FRANKLIN TEMPLETON INVESTMENTS

Semiannual Report and Shareholder Letter

June 30, 2018

Franklin Mutual Beacon Fund

A SERIES OF FRANKLIN MUTUAL SERIES FUNDS

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Franklin Templeton Investments

Why choose Franklin Templeton Investments?

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

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

Dear Franklin Mutual Beacon Fund Shareholder:

Securities markets started 2018 with positive momentum. Investors began the year focused on global economic growth, strong corporate profits across most developed markets and the potential benefits of US corporate and personal tax cuts. However, volatility and market downturns emerged due to political risks and trade tariffs, a temporary deceleration in developed market economic activity during the first quarter, and higher bond yields amid potential signs of increasing inflation pressures and likely interest rate hikes. Although some risks faded, such as the first-quarter deceleration in economic growth, the potential for an escalating trade war between the US and its trading partners remained a meaningful uncertainty for investors. For the period ended June 30, 2018, US stocks, as measured by the Standard & Poor's® 500 Index (S&P 500®), produced a +2.65% total return.[1] Stocks in global developed markets, as measured by the MSCI World Index, returned +0.76%, while investment-grade bonds, as measured by the Bloomberg Barclays US Aggregate Bond Index, had a -1.62% total return.[1]

Market performance was rather uneven during the period. Although the S&P 500 performed positively, most of the gains could be accounted for by a small number of companies. The list of those leading performers showed a concentration in information technology and internet-focused companies, or businesses that directly benefit from increased online commerce. It is no surprise, therefore, that growth stocks managed to outpace value stocks during the period. The Russell 1000® Growth Index returned +7.25%, while the Russell 1000® Value Index had a -1.69% total return.[1]

We do not know how long growth will continue to outpace value, but historically, periods of solid and steady economic growth have been a positive backdrop for value stocks. Low unemployment rates, increased business investment and solid consumer spending are all constructive signs for such a pace of economic growth. The US Federal Reserve's efforts to gradually raise interest rates may be favorable for financial equities.

Value investing often requires an investor to be contrarian in nature. We continue to maintain a bottom-up stock-picking process that is disciplined, driven by rigorous fundamental analysis and attempts to limit downside risk. In our view, investing in underappreciated and misunderstood companies with identifiable catalysts for unlocking shareholder value can offer meaningful upside potential and a degree of downside protection in periods of financial market turbulence.

Although economic and investment fundamentals still appear to be favorable, the return of volatility is another reminder that securities markets are dynamic. As we enter into the second half of 2018, market sentiment may easily turn again given the uncertainty regarding an escalation in trade tensions, the upcoming US midterm elections, Brexit, the ability of US tax cuts to prolong the current economic expansion, and the pace of

1. Source: Morningstar. Frank Russell Company is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes. Russell® is a trademark of Frank Russell Company.

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

inflation. Therefore, we believe active, professional investment management serves investors well.

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

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

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

Sincerely,

Peter A Langerman

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

This letter reflects our analysis and opinions as of June 30, 2018, unless otherwise indicated. The information is not a complete analysis of every aspect of any market, country, industry, security or fund. Statements of fact are from sources considered reliable.

Contents

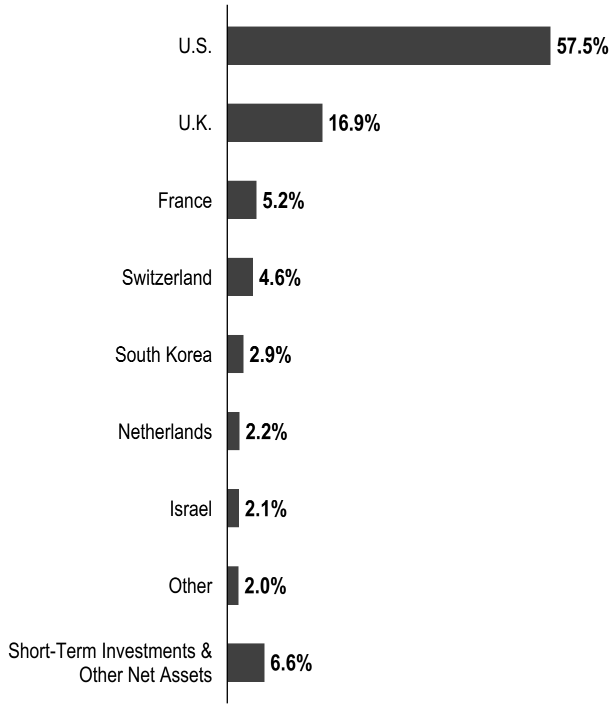
Visit **franklintempleton.com** for fund updates, to access your account, or to find helpful financial planning tools.

Semiannual Report

Franklin Mutual Beacon Fund

This semiannual report for Franklin Mutual Beacon Fund covers the period ended June 30, 2018.

Geographic Composition*
Based on Total Net Assets as of 6/30/18



*Figures are stated as a percentage of total and may not equal 100% or may be negative due to rounding, use of any derivatives, unsettled trades or other factors. The Fund held 37.0% of total net assets in foreign securities.

Your Fund's Goal and Main Investments

The Fund seeks capital appreciation, which may occasionally be short term, with income as a secondary goal. Under normal market conditions, the Fund invests primarily in equity securities of US and foreign companies that the investment manager believes are available at market prices less than their intrinsic value. The equity securities in which the Fund invests are primarily common stock, with a current focus on mid- and large-cap companies. To a lesser extent, the Fund also invests in merger arbitrage securities and the debt and equity of distressed companies. The Fund may invest a substantial portion, potentially up to 100% of its assets, in foreign securities, which may include sovereign debt and participations in foreign government debt. The Geographic Composition bar chart on this page lists the leading countries where the Fund invests.

Performance Overview

The Fund's Class Z shares had a -1.87% cumulative total return for the six months ended June 30, 2018. In comparison, the Fund's benchmark, the MSCI World Index (USD), which tracks stock performance in global developed markets, posted a +0.76% total return.[1] You can find more of the Fund's performance data in the Performance Summary beginning on page 9.

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

Economic and Market Overview

The global economy expanded during the six-month period under review amid generally upbeat economic data across regions. In this environment, global developed and emerging market stocks reached a new all-time high in January 2018, as measured by the MSCI All Country World Index (ACWI). During the period, global markets were aided by price gains in oil and other commodities, encouraging corporate earnings reports and investor optimism about global economic growth. However, global stocks had a -0.13% total return for the six-month period, as measured by the MSCI ACWI, largely due to an overall decline in emerging market stocks.[1]

Global markets reflected investor concerns about tensions in the Korean peninsula and political uncertainties in the US and the European Union, as well as worries that strong economic growth and rising inflation in some parts of the world, particularly in the US, would lead central banks to increase

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

The dollar value, number of shares or principal amount, and names of all portfolio holdings are listed in the Fund's Statement of Investments (SOI). The SOI begins on page 17.

interest rates sooner than expected. Markets were further pressured by the Trump administration's protectionist trade policies, uncertainty surrounding the US-China trade relationship, and a broad sell-off in information technology stocks in March due to a potential for tighter regulation in the sector arising from concerns about consumer data privacy. Near period-end, an overall easing of tensions in the Korean peninsula relieved investors, but ongoing US trade disputes with its allies and China hindered global markets.

The US economy continued to grow during the six months under review. After moderating for three consecutive quarters, the economy grew faster in 2018's second quarter, driven by consumer spending, exports, business investment and government spending. The unemployment rate declined from 4.1% in December 2017, as reported at the beginning of the six-month period, to 4.0% at period-end.[2] Annual inflation, as measured by the Consumer Price Index, increased from 2.1% in December 2017, as reported at the beginning of the period, to 2.9% at period-end.[2] The US Federal Reserve raised its target range for the federal funds rate in March and June 2018 and continued reducing its balance sheet as part of its ongoing plan to normalize monetary policy.

In Europe, the UK's quarterly economic growth moderated in 2018's first quarter amid a decline in construction output. The Bank of England kept its key policy rate unchanged during the period. The eurozone's quarterly growth moderated in 2018's first quarter due to a decline in external demand. The bloc's annual inflation rate ended the period higher than in December 2017. The European Central Bank (ECB) kept its benchmark interest rate unchanged during the period. However, at its June meeting, the ECB announced it would further reduce its monthly bond purchases beginning in October 2018 and indicated it would conclude the program at the end of 2018 while continuing to keep interest rates unchanged through at least the summer of 2019.

In Asia, Japan's quarterly gross domestic product (GDP) growth in 2018's first quarter was negative, the country's first contraction since 2015's fourth quarter, mainly due to a decline in private residential investment and household consumption. The Bank of Japan left its benchmark interest rate unchanged during the period and continued its monetary stimulus measures.

In emerging markets, Brazil's quarterly GDP accelerated in 2018's first quarter compared to the previous quarter. The country's central bank cut its benchmark interest rate twice during the period to spur economic growth. Russia's annual GDP grew in 2018's first quarter compared to the prior-year period, amid the Bank of Russia's continued policy support. China's annual GDP moderated in 2018's first quarter compared to the prior-year period. The People's Bank of China left its benchmark interest rate unchanged during the period. Overall, emerging market stocks, as measured by the MSCI Emerging Markets Index, declined during the period.

Investment Strategy

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

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

2. Source: Bureau of Labor Statistics.

arbitrage involves purchasing the target company's stock when it is trading below the value we believe it would receive in a deal. In keeping with our commitment to a relatively conservative investment approach, we typically focus our arbitrage efforts on announced deals, and avoid rumored deals or other situations we consider relatively risky. In addition, it is our practice to hedge the Fund's currency exposure when we deem it advantageous for our shareholders.

What is meant by "hedge"?

