JUNE 30, 2013

SEMIANNUAL REPORT
AND SHAREHOLDER LETTER

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VALUE

Mutual Beacon Fund

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

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

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

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

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

TRUE DIVERSIFICATION

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

RELIABILITY YOU CAN TRUST

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

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

Not part of the semiannual report

Contents

Shareholder Letter

Average Annual Total Return

Class Z	6/30/13
1-Year	+23.02%
5-Year	+5.41%
10-Year	+7.30%

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

Dear Mutual Beacon Fund Shareholder:

In the first half of 2013, financial market performance varied significantly across the globe and among various asset classes. Equity markets in the U.S. continued their strong rise, but European and Asian markets (excluding Japan) trailed. Credit markets have benefited from a low interest rate environment and government liquidity stimuli designed to improve anemic economic growth in developed economies. However, these markets finally began to cool amid talk of a tapering of the Federal Reserve Board's (Fed's) quantitative easing programs. Mutual Beacon Fund's portfolio, constructed on a security-by-security, bottom-up approach with a careful eye on risk, was generally well positioned to take advantage of these conditions and performed reasonably well on an absolute basis and relative to its benchmark, the Standard & Poor's® 500 Index (S&P 500®).[1]

One of the most interesting developments of the first half of the year came in late June at a press conference held by Fed Chairman Ben Bernanke. In keeping with the Fed's efforts, particularly those of the Chairman, to be "more transparent," Bernanke explained the Fed's thought process concerning a winding down of the Fed's extraordinary and unprecedented efforts to stimulate the economy and employment. While it has always been clear that the Fed's program would have to end or be curtailed substantially, the specific timing has been unclear, which has made securities markets nervous. Bernanke's comments amounted to a commonsense approach of "if things continue to improve at the pace we anticipate, then we will begin to respond later this year." However, the reality of a timetable for this process spooked the bond markets dramatically and the equity markets

1. The S&P 500 is a market capitalization-weighted index of 500 stocks designed to measure total U.S. equity market performance. STANDARD & POOR'S®, S&P® and S&P 500® are registered trademarks of Standard & Poor's Financial Services LLC.

to a lesser extent. The 10-year Treasury rate climbed from 2.16% at the start of June to 2.52% by month-end, and bond markets experienced major selling across the board. Pundits suggested the great bull market in bonds was finally over and the much anticipated rotation out of bonds into equities had begun.

European equity markets were weak relative to the strong U.S. equity market, and economic expectations for most of Europe remained depressed. While in 2012, the European Central Bank's willingness to prevent a liquidity crisis and a complete collapse of the euro propelled the region's markets, the same markets were being weighed down by a lack of growth, leading a growing number of voices to suggest that austerity alone cannot be the solution to the region's debt crisis. The European Commission's decision in May to give some countries more time to complete their austerity plans reflects, we believe, a new flexibility on the part of Europe's politicians, and, we hope, a first step toward possible pro-growth measures after Germany holds elections in September.

Regarding Asia, investors focused on economic, financial and policy events in China and Japan. Elevated concerns about China's slower pace of economic growth put pressure on all Asian financial markets outside of Japan. China's new political leaders appeared resolute on transitioning the economy away from growth driven by low-cost manufacturing to a more mature model that includes greater domestic consumption. The rapid pace of change, the government's attempt to tighten credit growth enough to curb real estate speculation, and the new leadership's hesitancy to bolster economic growth through stimulus measures combined to produce some instability in China's financial markets that affected global markets. Concurrently, the new Japanese commitment to more aggressive measures against deflation was the biggest financial market driver in that country. The yen dropped versus the dollar from highs set in late 2011 to levels of five years ago. This devaluation was perceived to strengthen Japanese exporters' competitive position, and Japanese equity prices rose in response. However, in a country with few natural resources, a depreciating currency also translates into higher import prices for raw materials, and those higher input costs may offset some of the perceived currency benefits. In addition, rising U.S. bond yields may have begun to attract capital out of Asian markets and into U.S. bonds.

Against this backdrop, the Fund continued its long-established strategies seeking to invest in deep value equities, distressed debt and merger arbitrage opportunities.

One of the Fund's new investments during this period was Apple.[2] We have watched the company's incredible success but have felt that the share price accurately reflected the opportunities at the company. During the past six months, Apple's growth momentum stalled and the share price reflected, in our opinion, only a conservative valuation for the business in place, with little credit for the company's strong balance sheet — over $140 billion of net cash — or the possibility that new products may continue to succeed in captivating the market. In our view, Apple is a classic example of a growth company that slows and temporarily becomes priced for mediocrity rather than success. Thus, we considered Apple an attractive opportunity in the first half of 2013.

The Fund also made investments in the energy sector, including U.K.-based BG Group, which was the exploration and production division of the former British Gas.[3] The company became a leader in liquefied natural gas and was an early entrant in the development of the massive resources in deep waters off the coast of Brazil. Recently, BG Group suffered from cost overruns, management uncertainty and production issues in other assets including in Egypt and the North Sea. The stock fell dramatically as a result of these issues, which we believe can be solved and were obscuring BG Group's significant underlying asset value.

Our distressed debt investing has been very opportunistic over the past few years. Globally low interest rates and easy credit have meant few bankruptcies that limited our opportunities. However, our team recently uncovered a substantial opportunity in bankruptcy claims in the Lehman Brothers estate. We invested capital in acquiring claims at a significant discount to face value in an entity known as Lehman Brothers Holdings.[4] This was the entity that held the investment banking operations sold to Barclays in 2008 and now holds a mix of assets against substantial liabilities, including legal claims. We opportunistically acquired a material position in unsecured claims on Lehman Brothers Holdings.

Merger arbitrage opportunities remain limited by the dearth of corporate deals. More than four years after the S&P 500 bottomed, merger and acquisition volumes remained far below prior peaks. During the period, Freeport-McMoRan Copper & Gold (FCX) consummated a takeover of Plains Exploration and Production (PXP), an investment made late in 2012 after PXP agreed to an acquisition by FCX. When the time came to vote on the deal, it became obvious to PXP shareholders that the offer price was too low relative to the underlying

2. Mutual Beacon Fund's holdings are based on total net assets as of 6/30/13: Apple 1.8%.

3. Mutual Beacon Fund's holdings are based on total net assets as of 6/30/13: BG Group 0.5%.

4. Mutual Beacon Fund's holdings are based on total net assets as of 6/30/13: Lehman Brothers Holdings 1.8%.

value of PXP. At the last minute, FCX increased the offer and succeeded in acquiring PXP. While the Fund benefited from the price increase in the deal, we believed that FCX was still getting PXP at an attractive price and that the deal had distracted investors from the value of FCX's core assets as well. Consequently, we chose to receive FCX shares in the deal and held those shares, as well as other FCX shares acquired before the deal closed, at the end of the period.[5]

Thus far, 2013 has been characterized by performance differentials across asset classes like equities and bonds and across the globe. In some regions the recovery from the global financial crisis continues and monetary authorities have begun to look at the end of stimulus, while other regions struggle to achieve growth. We believe these different forces should continue to provide the Fund with attractive opportunities to allocate capital and generate attractive, long-term returns for our investors.

We thank you for your trust and your support.

Sincerely,

Peter A Langerman

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

The letter reflects our analysis, opinions and portfolio holdings as of June 30, 2013, the end of the reporting period. The way we implement our main investment strategies and the resulting portfolio holdings may change depending on factors such as market and economic conditions. These opinions may not be relied upon as investment advice or an offer for a particular security. The information is not a complete analysis of every aspect of any market, country, industry, security or the Fund. Statements of fact are from sources considered reliable, but the investment manager makes no representation or warranty as to their completeness or accuracy. Although historical performance is no guarantee of future results, these insights may help you understand our investment management philosophy.

5. Mutual Beacon Fund's holdings are based on total net assets as of 6/30/13: FCX 1.5%.

Semiannual Report

Mutual Beacon Fund

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

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

We are pleased to bring you Mutual Beacon Fund's semiannual report for the period ended June 30, 2013.

Performance Overview

Mutual Beacon Fund – Class Z delivered a +13.25% cumulative total return for the six months ended June 30, 2013. In comparison, the Fund's benchmark, the Standard & Poor's 500 Index (S&P 500), which is a broad measure of U.S. stock performance, generated a +13.82% total return.[1] You can find the Fund's short- and long-term performance data in the Performance Summary beginning on page 11.

Economic and Market Overview

Modest U.S. economic growth, as measured by gross domestic product, characterized the six-month period ended June 30, 2013. Increasing job creation helped lower the unemployment rate and absorb new job seekers, and consumer spending remained strong. Accelerating new and existing home sales accompanied record-low mortgage rates, affordable housing prices, low new-home inventories and a six-year low in U.S. foreclosures. Manufacturing, a mainstay of economic productivity, expanded every month except May.

Budgetary agreement between Congress and the President on January 1 preserved lower income tax rates for most U.S. households, but concerns remained about how the expired payroll tax cut, far-reaching federal spending

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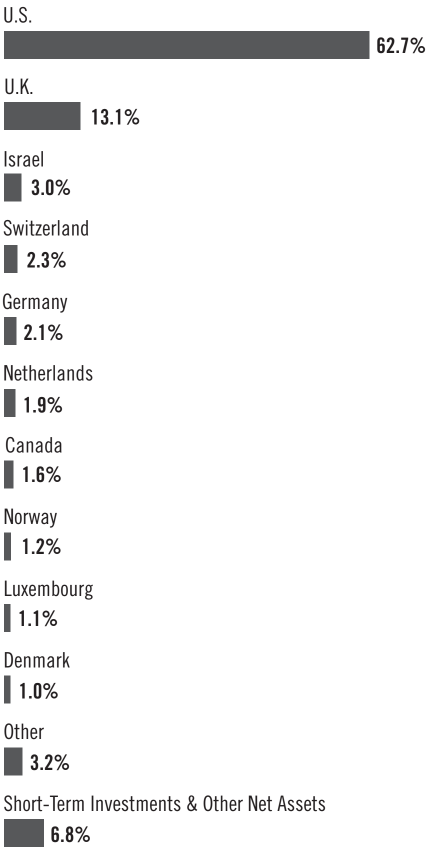
The dollar value, number of shares or principal amount, and names of all portfolio holdings are listed in the Fund's Statement of Investments (SOI). The SOI begins on page 21.

Geographic Breakdown
Based on Total Net Assets as of 6/30/13



cuts, and future federal debt ceiling negotiations could affect the U.S. economic recovery. Washington's lack of consensus on proposed expenditure reductions resulted in further across-the-board federal spending cuts starting in March. In May, Federal Reserve Board (Fed) Chairman Ben Bernanke said the Fed could gradually wind down its monthly purchases of mortgage-backed securities and Treasuries, assuming continued U.S. economic improvement. He clarified in June that such action could begin in the near future.

Amid these fiscal and monetary developments, a slow and steady U.S. recovery continued. U.S. stocks generated healthy returns as the S&P 500 and Dow Jones Industrial Average reached all-time highs during the period, even though Chairman Bernanke's statements sparked sell-offs. Rising corporate profits and generally favorable economic data bolstered investor confidence, but caution remained about the extent to which positive business and market results were dependent on continuation of the Fed's accommodative monetary policy.

The global economic recovery was mixed during the first half of 2013. Emerging markets continued to lead the recovery, although they showed signs of slowing. Growth in the U.S. was slow by the standards of previous recoveries, while the eurozone economy continued to contract. As fears eased surrounding the issues of sovereign debt in Europe, the possibility of another recession in the U.S., and a potential "hard landing" in China, financial market performance was positive. Improving sentiment, relatively strong fundamentals, and continued provision of global liquidity supported risk assets as equity markets performed well and bond prices generally declined. Policymakers in the largest developed economies increased their already unprecedented efforts to supply liquidity. Actions elsewhere in the world were mixed, with some policymakers less willing to reverse previous tightening efforts in response to the external environment.

