).

Karen L. Skidmore (1952)	Vice President	Since 2009	Not Applicable	Not Applicable	
One Franklin Parkway					
San Mateo, CA 94403-1906					

Principal Occupation During at Least the Past 5 Years:

Senior Associate General Counsel, Franklin Templeton Investments; and officer of 46 of the investment companies in Franklin Templeton Investments.

Craig S. Tyle (1960)	Vice President	Since 2005	Not Applicable	Not Applicable
One Franklin Parkway				
San Mateo, CA 94403-1906				

Principal Occupation During at Least the Past 5 Years:

General Counsel and Executive Vice President, Franklin Resources, Inc.; and officer of some of the other subsidiaries of Franklin Resources, Inc. and of 46 of the investment companies in Franklin Templeton Investments.

Name, Year of Birth and Address	Position	Length of	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years
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Lori A. Weber (1964)

Vice President Since 2011

Not Applicable

Not Applicable

300 S.E. 2nd Street

Fort Lauderdale, FL 33301-1923

Principal Occupation During at Least the Past 5 Years:

Senior Associate General Counsel, Franklin Templeton Investments; Assistant Secretary, Franklin Resources, Inc.; Vice President and Secretary, Templeton Investment Counsel, LLC; Vice President, Fiduciary Trust International of the South; and officer of 46 of the investment companies in Franklin Templeton Investments.

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

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

The Fund's Board has determined that certain of the members of the Audit Committee, including Ann Torre Bates, are audit committee financial experts, and "independent," under those provisions of the Sarbanes-Oxley Act of 2002, and the rules and form amendments adopted by the Securities and Exchange Commission, relating to audit committee financial experts.

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

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

Shareholder Information

Proxy Voting Policies and Procedures

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

Quarterly Statement of Investments

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

Householding of Reports and Prospectuses

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

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Franklin Templeton Funds

Literature Request. To receive a summary prospectus and/or prospectus, please call us at (800) DIAL BEN/342-5236 or visit franklintempleton.com or etf.franklintempleton.com for Franklin Short Duration U.S. Government ETF. Investors should carefully consider a fund's investment goals, risks, charges and expenses before investing. The prospectus contains this and other information. Please carefully read a prospectus before investing.

VALUE

Franklin All Cap Value Fund
Franklin Balance Sheet Investment Fund
Franklin Large Cap Value Fund
Franklin MicroCap Value Fund
Franklin MidCap Value Fund
Franklin Small Cap Value Fund
Mutual Beacon Fund
Mutual Quest Fund
Mutual Recovery Fund²
Mutual Shares Fund

BLEND

Franklin Focused Core Equity Fund Franklin Large Cap Equity Fund Franklin Rising Dividends Fund

GROWTH

Franklin DynaTech Fund Franklin Flex Cap Growth Fund Franklin Growth Fund Franklin Growth Opportunities Fund Franklin Small Cap Growth Fund Franklin Small-Mid Cap Growth Fund

SECTOR

Franklin Biotechnology Discovery Fund Franklin Global Listed Infrastructure Fund Franklin Global Real Estate Fund Franklin Gold & Precious Metals Fund Franklin Natural Resources Fund Franklin Real Estate Securities Fund Franklin Utilities Fund Mutual Financial Services Fund

GLOBAL

Franklin World Perspectives Fund Mutual Global Discovery Fund Templeton Global Opportunities Trust Templeton Global Smaller Companies Fund Templeton Growth Fund Templeton World Fund

INTERNATIONAL

Franklin India Growth Fund
Franklin International Growth Fund
Franklin International Small Cap Growth Fund
Mutual European Fund
Mutual International Fund
Templeton Asian Growth Fund
Templeton BRIC Fund
Templeton China World Fund
Templeton Developing Markets Trust
Templeton Emerging Markets Small Cap Fund
Templeton Foreign Fund
Templeton Foreign Smaller Companies Fund
Templeton Frontier Markets Fund

HYBRID

Franklin Balanced Fund
Franklin Convertible Securities Fund
Franklin Equity Income Fund
Franklin Income Fund
Templeton Emerging Markets Balanced Fund
Templeton Global Balanced Fund

ALTERNATIVE

Franklin K2 Alternative Strategies Fund Franklin Pelagos Commodities Strategy Fund