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

Top 10 Sectors/Industries

Based on Equity Securities as of 6/30/18

	% of Total Net Assets
Pharmaceuticals	13.3%
Media	11.5%
Banks	9.6%
Oil, Gas & Consumable Fuels	6.8%
Software	5.4%
Wireless Telecommunication Services	4.0%
Insurance	3.9%
Diversified Telecommunication Services	3.6%
Health Care Equipment & Supplies	3.6%
Electrical Equipment	3.1%

Manager's Discussion

In the first half of 2018, positive corporate fundamentals were overshadowed by political and economic concerns. Corporate profits in the US and other developed markets continued their impressive year-over-year pace of growth. In the US and other developed markets, economic activity moderated during the first quarter, but appeared to have recovered during the second quarter. Financial markets were also aided by improved industrial commodity prices, most notably crude oil. Nonetheless, investor sentiment became less upbeat and volatility returned to financial markets, after an historically calm 2017.

As investors entered 2018, overall US equity market valuations (e.g., price-to-earnings, price-to-book or price-to-sales) were elevated relative to most historical benchmarks. The uneven equity market performance during the period and the strong pace of corporate earnings growth helped to reduce valuations somewhat. At the same time, the rise in volatility provided us with select opportunities to initiate or add to positions in companies that we believed were trading at undeservedly discounted prices.

A further escalation of trade-related rhetoric and tariffs, in our view, could have important consequences for the US and abroad. We have already begun to see disruptions to global supply chains and added pressure on China's financial and credit markets. Additional tariffs imposed by the US and its trading partners could rattle business confidence, curb corporate earnings growth, undermine favorable fundamentals in specific industries, provoke further financial market volatility and raise uncertainty regarding the solid pace of global growth.

Europe's equity market overall was still trading at an attractively lower price-to-earnings multiple and higher dividend yield than the US equity market at period-end. However, in addition to trade tensions, we are paying close attention to Brexit negotiations, Italy's new populist government, a potentially fraying relationship between Germany's two conservative parties and the future of the international nuclear deal with Iran. As of period-end, we still believe Europe's economic recovery is fairly resilient, but any of the aforementioned challenges has the potential to fuel volatility and even slow economic growth. In such an environment, we believe domestically oriented companies may fare relatively better.

In Asia, we have said for some time that China needs to address the high level of corporate leverage, and the People's Bank of China has recently mandated that much of the debt residing in the shadow banking market be brought back onto bank balance sheets. The resulting burden may impair bank earnings in the short term, which, in our view, is underappreciated by many investors and could create some investment opportunities. Meanwhile, Japan's government has proposed further amendments to its Corporate Governance Code. We believe the proposals have the potential to drive further improvements in capital allocation and operating discipline, which have long been a concern of investors. We have become more interested in finding opportunities to take advantage of this emerging trend.

Mergers and acquisitions (M&A) have remained active. In the first half of 2018, the market received some clarity regarding the regulatory environment when a federal judge ruled in favor of AT&T and Time Warner[3], and against the US Department of Justice (DOJ) in its antitrust lawsuit. The judge decided the DOJ had failed to show the merger would be anti-competitive, and the deal closed promptly after the opinion was released. In response, the shares of companies involved in several other pending deals traded higher, indicating a higher expected probability of closing. The market also saw the development of a bidding war between Walt Disney and Comcast for control of Twenty-First Century Fox and Sky. As the year began, Disney had a deal to buy Fox and Fox had an offer pending to acquire the 61% of Sky it did not own. Comcast subsequently launched bids for both companies, and when Fox raised its bid for Sky, Comcast promptly raised its bid to a higher level. Comcast has indicated it will not bid further for Fox and, while Fox could raise its bid for Sky, it appears most likely that Comcast will purchase Sky. This bidding war showed the ongoing uncertainty in media, in which major media firms believe they need even more scale to compete with internet rivals that are experiencing significant growth. The Top 10 Sectors/Industries table on page 5 lists media and also other leading industries in which the Fund currently invests. We expect ongoing activity in M&A markets and, with the increased regulatory clarity provided by the Time Warner decision, further opportunities in merger arbitrage.

Finding mispriced risk in credit markets remains difficult due in part to the decline in debt covenants, which include terms that restrict financial activities by the borrower or set parameters for specific financial metrics. The search is also complicated by private equity firms involved in leveraged buyout transactions using increasingly liberal interpretations of credit agreements and bond indentures to potentially shift valuable assets beyond the reach of creditors. We have directed much of our focus on out-of-favor industries in pursuit of securities with the potential to benefit most from liquidity-enhancing events, such as asset sales, the ability to issue secured debt within existing agreements, and free-cash flow that could buy time for a company to weather its financial storm.

Fund Performance

Turning to Fund performance, top positive contributors included UK-based pharmaceutical company GlaxoSmithKline, UK-based global integrated oil and gas company Royal Dutch Shell and multinational software company Microsoft.

Top 10 Equity Holdings
6/30/18

Company ***Sector/Industry, Country***	**% of Total Net Assets**
Medtronic PLC *Health Care Equipment & Supplies, U.S.*	3.6%
Novartis AG *Pharmaceuticals, Switzerland*	3.6%
Eli Lilly & Co. *Pharmaceuticals, U.S.*	3.5%
Wells Fargo & Co. *Banks, U.S.*	3.1%
Merck & Co. Inc. *Pharmaceuticals, U.S.*	3.1%
GlaxoSmithKline PLC *Pharmaceuticals, U.K.*	3.1%
Sensata Technologies Holding PLC *Electrical Equipment, U.S.*	3.1%
Cognizant Technology Solutions Corp. *IT Services, U.S.*	3.0%
British American Tobacco PLC *Tobacco, U.K.*	2.9%
Capital One Financial Corp. *Consumer Finance, U.S.*	2.9%

GlaxoSmithKline is listed among the Fund's largest positions in the Top 10 Equity Holdings table on this page.

Investors reacted positively to GlaxoSmithKline's March announcements that it had pulled out of the auction for Pfizer's[3] consumer health business and agreed to buy Novartis out of its consumer health care joint venture for $13 billion. In our view, not purchasing the Pfizer consumer business at a high price demonstrated capital discipline and the ability to exercise restraint by not overpaying for strategically desirable assets, thus enhancing management credibility. In addition, not consummating the Pfizer consumer-asset deal eliminated concerns around a potential cut to the dividend to finance the deal, which had been a serious concern for investors. Also, investors have become more willing to give Glaxo some credit for research and development returns improving under the new management team.

Shares of Royal Dutch Shell were supported by rising crude oil prices and strong operational performance. Crude oil prices rose due to the continuing trend of strengthening demand but only a gradual rise in supply, reinforced by the Organization of the Petroleum Exporting Countries and non-member country Russia agreeing to a modest increase in crude oil production in

3. Not a Fund holding.
See www.franklintempletondatasources.com for additional data provider information.

June 2018. In addition, Shell has continued to be disciplined with its capital spending, and has stated its intention to buy back $25 billion in stock by 2020, but has been reluctant to commit to a start date. We believe the recent stream of closed and announced asset sales, including a placement of more assets into its master limited partnership, coupled with the strength of crude oil prices during the period, position the company for a near-term commencement of the buyback program.

Microsoft continued to reap the rewards of its rapidly growing cloud computing business and its effort to move Microsoft Office software clients to its subscription-based services. In February and April 2018, Microsoft reported solid quarterly growth in revenues and earnings per share. The company also increased its operating margin estimate for 2018. We believe Microsoft's cloud computing and subscription-based services can continue to grow at a strong pace, which may further lift its operating margin.

During the period under review, Fund investments that detracted from performance included British American Tobacco, UK-based global mobile telecommunications company Vodafone Group and US-based digital security and storage provider Symantec.

British American Tobacco's stock price faced downward pressure due to the potential for additional regulation in the US and concerns regarding next generation products. In March 2018, the US Food and Drug Administration issued an Advance Notice of Proposed Rulemaking, which started the process of examining the possibility of regulating nicotine levels in combustible cigarettes. The process may not result in regulation, but if it does, many experts believe the review could take seven to 10 years before a rule is adopted in the marketplace. Meanwhile, JUUL, produced by JUUL Labs[3] has emerged as a popular e-cigarette in the US. JUUL's growth rate is high and its product is popular with young consumers. It is unclear to what degree JUUL is cannibalizing the combustible market, but it has hurt investor sentiment toward the industry.

Vodafone Group reported better-than-expected fiscal year-end results in May 2018, but the outlook for fiscal year 2019 was below expectations with much of the growth forecast to come in the latter part of the year. In addition, Vodafone chief executive officer (CEO) Vittorio Colao announced his intention to retire in October 2018. The CEO's decision was not a total surprise given his decade long tenure, but the timing was unexpected given Vodafone's purchase of certain Liberty Global[3] assets that is still being reviewed by government regulators. We believe that Vodafone will receive regulatory approval. In addition, the naming of Nick Read, the current chief financial officer (CFO), as the new CEO, and promoting the deputy CFO, signal the board's focus on operating performance after a period of addressing the major strategic issues facing the company.

Shares of Symantec tumbled in May 2018 when the company disclosed an internal investigation resulting from concerns raised by a former employee that could result in a restatement of prior financials, as well as lowered earnings guidance. The stock partially recovered when Symantec's management provided more information regarding the investigation and reassured investors that financial statements would likely not need to be restated.

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

What is a currency forward?

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

What is a future?

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

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

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

Christian Correa, CFA
Co-Portfolio Manager

Mandana Hormozi
Co-Portfolio Manager

Aman Gupta, CFA
Co-Portfolio Manager

The foregoing information reflects our analysis, opinions and portfolio holdings as of June 30, 2018, the end of the reporting period. The way we implement our main investment strategies and the resulting portfolio holdings may change depending on factors such as market and economic conditions. These opinions may not be relied upon as investment advice or an offer for a particular security. The information is not a complete analysis of every aspect of any market, country, industry, security or the Fund. Statements of fact are from sources considered reliable, but the investment manager makes no representation or warranty as to their completeness or accuracy. Although historical performance is no guarantee of future results, these insights may help you understand our investment management philosophy.

Christian Correa has been portfolio manager for Franklin 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 Franklin Mutual Beacon Fund since 2010 and was assistant portfolio manager for the Fund since 2009. 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. Also, she was an economic research analyst at Mitsubishi Bank.