The MSCI All Country World Index, which measures global developed and emerging stock performance, advanced during the first six months of 2013. Although emerging markets declined, the losses were more than offset by developed market gains. Regional performance was more consistent with local economic trends, although periodic volatility reflected the global economy's fragility. Given the rise in rates near period-end, longer duration U.S. Treasury and emerging market bond prices experienced meaningful price declines. In the second quarter, gold, traditionally a safe haven, posted its worst quarterly performance since 1974 as inflation expectations remained subdued and global commodities stayed under pressure. Investor sentiment improved in the last week of the period, and global stock prices rebounded from period lows after China's central bank intervened to calm the country's interbank market, positive economic reports helped stabilize Japanese government bond yields and several Fed members reassured investors that the Fed's accommodative monetary policy would continue.

Investment Strategy

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

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

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

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

What is meant by "hedge"?

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

What is a currency forward contract?

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

Top 10 Equity Holdings
6/30/13

Company *Sector/Industry, Country*	% of Total Net Assets
Microsoft Corp. *Software, U.S.*	3.4%
Twenty-First Century Fox Inc., B *Media, U.S.*	3.0%
Medtronic Inc. *Health Care Equipment & Supplies, U.S.*	2.6%
Vodafone Group PLC *Wireless Telecommunication Services, U.K.*	2.5%
British American Tobacco PLC *Tobacco, U.K.*	2.5%
Merck & Co. Inc. *Pharmaceuticals, U.S.*	2.3%
Wells Fargo & Co. *Commercial Banks, U.S.*	2.3%
WPX Energy Inc. *Oil, Gas & Consumable Fuels, U.S.*	2.2%
White Mountains Insurance Group Ltd. *Insurance, U.S.*	2.1%
Lorillard Inc. *Tobacco, U.S.*	2.0%

Manager's Discussion

In an environment of generally rising U.S. equity prices, many Fund holdings increased in value during the review period. Top contributors included software company Microsoft, medical technology firm Medtronic and natural gas producer WPX Energy.

Microsoft shares benefited from improved investor sentiment. Following the launch of the Windows 8 operating system in the fall of 2012 and a deceleration in PC sales, skepticism about Microsoft's future peaked. In April 2013, the company reported quarterly earnings that modestly beat expectations, generally reassuring the market of its prospects. Shares appreciated as the market returned to viewing Microsoft as a stable business with a reasonable future.

Medtronic reported strong results in the fourth quarter of fiscal year 2013 and issued fiscal year 2014 guidance pointing to improved revenue performance relative to expectations. The company also raised its dividend and increased the size of its share buyback plan, reflecting confidence in its ability to generate strong free cash flow and a commitment to its policy of returning 50% of free cash flow to shareholders each year. At period-end, we believed that Medtronic shares still traded at an unwarranted valuation discount to the universe of medical technology peers.

Shares of WPX Energy rose during the period as a result of higher natural gas prices and a hedge fund's disclosure that it acquired a 6.39% stake in the company with the intent to discuss ways of increasing shareholder value with management. We believe substantial hidden value resides in the company's asset base, which could potentially be unlocked in asset sales or by other means. We were also encouraged by management's recent ability to make progress in resolving operational challenges and continued to view the company's solid balance sheet and attractive asset base favorably.

During the period under review, some of the Fund's investments negatively affected performance. These included Australia-listed mining services company Boart Longyear, diversified energy producer CONSOL Energy, and metals and mining firm Freeport-McMoRan Copper & Gold.

Boart Longyear is a leading global provider of mineral exploration drilling services and products. Declining commodity prices contributed to reduced demand for the company's products and services as mining companies sought to reduce capital and exploration expenditures. At its annual general meeting in May, the company announced it anticipated average rig utilization rates to fall 15% to 20% year-over-year and 2013 revenues and earnings to be at the low end of consensus forecasts. Although new management announced efforts to cut costs and strengthen the balance sheet, success is not assured.

CONSOL Energy is a low-cost producer of thermal and metallurgical coal, as well as natural gas. Coal companies remained under pressure because of concerns regarding metallurgical prices and potentially diminished Chinese demand for the commodity. Share prices were also hurt by the Obama administration's climate change proposals. We believe that despite some near-term headwinds, CONSOL has the ability to survive the current pricing environment.

The broad sell-off in commodities, particularly copper, and an unpopular acquisition penalized Freeport-McMoRan stock during the period. Historically a pure-play copper and gold miner, Freeport in May completed its acquisition of Plains Exploration and Production, a U.S. oil and gas company. Freeport investors generally disapproved of the company's expansion into oil and gas and voiced grievances over governance issues and the structure of the transaction. We believe the degree of investor distaste implied by recent share prices was excessive and should fade in time.

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

Top 10 Sectors/Industries
Based on Equity Securities as of 6/30/13

	% of Total Net Assets
Media	9.1%
Software	7.8%
Oil, Gas & Consumable Fuels	7.3%
Tobacco	7.2%
Insurance	6.8%
Pharmaceuticals	5.9%
Energy Equipment & Services	3.6%
Computers & Peripherals	3.2%
Commercial Banks	2.9%
Health Care Equipment & Supplies	2.6%

What is a futures contract?

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

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

Christian Correa, CFA
Co-Portfolio Manager

Mandana Hormozi
Co-Portfolio Manager

Mutual Beacon Fund

The foregoing information reflects our analysis, opinions and portfolio holdings as of June 30, 2013, the end of the reporting period. The way we implement our main investment strategies and the resulting portfolio holdings may change depending on factors such as market and economic conditions. These opinions may not be relied upon as investment advice or an offer for a particular security. The information is not a complete analysis of every aspect of any market, country, industry, security or the Fund. Statements of fact are from sources considered reliable, but the investment manager makes no representation or warranty as to their completeness or accuracy. Although historical performance is no guarantee of future results, these insights may help you understand our investment management philosophy.

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

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

Performance Summary as of 6/30/13

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

Price Information

Class Z (Symbol: BEGRX)	Change	6/30/13	12/31/12
Net Asset Value (NAV)	+$1.77	$15.13	$13.36
Class A (Symbol: TEBIX)	**Change**	**6/30/13**	**12/31/12**
Net Asset Value (NAV)	+$1.73	$15.01	$13.28
Class C (Symbol: TEMEX)	**Change**	**6/30/13**	**12/31/12**
Net Asset Value (NAV)	+$1.66	$14.87	$13.21
Class R (Symbol: n/a)	**Change**	**6/30/13**	**12/31/12**
Net Asset Value (NAV)	+$1.70	$14.89	$13.19
Class R6 (Symbol: n/a)	**Change**	**6/30/13**	**5/1/13**
Net Asset Value (NAV)	+$0.34	$15.11	$14.77

Performance Summary *(continued)*

Performance

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

Class Z	6-Month	1-Year	5-Year	10-Year
Cumulative Total Return[1]	+13.25%	+23.02%	+30.15%	+102.29%
Average Annual Total Return[2]	+13.25%	+23.02%	+5.41%	+7.30%
Value of $10,000 Investment[3]	$11,325	$12,302	$13,015	$20,229
Total Annual Operating Expenses[4]	0.84%			
Class A	**6-Month**	**1-Year**	**5-Year**	**10-Year**
Cumulative Total Return[1]	+13.03%	+22.57%	+28.14%	+95.81%
Average Annual Total Return[2]	+6.53%	+15.50%	+3.85%	+6.32%
Value of $10,000 Investment[3]	$10,653	$11,550	$12,079	$18,448
Total Annual Operating Expenses[4]	1.14%			
Class C	**6-Month**	**1-Year**	**5-Year**	**10-Year**
Cumulative Total Return[1]	+12.57%	+21.75%	+23.82%	+82.97%
Average Annual Total Return[2]	+11.57%	+20.75%	+4.37%	+6.23%
Value of $10,000 Investment[3]	$11,157	$12,075	$12,382	$18,297
Total Annual Operating Expenses[4]	1.84%			
Class R	**6-Month**	**1-Year**	**3-Year**	**Inception (10/30/09)**
Cumulative Total Return[1]	+12.89%	+22.29%	+49.44%	+49.69%
Average Annual Total Return[2]	+12.89%	+22.29%	+14.33%	+11.63%
Value of $10,000 Investment[3]	$11,289	$12,229	$14,944	$14,969
Total Annual Operating Expenses[4]	1.34%			
Class R6				**Inception (5/1/13)**
Cumulative Total Return[1]				+2.30%
Aggregate Total Return[5]				+2.30%
Value of $10,000 Investment[3]				$10,230
Total Annual Operating Expenses[4]	0.73%			

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

Performance Summary *(continued)*

Endnotes

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

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

Class C: Prior to 1/1/04, these shares were offered with an initial sales charge; thus actual total returns would have differed. These shares have higher annual fees and expenses than Class A shares.

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

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

1. Cumulative total return represents the change in value of an investment over the periods indicated.
2. Average annual total return represents the average annual change in value of an investment over the periods indicated. Six-month return has not been annualized.
3. These figures represent the value of a hypothetical $10,000 investment in the Fund over the periods indicated.
4. Figures are as stated in the current prospectus. In periods of market volatility, assets may decline significantly, causing total annual Fund operating expenses to become higher than the figures shown.
5. Aggregate total return represents the change in value of an investment for the period indicated. Since Class R6 shares have existed for less than one year, average annual total return is not available.

Your Fund's Expenses

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

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

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

Actual Fund Expenses

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

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

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

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

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

Hypothetical Example for Comparison with Other Funds

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

Your Fund's Expenses *(continued)*

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

Class Z	Beginning Account Value 1/1/13	Ending Account Value 6/30/13	Expenses Paid During Period* 1/1/13–6/30/13
Actual	$1,000	$1,132.50	$4.28
Hypothetical (5% return before expenses)	$1,000	$1,020.78	$4.06
Class A			
Actual	$1,000	$1,130.30	$5.86
Hypothetical (5% return before expenses)	$1,000	$1,019.29	$5.56
Class C			
Actual	$1,000	$1,125.70	$9.54
Hypothetical (5% return before expenses)	$1,000	$1,015.82	$9.05
Class R			
Actual	$1,000	$1,128.90	$6.91
Hypothetical (5% return before expenses)	$1,000	$1,018.30	$6.56
Class R6			
Actual (5/1/13–6/30/13)	$1,000	$1,023.00	$1.18
Hypothetical (5% return before expenses)	$1,000	$1,020.78	$3.51

*Expenses are calculated using the most recent six-month expense ratio, annualized for each class (Z: 0.81%; A: 1.11%; C: 1.81%; R: 1.31%; and R6: 0.70%), multiplied by the average account value over the period, multiplied by 181/365 to reflect the one-half year period for Class R6 Hypothetical expenses and Actual and Hypothetical expenses for Classes Z, A, C and R. The multiplier is 61/365 for Actual Class R6 expenses to reflect the number of days since inception.

Mutual Beacon Fund

Financial Highlights

Class Z	Six Months Ended June 30, 2013 (unaudited)	Year Ended December 31, 2012	2011	2010	2009	2008
Per share operating performance						
(for a share outstanding throughout the period)						
Net asset value, beginning of period	$13.36	$11.68	$12.32	$11.49	$ 9.07	$15.73
Income from investment operations[a]:						
Net investment income[b]	0.15	0.24	0.28	0.36[c]	0.08[d]	0.25
Net realized and unrealized gains (losses)	1.62	1.68	(0.57)	0.91	2.61	(6.46)
Total from investment operations	1.77	1.92	(0.29)	1.27	2.69	(6.21)
Less distributions from:						
Net investment income	—	(0.24)	(0.35)	(0.44)	(0.27)	(0.03)
Net realized gains	—	—	—	—	—	(0.42)
Total distributions	—	(0.24)	(0.35)	(0.44)	(0.27)	(0.45)
Redemption fees[e]	—	—	—	—	—	—[f]
Net asset value, end of period	$15.13	$13.36	$11.68	$12.32	$11.49	$ 9.07
Total return[g]	13.25%	16.44%	(2.15)%	11.10%	29.81%	(40.37)%
Ratios to average net assets[h]						
Expenses[i]	0.81%	0.84%	0.84%	0.88%	1.41%[j,k]	0.84%[j]
Expenses incurred in connection with securities sold short	—%	0.01%	—%[l]	0.02%	0.55%	—%[l]
Net investment income	2.03%	1.87%	2.24%	3.06%[c]	0.79%[d]	1.90%
Supplemental data						
Net assets, end of period (000's)	$2,652,997	$2,450,546	$2,423,177	$2,860,233	$2,833,233	$2,002,361
Portfolio turnover rate	20.62%	43.23%	51.38%	34.54%	54.36%	56.87%

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

[b]Based on average daily shares outstanding.