ASSET ALLOCATION

Franklin LifeSmart™ Retirement Target Funds (2015-2050)⁶

Franklin Templeton Corefolio® Allocation Fund
Franklin Templeton Founding Funds Allocation Fund
Franklin Templeton Conservative Allocation Fund
Franklin Templeton Growth Allocation Fund
Franklin Templeton Moderate Allocation Fund
Franklin Templeton Global Allocation Fund
Franklin Templeton Multi-Asset Real Return Fund

FIXED INCOME

Franklin Adjustable U.S. Government Securities Fund⁷ Franklin Floating Rate Daily Access Fund Franklin Global Government Bond Fund Franklin High Income Fund Franklin Limited Maturity U.S. Government Securities Fund⁷

Franklin Low Duration Total Return Fund

Franklin Real Return Fund

Franklin Short Duration U.S. Government ETF

Franklin Strategic Income Fund Franklin Strategic Mortgage Portfolio Franklin Templeton Hard Currency Fund

Franklin Total Return Fund

Franklin U.S. Government Securities Fund⁷
Templeton Constrained Bond Fund
Templeton Emerging Markets Bond Fund
Templeton Global Bond Fund
Templeton Global Total Return Fund
Templeton International Bond Fund

TAX-FREE INCOME®

National

Double Tax-Free Income Fund⁹ Federal Tax-Free Income Fund High Yield Tax-Free Income Fund Insured Tax-Free Income Fund^{10, 11}

Limited-/Intermediate-Term

California Intermediate-Term Tax-Free Income Fund Federal Intermediate-Term Tax-Free Income Fund Federal Limited-Term Tax-Free Income Fund New York Intermediate-Term Tax-Free Income Fund

State-Specific

Alabama	Kentucky	New York
Arizona	Louisiana	(2 funds)
California	Maryland	North Carolina
(4 funds)11	Massachusetts	Ohio
Colorado	Michigan	Oregon
Connecticut	Minnesota	Pennsylvania
Florida	Missouri	Tennessee
Georgia	New Jersey	Virginia

INSURANCE FUNDS

Franklin Templeton Variable Insurance Products Trust¹²

- 1. The fund is closed to new investors. Existing shareholders and select retirement plans may add to their accounts.
- 2. The fund is a continuously offered, closed-end fund. Shares may be purchased daily; there is no daily redemption. However, each quarter, pending board approval, the fund will authorize the repurchase of 5%–25% of the outstanding number of shares. Investors may tender all or a portion of their shares during the tender period.
- 3. Effective 6/3/13, the fund closed to new investors, with limited exceptions.
- 4. Effective 12/10/13, the fund closed to new investors, with limited exceptions.
- 5. Effective 6/28/13, the fund closed to new investors. Existing shareholders and select retirement plans may add to their accounts.
- 6. Effective 5/1/13, the Franklin Templeton Retirement Target Funds changed their names to Franklin LifeSmart Retirement Target Funds. The funds' investment goals and principal investment strategies remained unchanged. These funds' target dates are in five-year increments.

- 7. An investment in the fund is neither insured nor guaranteed by the U.S. government or by any other entity or institution.
- 8. For investors subject to the alternative minimum tax, a small portion of fund dividends may be taxable. Distributions of capital gains are generally taxable.
- 9. The fund is closed to all new investments (other than reinvestment of dividends and capital gains distributions).
- $10. \ The \ fund \ invests \ primarily \ in \ insured \ municipal \ securities.$
- 11. Effective at the close of market on 3/1/13, Franklin Insured Tax-Free Income Fund and Franklin California Insured Tax-Free Income Fund closed to all new investments (other than reinvestment of dividends and capital gains distributions).
- 12. The funds of the Franklin Templeton Variable Insurance Products Trust are generally available only through insurance company variable contracts.

VALUE | BLEND | GROWTH | SECTOR | GLOBAL | INTERNATIONAL | HYBRID | ALTERNATIVE | ASSET ALLOCATION | FIXED INCOME | TAX-FREE INCOME



< GAIN FROM OUR PERSPECTIVE® >

Annual Report and Shareholder Letter MUTUAL BEACON 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 ensure the highest quality of service, telephone calls to or from our service departments may be monitored, recorded and accessed. These calls can be identified by the presence of a regular begoing tone.