Aman Gupta has been a co-portfolio manager for Franklin Mutual Beacon Fund since January 2018 and was assistant portfolio manager for the Fund since 2013. He 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.

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Performance Summary as of June 30, 2018

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

Performance as of 6/30/18

Cumulative total return excludes sales charges. Average annual total return includes maximum sales charges. Sales charges will vary depending on the size of the investment and the class of share purchased. The maximum is 5.75% and the minimum is 0%. ***Class A:*** *5.75% maximum initial sales charge. For other share classes, visit* ***franklintempleton.com****.*

Share Class	Cumulative Total Return[1]	Average Annual Total Return[2]
Z		
6-Month	-1.87%	-1.87%
1-Year	+3.22%	+3.22%
5-Year	+52.16%	+8.76%
10-Year	+98.04%	+7.07%
A		
6-Month	-2.00%	-7.61%
1-Year	+2.92%	-3.02%
5-Year	+50.17%	+7.19%
10-Year	+92.43%	+6.14%

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****.*

See page 10 for Performance Summary footnotes.

Total Annual Operating Expenses[3]

Share Class	
Z	0.78%
A	1.03%

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

All investments involve risks, including possible loss of principal. Value securities may not increase in price as anticipated or may decline further in value. Special risks are associated with foreign investing, including currency fluctuations, economic instability and political developments. Because the Fund may invest its assets in companies in a specific region, including Europe, it is subject to greater risks of adverse developments in that region and/or the surrounding regions than a fund that is more broadly diversified geographically. Current political and financial uncertainty surrounding the European Union may increase market volatility and the economic risk of investing in companies in Europe. Smaller company stocks have exhibited greater price volatility than larger company stocks, particularly over the short term. The Fund's investments in companies engaged in mergers, reorganizations or liquidations also involve special risks as pending deals may not be completed on time or on favorable terms. The Fund may invest in lower rated bonds, which entail higher credit risk. The Fund is actively managed but there is no guarantee that the manager's investment decisions will produce the desired results. The Fund's prospectus also includes a description of the main investment risks.

1. Cumulative total return represents the change in value of an investment over the periods indicated.
2. Average annual total return represents the average annual change in value of an investment over the periods indicated. Return for less than one year, if any, has not been annualized.
3. Figures are as stated in the Fund's current prospectus and may differ from the expense ratios disclosed in the Your Fund's Expenses and Financial Highlights sections in this report. In periods of market volatility, assets may decline significantly, causing total annual Fund operating expenses to become higher than the figures shown.

Your Fund's Expenses

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

Actual Fund Expenses

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

Hypothetical Example for Comparison with Other Funds

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

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

		Actual (actual return after expenses)		Hypothetical (5% annual return before expenses)		
Share Class	**Beginning Account Value 1/1/18**	**Ending Account Value 6/30/18**	**Expenses Paid During Period 1/1/18–6/30/18[1,2]**	**Ending Account Value 6/30/18**	**Expenses Paid During Period 1/1/18–6/30/18[1,2]**	**Net Annualized Expense Ratio[2]**
Z	$1,000	$981.30	$3.93	$1,020.83	$4.01	0.80%
A	$1,000	$980.00	$5.15	$1,019.59	$5.26	1.05%
C	$1,000	$976.10	$8.82	$1,015.87	$9.00	1.80%
R	$1,000	$979.10	$6.38	$1,018.35	$6.51	1.30%
R6	$1,000	$981.90	$3.59	$1,021.17	$3.66	0.73%

1. Expenses are equal to the annualized expense ratio for the six-month period as indicated above—in the far right column—multiplied by the simple average account value over the period indicated, and then multiplied by 181/365 to reflect the one-half year period.
2. Reflects expenses after fee waivers and expense reimbursements. Does not include acquired fund fees and expenses.

Financial Highlights

	Six Months Ended June 30, 2018 (unaudited)	Year Ended December 31,				
		2017	2016	2015	2014	2013
Class Z						
Per share operating performance						
(for a share outstanding throughout the period)						
Net asset value, beginning of period	$16.61	$15.30	$14.30	$16.59	$16.91	$13.36
Income from investment operations[a]:						
Net investment income[b]	0.19	0.29	0.37[c]	0.29	0.54[d]	0.31
Net realized and unrealized gains (losses)	(0.50)	1.90	1.93	(0.99)	0.62	3.56
Total from investment operations	(0.31)	2.19	2.30	(0.70)	1.16	3.87
Less distributions from:						
Net investment income	—	(0.31)	(0.37)	(0.37)	(0.69)	(0.32)
Net realized gains	—	(0.57)	(0.93)	(1.22)	(0.79)	—
Total distributions	—	(0.88)	(1.30)	(1.59)	(1.48)	(0.32)
Net asset value, end of period	$16.30	$16.61	$15.30	$14.30	$16.59	$16.91
Total return[e]	(1.87)%	14.39%	16.11%	(4.14)%	6.82%	29.11%
Ratios to average net assets[f]						
Expenses[g,h]	0.80%	0.78%	0.80%	0.84%[i]	0.83%	0.80%
Expenses incurred in connection with securities sold short	0.01%	—%	0.01%	0.04%	0.04%	—%[j]
Net investment income	2.26%	1.78%	2.48%[c]	1.73%	3.14%[d]	2.02%
Supplemental data						
Net assets, end of period (000's)	$2,542,199	$2,700,327	$2,564,120	$2,420,165	$2,774,929	$2,876,322
Portfolio turnover rate	19.63%	24.80%	30.94%	35.80%	40.06%	32.95%

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

[b]Based on average daily shares outstanding.

[c]Net investment income per share includes approximately $0.10 per share related to income received in the form of special dividends in connection with certain Fund holdings. Excluding this amount, the ratio of net investment income to average net assets would have been 1.81%.

[d]Net investment income per share includes approximately $0.24 per share related to income received in the form of a special dividend in connection with certain Fund holdings. Excluding this amount, the ratio of net investment income to average net assets would have been 1.74%.

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

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

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

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

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

[j]Rounds to less than 0.01%.

	Six Months Ended June 30, 2018 (unaudited)	Year Ended December 31, 2017	2016	2015	2014	2013
Class A						
Per share operating performance (for a share outstanding throughout the period)						
Net asset value, beginning of period	$16.47	$15.18	$14.20	$16.47	$16.80	$13.28
Income from investment operations[a]:						
Net investment income[b]	0.16	0.25	0.33[c]	0.24	0.49[d]	0.26
Net realized and unrealized gains (losses)	(0.49)	1.87	1.91	(0.97)	0.60	3.54
Total from investment operations	(0.33)	2.12	2.24	(0.73)	1.09	3.80
Less distributions from:						
Net investment income	—	(0.26)	(0.33)	(0.32)	(0.63)	(0.28)
Net realized gains	—	(0.57)	(0.93)	(1.22)	(0.79)	—
Total distributions	—	(0.83)	(1.26)	(1.54)	(1.42)	(0.28)
Net asset value, end of period	$16.14	$16.47	$15.18	$14.20	$16.47	$16.80
Total return[e]	(2.00)%	14.09%	15.80%	(4.33)%	6.48%	28.70%
Ratios to average net assets[f]						
Expenses[g,h]	1.05%	1.03%	1.05%	1.12%[i]	1.13%	1.10%
Expenses incurred in connection with securities sold short	0.01%	—%	0.01%	0.04%	0.04%	—%[j]
Net investment income	2.01%	1.53%	2.23%[c]	1.45%	2.84%[d]	1.72%
Supplemental data						
Net assets, end of period (000's)	$904,932	$983,048	$992,306	$1,019,568	$1,101,706	$1,148,409
Portfolio turnover rate	19.63%	24.80%	30.94%	35.80%	40.06%	32.95%

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

[b]Based on average daily shares outstanding.

[c]Net investment income per share includes approximately $0.10 per share related to income received in the form of special dividends in connection with certain Fund holdings. Excluding this amount, the ratio of net investment income to average net assets would have been 1.56%.

[d]Net investment income per share includes approximately $0.24 per share related to income received in the form of a special dividend in connection with certain Fund holdings. Excluding this amount, the ratio of net investment income to average net assets would have been 1.44%.

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

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

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

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

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

[j]Rounds to less than 0.01%.

	Six Months Ended June 30, 2018 (unaudited)	Year Ended December 31,				
		2017	2016	2015	2014	2013
Class C						
Per share operating performance						
(for a share outstanding throughout the period)						
Net asset value, beginning of period	$16.34	$15.06	$14.10	$16.36	$16.70	$13.21
Income from investment operations[a]:						
Net investment income[b]	0.10	0.12	0.22[c]	0.12	0.37[d]	0.15
Net realized and unrealized gains (losses)	(0.49)	1.86	1.88	(0.96)	0.59	3.51
Total from investment operations	(0.39)	1.98	2.10	(0.84)	0.96	3.66
Less distributions from:						
Net investment income	—	(0.13)	(0.21)	(0.20)	(0.51)	(0.17)
Net realized gains	—	(0.57)	(0.93)	(1.22)	(0.79)	—
Total distributions	—	(0.70)	(1.14)	(1.42)	(1.30)	(0.17)
Net asset value, end of period	$15.95	$16.34	$15.06	$14.10	$16.36	$16.70
Total return[e]	(2.39)%	13.25%	14.94%	(5.06)%	5.78%	27.79%
Ratios to average net assets[f]						
Expenses[g,h]	1.80%	1.78%	1.80%	1.84%[i]	1.83%	1.80%
Expenses incurred in connection with securities sold short	0.01%	—%	0.01%	0.04%	0.04%	—%[j]
Net investment income	1.26%	0.78%	1.48%[c]	0.73%	2.14%[d]	1.02%
Supplemental data						
Net assets, end of period (000's)	$223,680	$260,113	$275,138	$285,333	$320,832	$336,222
Portfolio turnover rate	19.63%	24.80%	30.94%	35.80%	40.06%	32.95%

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

[b]Based on average daily shares outstanding.

[c]Net investment income per share includes approximately $0.10 per share related to income received in the form of special dividends in connection with certain Fund holdings. Excluding this amount, the ratio of net investment income to average net assets would have been 0.81%.