[c]Net investment income per share includes approximately $0.18 per share received in the form of a special dividend paid in connection with a corporate real estate investment trust (REIT) conversion. Excluding this non-recurring amount, the ratio of net investment income to average net assets would have been 1.53%.

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

[e]Effective September 1, 2008, the redemption fee was eliminated.

[f]Amount rounds to less than $0.01 per share.

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

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

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

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

[k]Total expenses net of a one-time unaffiliated fee reimbursement are 1.30%.

[l]Rounds to less than 0.01%.

Mutual Beacon Fund

Financial Highlights *(continued)*

Class A	Six Months Ended June 30, 2013 (unaudited)	Year Ended December 31, 2012	2011	2010	2009	2008
Per share operating performance						
(for a share outstanding throughout the period)						
Net asset value, beginning of period	$13.28	$11.61	$12.24	$11.40	$ 8.99	$15.62
Income from investment operations[a]:						
Net investment income[b]	0.12	0.20	0.24	0.32[c]	0.04[d]	0.20
Net realized and unrealized gains (losses)	1.61	1.67	(0.56)	0.90	2.58	(6.38)
Total from investment operations	1.73	1.87	(0.32)	1.22	2.62	(6.18)
Less distributions from:						
Net investment income	—	(0.20)	(0.31)	(0.38)	(0.21)	(0.03)
Net realized gains	—	—	—	—	—	(0.42)
Total distributions	—	(0.20)	(0.31)	(0.38)	(0.21)	(0.45)
Redemption fees[e]	—	—	—	—	—	—[f]
Net asset value, end of period	$15.01	$13.28	$11.61	$12.24	$11.40	$ 8.99
Total return[g]	13.03%	16.10%	(2.50)%	10.82%	29.30%	(40.48)%
Ratios to average net assets[h]						
Expenses[i]	1.11%	1.14%	1.14%	1.18%	1.72%[j,k]	1.13%[j]
Expenses incurred in connection with securities sold short	—%	0.01%	—%[l]	0.02%	0.55%	—%[l]
Net investment income	1.73%	1.57%	1.94%	2.76%[c]	0.48%[d]	1.61%
Supplemental data						
Net assets, end of period (000's)	$1,045,034	$983,981	$1,062,477	$1,327,189	$1,361,152	$1,659,062
Portfolio turnover rate	20.62%	43.23%	51.38%	34.54%	54.36%	56.87%

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

[b]Based on average daily shares outstanding.

[c]Net investment income per share includes approximately $0.18 per share received in the form of a special dividend paid in connection with a corporate REIT conversion. Excluding this non-recurring amount, the ratio of net investment income to average net assets would have been 1.23%.

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

[e]Effective September 1, 2008, the redemption fee was eliminated.

[f]Amount rounds to less than $0.01 per share.

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

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

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

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

[k]Total expenses net of a one-time unaffiliated fee reimbursement are 1.61%.

[l]Rounds to less than 0.01%.

Mutual Beacon Fund

Financial Highlights *(continued)*

Class C	Six Months Ended June 30, 2013 (unaudited)	Year Ended December 31, 2012	2011	2010	2009	2008
Per share operating performance						
(for a share outstanding throughout the period)						
Net asset value, beginning of period	$13.21	$11.54	$12.16	$11.29	$ 8.84	$15.47
Income from investment operations[a]:						
Net investment income (loss)[b]	0.07	0.11	0.15	0.24[c]	(0.02)[d]	0.12
Net realized and unrealized gains (losses)	1.59	1.66	(0.55)	0.88	2.54	(6.31)
Total from investment operations	1.66	1.77	(0.40)	1.12	2.52	(6.19)
Less distributions from:						
Net investment income	—	(0.10)	(0.22)	(0.25)	(0.07)	(0.02)
Net realized gains	—	—	—	—	—	(0.42)
Total distributions	—	(0.10)	(0.22)	(0.25)	(0.07)	(0.44)
Redemption fees[e]	—	—	—	—	—	—[f]
Net asset value, end of period	$14.87	$13.21	$11.54	$12.16	$11.29	$ 8.84
Total return[g]	12.57%	15.29%	(3.15)%	9.96%	28.51%	(40.92)%
Ratios to average net assets[h]						
Expenses[i]	1.81%	1.84%	1.84%	1.88%	2.41%[j,k]	1.84%[j]
Expenses incurred in connection with securities sold short	—%	0.01%	—%[l]	0.02%	0.55%	—%[l]
Net investment income (loss)	1.03%	0.87%	1.24%	2.06%[c]	(0.21)%[d]	0.90%
Supplemental data						
Net assets, end of period (000's)	$309,959	$295,958	$315,390	$400,949	$437,340	$417,549
Portfolio turnover rate	20.62%	43.23%	51.38%	34.54%	54.36%	56.87%

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

[b]Based on average daily shares outstanding.

[c]Net investment income per share includes approximately $0.18 per share received in the form of a special dividend paid in connection with a corporate REIT conversion. Excluding this non-recurring amount, the ratio of net investment income to average net assets would have been 0.53%.

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

[e]Effective September 1, 2008, the redemption fee was eliminated.

[f]Amount rounds to less than $0.01 per share.

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

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

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

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

[k]Total expenses net of a one-time unaffiliated fee reimbursement are 2.30%.

[l]Rounds to less than 0.01%.

Mutual Beacon Fund

Financial Highlights *(continued)*

Class R	Six Months Ended June 30, 2013 (unaudited)	Year Ended December 31, 2012	2011	2010	2009[a]
Per share operating performance					
(for a share outstanding throughout the period)					
Net asset value, beginning of period	$13.19	$11.52	$12.16	$11.38	$10.78
Income from investment operations[b]:					
Net investment income[c]	0.11	0.18	0.21	0.26[d]	0.01
Net realized and unrealized gains (losses)	1.59	1.66	(0.55)	0.93	0.66
Total from investment operations	1.70	1.84	(0.34)	1.19	0.67
Less distributions from net investment income	—	(0.17)	(0.30)	(0.41)	(0.07)
Net asset value, end of period	$14.89	$13.19	$11.52	$12.16	$11.38
Total return[e]	12.89%	15.95%	(2.69)%	10.63%	6.23%
Ratios to average net assets[f]					
Expenses[g]	1.31%	1.34%	1.34%	1.38%	1.91%[h,i]
Expenses incurred in connection with securities sold short	—%	0.01%	—%[j]	0.02%	0.55%
Net investment income	1.53%	1.37%	1.74%	2.56%[d]	0.29%
Supplemental data					
Net assets, end of period (000's)	$1,708	$1,905	$2,039	$976	$34
Portfolio turnover rate	20.62%	43.23%	51.38%	34.54%	54.36%

[a]For the period October 30, 2009 (effective date) to December 31, 2009.

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

[c]Based on average daily shares outstanding.

[d]Net investment income per share includes approximately $0.18 per share received in the form of a special dividend paid in connection with a corporate REIT conversion. Excluding this non-recurring amount, the ratio of net investment income to average net assets would have been 1.03%.

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

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

[i]Total expenses net of a one-time unaffiliated fee reimbursement are 1.80%.

[j]Rounds to less than 0.01%.

Mutual Beacon Fund

Financial Highlights *(continued)*

Class R6	Period Ended June 30, 2013[a] (unaudited)
Per share operating performance	
(for a share outstanding throughout the period)	
Net asset value, beginning of period	$14.77
Income from investment operations[b]:	
Net investment income[c]	0.08
Net realized and unrealized gains (losses)	0.26
Total from investment operations	0.34
Net asset value, end of period	$15.11
Total return[d]	2.30%
Ratios to average net assets[e]	
Expenses	0.70%
Net investment income	2.14%
Supplemental data	
Net assets, end of period (000's)	$5
Portfolio turnover rate	20.62%

[a]For the period May 1, 2013 (effective date) to June 30, 2013.

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

[c]Based on average daily shares outstanding.

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

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

Mutual Beacon Fund

Statement of Investments, June 30, 2013 (unaudited)

	Country	Shares/Units	Value
Common Stocks and Other Equity Interests 84.1%			
Aerospace & Defense 0.4%			
Raytheon Co.	United States	275,605	$ 18,223,002
Auto Components 0.9%			
[a,b] International Automotive Components Group Brazil LLC	Brazil	2,846,329	624,912
[a,b,c] International Automotive Components Group North America, LLC	United States	22,836,904	10,250,344
[a] TRW Automotive Holdings Corp.	United States	373,860	24,839,258
			35,714,514
Beverages 1.1%			
Coca-Cola Enterprises Inc.	United Kingdom	998,669	35,113,202
Pernod Ricard SA	France	81,016	8,983,667
			44,096,869
Capital Markets 2.1%			
The Blackstone Group LP	United States	1,950,241	41,072,076
Morgan Stanley	United States	1,743,038	42,582,418
			83,654,494
Chemicals 0.0%			
[a,d,e] Dow Corning Corp., Contingent Distribution	United States	12,598,548	—
Commercial Banks 2.8%			
[b,f] First Southern Bancorp Inc.	United States	1,065,450	5,286,550
SunTrust Banks Inc.	United States	509,902	16,097,606
Wells Fargo & Co.	United States	2,188,070	90,301,649
			111,685,805
Communications Equipment 1.2%			
Cisco Systems Inc.	United States	2,009,900	48,860,669
Computers & Peripherals 3.2%			
Apple Inc.	United States	185,640	73,528,291
Dell Inc.	United States	2,533,265	33,819,088
[a] SanDisk Corp.	United States	371,025	22,669,627
			130,017,006
Construction & Engineering 0.2%			
Boart Longyear Ltd.	Australia	14,005,399	8,648,194
Consumer Finance 0.0%†			
[a] Comdisco Holding Co. Inc.	United States	1,223	6,054
Diversified Financial Services 2.3%			
[a] ING Groep NV, IDR	Netherlands	4,661,089	42,469,744
JPMorgan Chase & Co.	United States	922,810	48,715,140
			91,184,884

Mutual Beacon Fund

Statement of Investments, June 30, 2013 (unaudited) *(continued)*

	Country	Shares/Units	Value
Common Stocks and Other Equity Interests (continued)			
Diversified Telecommunication Services 2.3%			
[a,d,e] Global Crossing Holdings Ltd., Contingent Distribution	United States	60,632,757	$ —
[a,d,e] Marconi Corp., Contingent Distribution	United Kingdom	42,651,300	—
TDC AS	Denmark	5,125,910	41,543,662
Telenor ASA	Norway	2,482,150	49,205,707
			90,749,369
Energy Equipment & Services 3.6%			
Fugro NV, IDR	Netherlands	592,014	32,095,282
[a] Rowan Cos. PLC	United States	1,001,305	34,114,461
Transocean Ltd.	United States	1,620,235	77,690,268
			143,900,011
Food & Staples Retailing 2.0%			
CVS Caremark Corp.	United States	696,850	39,845,883
Walgreen Co.	United States	955,354	42,226,647
			82,072,530
Health Care Equipment & Supplies 2.6%			
Medtronic Inc.	United States	2,043,050	105,155,784
Health Care Providers & Services 2.3%			
Cigna Corp.	United States	902,163	65,397,796
UnitedHealth Group Inc.	United States	429,824	28,144,875
			93,542,671
Insurance 6.8%			
ACE Ltd.	United States	521,780	46,688,874
Ageas	Belgium	783,179	27,498,987
[a] American International Group Inc.	United States	1,306,516	58,401,265
[a,b] Olympus Re Holdings Ltd.	United States	106,700	—
RSA Insurance Group PLC	United Kingdom	30,461,574	55,152,874
White Mountains Insurance Group Ltd.	United States	146,141	84,022,307
			271,764,307
Internet Software & Services 0.5%			
[a] Google Inc., A	United States	22,474	19,785,435
IT Services 0.3%			
[f] Polaris Financial Technology Ltd.	India	6,942,715	13,312,128
Machinery 0.4%			
Fiat Industrial SpA	Italy	1,633,946	18,216,263
Media 9.1%			
British Sky Broadcasting Group PLC	United Kingdom	1,820,342	21,940,103
Comcast Corp., Special A	United States	731,577	29,021,660
Kabel Deutschland Holdings AG	Germany	182,180	20,009,417
Reed Elsevier PLC	United Kingdom	3,983,176	45,267,012
RTL Group SA	Luxembourg	528,912	43,476,141
Time Warner Cable Inc.	United States	424,034	47,695,344
[a] Tribune Co., A	United States	382,415	21,759,413
[a] Tribune Co., B	United States	234,472	13,306,286
Twenty-First Century Fox Inc., B	United States	3,687,347	121,018,729
			363,494,105

Mutual Beacon Fund

Statement of Investments, June 30, 2013 (unaudited) *(continued)*

	Country	Shares/Units	Value
Common Stocks and Other Equity Interests (continued)			
Metals & Mining 2.2%			
Freeport-McMoRan Copper & Gold Inc., B	United States	2,121,569	$ 58,576,520
[a,b,f] PMG LLC	United States	17,621	1,392,948
[a] ThyssenKrupp AG	Germany	1,493,341	29,341,770
			89,311,238
Multi-Utilities 0.5%			
GDF Suez	France	1,068,142	20,917,770
Office Electronics 1.9%			
Xerox Corp.	United States	8,249,374	74,821,822
Oil, Gas & Consumable Fuels 7.3%			
Apache Corp.	United States	783,098	65,647,105
BG Group PLC	United Kingdom	1,197,300	20,371,473
BP PLC	United Kingdom	2,699,240	18,693,779
CONSOL Energy Inc.	United States	1,691,050	45,827,455
Marathon Oil Corp.	United States	1,115,777	38,583,569
Petroleo Brasileiro SA, ADR	Brazil	1,122,160	15,059,387
[a] WPX Energy Inc.	United States	4,709,759	89,202,836
			293,385,604
Personal Products 1.0%			
Avon Products Inc.	United States	1,863,290	39,184,989
Pharmaceuticals 5.9%			
[a] Hospira Inc.	United States	1,275,550	48,866,321
Merck & Co. Inc.	United States	2,005,510	93,155,939
Novartis AG, ADR	Switzerland	677,230	47,886,933
Teva Pharmaceutical Industries Ltd., ADR	Israel	1,213,370	47,564,104
			237,473,297
Real Estate Management & Development 1.1%			
[e] Canary Wharf Group PLC	United Kingdom	10,069,634	42,966,091
Semiconductors & Semiconductor Equipment 1.0%			
[a] ON Semiconductor Corp.	United States	4,767,645	38,522,572
Software 7.8%			
[a] Check Point Software Technologies Ltd.	Israel	1,475,194	73,287,638
Microsoft Corp.	United States	3,987,920	137,702,877
Open Text Corp.	Canada	932,246	63,830,884
Symantec Corp.	United States	1,612,500	36,232,875
			311,054,274
Specialty Retail 0.9%			
[a] Dufry AG	Switzerland	145,610	17,660,905
Kingfisher PLC	United Kingdom	3,546,407	18,502,585
			36,163,490
Textiles, Apparel & Luxury Goods 0.7%			
Swatch Group AG	Switzerland	49,190	26,915,627

Mutual Beacon Fund

Statement of Investments, June 30, 2013 (unaudited) *(continued)*

	Country	Shares/Units	Value
Common Stocks and Other Equity Interests (continued)			
Tobacco 7.2%			
Altria Group Inc.	United States	1,362,530	$ 47,674,925
British American Tobacco PLC	United Kingdom	1,926,205	98,701,136
Imperial Tobacco Group PLC	United Kingdom	1,876,344	65,077,213
Lorillard Inc.	United States	1,803,416	78,773,211
			290,226,485
Wireless Telecommunication Services 2.5%			
Vodafone Group PLC	United Kingdom	34,881,127	99,679,006
Total Common Stocks and Other Equity Interests (Cost $2,627,660,775)			3,374,706,359
Convertible Preferred Stocks (Cost $1,821,000) 0.1%			
Commercial Banks 0.1%			
[b,f] First Southern Bancorp Inc., cvt. pfd., C	United States	1,821	3,425,871
Preferred Stocks (Cost $30,690,064) 0.9%			
Automobiles 0.9%			
Porsche Automobile Holding SE, pfd.	Germany	482,830	37,381,732
		Principal Amount*	
Corporate Bonds, Notes and Senior Floating Rate Interests 4.3%			
[g,h,i] Caesars Entertainment Operating Co. Inc., Senior Tranche Term Loan, first lien, 1/28/18			
B5, 4.50%	United States	2,291,000	1,978,851
B6, 5.443%	United States	12,628,000	11,186,830
[g,h] Cengage Learning Acquisitions Inc., FRN, 2.70%, 7/03/14	United States	15,307,025	11,480,269
Clear Channel Communications Inc.,			
[j] senior secured note, first lien, 144A, 9.00%, 12/15/19	United States	18,873,000	18,401,175
[g,i] Tranche B Term Loan, 3.845%, 1/29/16	United States	4,404,700	4,039,110
[g,i] Tranche C Term Loan, 3.845%, 1/29/16	United States	956,582	865,707
[g,i] Tranche D Term Loan, 6.945%, 1/30/19	United States	15,813,482	14,454,519
Energy Future Intermediate Holding Co. LLC/EFIH Finance Inc., second lien, 11.00%, 10/01/21	United States	3,485,000	3,755,089
[g,i] The Great Atlantic & Pacific Tea Co. Inc., senior secured, First Lien Exit Term Loan, 11.00%, 3/13/17	United States	14,302,600	14,624,409
[g] Hilton Worldwide Inc., FRN, 11/12/15			
Mezzanine F Loan, 4.443%	United States	3,605,547	3,551,463
Mezzanine G Loan, 4.693%	United States	6,490,711	6,393,350
[g,i] KIK Custom Products Inc., Second Lien Term Loan, 8.50%, 11/17/19	United States	20,861,000	20,826,225
[g,i] Texas Competitive Electric Holdings Co. LLC, Extended Term Loan, 4.693%, 10/10/17	United States	46,282,735	32,536,762
Texas Competitive Electric Holdings Co. LLC/Texas Competitive Electric Holdings Finance Inc.,			
senior note, A, 10.25%, 11/01/15	United States	24,392,000	2,439,200
[j] senior secured note, 144A, 11.50%, 10/01/20	United States	28,306,000	21,300,265
[j] Wind Acquisition Finance SA, 144A, 11.75%, 7/15/17			
senior secured note	Italy	853,000	891,385
third lien	Italy	1,992,000 EUR	2,709,567
Total Corporate Bonds, Notes and Senior Floating Rate Interests (Cost $181,877,202)			171,434,176

Mutual Beacon Fund

Statement of Investments, June 30, 2013 (unaudited) *(continued)*

	Country	Principal Amount*	Value
Corporate Notes in Reorganization 1.6%			
[j, k] American Airlines Inc., senior secured note, 144A, 7.50%, 3/15/16	United States	53,703,000	$ 62,698,252
[b,k] Broadband Ventures III LLC, secured promissory note, 5.00%, 2/01/12	United States	10,848	—
Total Corporate Notes in Reorganization (Cost $50,910,137)			62,698,252
		Shares	
Companies in Liquidation 1.8%			
[a] Adelphia Recovery Trust	United States	48,268,724	67,576
[a,d] Adelphia Recovery Trust, Arahova Contingent Value Vehicle, Contingent Distribution	United States	6,161,087	75,165
[a,b] AET&D Holdings No. 1 Pty. Ltd.	Australia	4,353,435	—
[a,b,c,f] CB FIM Coinvestors LLC	United States	15,831,950	—
[a,d,e] Century Communications Corp., Contingent Distribution	United States	16,986,000	—
[a,b] FIM Coinvestor Holdings I, LLC	United States	19,805,560	—
[a,l] Lehman Brothers Holdings Inc., Bankruptcy Claim	United States	163,140,446	71,781,796
[a,d,e] Tribune Litigation Trust, Contingent Distribution	United States	496,443	—
Total Companies in Liquidation (Cost $77,636,914)			71,924,537
		Principal Amount*	
Asset-Backed Securities 0.1%			
Airlines 0.1%			
American Airlines Inc., first lien, 13.00%, 8/01/16	United States	343,506	365,834
American Airlines Pass Through Trust,			
2009-1A, 10.375%, 7/02/19	United States	577,917	615,842
2011-2A, 8.625%, 4/15/23	United States	2,446,043	2,608,094
Total Asset-Backed Securities (Cost $3,527,837)			3,589,770
	Counterparty	**Notional Amount***	
Options Purchased 0.3%			
Payer Swaptions - Over-the-Counter			
Interest Rate 0.1%			
Receive floating 6-month JPY LIBOR, pay fixed 3.00%, Expires 3/08/17	UBSW	5,500,000,000 JPY	977,295
Receive floating 6-month JPY LIBOR, pay fixed 3.00%, Expires 3/14/17	MSCS	5,583,183,000 JPY	1,003,074
Receive floating 6-month JPY LIBOR, pay fixed 3.00%, Expires 3/16/17	MSCS	5,107,000,000 JPY	924,418
Receive floating 6-month JPY LIBOR, pay fixed 3.00%, Expires 6/15/17	MSCS	6,058,062,500 JPY	1,268,195
			4,172,982

Mutual Beacon Fund

Statement of Investments, June 30, 2013 (unaudited) *(continued)*

	Counterparty	Notional Amount*	Value
Options Purchased (continued)			
Puts - Over-the-Counter			
Currency Options 0.2%			
JPY/USD, June Strike Price 90 JPY, Expires 6/15/17	BANT	19,608,000	$ 2,511,314
JPY/USD, June Strike Price 95 JPY, Expires 6/15/17	BANT	25,196,280	2,659,619
JPY/USD, June Strike Price 100 JPY, Expires 6/15/17	BANT	31,666,920	2,738,682
			7,909,615
Total Options Purchased (Cost $10,808,994)			12,082,597
Total Investments before Short Term Investments (Cost $2,984,932,923)			3,737,243,294
		Principal Amount*	
Short Term Investments 7.1%			
U.S. Government and Agency Securities 7.1%			
[m] FHLB, 7/01/13	United States	1,100,000	1,100,000
[m,n] U.S. Treasury Bills, 7/05/13 - 11/29/13	United States	282,900,000	282,873,253
Total U.S. Government and Agency Securities (Cost $283,944,167)			283,973,253
Total Investments (Cost $3,268,877,090) 100.3%			4,021,216,547
Other Assets, less Liabilities (0.3)%			(11,514,331)
Net Assets 100.0%			$4,009,702,216

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

[*]The principal/notional amount is stated in U.S. dollars unless otherwise indicated.

[a]Non-income producing.

[b]See Note 9 regarding restricted securities.

[c]At June 30, 2013, pursuant to the Fund's policies and the requirements of applicable securities law, the Fund may be restricted from trading these securities for a limited or extended period of time due to ownership limits and/or potential possession of material non-public information.

[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]Security has been deemed illiquid because it may not be able to be sold within seven days. At June 30, 2013, the aggregate value of this security was $42,966,091, representing 1.07% of net assets.