[d]Net investment income per share includes approximately $0.24 per share related to income received in the form of a special dividend in connection with certain Fund holdings. Excluding this amount, the ratio of net investment income to average net assets would have been 0.74%.

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

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

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

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

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

[j]Rounds to less than 0.01%.

	Six Months Ended June 30, 2018 (unaudited)	Year Ended December 31, 2017	2016	2015	2014	2013
Class R						
Per share operating performance (for a share outstanding throughout the period)						
Net asset value, beginning of period	$16.28	$15.01	$14.05	$16.33	$16.68	$13.19
Income from investment operations[a]:						
Net investment income[b]	0.14	0.21	0.30[c]	0.20	0.44[d]	0.23
Net realized and unrealized gains (losses)	(0.48)	1.84	1.89	(0.97)	0.61	3.50
Total from investment operations	(0.34)	2.05	2.19	(0.77)	1.05	3.73
Less distributions from:						
Net investment income	—	(0.21)	(0.30)	(0.29)	(0.61)	(0.24)
Net realized gains	—	(0.57)	(0.93)	(1.22)	(0.79)	—
Total distributions	—	(0.78)	(1.23)	(1.51)	(1.40)	(0.24)
Net asset value, end of period	$15.94	$16.28	$15.01	$14.05	$16.33	$16.68
Total return[e]	(2.09)%	13.76%	15.58%	(4.61)%	6.31%	28.34%
Ratios to average net assets[f]						
Expenses[g,h]	1.30%	1.28%	1.30%	1.34%[i]	1.33%	1.30%
Expenses incurred in connection with securities sold short	0.01%	—%	0.01%	0.04%	0.04%	—%[j]
Net investment income	1.76%	1.28%	1.98%[c]	1.23%	2.64%[d]	1.52%
Supplemental data						
Net assets, end of period (000's)	$1,785	$1,601	$2,035	$2,343	$2,246	$1,956
Portfolio turnover rate	19.63%	24.80%	30.94%	35.80%	40.06%	32.95%

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

[b]Based on average daily shares outstanding.

[c]Net investment income per share includes approximately $0.10 per share related to income received in the form of special dividends in connection with certain Fund holdings. Excluding this amount, the ratio of net investment income to average net assets would have been 1.31%.

[d]Net investment income per share includes approximately $0.24 per share related to income received in the form of a special dividend in connection with certain Fund holdings. Excluding this amount, the ratio of net investment income to average net assets would have been 1.24%.

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

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

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

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

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

[j]Rounds to less than 0.01%.

	Six Months Ended June 30, 2018 (unaudited)	Year Ended December 31, 2017	2016	2015	2014	2013[a]
Class R6						
Per share operating performance						
(for a share outstanding throughout the period)						
Net asset value, beginning of period	$16.60	$15.30	$14.30	$16.58	$16.88	$14.77
Income from investment operations[b]:						
Net investment income[c]	0.19	0.37	0.38[d]	0.30	0.56[e]	0.24
Net realized and unrealized gains (losses)	(0.49)	1.82	1.93	(0.98)	0.63	2.21
Total from investment operations	(0.30)	2.19	2.31	(0.68)	1.19	2.45
Less distributions from:						
Net investment income	—	(0.32)	(0.38)	(0.38)	(0.70)	(0.34)
Net realized gains	—	(0.57)	(0.93)	(1.22)	(0.79)	—
Total distributions	—	(0.89)	(1.31)	(1.60)	(1.49)	(0.34)
Net asset value, end of period	$16.30	$16.60	$15.30	$14.30	$16.58	$16.88
Total return[f]	(1.81)%	14.42%	16.20%	(3.98)%	6.91%	16.83%
Ratios to average net assets[g]						
Expenses before waiver and payments by affiliates[h]	0.75%	0.72%	0.71%	0.74%	0.74%	2.10%
Expenses net of waiver and payments by affiliates[h,i]	0.73%	0.71%	0.71%	0.74%[j]	0.74%	0.71%
Expenses incurred in connection with securities sold short	0.01%	—%	0.01%	0.04%	0.04%	—%[k]
Net investment income	2.33%	1.85%	2.57%[d]	1.83%	3.23%[e]	2.11%
Supplemental data						
Net assets, end of period (000's)	$94,956	$106,845	$604	$48,844	$50,868	$6
Portfolio turnover rate	19.63%	24.80%	30.94%	35.80%	40.06%	32.95%

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

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

[c]Based on average daily shares outstanding.

[d]Net investment income per share includes approximately $0.10 per share related to income received in the form of special dividends in connection with certain Fund holdings. Excluding this amount, the ratio of net investment income to average net assets would have been 1.90%.

[e]Net investment income per share includes approximately $0.24 per share related to income received in the form of a special dividend in connection with certain Fund holdings. Excluding this amount, the ratio of net investment income to average net assets would have been 1.83%.

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

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

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

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

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

[k]Rounds to less than 0.01%.

Statement of Investments, June 30, 2018 (unaudited)

	Country	Shares/ Warrants	Value
Common Stocks and Other Equity Interests 87.7%			
Aerospace & Defense 2.2%			
BAE Systems PLC	United Kingdom	9,660,380	$ 82,515,492
Auto Components 0.2%			
[a,b,c] International Automotive Components Group Brazil LLC	Brazil	2,846,329	64,720
[a,b,c] International Automotive Components Group North America LLC	United States	22,836,904	6,837,118
			6,901,838
Banks 9.6%			
JPMorgan Chase & Co.	United States	890,830	92,824,486
Societe Generale SA	France	2,347,322	99,045,159
Standard Chartered PLC	United Kingdom	5,639,077	51,577,677
Wells Fargo & Co.	United States	2,124,250	117,768,420
			361,215,742
Chemicals 0.0%			
[a,b,d] Dow Corning Corp., Contingent Distribution	United States	12,598,548	—
Communications Equipment 2.1%			
Cisco Systems Inc.	United States	1,892,542	81,436,082
Consumer Finance 2.9%			
Capital One Financial Corp.	United States	1,177,898	108,248,826
Diversified Telecommunication Services 3.6%			
AT&T Inc.	United States	1,624,759	52,171,012
Koninklijke KPN NV	Netherlands	31,514,874	85,791,539
			137,962,551
Electric Utilities 1.3%			
PG&E Corp.	United States	1,150,400	48,961,024
Electrical Equipment 3.1%			
[a] Sensata Technologies Holding PLC	United States	2,429,802	115,609,979
Food & Staples Retailing 0.4%			
[a] Rite Aid Corp.	United States	8,457,611	14,631,667
Health Care Equipment & Supplies 3.6%			
Medtronic PLC	United States	1,576,090	134,929,065
Hotels, Restaurants & Leisure 2.6%			
Accor SA	France	1,986,209	97,511,078
Industrial Conglomerates 1.8%			
General Electric Co.	United States	5,029,200	68,447,412
Insurance 3.9%			
American International Group Inc.	United States	1,865,900	98,930,018
The Hartford Financial Services Group Inc.	United States	922,900	47,187,877
			146,117,895
Internet Software & Services 1.3%			
[a] Baidu Inc., ADR	China	203,847	49,534,821
IT Services 3.0%			
Cognizant Technology Solutions Corp., A	United States	1,437,830	113,574,192
Media 11.5%			
[a] Charter Communications Inc., A	United States	312,587	91,653,635
Comcast Corp., A	United States	2,366,700	77,651,427
[a] Cumulus Media Inc., A	United States	38,388	575,820
[a] Cumulus Media Inc., B	United States	57,236	901,467
[a] Cumulus Media Inc., wts., 6/04/38	United States	43,343	682,652

	Country	Shares/ Warrants	Value
Common Stocks and Other Equity Interests (continued)			
Media (continued)			
[a] DISH Network Corp., A	United States	920,041	$ 30,922,578
Sky PLC	United Kingdom	3,293,149	63,559,646
Twenty-First Century Fox Inc., B	United States	1,321,800	65,125,086
The Walt Disney Co.	United States	994,700	104,254,507
			435,326,818
Metals & Mining 0.1%			
Warrior Met Coal Inc.	United States	207,416	5,718,459
Oil, Gas & Consumable Fuels 6.8%			
Kinder Morgan Inc.	United States	3,867,500	68,338,725
Royal Dutch Shell PLC, B	United Kingdom	3,013,217	107,977,062
The Williams Cos. Inc.	United States	2,906,532	78,796,082
			255,111,869
Pharmaceuticals 13.3%			
Eli Lilly & Co.	United States	1,537,339	131,181,137
GlaxoSmithKline PLC	United Kingdom	5,783,258	116,836,488
Merck & Co. Inc.	United States	1,938,577	117,671,624
Novartis AG, ADR	Switzerland	1,774,190	134,022,313
			499,711,562
Software 6.5%			
[a] Check Point Software Technologies Ltd.	Israel	816,412	79,747,124
[a] Dell Technologies Inc., V	United States	502,400	42,492,992
Microsoft Corp.	United States	613,844	60,531,157
Symantec Corp.	United States	2,955,337	61,027,709
			243,798,982
Specialty Retail 1.0%			
Dufry AG	Switzerland	287,527	36,695,691
Tobacco 2.9%			
British American Tobacco PLC	United Kingdom	2,179,619	110,242,900
Wireless Telecommunication Services 4.0%			
[a] T-Mobile U.S. Inc.	United States	791,700	47,304,075
Vodafone Group PLC	United Kingdom	42,709,235	103,677,813
			150,981,888
Total Common Stocks and Other Equity Interests (Cost $2,806,862,098)			3,305,185,833
Management Investment Companies (Cost $40,343,454) 1.2%			
Diversified Financial Services 1.2%			
[a] Altaba Inc.	United States	615,600	45,068,076
Preferred Stocks 4.7%			
Automobiles 1.8%			
[e] Porsche Automobil Holding SE, 3.226%, pfd.	Germany	1,075,600	68,564,312
Technology Hardware, Storage & Peripherals 2.9%			
[e] Samsung Electronics Co. Ltd., 3.397%, pfd.	South Korea	3,148,550	106,278,382
Total Preferred Stocks (Cost $103,867,873)			174,842,694