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

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

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

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

[j]Security was purchased pursuant to Rule 144A under the Securities Act of 1933 and may be sold in transactions exempt from registration only to qualified institutional buyers or in a public offering registered under the Securities Act of 1933. These securities have been deemed liquid under guidelines approved by the Trust's Board of Trustees. At June 30, 2013, the aggregate value of these securities was $106,000,645, representing 2.64% of net assets.

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

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

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

[n]Security or a portion of the security has been pledged as collateral for open futures contracts. At June 30, 2013, the aggregate value of these securities and/or cash pledged as collateral was $1,722,139, representing 0.04% of net assets.

Mutual Beacon Fund

Statement of Investments, June 30, 2013 (unaudited) *(continued)*

At June 30, 2013, the Fund had the following futures contracts outstanding. See Note 1(d).

Futures Contracts

Description	Type	Number of Contracts	Notional Value	Expiration Date	Unrealized Appreciation	Unrealized Depreciation
Currency Contracts						
EUR/USD	Short	352	$ 57,301,200	9/16/13	$1,231,494	$ —
GBP/USD	Short	653	62,051,325	9/16/13	1,745,382	—
Unrealized appreciation (depreciation)					2,976,876	—
Net unrealized appreciation (depreciation)					$2,976,876	

At June 30, 2013, the Fund had the following forward exchange contracts outstanding. See Note 1(d).

Forward Exchange Contracts

Currency	Counterparty	Type	Quantity	Contract Amount	Settlement Date	Unrealized Appreciation	Unrealized Depreciation
Euro	FBCO	Buy	1,815,094	$ 2,385,061	7/17/13	$ —	$ (22,260)
Euro	BBU	Buy	895,748	1,171,735	7/17/13	—	(5,694)
Euro	BANT	Buy	447,874	586,318	7/17/13	—	(3,297)
Euro	DBFX	Buy	267,100	348,980	7/17/13	—	(1,282)
Euro	FBCO	Buy	890,005	1,152,066	7/17/13	6,498	—
Euro	BBU	Sell	27,423,520	36,619,861	7/17/13	921,267	—
Euro	DBFX	Sell	798,752	1,058,410	7/17/13	18,634	—
Euro	FBCO	Sell	1,947,839	2,634,481	7/17/13	98,880	—
Euro	HAND	Sell	610,351	835,778	7/17/13	41,253	—
Euro	BANT	Sell	681,948	917,643	7/17/13	29,916	—
British Pound	BANT	Sell	3,548,139	5,361,697	7/19/13	—	(33,696)
British Pound	HSBC	Sell	864,745	1,307,572	7/19/13	—	(7,382)
British Pound	FBCO	Sell	1,084,906	1,649,652	7/19/13	—	(85)
British Pound	HSBC	Sell	44,307,127	67,479,754	7/19/13	105,183	—
British Pound	DBFX	Sell	6,496,982	9,937,189	7/19/13	57,710	—
British Pound	SCBT	Sell	6,078,224	9,397,434	7/19/13	154,728	—
British Pound	BANT	Sell	1,667,339	2,540,883	7/19/13	5,484	—
British Pound	FBCO	Sell	1,667,339	2,542,142	7/19/13	6,743	—
South Korean Won	FBCO	Buy	5,666,187,833	5,001,267	8/12/13	—	(52,848)
South Korean Won	BANT	Buy	2,378,843,979	2,102,009	8/12/13	—	(24,507)
South Korean Won	DBFX	Buy	2,890,635,071	2,545,918	8/12/13	—	(21,456)
South Korean Won	FBCO	Sell	5,666,187,833	5,068,812	8/12/13	120,392	—
South Korean Won	DBFX	Sell	2,890,635,071	2,585,731	8/12/13	61,269	—
South Korean Won	BANT	Sell	2,378,843,979	2,124,428	8/12/13	46,925	—
Swiss Franc	FBCO	Sell	2,742,609	2,856,696	8/12/13	—	(47,176)
Swiss Franc	FBCO	Buy	1,872,896	2,002,436	8/12/13	—	(19,415)
Swiss Franc	DBFX	Buy	116,161	126,128	8/12/13	—	(3,136)
Swiss Franc	FBCO	Buy	300,000	307,119	8/12/13	10,521	—
Swiss Franc	DBFX	Buy	339,000	352,989	8/12/13	5,944	—
Swiss Franc	BBU	Buy	491,960	513,360	8/12/13	7,526	—
Swiss Franc	FBCO	Sell	15,466,630	16,617,906	8/12/13	241,853	—
Swiss Franc	DBFX	Sell	14,209,481	15,270,848	8/12/13	228,648	—

Mutual Beacon Fund

Statement of Investments, June 30, 2013 (unaudited) *(continued)*

Forward Exchange Contracts *(continued)*

Currency	Counterparty	Type	Quantity	Contract Amount	Settlement Date	Unrealized Appreciation	Unrealized Depreciation
British Pound	FBCO	Sell	13,400,424	$20,743,856	8/19/13	$ 371,194	$ —
British Pound	BANT	Sell	19,455,482	30,155,997	8/19/13	577,831	—
British Pound	SCBT	Sell	25,179,707	39,028,546	8/19/13	747,841	—
Australian Dollar	DBFX	Buy	6,579,703	6,651,917	8/26/13	—	(659,975)
Australian Dollar	DBFX	Buy	110,870	101,130	8/26/13	780	—
Australian Dollar	DBFX	Sell	11,417,394	11,472,891	8/26/13	1,075,405	—
Euro	DBFX	Sell	7,967,079	10,249,249	8/30/13	—	(124,018)
Euro	BANT	Sell	697,898	912,933	8/30/13	4,259	—
Euro	BBU	Sell	424,006	554,604	8/30/13	2,541	—
Euro	FBCO	Sell	2,077,522	2,709,151	8/30/13	4,184	—
Euro	SCBT	Sell	1,759,490	2,294,832	8/30/13	3,948	—
Euro	DBFX	Sell	1,965,957	2,579,033	8/30/13	19,325	—
Euro	HSBC	Sell	547,786	716,099	8/30/13	2,872	—
Euro	HAND	Sell	168,224	220,113	8/30/13	1,082	—
Euro	BANT	Sell	27,945,865	36,618,445	10/16/13	223,815	—
Euro	BBU	Sell	28,071,662	36,758,438	10/16/13	199,980	—
Euro	DBFX	Sell	27,740,540	36,634,157	10/16/13	506,928	—
Euro	FBCO	Sell	518,934	683,498	10/16/13	7,677	—
British Pound	BANT	Sell	45,336,592	69,002,293	10/21/13	103,388	—
Danish Krone	DBFX	Sell	8,916,905	1,540,276	11/14/13	—	(18,235)
Danish Krone	DBFX	Buy	4,659,500	828,133	11/14/13	—	(13,738)
Danish Krone	FBCO	Buy	12,125,450	2,113,037	11/14/13	6,269	—
Danish Krone	FBCO	Sell	211,269,226	37,399,403	11/14/13	473,430	—
Euro	FBCO	Sell	23,962,762	30,881,654	11/18/13	—	(339,042)
Euro	BANT	Sell	14,343,331	18,670,028	11/18/13	—	(79,406)
Euro	DBFX	Sell	1,287,180	1,664,548	11/18/13	—	(12,088)
Euro	SCBT	Sell	1,099,786	1,422,911	11/18/13	—	(9,631)
Euro	BANT	Sell	716,252	933,223	11/18/13	258	—
Euro	HSBC	Sell	716,252	933,658	11/18/13	694	—
Euro	SCBT	Sell	519,044	676,662	11/18/13	574	—
British Pound	FBCO	Sell	34,369,165	52,138,023	11/21/13	—	(84,174)
British Pound	DBFX	Sell	27,458,834	41,682,511	11/21/13	—	(39,791)
British Pound	BANT	Sell	30,073,019	45,665,879	11/21/13	—	(28,543)
British Pound	SSBT	Buy	832,201	1,283,412	11/21/13	—	(18,925)
British Pound	HSBC	Buy	579,172	889,417	11/21/13	—	(9,395)
Norwegian Krone	DBFX	Buy	5,138,000	883,911	11/21/13	—	(42,303)
Norwegian Krone	BBU	Buy	7,771,240	1,313,914	11/21/13	—	(40,979)
Norwegian Krone	FBCO	Sell	284,332,393	48,232,806	11/21/13	1,658,910	—
Unrealized appreciation (depreciation)						8,162,559	(1,762,477)
Net unrealized appreciation (depreciation)						$6,400,082	

See Abbreviations on page 50.

Mutual Beacon Fund

Financial Statements

Statement of Assets and Liabilities

June 30, 2013 (unaudited)

Assets:	
Investments in securities:	
Cost - Unaffiliated issuers	$3,219,293,748
Cost - Controlled affiliated issuers (Note 11)	1,233,477
Cost - Non-controlled affiliated issuers (Note 11)	48,349,865
Total cost of investments	$3,268,877,090
Value - Unaffiliated issuers	$3,997,799,050
Value - Controlled affiliated issuers (Note 11)	1,392,948
Value - Non-controlled affiliated issuers (Note 11)	22,024,549
Total value of investments	4,021,216,547
Cash	2,234,110
Restricted Cash (Note 1e)	4,239,500
Foreign currency, at value (cost $16,504,308)	16,326,888
Receivables:	
Investment securities sold	12,432,713
Capital shares sold	1,168,590
Dividends and interest	11,388,302
Variation margin	327,581
Unrealized appreciation on forward exchange contracts	8,162,559
Other assets	28,851
Total assets	4,077,525,641
Liabilities:	
Payables:	
Investment securities purchased	49,584,504
Capital shares redeemed	7,383,179
Affiliates	3,480,484
Due to brokers	4,239,500
Unrealized depreciation on forward exchange contracts	1,762,477
Accrued expenses and other liabilities	1,373,281
Total liabilities	67,823,425
Net assets, at value	$4,009,702,216
Net assets consist of:	
Paid-in capital	$3,458,536,685
Undistributed net investment income	75,363,428
Net unrealized appreciation (depreciation)	761,629,381
Accumulated net realized gain (loss)	(285,827,278)
Net assets, at value	$4,009,702,216

Mutual Beacon Fund

Financial Statements *(continued)*

Statement of Assets and Liabilities *(continued)*

June 30, 2013 (unaudited)

Class Z:	
Net assets, at value	$2,652,996,872
Shares outstanding	175,398,024
Net asset value and maximum offering price per share	$15.13
Class A:	
Net assets, at value	$1,045,033,961
Shares outstanding	69,612,233
Net asset value per share[a]	$15.01
Maximum offering price per share (net asset value per share ÷ 94.25%)	$15.93
Class C:	
Net assets, at value	$ 309,958,689
Shares outstanding	20,839,133
Net asset value and maximum offering price per share[a]	$14.87
Class R:	
Net assets, at value	$ 1,707,571
Shares outstanding	114,683
Net asset value and maximum offering price per share	$14.89
Class R6:	
Net assets, at value	$ 5,123
Shares outstanding	339
Net asset value and maximum offering price per share	$15.11

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

Mutual Beacon Fund

Financial Statements *(continued)*

Statement of Operations

for the six months ended June 30, 2013 (unaudited)

Investment income:	
Dividends	$ 46,187,471
Interest	9,877,947
Income from securities loaned	65,806
Total investment income	56,131,224
Expenses:	
Management fees (Note 3a)	11,825,565
Administrative fees (Note 3b)	1,503,647
Distribution fees: (Note 3c)	
Class A	1,550,004
Class B	1,651
Class C	1,541,441
Class R	4,612
Transfer agent fees: (Note 3e)	
Class Z	1,474,869
Class A	586,549
Class B	193
Class C	175,000
Class R	1,045
Custodian fees (Note 4)	117,832
Reports to shareholders	144,928
Registration and filing fees	49,871
Professional fees	104,407
Trustees' fees and expenses	94,695
Other	37,122
Total expenses	19,213,431
Net investment income	36,917,793
Realized and unrealized gains (losses):	
Net realized gain (loss) from:	
Investments:	
Unaffiliated issuers	187,986,718
Controlled affiliated issuers (Note 11)	31,392
Written options	439,816
Foreign currency transactions	8,109,077
Futures contracts	427,211
Net realized gain (loss)	196,994,214
Net change in unrealized appreciation (depreciation) on:	
Investments	220,412,960
Translation of other assets and liabilities denominated in foreign currencies	27,227,689
Net change in unrealized appreciation (depreciation)	247,640,649
Net realized and unrealized gain (loss)	444,634,863
Net increase (decrease) in net assets resulting from operations	$481,552,656

Mutual Beacon Fund

Financial Statements *(continued)*

Statements of Changes in Net Assets

	Six Months Ended June 30, 2013 (unaudited)	Year Ended December 31, 2012
Increase (decrease) in net assets:		
Operations:		
Net investment income	$ 36,917,793	$ 65,588,549
Net realized gain (loss) from investments, written options, foreign currency transactions, futures contracts and securities sold short	196,994,214	327,115,629
Net change in unrealized appreciation (depreciation) on investments and translation of other assets and liabilities denominated in foreign currencies	247,640,649	188,521,123
Net increase (decrease) in net assets resulting from operations	481,552,656	581,225,301
Distributions to shareholders from:		
Net investment income:		
Class Z	—	(44,549,983)
Class A	—	(15,179,473)
Class B	—	(23,941)
Class C	—	(2,423,022)
Class R	—	(33,585)
Total distributions to shareholders	—	(62,210,004)
Capital share transactions: (Note 2)		
Class Z	(116,289,238)	(306,646,621)
Class A	(64,847,988)	(220,069,461)
Class B	(1,429,101)	(9,738,275)
Class C	(22,600,357)	(61,639,577)
Class R	(430,191)	(466,843)
Class R6	5,000	—
Total capital share transactions	(205,591,875)	(598,560,777)
Net increase (decrease) in net assets	275,960,781	(79,545,480)
Net assets:		
Beginning of period	3,733,741,435	3,813,286,915
End of period	$4,009,702,216	$3,733,741,435
Undistributed net investment income included in net assets:		
End of period	$ 75,363,428	$ 38,445,635

Mutual Beacon Fund

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, as amended, (1940 Act) as an open-end investment company, consisting of seven separate funds. The Mutual Beacon Fund (Fund) is included in this report. The financial statements of the remaining funds in the Trust are presented separately. The Fund offers five classes of shares: Class Z, Class A, Class C, Class R and Class R6. Effective May 1, 2013, the Fund began offering a new class of shares, Class R6. Effective March 22, 2013, all Class B shares were converted to Class A. Each class of shares differs by its initial sales load, contingent deferred sales charges, voting rights on matters affecting a single class, its exchange privilege and fees primarily due to differing arrangements for distribution and transfer agent fees.

The following summarizes the Fund's significant accounting policies.

a. Financial Instrument Valuation

The Fund's investments in financial instruments are carried at fair value daily. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. Under procedures approved by the Trust's Board of Trustees (the Board), the Fund's administrator, investment manager and other affiliates have formed the Valuation and Liquidity Oversight Committee (VLOC). The VLOC provides administration and oversight of the Fund's valuation policies and procedures, which are approved annually by the Board. Among other things, these procedures allow the Fund to utilize independent pricing services, quotations from securities and financial instrument dealers, and other market sources to determine fair value.

Equity securities and derivative financial instruments (derivatives) listed on an exchange or on the NASDAQ National Market System are valued at the last quoted sale price or the official closing price of the day, respectively. Foreign equity securities are valued as of the close of trading on the foreign stock exchange on which the security is primarily traded, or the NYSE, whichever is earlier. The value is then converted into its U.S. dollar equivalent at the foreign exchange rate in effect at the close of the NYSE 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,

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

a. Financial Instrument Valuation *(continued)*

anticipated timing of principal repayments, underlying collateral, and other unique security features in order to estimate the relevant cash flows, which are then discounted to calculate the fair value. Securities denominated in a foreign currency are converted into their U.S. dollar equivalent at the foreign exchange rate in effect at the close of the NYSE on the date that the values of the foreign debt securities are determined.

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

The Fund has procedures to determine the fair value of financial instruments for which market prices are not reliable or readily available. Under these procedures, the VLOC convenes on a regular basis to review such financial instruments and considers a number of factors, including significant unobservable valuation inputs, when arriving at fair value. The VLOC primarily employs a market-based approach which may use related or comparable assets or liabilities, recent transactions, market multiples, book values, and other relevant information for the investment to determine the fair value of the investment. An income-based valuation approach may also be used in which the anticipated future cash flows of the investment are discounted to calculate fair value. Discounts may also be applied due to the nature or duration of any restrictions on the disposition of the investments. Due to the inherent uncertainty of valuations of such investments, the fair values may differ significantly from the values that would have been used had an active market existed. The VLOC employs various methods for calibrating these valuation approaches including a regular review of key inputs and assumptions, transactional back-testing or disposition analysis, and reviews of any related market activity.

Trading in securities on foreign securities stock exchanges and OTC markets may be completed before the daily close of business on the NYSE. Occasionally, events occur between the time at which trading in a foreign security is completed and the close of the NYSE that might call into question the reliability of the value of a portfolio security held by the Fund. As a result, differences may arise between the value of the Fund's portfolio securities as determined at the foreign market close and the latest indications of value at the close of the NYSE. In order to minimize the potential for these differences, the VLOC monitors price movements following the close of trading in foreign stock markets through a series of country specific market proxies (such as baskets of American Depositary Receipts, futures contracts and exchange traded funds). These price movements are measured against established trigger thresholds for each specific market proxy to assist in determining if an event has occurred that may call into question the reliability of the values of the foreign securities held by the Fund. If such an event occurs, the securities may be valued using fair value procedures, which may include the use of independent pricing services.

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

a. Financial Instrument Valuation *(continued)*

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

b. Foreign Currency Translation

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

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

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

c. Securities Purchased on a Delayed Delivery Basis

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

d. Derivative Financial Instruments

The Fund invested in derivatives in order to manage risk or gain exposure to various other investments or markets. Derivatives are financial contracts based on an underlying or notional amount, require no initial investment or an initial net investment that is smaller than would normally be

Mutual Beacon Fund

Notes to Financial Statements (unaudited) *(continued)*

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

d. Derivative Financial Instruments *(continued)*

required to have a similar response to changes in market factors, and require or permit net settlement. Derivatives contain various risks including the potential inability of the counterparty to fulfill their obligations under the terms of the contract, the potential for an illiquid secondary market, and/or the potential for market movements which expose the Fund to gains or losses in excess of the amounts shown on the Statement of Assets and Liabilities. Realized gain and loss and unrealized appreciation and depreciation on these contracts for the period are included in the Statement of Operations.

Derivative counterparty credit risk is managed through a formal evaluation of the creditworthiness of all potential counterparties. The Fund attempts to reduce its exposure to counterparty credit risk on OTC derivatives, whenever possible, by entering into International Swaps and Derivatives Association (ISDA) master agreements with certain counterparties. These agreements contain various provisions, including but not limited to collateral requirements, events of default, or early termination. Termination events applicable to the counterparty include certain deteriorations in the credit quality of the counterparty. Termination events applicable to the Fund include failure of the Fund to maintain certain net asset levels and/or limit the decline in net assets over various periods of time. In the event of default or early termination, the ISDA master agreement gives the non-defaulting party the right to net and close-out all transactions traded, whether or not arising under the ISDA agreement, to one net amount payable by one counterparty to the other. 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, 2013, the Fund had no OTC derivatives in a net liability position for such contracts. However, absent an event of default or early termination, OTC derivative assets and liabilities are presented gross and not off-set in the Statement of Assets and Liabilities.

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

Mutual Beacon Fund

Notes to Financial Statements (unaudited) *(continued)*

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

d. Derivative Financial Instruments *(continued)*

OTC derivatives, if any, is held in segregated accounts with the Fund's custodian/counterparty broker and can be in the form of cash and/or securities. Unrestricted cash may be invested according to the Fund's investment objectives.

At June 30, 2013, the Fund received $11,864,846 in 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 for a specified price on a future date. Required initial margin deposits of cash or securities are pledged by the Fund. Subsequent payments, known as variation margin, are made or received by the Fund, depending on fluctuations in the value of the asset underlying the futures contract. Such variation margin is accounted for as unrealized appreciation or depreciation until the contract is closed, at which time the gains or losses are realized.

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

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

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

e. Restricted Cash

At June 30, 2013, the Fund received restricted cash in connection with investments in certain derivative securities. Restricted cash is held in a segregated account with the Fund's custodian/counterparty broker and is reflected in the Statement of Assets and Liabilities.

f. Securities Sold Short

The Fund is engaged in selling securities short, which obligates the Fund to replace a borrowed security with the same security at current market value. The Fund incurs a loss if the price of the security increases between the date of the short sale and the date on which the Fund replaces

Mutual Beacon Fund

Notes to Financial Statements (unaudited) *(continued)*

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

f. Securities Sold Short *(continued)*

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 and the Fund must maintain a deposit with the 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 or interest due on securities sold short. Such dividends or interest and any security borrowing fees are recorded as an expense to the Fund.

g. Securities Lending

The Fund participates in an agency based securities lending program. The Fund receives cash collateral against the loaned securities in an amount equal to at least 102% of the market value of the loaned securities. Collateral is maintained over the life of the loan in an amount not less than 100% of the market value of loaned securities, as determined at the close of fund business each day; any additional collateral required due to changes in security values is delivered to the Fund on the next business day. The collateral is invested in a non-registered money fund. The Fund receives income from the investment of cash collateral, in addition to lending fees and rebates paid by the borrower. The Fund bears the market risk with respect to the collateral investment, securities loaned, and the risk that the agent may default on its obligations to the Fund. The securities lending agent has agreed to indemnify the Fund in the event of default by a third party borrower. At June 30, 2013, the Fund had no securities on loan.

h. Senior Floating Rate Interests

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

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

Mutual Beacon Fund

Notes to Financial Statements (unaudited) *(continued)*

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

i. Income and Deferred Taxes

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

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

The Fund recognizes the tax benefits of uncertain tax positions only when the position is "more likely than not" to be sustained upon examination by the tax authorities based on the technical merits of the tax position. As of June 30, 2013, and for all open tax years, the Fund has determined that no liability for unrecognized tax benefits is required in the Fund's financial statements related to uncertain tax positions taken on a tax return (or expected to be taken on future tax returns). Open tax years are those that remain subject to examination and are based on each tax jurisdiction statute of limitation.

j. Security Transactions, Investment Income, Expenses and Distributions

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

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

Realized and unrealized gains and losses and net investment income, not including class specific expenses, are allocated daily to each class of shares based upon the relative proportion of net

Mutual Beacon Fund

Notes to Financial Statements (unaudited) *(continued)*

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

j. Security Transactions, Investment Income, Expenses and Distributions *(continued)*

assets of each class. Differences in per share distributions, by class, are generally due to differences in class specific expenses.