	Country	Principal Amount	Value
Corporate Notes and Senior Floating Rate Interests 1.2%			
[f,g] Cumulus Media New Holdings Inc., Term Loan, 6.60%, (1-month USD LIBOR + 4.50%), 5/13/22	United States	$10,817,798	$ 10,770,470
Frontier Communications Corp.,			
senior note, 10.50%, 9/15/22	United States	16,691,000	15,230,538
senior note, 11.00%, 9/15/25	United States	23,907,000	19,237,963
Total Corporate Notes and Senior Floating Rate Interests (Cost $48,035,679)			45,238,971
Corporate Notes and Senior Floating Rate Interests in Reorganization 0.8%			
[b,c,h] Broadband Ventures III LLC, secured promissory note, 5.00%, 2/01/12	United States	10,848	—
[h] iHeartCommunications Inc.,			
senior secured note, first lien, 9.00%, 12/15/19	United States	18,873,000	14,390,662
[f,g] Tranche D Term Loan, 8.443%, (3-month USD LIBOR + 6.75%), 1/30/19	United States	15,813,483	12,103,244
[f,g] Tranche E Term Loan, 9.193%, (3-month USD LIBOR + 7.50%), 7/30/19	United States	5,080,935	3,887,500
Total Corporate Notes and Senior Floating Rate Interests in Reorganization (Cost $38,808,737)			30,381,406
		Shares	
Companies in Liquidation 0.0%†			
[a,b,d] Tribune Media, Litigation Trust, Contingent Distribution	United States	502,320	—
[a,d] Vistra Energy Corp., Litigation Trust, Contingent Distribution	United States	74,588,735	606,034
[a] Vistra Energy Corp., Litigation Trust, TRA	United States	1,256,451	816,693
Total Companies in Liquidation (Cost $7,652,096)			1,422,727
Total Investments before Short Term Investments (Cost $3,045,569,937)			3,602,139,707
		Principal Amount	
Short Term Investments 3.0%			
U.S. Government and Agency Securities 3.0%			
[i] FHLB, 7/02/18	United States	$23,800,000	23,800,000
[i] U.S. Treasury Bill,			
[j] 7/26/18 - 11/15/18	United States	45,000,000	44,759,293
7/05/18 - 12/20/18	United States	46,000,000	45,921,572
Total U.S. Government and Agency Securities (Cost $114,467,157)			114,480,865
Total Investments (Cost $3,160,037,094) 98.6%			3,716,620,572
Securities Sold Short (2.2)%			(82,694,229)
Other Assets, less Liabilities 3.6%			133,624,696
Net Assets 100.0%			$3,767,551,039

	Country	Shares	Value
[k] **Securities Sold Short (2.2)%**			
Common Stocks (2.2)%			
Internet Software & Services (1.1)%			
Alibaba Group Holding Ltd., ADR	China	221,616	$ (41,116,416)
Software (1.1)%			
VMware Inc., A	United States	282,900	(41,577,813)
Total Securities Sold Short (Proceeds $78,294,579)			$ (82,694,229)

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

[a] Non-income producing.

[b] Fair valued using significant unobservable inputs. See Note 14 regarding fair value measurements.

[c] See Note 10 regarding restricted securities.

[d] 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.

[e] Variable rate security. The rate shown represents the yield at period end.

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

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

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

[i] The security was issued on a discount basis with no stated coupon rate.

[j] A portion or all of the security has been segregated as collateral for securities sold short. At June 30, 2018, the aggregate value of these securities pledged amounted to $40,604,071, representing 1.1% of net assets.

[k] See Note 1(d) regarding securities sold short.

At June 30, 2018, the Fund had the following futures contracts outstanding. See Note 1(c).

Futures Contracts

Description	Type	Number of Contracts	Notional Amount*	Expiration Date	Value/ Unrealized Appreciation (Depreciation)
Currency Contracts					
EUR/USD	Short	1,194	$175,167,263	9/17/18	$1,727,202
GBP/USD	Short	1,648	136,330,800	9/17/18	2,076,221
Total Futures Contracts					$3,803,423

*As of period end.

At June 30, 2018, the Fund had the following forward exchange contracts outstanding. See Note 1(c).

Forward Exchange Contracts

Currency	Counterparty[a]	Type	Quantity	Contract Amount	Settlement Date	Unrealized Appreciation	Unrealized Depreciation
OTC Forward Exchange Contracts							
Euro	BOFA	Buy	3,610,164	$ 4,187,235	7/12/18	$ 34,795	$ —
Euro	BOFA	Buy	12,431,274	14,591,639	7/12/18	—	(53,462)
Euro	BOFA	Sell	2,240,375	2,736,401	7/12/18	116,319	—
Euro	BONY	Buy	7,059	8,195	7/12/18	60	—
Euro	BONY	Buy	1,924,641	2,267,499	7/12/18	—	(16,661)
Euro	HSBK	Buy	2,284,417	2,687,103	7/12/18	—	(15,513)
Euro	HSBK	Buy	6,318,230	7,340,516	7/12/18	48,554	—
Euro	HSBK	Sell	15,335,639	18,620,641	7/12/18	685,856	—
Euro	SSBT	Buy	2,436,450	2,849,940	7/12/18	—	(550)
Euro	SSBT	Sell	1,687,030	2,063,395	7/12/18	90,441	—
Euro	UBSW	Buy	530,879	621,359	7/12/18	—	(504)
Euro	UBSW	Buy	3,404,732	3,947,213	7/12/18	34,567	—
Euro	UBSW	Sell	13,684,803	16,605,065	7/12/18	600,905	—
British Pound	BOFA	Buy	3,336,276	4,400,105	7/16/18	9,289	—
British Pound	BOFA	Buy	5,026,466	6,745,471	7/16/18	—	(102,234)
British Pound	BOFA	Sell	3,257,748	4,591,145	7/16/18	285,536	—
British Pound	BONY	Buy	2,956,952	3,899,362	7/16/18	8,698	—
British Pound	BONY	Sell	1,430,287	2,058,111	7/16/18	167,770	—
British Pound	HSBK	Buy	5,098,524	6,765,094	7/16/18	—	(26,622)
British Pound	HSBK	Sell	21,571,334	29,491,253	7/16/18	981,466	—
British Pound	SSBT	Buy	1,202,424	1,585,438	7/16/18	3,747	—
British Pound	UBSW	Buy	1,202,423	1,586,085	7/16/18	3,099	—
British Pound	UBSW	Sell	20,427,406	27,863,208	7/16/18	865,294	—
Euro	BOFA	Buy	1,945,863	2,253,928	7/26/18	24,108	—
Euro	BONY	Buy	1,027,570	1,188,797	7/26/18	14,188	—
Euro	BONY	Sell	5,706,879	7,158,481	7/26/18	477,392	—
Euro	HSBK	Buy	1,171,994	1,358,962	7/26/18	13,100	—
Euro	HSBK	Sell	5,706,879	7,157,910	7/26/18	476,822	—
Euro	SSBT	Buy	500,000	581,083	7/26/18	4,271	—
South Korean Won	HSBK	Buy	7,997,317,000	7,329,786	8/10/18	—	(150,994)
South Korean Won	HSBK	Sell	53,721,143,842	49,934,108	8/10/18	1,711,326	—
South Korean Won	UBSW	Buy	11,484,777,899	10,656,056	8/10/18	—	(346,746)
South Korean Won	UBSW	Sell	29,876,626,347	27,999,724	8/10/18	1,180,973	—
British Pound	BOFA	Sell	22,630,095	31,893,399	8/14/18	1,944,341	—
British Pound	BONY	Sell	17,060,640	23,874,858	8/14/18	1,296,515	—
British Pound	HSBK	Sell	3,956,109	5,547,103	8/14/18	311,521	—
British Pound	UBSW	Sell	8,410,083	11,723,539	8/14/18	593,492	—
Euro	BOFA	Buy	1,419,043	1,661,279	8/20/18	3,293	—
Euro	BONY	Buy	1,475,374	1,727,235	8/20/18	3,415	—
Euro	BONY	Sell	10,201,699	12,906,343	8/20/18	939,498	—
Euro	HSBK	Buy	1,419,043	1,658,176	8/20/18	6,397	—
Euro	SSBT	Buy	1,475,374	1,725,470	8/20/18	5,180	—
Euro	SSBT	Sell	10,201,699	12,902,344	8/20/18	935,498	—
Euro	UBSW	Buy	1,475,374	1,725,459	8/20/18	5,191	—
Euro	BOFA	Sell	213,455	268,060	10/10/18	16,658	—
Euro	HSBK	Sell	2,000,000	2,467,734	10/18/18	110,575	—
Euro	SSBT	Sell	4,564,995	5,593,735	10/18/18	213,525	—
Euro	UBSW	Sell	188,996	237,480	10/18/18	14,733	—
British Pound	BOFA	Sell	1,006,635	1,418,337	10/24/18	81,760	—

Forward Exchange Contracts (continued)

Currency	Counterparty[a]	Type	Quantity	Contract Amount	Settlement Date	Unrealized Appreciation	Unrealized Depreciation
OTC Forward Exchange Contracts (continued)							
British Pound	HSBK	Sell	1,697,955	$ 2,355,790	10/24/18	$ 101,302	$ —
British Pound	SSBT	Sell	17,635,339	24,936,899	10/24/18	1,521,284	—
British Pound	UBSW	Sell	5,209,766	7,322,865	10/24/18	405,511	—
Euro	SSBT	Sell	28,048,405	34,059,178	11/07/18	945,461	—
Euro	UBSW	Sell	28,048,405	34,052,446	11/07/18	938,729	—
South Korean Won	HSBK	Sell	17,664,627,206	16,494,574	11/09/18	575,787	—
South Korean Won	UBSW	Sell	34,716,047,504	32,428,235	11/09/18	1,143,263	—
Euro	HSBK	Sell	35,539,536	42,503,579	11/21/18	495,693	—
Euro	SSBT	Sell	35,539,535	42,512,392	11/21/18	504,507	—
British Pound	BONY	Sell	25,801,887	34,978,457	11/26/18	662,950	—
British Pound	UBSW	Sell	25,801,888	34,975,956	11/26/18	660,447	—
Total Forward Exchange Contracts						$22,275,102	$ (713,286)
Net unrealized appreciation (depreciation)						$21,561,816	

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

See Note 11 regarding other derivative information.