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

k. Accounting Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

l. Guarantees and Indemnifications

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

2. Shares of Beneficial Interest

At June 30, 2013, 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, 2013		Year Ended December 31, 2012	
	Shares	Amount	Shares	Amount
Class Z Shares:				
Shares sold	3,196,274	$ 46,973,059	6,033,846	$ 77,047,538
Shares issued in reinvestment of distributions	—	—	3,100,559	41,435,724
Shares redeemed	(11,193,545)	(163,262,297)	(33,245,503)	(425,129,883)
Net increase (decrease)	(7,997,271)	$(116,289,238)	(24,111,098)	$(306,646,621)
Class A Shares:				
Shares sold	3,279,100	$ 47,408,254	6,494,698	$ 82,298,658
Shares issued in reinvestment of distributions	—	—	1,107,862	14,671,619
Shares redeemed	(7,752,639)	(112,256,242)	(25,052,269)	(317,039,738)
Net increase (decrease)	(4,473,539)	$ (64,847,988)	(17,449,709)	$(220,069,461)

Notes to Financial Statements (unaudited) *(continued)*

2. Shares of Beneficial Interest *(continued)*

	Six Months Ended June 30, 2013		Year Ended December 31, 2012	
	Shares	**Amount**	**Shares**	**Amount**
Class B Shares[a]:				
Shares sold	8	$ 118	8,564	$ 106,832
Shares issued in reinvestment of distributions	—	—	1,674	21,631
Shares redeemed	(102,482)	(1,429,219)	(793,560)	(9,866,738)
Net increase (decrease)	(102,474)	$ (1,429,101)	(783,322)	$ (9,738,275)
Class C Shares:				
Shares sold	543,731	$ 7,865,907	1,042,329	$ 13,107,853
Shares issued in reinvestment of distributions	—	—	173,772	2,256,012
Shares redeemed	(2,117,070)	(30,466,264)	(6,134,184)	(77,003,442)
Net increase (decrease)	(1,573,339)	$ (22,600,357)	(4,918,083)	$ (61,639,577)
Class R Shares:				
Shares sold	12,663	$ 183,450	83,478	$ 1,032,374
Shares issued in reinvestment of distributions	—	—	2,566	33,585
Shares redeemed	(42,421)	(613,641)	(118,562)	(1,532,802)
Net increase (decrease)	(29,758)	$ (430,191)	(32,518)	$ (466,843)
Class R6 Shares[b]:				
Shares sold	339	$ 5,000		

[a]Effective March 22, 2013, all Class B shares were converted to Class A.

[b]For the period May 1, 2013 (effective date) to June 30, 2013.

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

3. Transactions with Affiliates *(continued)*

a. Management Fees

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

Annualized Fee Rate	Net Assets
0.600%	Up to and including $5 billion
0.570%	Over $5 billion, up to and including $7 billion
0.550%	Over $7 billion, up to and including $10 billion
0.540%	In excess of $10 billion

b. Administrative Fees

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

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

c. Distribution Fees

The Board has adopted distribution plans for each share class, with the exception of Class Z and Class R6 shares, pursuant to Rule 12b-1 under the 1940 Act. Distribution fees are not charged on shares held by affiliates. Under the Fund's Class A reimbursement distribution plan, the Fund reimburses Distributors for costs incurred in connection with the servicing, sale and distribution of the Fund's shares up to the maximum annual plan rate. Under the Class A reimbursement distribution plan, costs exceeding the maximum for the current plan year cannot be reimbursed in subsequent periods. In addition, under the Fund's Class B, C and R compensation distribution plans, the Fund pays Distributors for costs incurred in connection with the servicing, sale and distribution of the Fund's shares up to the maximum annual plan rate for each class.

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

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

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

Mutual Beacon Fund

Notes to Financial Statements (unaudited) *(continued)*

3. Transactions with Affiliates *(continued)*

d. Sales Charges/Underwriting Agreements

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

Sales charges retained net of commissions paid to unaffiliated broker/dealers	$117,024
CDSC retained	$ 3,093

e. Transfer Agent Fees

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

For the period ended June 30, 2013, the Fund paid transfer agent fees of $2,237,656, of which $1,018,293 was retained by Investor Services.

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, 2013, there were no credits earned.

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, 2013, the Fund's projected benefit obligation and benefit payments under the Plan were as follows:

[a]Projected benefit obligation at June 30, 2013	$245,449
[b]Increase in projected benefit obligation	$ 25,793
Benefit payments made to retired trustees	$ 2,510

[a]The projected benefit obligation is included in accrued expenses and other liabilities 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.

Mutual Beacon Fund

Notes to Financial Statements (unaudited) *(continued)*

6. Income Taxes

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

At December 31, 2012, the Fund had capital loss carryforwards of $491,198,551 expiring in 2017.

At June 30, 2013, the cost of investments and net unrealized appreciation (depreciation) for income tax purposes were as follows:

Cost of investments	$3,279,301,284
Unrealized appreciation	$ 922,307,028
Unrealized depreciation	(180,391,765)
Net unrealized appreciation (depreciation)	$ 741,915,263

Differences between income and/or capital gains as determined on a book basis and a tax basis are primarily due to differing treatments of foreign currency transactions, corporate actions and wash sales.

7. Investment Transactions

Purchases and sales of investments (excluding short term securities) for the period ended June 30, 2013, aggregated $736,796,539 and $907,479,893, respectively.

Transactions in options written during the period ended June 30, 2013, were as follows:

	Number of Contracts	Premiums Received
Options outstanding at December 31, 2012	23,172	$ 704,427
Options written	—	—
Options expired	(14,048)	(221,256)
Options exercised	(2,100)	(165,845)
Options closed	(7,024)	(317,326)
Options outstanding at June 30, 2013	—	$ —

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

Mutual Beacon Fund

Notes to Financial Statements (unaudited) *(continued)*

8. Credit Risk and Defaulted Securities

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

At June 30, 2013, the aggregate value of distressed company securities for which interest recognition has been discontinued was $62,698,252, representing 1.56% of the Fund's net assets. For information as to specific securities, see the accompanying Statement of Investments.

9. Restricted Securities

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

At June 30, 2013, the Fund held investments in restricted securities, excluding certain securities exempt from registration under the 1933 Act deemed to be liquid, as follows:

Principal Amount/ Shares	Issuer	Acquisition Dates	Cost	Value
4,353,435	AET&D Holdings No. 1 Pty. Ltd.	10/13/10	$ —	$ —
10,848	Broadband Ventures III LLC, secured promissory note, 5.00%, 2/01/12	7/01/10 - 11/30/12	10,848	—
15,831,950	CB FIM Coinvestors LLC	1/15/09 - 6/02/09	—	—
19,805,560	FIM Coinvestor Holdings I, LLC	11/20/06 - 6/02/09	—	—
1,065,450	First Southern Bancorp Inc.	1/27/10 - 7/07/10	22,480,995	5,286,550
1,821	First Southern Bancorp Inc., cvt. pfd., C	1/27/10 - 7/07/10	1,821,000	3,425,871
2,846,329	International Automotive Components Group Brazil LLC	4/13/06 - 12/26/08	1,890,264	624,912
22,836,904	International Automotive Components Group North America, LLC	1/12/06 - 3/18/13	18,692,218	10,250,344
106,700	Olympus Re Holdings Ltd.	12/19/01	10,021,704	—
17,621	PMG LLC	3/22/04	1,233,477	1,392,948
	Total Restricted Securities (Value is 0.52% of Net Assets)		$56,150,506	$20,980,625

Mutual Beacon Fund

Notes to Financial Statements (unaudited) *(continued)*

10. Other Derivative Information

At June 30, 2013, the Fund's investments in derivative contracts are reflected on the Statement of Assets and Liabilities as follows:

	Asset Derivatives		Liability Derivatives	
Derivative Contracts Not Accounted for as Hedging Instruments	**Statement of Assets and Liabilities Location**	**Fair Value Amount**	**Statement of Assets and Liabilities Location**	**Fair Value Amount**
Interest rate contracts	Investments, at value	$ 4,172,982		
Foreign exchange contracts	Investments, at value / Unrealized appreciation on forward exchange contracts / Net assets consist of – net unrealized appreciation (depreciation)	19,049,050[a]	Unrealized depreciation on forward exchange contracts	$1,762,477

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

For the period ended June 30, 2013, the effect of derivative contracts on the Fund's Statement of Operations was as follows:

Derivative Contracts Not Accounted for as Hedging Instruments	Statement of Operations Locations	Realized Gain (Loss) for the Period	Change in Unrealized Appreciation (Depreciation) for the Period
Interest rate contracts	Net change in unrealized appreciation (depreciation) on investments		$ 387,258
Foreign exchange contracts	Net realized gain (loss) from foreign currency transactions and futures contracts / Net change in unrealized appreciation (depreciation) on translation of other assets and liabilities denominated in foreign currencies	$ 9,559,098	30,479,045
Equity contracts	Net realized gain (loss) from investments and written options / Net change in unrealized appreciation (depreciation) on investments	(7,235,571)	5,938,413

For the period ended June 30, 2013, the average month end market value of derivatives represented 0.73% of average month end net assets. The average month end number of open derivative contracts for the period was 136.

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

Mutual Beacon Fund

Notes to Financial Statements (unaudited) *(continued)*

11. Holdings of 5% Voting Securities of Portfolio Companies

The 1940 Act defines "affiliated companies" to include investments in portfolio companies in which a fund owns 5% or more of the outstanding voting securities. Investments in "affiliated companies" for the Fund for the period ended June 30, 2013, were as shown below.

Name of Issuer	Number of Shares Held at Beginning of Period	Gross Additions	Gross Reductions	Number of Shares Held at End of Period	Value at End of Period	Investment Income	Realized Capital Gain (Loss)
Controlled Affiliates[a]							
PMG LLC	23,726	—	6,105	17,621	$ 1,392,948	$—	$31,392
Non-Controlled Affiliates							
CB FIM Coinvestors LLC	15,831,950	—	—	15,831,950	$ —	$—	$ —
First Southern Bancorp Inc.	1,065,450	—	—	1,065,450	5,286,550	—	—
First Southern Bancorp Inc., cvt. pfd., C	1,821	—	—	1,821	3,425,871	—	—
Polaris Financial Technology Ltd.	6,942,715	—	—	6,942,715	13,312,128	—	—
Total Non-Controlled Affiliates					$22,024,549	$—	$ —
Total Affiliated Securities (Value is 0.58% of Net Assets)					$23,417,497	$—	$31,392

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

12. Credit Facility

The Fund, together with other U.S. registered and foreign investment funds (collectively, Borrowers), managed by Franklin Templeton Investments, are borrowers in a joint syndicated senior unsecured credit facility totaling $1.5 billion (Global Credit Facility) which matures on January 17, 2014. This Global Credit Facility provides a source of funds to the Borrowers for temporary and emergency purposes, including the ability to meet future unanticipated or unusually large redemption requests.

Under the terms of the Global Credit Facility, the Fund shall, in addition to interest charged on any borrowings made by the Fund and other costs incurred by the Fund, pay its share of fees and expenses incurred in connection with the implementation and maintenance of the Global Credit Facility, based upon its relative share of the aggregate net assets of all of the Borrowers, including an annual commitment fee of 0.07% based upon the unused portion of the Global Credit Facility. These fees are reflected in other expenses on the Statement of Operations. During the period ended June 30, 2013, the Fund did not use the Global Credit Facility.

Mutual Beacon Fund

Notes to Financial Statements (unaudited) *(continued)*

13. Fair Value Measurements

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

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

The inputs or methodology used for valuing financial instruments are not an indication of the risk associated with investing in those financial instruments.

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, 2013, in valuing the Fund's assets and liabilities carried at fair value, is as follows:

	Level 1	Level 2	Level 3	Total
Assets:				
Investments in Securities:				
Equity Investments:[a]				
Auto Components	$ 24,839,258	$ —	$10,875,256	$ 35,714,514
Commercial Banks	106,399,255	—	8,712,421	115,111,676
Media	350,187,819	13,306,286	—	363,494,105
Metals & Mining	87,918,290	—	1,392,948	89,311,238
Real Estate Management & Development	—	—	42,966,091	42,966,091
All Other Equity Investments[b]	2,768,916,338	—	—[c]	2,768,916,338
Corporate Bonds, Notes and Senior Floating Rate Interests	—	171,434,176	—	171,434,176
Corporate Notes in Reorganization	—	62,698,252	—[c]	62,698,252
Companies in Liquidation	—	71,924,537	—[c]	71,924,537
Asset-Backed Securities	—	3,589,770	—	3,589,770
Options Purchased	—	12,082,597	—	12,082,597
Short Term Investments	282,873,253	1,100,000	—	283,973,253
Total Investments in Securities	$3,621,134,213	$336,135,618	$63,946,716	$4,021,216,547
Futures Contracts	$ 2,976,876	$ —	$ —	$ 2,976,876
Forward Exchange Contracts	—	8,162,559	—	8,162,559
Liabilities:				
Forward Exchange Contracts	—	1,762,477	—	1,762,477

[a]Includes common, convertible preferred and preferred stocks as well as other equity investments.