See Abbreviations on page 38.

Financial Statements

Statement of Assets and Liabilities

June 30, 2018 (unaudited)

Assets:	
Investments in securities:	
Cost - Unaffiliated issuers	$3,160,037,094
Value - Unaffiliated issuers	$3,716,620,572
Cash	823,437
Foreign currency, at value (cost $921,651)	930,814
Receivables:	
Investment securities sold	33,683,284
Capital shares sold	949,596
Dividends and interest	12,151,474
European Union tax reclaims	2,489,148
Deposits with brokers for:	
Securities sold short	84,850,217
Futures contracts	5,961,840
Unrealized appreciation on OTC forward exchange contracts	22,275,102
Other assets	2,682
Total assets	3,880,738,166
Liabilities:	
Payables:	
Investment securities purchased	18,935,126
Capital shares redeemed	3,840,196
Management fees	2,123,169
Distribution fees	779,205
Transfer agent fees	589,897
Trustees' fees and expenses	220,463
Variation margin on futures contracts	2,953,425
Securities sold short, at value (proceeds $78,294,579)	82,694,229
Unrealized depreciation on OTC forward exchange contracts	713,286
Accrued expenses and other liabilities	338,131
Total liabilities	113,187,127
Net assets, at value	$3,767,551,039
Net assets consist of:	
Paid-in capital	$2,909,132,306
Undistributed net investment income	42,974,350
Net unrealized appreciation (depreciation)	577,337,443
Accumulated net realized gain (loss)	238,106,940
Net assets, at value	$3,767,551,039

Statement of Assets and Liabilities (continued)
June 30, 2018 (unaudited)

Class Z:	
Net assets, at value	$2,542,198,886
Shares outstanding	156,000,782
Net asset value and maximum offering price per share	$16.30
Class A:	
Net assets, at value	$ 904,931,981
Shares outstanding	56,078,107
Net asset value per share[a]	$16.14
Maximum offering price per share (net asset value per share ÷ 94.25%)	$17.12
Class C:	
Net assets, at value	$ 223,679,830
Shares outstanding	14,020,928
Net asset value and maximum offering price per share[a]	$15.95
Class R:	
Net assets, at value	$ 1,784,778
Shares outstanding	111,992
Net asset value and maximum offering price per share	$15.94
Class R6:	
Net assets, at value	$ 94,955,564
Shares outstanding	5,826,697
Net asset value and maximum offering price per share	$16.30

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

Statement of Operations

for the six months ended June 30, 2018 (unaudited)

Investment income:	
Dividends: (net of foreign taxes)*	
Unaffiliated issuers	$ 55,380,841
Interest:	
Unaffiliated issuers	4,431,940
Total investment income	59,812,781
Expenses:	
Management fees (Note 3a)	13,227,309
Distribution fees: (Note 3c)	
Class A	1,181,557
Class C	1,224,330
Class R	4,451
Transfer agent fees: (Note 3e)	
Class Z	1,203,003
Class A	433,582
Class C	112,336
Class R	817
Class R6	18,183
Custodian fees (Note 4)	98,960
Reports to shareholders	100,997
Registration and filing fees	68,296
Professional fees	85,182
Trustees' fees and expenses	69,397
Dividends on securities sold short	162,085
Other	36,177
Total expenses	18,026,662
Expense reductions (Note 4)	(8,643)
Expenses waived/paid by affiliates (Note 3f)	(7,964)
Net expenses	18,010,055
Net investment income	41,802,726
Realized and unrealized gains (losses):	
Net realized gain (loss) from:	
Investments:#	
Unaffiliated issuers	213,448,963
Non-controlled affiliates (Note 12)	10,196
Foreign currency transactions	(407,532)
Forward exchange contracts	(18,607,912)
Futures contracts	4,087,410
Securities sold short	907,182
Net realized gain (loss)	199,438,307
Net change in unrealized appreciation (depreciation) on:	
Investments:	
Unaffiliated issuers	(359,348,367)
Translation of other assets and liabilities denominated in foreign currencies	(412,671)
Forward exchange contracts	40,216,324
Futures contracts	8,043,020
Securities sold short	(4,972,083)
Change in deferred taxes on unrealized appreciation	672,158
Net change in unrealized appreciation (depreciation)	(315,801,619)
Net realized and unrealized gain (loss)	(116,363,312)
Net increase (decrease) in net assets resulting from operations	$ (74,560,586)

*Foreign taxes withheld on dividends	$ 3,021,619
#Net of foreign taxes	$ 155,569

Statements of Changes in Net Assets

	Six Months Ended June 30, 2018 (unaudited)	Year Ended December 31, 2017
Increase (decrease) in net assets:		
Operations:		
Net investment income	$ 41,802,726	$ 65,956,895
Net realized gain (loss)	199,438,307	183,147,634
Net change in unrealized appreciation (depreciation)	(315,801,619)	281,136,333
Net increase (decrease) in net assets resulting from operations	(74,560,586)	530,240,862
Distributions to shareholders from:		
Net investment income:		
Class Z	—	(48,496,718)
Class A	—	(15,320,414)
Class C	—	(2,055,677)
Class R	—	(23,201)
Class R6	—	(1,872,829)
Net realized gains:		
Class Z	—	(91,365,841)
Class A	—	(33,271,239)
Class C	—	(8,974,316)
Class R	—	(65,148)
Class R6	—	(2,256,073)
Total distributions to shareholders	—	(203,701,456)
Capital share transactions: (Note 2)		
Class Z	(109,569,241)	(86,429,444)
Class A	(59,486,861)	(92,158,566)
Class C	(30,920,066)	(38,165,096)
Class R	231,596	(607,336)
Class R6	(10,078,351)	108,551,501
Total capital share transactions	(209,822,923)	(108,808,941)
Net increase (decrease) in net assets	(284,383,509)	217,730,465
Net assets:		
Beginning of period	4,051,934,548	3,834,204,083
End of period	$3,767,551,039	$4,051,934,548
Undistributed net investment income included in net assets:		
End of period	$ 42,974,350	$ 1,171,624

Notes to Financial Statements (unaudited)

1. Organization and Significant Accounting Policies

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

The following summarizes the Fund's significant accounting policies.

a. Financial Instrument Valuation

The Fund's investments in financial instruments are carried at fair value daily. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. The Fund calculates the net asset value (NAV) per share each business day as of 4 p.m. Eastern time or the regularly scheduled close of the New York Stock Exchange (NYSE), whichever is earlier. Under compliance policies and procedures approved by the Trust's Board of Trustees (the Board), the Fund's administrator has responsibility for oversight of valuation, including leading the cross-functional Valuation Committee (VC). The VC 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 listed on an exchange or on the NASDAQ National Market System are valued at the last quoted sale price or the official closing price of the day, respectively. Foreign equity securities are valued as of the close of trading on the foreign stock exchange on which the security is primarily traded, or as of 4 p.m. Eastern time. The value is then converted into its U.S. dollar equivalent at the foreign exchange rate in effect at 4 p.m. Eastern time on the day that the value of the security is determined. Over-the-counter (OTC) securities are valued within the range of the most recent quoted bid and ask prices. Securities that trade in multiple markets or on multiple exchanges are valued according to the broadest and most representative market. Certain equity securities are valued based upon fundamental characteristics or relationships to similar securities.

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

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

The Fund has procedures to determine the fair value of financial instruments for which market prices are not reliable or readily available. Under these procedures, the VC 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 VC 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 VC employs various methods for calibrating these

1. Organization and Significant Accounting Policies (continued)

a. Financial Instrument Valuation *(continued)*

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

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

b. Foreign Currency Translation

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

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

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

c. Derivative Financial Instruments

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

Derivative counterparty credit risk is managed through a formal evaluation of the creditworthiness of all potential counter-parties. The Fund attempts to reduce its exposure to counterparty credit risk on OTC derivatives, whenever possible, by entering into International Swaps and Derivatives Association (ISDA) master agreements with certain counterparties. These agreements contain various provisions, including but not limited to collateral requirements, events of default, or early termination. Termination events applicable to the counterparty include certain deteriorations in the credit quality of the counterparty. Termination events applicable to the Fund include failure of the Fund to maintain certain net asset levels and/or limit the decline in net assets over various periods of time. In the event of default or early termination, the ISDA master agreement gives the non-defaulting party the right to net and close-out all transactions traded, whether or not arising under the ISDA agreement, to one net amount payable by one counterparty to the other. However, absent an event of default or early termination, OTC derivative assets and liabilities are presented gross and not offset in the Statement of Assets and Liabilities. Early termination by the counterparty may result in an immediate payment by the Fund of any net liability owed to that counterparty under the ISDA agreement. At June 30, 2018, the Fund had no OTC derivatives in a net liability position for such contracts.

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

At June 30, 2018, the Fund received $25,499,160 in U.K. Treasury Bonds and U.S. Treasury Bills, Bonds and Notes as collateral for derivatives.

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

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

See Note 11 regarding other derivative information.

d. Securities Sold Short

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

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

e. 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

1. Organization and Significant Accounting Policies (continued)

e. Senior Floating Rate Interests *(continued)*

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.

f. Income and Deferred Taxes

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

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

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

The Fund may recognize an income tax liability related to its uncertain tax positions under U.S. GAAP when the uncertain tax position has a less than 50% probability that it will be sustained upon examination by the tax authorities based on its technical merits. As of June 30, 2018, the Fund has determined that no tax liability is required in its financial statements related to uncertain tax positions for any open tax years (or expected to be taken in future tax years). Open tax years are those that remain subject to examination and are based on the statute of limitations in each jurisdiction in which the Fund invests.

g. Security Transactions, Investment Income, Expenses and Distributions

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

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

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

h. Accounting Estimates

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

i. Guarantees and Indemnifications

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

2. Shares of Beneficial Interest

At June 30, 2018, there were an unlimited number of shares authorized (without par value). Transactions in the Fund's shares were as follows:

	Six Months Ended June 30, 2018		Year Ended December 31, 2017	
	Shares	Amount	Shares	Amount
Class Z Shares:				
Shares sold	2,700,738	$ 44,876,995	12,158,938	$ 199,279,041
Shares issued in reinvestment of distributions	—	—	7,927,106	130,651,385
Shares redeemed	(9,285,461)	(154,446,236)	(25,064,661)	(416,359,870)
Net increase (decrease)	(6,584,723)	$(109,569,241)	(4,978,617)	$ (86,429,444)
Class A Shares:				
Shares sold	2,279,480	$ 37,698,470	5,808,494	$ 94,712,185
Shares issued in reinvestment of distributions	—	—	2,889,127	47,191,652
Shares redeemed	(5,899,855)	(97,185,331)	(14,375,309)	(234,062,403)
Net increase (decrease)	(3,620,375)	$ (59,486,861)	(5,677,688)	$ (92,158,566)
Class C Shares:				
Shares sold	333,736	$ 5,450,003	1,150,062	$ 18,503,214
Shares issued in reinvestment of distributions	—	—	672,846	10,882,501
Shares redeemed	(2,231,577)	(36,370,069)	(4,170,647)	(67,550,811)
Net increase (decrease)	(1,897,841)	$ (30,920,066)	(2,347,739)	$ (38,165,096)
Class R Shares:				
Shares sold	20,243	$ 338,568	32,014	$ 516,552
Shares issued in reinvestment of distributions	—	—	5,476	88,349
Shares redeemed	(6,588)	(106,972)	(74,775)	(1,212,237)
Net increase (decrease)	13,655	$ 231,596	(37,285)	$ (607,336)
Class R6 Shares:				
Shares sold	673,795	$ 11,234,727	6,649,392	$ 112,866,490
Shares issued in reinvestment of distributions	—	—	249,808	4,128,902
Shares redeemed	(1,282,252)	(21,313,078)	(503,515)	(8,443,891)
Net increase (decrease)	(608,457)	$ (10,078,351)	6,395,685	$ 108,551,501

3. Transactions with Affiliates

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

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

a. Management Fees

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

Annualized Fee Rate	Net Assets
0.675%	Up to and including $5 billion
0.645%	Over $5 billion, up to and including $7 billion
0.625%	Over $7 billion, up to and including $10 billion
0.615%	In excess of $10 billion

For the period ended June 30, 2018, the annualized gross effective investment management fee rate was 0.675% of the Fund's average daily net assets.

b. Administrative Fees

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

c. Distribution Fees

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

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

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

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

d. Sales Charges/Underwriting Agreements

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

Sales charges retained net of commissions paid to unaffiliated brokers/dealers	$45,223
CDSC retained	$ 5,709

e. Transfer Agent Fees

Each class of shares pays transfer agent fees to Investor Services for its performance of shareholder servicing obligations. Effective November 1, 2017, the fees are based on an annualized asset based fee of 0.02% plus a transaction based fee. Prior to November 1, 2017, the fees were account based fees that varied based on fund or account type. In addition, each class reimburses Investor Services for out of pocket expenses incurred and, except for Class R6, reimburses shareholder servicing fees paid to third parties. These fees are allocated daily based upon their relative proportion of such classes' aggregate net assets. Class R6 pays Investor Services transfer agent fees specific to that class.

For the period ended June 30, 2018, the Fund paid transfer agent fees of $1,767,921, of which $799,989 was retained by Investor Services.

f. Waiver and Expense Reimbursements

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

4. Expense Offset Arrangement

The Fund has entered into an arrangement with its custodian whereby credits realized as a result of uninvested cash balances are used to reduce a portion of the Fund's custodian expenses. During the period ended June 30, 2018, the custodian fees were reduced as noted in the Statement of Operations.

5. Independent Trustees' Retirement Plan

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

During the period ended June 30, 2018, the Fund's projected benefit obligation and benefit payments under the Plan were as follows:

[a]Projected benefit obligation at June 30, 2018	$220,463
[b]Increase in projected benefit obligation	$ 1,577
Benefit payments made to retired trustees	$ (2,037)

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

6. Income Taxes

For tax purposes, the Fund may elect to defer any portion of a post-October capital loss to the first day of the following fiscal year. At December 31, 2017, the Fund deferred post-October capital losses of $2,417,876.

At June 30, 2018, the cost of investments and net unrealized appreciation (depreciation) for income tax purposes were as follows:

Cost of investments	$3,061,428,746
Unrealized appreciation	$ 813,752,244
Unrealized depreciation	(215,879,418)
Net unrealized appreciation (depreciation)	$ 597,872,826

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

7. Investment Transactions

Purchases and sales of investments (excluding short term securities and securities sold short) for the period ended June 30, 2018, aggregated $744,680,754 and $870,695,796, respectively.

8. Credit Risk and Defaulted Securities

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

At June 30, 2018, the aggregate long value of distressed company securities for which interest recognition has been discontinued was $30,381,406, representing 0.8% of the Fund’s net assets. For information as to specific securities, see the accompanying Statement of Investments.

9. Concentration of Risk

Investing in foreign securities may include certain risks and considerations not typically associated with investing in U.S. securities, such as fluctuating currency values and changing local and regional economic, political and social conditions, which may result in greater market volatility. In addition, certain foreign securities may not be as liquid as U.S. securities.

10. Restricted Securities

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

At June 30, 2018, investments in restricted securities, excluding securities exempt from registration under the 1933 Act deemed to be liquid, were as follows:

Principal Amount/ Shares	Issuer	Acquisition Date	Cost	Value
10,848	Broadband Ventures III LLC, secured promissory note, 5.00%, 2/01/12	7/01/10 - 11/30/12	$ 10,848	$ —
2,846,329	International Automotive Components Group Brazil LLC	4/13/06 - 12/26/08	1,890,264	64,720
22,836,904	International Automotive Components Group North America LLC	1/12/06 - 3/18/13	18,692,218	6,837,118
	Total Restricted Securities (Value is 0.2% of Net Assets)		$20,593,330	$6,901,838

11. Other Derivative Information

At June 30, 2018, the Fund's investments in derivative contracts are reflected in the Statement of Assets and Liabilities as follows:

	Asset Derivatives		Liability Derivatives	
Derivative Contracts Not Accounted for as Hedging Instruments	**Statement of Assets and Liabilities Location**	**Fair Value**	**Statement of Assets and Liabilities Location**	**Fair Value**
Foreign exchange contracts	Variation margin on futures contracts	$ 3,803,423[a]	Variation margin on futures contracts	$ —
	Unrealized appreciation on OTC forward exchange contracts	22,275,102	Unrealized depreciation on OTC forward exchange contracts	713,286
Totals		$26,078,525		$713,286

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

For the period ended June 30, 2018, the effect of derivative contracts in the Fund's Statement of Operations was as follows:

Derivative Contracts Not Accounted for as Hedging Instruments	Statement of Operations Location	Net Realized Gain (Loss) for the Period	Statement of Operations Location	Net Change in Unrealized Appreciation (Depreciation) for the Period
	Net realized gain (loss) from:		Net change in unrealized appreciation (depreciation) on:	
Foreign exchange contracts	Forward exchange contracts	$(18,607,912)	Forward exchange contracts	$40,216,324
	Futures contracts	4,087,410	Futures contracts	8,043,020
Totals		$(14,520,502)		$48,259,344

For the period ended June 30, 2018, the average month end notional amount of futures contracts represented $323,703,388. The average month end contract value of forward exchange contracts was $718,230,087.

See Note 1(c) regarding derivative financial instruments.

12. Holdings of 5% Voting Securities of Portfolio Companies

The 1940 Act defines "affiliated companies" to include investments in portfolio companies in which a fund owns 5% or more of the outstanding voting securities. During the period ended June 30, 2018, investments in "affiliated companies" were as follows:

Name of Issuer	Number of Shares Held at Beginning of Period	Gross Additions	Gross Reductions	Number of Shares Held at End of Period	Value at End of Period	Dividend Income	Realized Gain (Loss)	Net Change in Unrealized Appreciation (Depreciation)
Non-Controlled Affiliates								
CB FIM Coinvestors LLC	15,831,950	—	(15,831,950)[a]	—	$—	$—	$10,196	$—

[a]Gross reduction was the result of a corporate action.

13. Credit Facility

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

Under the terms of the Global Credit Facility, the Fund shall, in addition to interest charged on any borrowings made by the Fund and other costs incurred by the Fund, pay its share of fees and expenses incurred in connection with the implementation and maintenance of the Global Credit Facility, based upon its relative share of the aggregate net assets of all of the Borrowers, including an annual commitment fee of 0.15% based upon the unused portion of the Global Credit Facility. These fees are reflected in other expenses in the Statement of Operations. During the period ended June 30, 2018, the Fund did not use the Global Credit Facility.

14. Fair Value Measurements

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

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

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

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

A summary of inputs used as of June 30, 2018, 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:[a]				
Equity Investments:[b]				
Auto Components	$ —	$ —	$ 6,901,838	$ 6,901,838
Media	433,742,699	1,584,119	—	435,326,818
All Other Equity Investments	3,082,867,947	—	—[c]	3,082,867,947
Corporate Notes and Senior Floating Rate Interests	—	45,238,971	—	45,238,971
Corporate Notes and Senior Floating Rate Interests in Reorganization	—	30,381,406	—[c]	30,381,406
Companies in Liquidation	—	1,422,727	—[c]	1,422,727
Short Term Investments	90,680,865	23,800,000	—	114,480,865
Total Investments in Securities	$ 3,607,291,511	$ 102,427,223	$ 6,901,838	$ 3,716,620,572
Other Financial Instruments:				
Futures Contracts	$ 3,803,423	$ —	$ —	$ 3,803,423
Forward Exchange Contracts	—	22,275,102	—	22,275,102
Total Other Financial Instruments	$ 3,803,423	$ 22,275,102	$ —	$ 26,078,525
Liabilities:				
Other Financial Instruments:				
Securities Sold Short[a]	$ 82,694,229	$ —	$ —	$ 82,694,229
Forward Exchange Contracts	—	713,286	—	713,286
Total Other Financial Instruments	$ 82,694,229	$ 713,286	$ —	$ 83,407,515

[a]For detailed categories, see the accompanying Statement of Investments.
[b]Includes common, preferred stocks and management investment companies as well as other equity investments.
[c]Includes securities determined to have no value at June 30, 2018.

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

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, except for the following:

On February 27, 2018, the Board approved an automatic conversion feature for Class C that will convert shareholders' Class C shares into Class A shares after they have been held for 10 years. The conversion feature will become effective on a future date prior to the calendar year end of 2018. Further details are disclosed in the Fund's Prospectus.

On May 17, 2018, the Board approved changes to certain front-end sales charges and dealer commissions on Class A shares. The changes will become effective on or about September 10, 2018. Further details are disclosed in the Fund's Prospectus.

Abbreviations

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

Shareholder Information

Board Approval of Investment Management Agreements

FRANKLIN MUTUAL SERIES FUNDS
Franklin Mutual Beacon Fund
(Fund)

The Board of Trustees (Board), including a majority of trustees that are not “interested persons” as such term is defined in section 2(a)(19) of the Investment Company Act of 1940 (hereinafter referred to as “independent trustees”), at an in-person meeting held on May 17, 2018, unanimously approved the renewal of the Fund’s investment management agreement. Prior to a meeting of all of the trustees for the purpose of considering such renewal, the independent trustees participated in two other meetings held in connection with the renewal process. Throughout the process, the independent trustees received assistance and advice from and met separately with independent counsel. The independent trustees met with and interviewed officers of the investment manager (including portfolio managers), the transfer agent and shareholder services group and the distributor. In approving the renewal of the investment management agreement for the Fund, the Board, including the independent trustees, determined that the investment management fee structure was fair and reasonable and that continuance of the agreement was in the best interests of the Fund and its shareholders.

In reaching their decision on the investment management agreement, the trustees took into account information furnished throughout the year at regular Board meetings, as well as information specifically requested and furnished for the renewal process, which culminated in the meetings referred to above for the specific purpose of considering such agreement. Information furnished throughout the year included, among others, reports on the Fund’s investment performance, expenses, portfolio composition, portfolio brokerage execution, client commission arrangements, derivatives, securities lending, asset segregation, portfolio turnover, Rule 12b-1 plan, distribution, shareholder servicing, legal and compliance matters, pricing of securities, sales and redemptions, and marketing support payments made to financial intermediaries, as well as a third-party survey of transfer agent fees charged to funds within the Franklin Templeton Investments (FTI) complex in comparison with those charged to other fund complexes deemed comparable. Also, related financial statements and other information about the scope and quality of services provided by the investment manager and its affiliates and enhancements to such services over the past year were provided. In addition, the trustees received periodic reports throughout the year and during the renewal process relating to compliance with the Fund’s investment policies and restrictions. During the renewal process, the independent trustees considered the investment manager’s methods of operation within the Franklin Templeton group and its activities on behalf of other clients. The Board also noted that it received an annual report on all payments made by FTI or the Fund to financial intermediaries engaged in the sale of Fund shares, as well as a memorandum relating to third-party servicing arrangements in response to a Guidance Update from the U.S. Securities and Exchange Commission (SEC) relating to mutual fund distribution and sub-accounting fees.

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

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

The trustees reviewed the personnel, operations, financial condition, and investment management capabilities, methodologies and resources of the investment manager. As part of this review, particular attention was given to management’s diligent risk management program, including continual monitoring and management of cybersecurity, liquidity and counterparty credit risk, and attention given to derivatives and other complex instruments that are held and expected to be held by the Fund and how such instruments are used to carry out the Fund’s investment goal(s). The Board also took into account, among other things, management’s efforts in establishing a global credit facility for the benefit of the Fund and other accounts managed by FTI to provide a source of cash for temporary and emergency purposes or to meet unusual redemption requests as well as the strong financial position of the investment manager's parent company and its commitment to the mutual fund business. The Board noted management's continuing efforts and expenditures in establishing effective business continuity plans and developing strategies to address areas of heightened concern in the mutual fund industry, such as cybersecurity and liquidity risk management. The Board also recognized management's commitment to facilitating Board oversight of particular areas, including derivatives and payments to intermediaries, by enhanced reporting.

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

NATURE, EXTENT AND QUALITY OF SERVICES. The trustees reviewed the nature, extent and quality of the services provided, and to be provided, by the investment manager. The trustees cited the investment manager's ability to implement the Fund's disciplined value investment approach and its long-term relationship with the Fund as reasons that shareholders choose to invest, and remain invested, in the Fund. The trustees reviewed the Fund's portfolio management team, including its performance, staffing, skills and compensation program. With respect to portfolio manager compensation, management assured the trustees that the Fund's long-term performance is a significant component of incentive-based compensation and noted that a portion of a portfolio manager's incentive-based compensation is paid in shares of pre-designated funds from the portfolio manager's fund management area. The trustees noted that the portfolio manager compensation program aligned the interests of the portfolio managers with that of shareholders of the Fund. The trustees discussed with management various other products, portfolios and entities that are advised by the investment manager and the allocation of assets and expenses among and within them, as well as their relative fees and reasons for differences with respect thereto and any potential conflicts. During regular Board meetings and the aforementioned meetings of the independent trustees, the trustees received reports and presentations on the investment manager's best execution trading policies. The trustees considered periodic reports provided to them showing that the investment manager complied with the investment policies and restrictions of the Fund as well as other reports periodically furnished to the Board covering matters such as the compliance of portfolio managers and other management personnel with the code of ethics covering the investment management personnel, the adherence to fair value pricing procedures established by the Board and the accuracy of net asset value calculations. The Board noted the extent of the benefits provided to Fund shareholders from being part of the Franklin Templeton group of funds, including the right to exchange investments between funds (same class) without a sales charge, the ability to reinvest Fund dividends into other funds and the right to combine holdings of other funds to obtain reduced sales charges. The Board considered the investment manager's significant efforts in developing and implementing compliance procedures established in accordance with SEC and other requirements.

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

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

INVESTMENT PERFORMANCE. The trustees reviewed and placed significant emphasis on the investment performance of the Fund over the one-, three-, five- and 10-year periods ended December 31, 2017. They considered the history of successful performance of the Fund relative to various benchmarks. As part of their review, they inquired of management regarding benchmarks, style drift and restrictions on permitted investments. Consideration was also given to performance in the context of available levels of cash during the periods.

The trustees had meetings during the year, including the meetings referred to above held in connection with the renewal process, with the Fund's portfolio managers to discuss performance and the management of the Fund. In addition to the materials provided by management in connection with the renewal process, the independent trustees requested supplemental information and additional presentations from the investment manager and senior management of FTI regarding the performance of the investment manager and the Fund. As part of these presentations, it was noted that senior management of FTI is conducting a review of the investment manager and the Fund and will report the results thereof to the independent trustees when completed. In addition, particular attention in assessing performance was given to the Broadridge Section 15(c) Report. That report showed the investment performance of the Fund (Class A shares) in comparison to other funds determined comparable by Lipper.

The comparable funds to the Fund, as chosen by Lipper, included all retail and institutional global multi-cap value funds. The Fund had total returns in the lowest performing quintile for the one-year period ended December 31, 2017, and had annualized total returns for the three- and five-year periods in the second-best performing quintile. The trustees noted that the Fund's total return on an annualized basis for the 10-year period ended December 31, 2017 was in the second-best performing quintile. The trustees discussed with management the reasons for the relative underperformance for the one-year period ended December 31, 2017. While noting such discussions, overall, the trustees were satisfied with such comparative performance.

The trustees also compared Fund performance to other industry benchmarks, including measures of risk-adjusted performance of a fund, as part of their evaluation of investment performance. The trustees concluded that the Fund had continued to perform well in comparison to its various benchmarks and in the context of the Fund's goals.

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

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

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

The trustees also reviewed the Profitability Study addressing profitability of Franklin Resources, Inc., from its overall U.S. fund business, as well as profitability to the Fund's investment manager and its affiliates, from providing investment management and other services to the Fund during the 12-month period ended September 30, 2017, the most recent fiscal year-end of Franklin Resources, Inc. The trustees reviewed the basis on which such reports are prepared and the cost allocation methodology utilized in the Profitability Study, it being recognized that allocation methodologies may each be reasonable while producing different results. In this respect, the Board noted that the reasonableness of the cost allocation methodologies was reviewed by independent accountants on an every other year basis.

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

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

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

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

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

Proxy Voting Policies and Procedures

The Fund's investment manager has established Proxy Voting Policies and Procedures (Policies) that the Fund uses to determine how to vote proxies relating to portfolio securities. Shareholders may view the Fund's complete Policies online at franklintempleton.com. Alternatively, shareholders may request copies of the Policies free of charge by calling the Proxy Group collect at (954) 527-7678 or by sending a written request to: Franklin Templeton Companies, LLC, 300 S.E. 2nd Street, Fort Lauderdale, FL 33301, Attention: Proxy Group. Copies of the Fund's proxy voting records are also made available online at franklintempleton.com and posted on the US 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 Trust, on behalf of the Fund, files a complete statement of investments with the US Securities and Exchange Commission for the first and third quarters for each fiscal year on Form N-Q. Shareholders may view the filed Form N-Q by visiting the Commission's website at sec.gov. The filed form may also be viewed and copied at the Commission's Public Reference Room in Washington, DC. Information regarding the operations of the Public Reference Room may be obtained by calling (800) SEC-0330.

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FRANKLIN TEMPLETON INVESTMENTS

Semiannual Report and Shareholder Letter
Franklin 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 help ensure we provide you with quality service, all calls to and from our service areas are monitored and/or recorded.

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