[b]For detailed categories, see the accompanying Statement of Investments.

[c]Includes securities determined to have no value at June 30, 2013.

13. Fair Value Measurements *(continued)*

A reconciliation of assets in which Level 3 inputs are used in determining fair value is presented when there are significant Level 3 investments at the end of the period. At June 30, 2013, the reconciliation of assets, is as follows:

	Balance at Beginning of Period	Purchases	Sales	Transfers Into Level 3	Transfers Out of Level 3[a]	Cost Basis Adjustments	Net Realized Gain (Loss)	Net Unrealized Gain (Loss)	Balance at End of Period	Net Change in Unrealized Appreciation (Depreciation) on Assets Held at Period End
Assets:										
Investments in Securities:										
Equity Investments:[b]										
Auto Components	$ 9,090,582	$2,076,062	$ —	$ —	$ —	$ —	$ —	$ (291,388)	$ 10,875,256	$ (291,388)
Commercial Banks	8,910,160	—	—	—	—	—	—	(197,739)	8,712,421	(197,739)
Diversified Telecommunication Services	800,511[c]	—	—	—	—	—	1,571,480	(2,371,991)	—[c]	(2,371,991)
Metals & Mining	1,857,765	—	(458,753)	—	—	—	31,392	(37,456)	1,392,948	13,216
Real Estate Management & Development	50,398,206	—	—	—	(14,158,652)	—	—	6,726,537	42,966,091	4,781,522
Corporate Notes in Reorganization	—[c]	—	(1,205)	—	—	—	—	1,205	—[c]	—
Total	$ 71,057,224	$2,076,062	$(459,958)	$ —	$ (14,158,652)	$ —	$ 1,602,872	$ 3,829,168	$ 63,946,716	$ 1,933,620

[a]The investments were transferred out of Level 3 as a result of the removal of a significant unobservable valuation input.

[b]Includes common and convertible preferred stocks as well as other equity investments.

[c]Includes securities determined to have no value.

Significant unobservable valuation inputs developed by the VLOC for material Level 3 investments and impact to fair value as a result of changes in unobservable valuation inputs as of June 30, 2013, are as follows:

Description	Fair Value at End of Period	Valuation Technique	Unobservable Inputs	Amount	Impact to Fair Value if Input Increases[a]
Assets:					
Investments in Securities:					
Equity Investments:[b]					
Auto Components	$10,250,344	Market comparables	Discount for lack of marketability	15%	Decrease
			EV / EBITDA multiple	4.6x	Increase[c]
Commercial Banks	8,712,421	Market comparables	Discount for lack of marketability	10%	Decrease[c]
			Price / tangible book multiple	1.0x	Increase[c]
Real Estate Management & Development	42,966,091	Market comparables	Discount for lack of marketability	8%	Decrease[c]
All Other Investments[d]	2,017,860				
Total	$63,946,716				

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

[b]Includes common and convertible preferred stocks.

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

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

See Abbreviations on page 50.

Mutual Beacon Fund

Notes to Financial Statements (unaudited) *(continued)*

14. New Accounting Pronouncements

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

15. Subsequent Events

The Fund has evaluated subsequent events through the issuance of the financial statements and determined that no events have occurred that require disclosure.

Abbreviations

Counterparty

BANT - Bank of America N.A.
BBU - Barclays Bank PLC
DBFX - Deutsche Bank AG
FBCO - Credit Suisse Group AG
HAND - Svenska Handelsbanken
HSBC - HSBC Bank USA, N.A.
MSCS - Morgan Stanley Capital Services, LLC
SCBT - Standard Chartered Bank
SSBT - State Street Bank and Trust Co., N.A.
UBSW - UBS AG

Currency

EUR - Euro
GBP - British Pound
JPY - Japanese Yen
USD - United States Dollar

Selected Notes

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

Selected Portfolio

ADR - American Depositary Receipt
FHLB - Federal Home Loan Bank
FRN - Floating Rate Note
IDR - Internationl Depositary Receipt
LIBOR - London Interbank Offered Rate

Mutual Beacon Fund

Shareholder Information

Board Review of Investment Management Agreement

The Board of Trustees (Board), including the independent trustees, at a Board meeting held on May 21, 2013, unanimously approved renewal of the Fund's investment management agreement, as well as the Fund's administrative services agreement. Prior to a meeting of all of the trustees for the purpose of considering such renewals, the independent trustees held two meetings dedicated to the renewal process (those trustees unable to attend in person were present by telephonic conference means). Throughout the process, the independent trustees received assistance and advice from and met separately with independent counsel. The independent trustees met with and interviewed officers of the investment manager (including portfolio managers), the transfer agent and shareholder services group and the distributor. In approving the renewal of the investment management agreement and the administrative services agreement for the Fund, the Board, including the independent trustees, determined that the existing investment management fee structure was fair and reasonable and that continuance of the agreements was in the best interests of the Fund and its shareholders.

In reaching their decision on the investment management agreement (as well as the administrative services 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 agreements. 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, portfolio turnover, Rule 12b-1 plans, distribution, shareholder servicing, legal and compliance matters, pricing of securities and sales and redemptions, as well as a third-party survey of transfer agent fees charged funds within the Franklin Templeton Investments complex in comparison with those charged other fund complexes deemed comparable. Also, related financial statements and other information about the scope and quality of services provided by the investment manager and its affiliates and enhancements to such services over the past year were provided. In addition, the trustees received periodic reports throughout the year and during the renewal process relating to compliance with the Fund's investment policies and restrictions. During the renewal process, the independent trustees considered the investment manager's methods of operation within the Franklin Templeton group and its activities on behalf of other clients.

The information obtained by the trustees during the renewal process also included a special report prepared by Lipper, Inc. (Lipper), an independent third-party analyst, comparing the Fund's investment performance and expenses with those of other mutual funds deemed comparable to the Fund as selected by Lipper (Lipper Section 15(c) Report). The trustees reviewed the Lipper Section 15(c) Report and its usefulness in the 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 Franklin Templeton Investments 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

Board Review of Investment Management Agreement *(continued)*

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 proceedings.

Particular attention was given to management's diligent risk management procedures, including continuous monitoring of counterparty credit risk and attention given to derivatives and other complex instruments. 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 Franklin Templeton Investments to provide a source of cash for temporary and emergency purposes or to meet unusual redemption requests as well as the strong financial position of the investment manager's parent company and its commitment to the mutual fund business. In addition, the Board received updates from management on the Securities and Exchange Commission's (SEC) progress in implementing the rule-making requirements established by the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), which was enacted July 21, 2010, and the investment manager's compliance with rules and regulations already promulgated by the SEC under such act.

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

NATURE, EXTENT AND QUALITY OF SERVICES. The trustees reviewed the nature, extent and quality of the services provided by the investment manager. In this regard, they reviewed the Fund's investment approach and concluded that, in their view, it continues to differentiate the Fund from typical core investment products in the mutual fund field. The trustees cited the investment manager's ability to implement the Fund's disciplined value investment approach and its long-term relationship with the Fund as reasons that shareholders choose to invest, and remain invested, in the Fund. The trustees reviewed the Fund's portfolio management team, including its performance, staffing, skills and compensation program. With respect to portfolio manager compensation, management assured the trustees that the Fund's long-term performance is a significant component of incentive-based compensation and noted that a portion of a portfolio manager's incentive-based compensation is paid in shares of predesignated funds from the portfolio manager's fund management area. The trustees noted that the portfolio manager compensation program aligned the interests of the portfolio managers with that of Fund shareholders. The trustees discussed with management various other products, portfolios and entities that are advised by the investment manager and the allocation of assets and expenses among and within them, as well as their relative fees and reasons for differences with respect thereto and any potential conflicts.

Board Review of Investment Management Agreement *(continued)*

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

The trustees also reviewed the nature, extent and quality of the Fund's other service agreements to determine that, on an overall basis, Fund shareholders were well served. In this connection, the Board also took into account administrative and 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 administrative services and transfer agent and shareholder services agreement, the Board also considered these commitments as incidental benefits to Fund shareholders deriving from the investment management relationship.

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

INVESTMENT PERFORMANCE. The trustees reviewed and placed significant emphasis on the investment performance of the Fund over the one-, three-, five- and 10-year periods ended December 31, 2012. 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, particular attention in assessing performance was given to the Lipper Section 15(c) Report. That report showed the investment performance of the Fund (Class A shares) in comparison to other funds determined comparable by Lipper.

Board Review of Investment Management Agreement *(continued)*

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 second-best performing quintile for the one-year period ended December 31, 2012, and had annualized total returns for the three- and five-year periods in the second-best and second-lowest performing quintiles, respectively. The trustees noted that the Fund's total return on an annualized basis for the 10-year period ended December 31, 2012, was in the middle performing quintile. The Board discussed with the investment manager the reasons for the relative underperformance for the five-year period ended December 31, 2012. While noting such discussions, the Board, overall, found such comparative performance to be acceptable.

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 objectives.

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

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

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

Board Review of Investment Management Agreement *(continued)*

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, 2012, 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 trustees considered an additional Lipper study analyzing the profitability of the parent of the investment manager as compared to other publicly held investment managers, which also aided the trustees in considering profitability excluding distribution costs. The Board also took into account management's expenditures in improving shareholder services provided to the Fund, as well as the need to meet additional regulatory and compliance requirements resulting from the Sarbanes-Oxley Act, the Dodd-Frank Act and recent SEC and other regulatory requirements. The trustees also considered the extent to which the investment manager may derive ancillary benefits from Fund operations, including those derived from economies of scale, discussed below, the allocation of Fund brokerage and the use of commission dollars to pay for research and other similar services.

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

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

Mutual Beacon Fund

Shareholder Information *(continued)*

Board Review of Investment Management Agreement *(continued)*

economies of scale will be shared with Fund shareholders due to the decline in the effective investment management fee rate as breakpoints are achieved by the Fund.

The trustees noted that breakpoints had been instituted as part of the Fund's investment management fee in 2004. The trustees assessed the 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 ratios of the Fund. To the extent further economies of scale may be realized by the investment manager and its affiliates, the Board believed the investment management and administrative fees provide a sharing of benefits with the Fund and its shareholders.

Proxy Voting Policies and Procedures

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

Quarterly Statement of Investments

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

Franklin Templeton Funds

Literature Request. *To receive a summary prospectus and/or prospectus, please call us at (800) DIAL BEN/342-5236 or visit* ***franklintempleton.com****. Investors should carefully consider a fund's investment goals, risks, charges and expenses before investing. The prospectus contains this and other information. Please carefully read a prospectus before investing. To ensure the highest quality of service, we may monitor, record and access telephone calls to or from our service departments. These calls can be identified by the presence of a regular beeping tone.*

VALUE
Franklin All Cap Value Fund
Franklin Balance Sheet Investment Fund
Franklin Large Cap Value Fund
Franklin MicroCap Value Fund[1]
Franklin MidCap Value Fund
Franklin Small Cap Value Fund
Mutual Beacon Fund
Mutual Quest Fund
Mutual Recovery Fund[2]
Mutual Shares Fund

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

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

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

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

INTERNATIONAL
Franklin India Growth Fund
Franklin International Growth Fund
Franklin International Small Cap Growth Fund[3]
Mutual European Fund
Mutual International Fund
Templeton Asian Growth Fund
Templeton BRIC Fund
Templeton China World Fund
Templeton Developing Markets Trust
Templeton Emerging Markets Small Cap Fund
Templeton Foreign Fund
Templeton Foreign Smaller Companies Fund
Templeton Frontier Markets Fund[4]

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

ASSET ALLOCATION
Franklin Templeton Corefolio® Allocation Fund
Franklin Templeton Founding Funds Allocation Fund
Franklin Templeton Conservative Allocation Fund
Franklin Templeton Growth Allocation Fund
Franklin Templeton Moderate Allocation Fund
Franklin LifeSmart™ 2015 Retirement Target Fund[5]
Franklin LifeSmart™ 2020 Retirement Target Fund
Franklin LifeSmart™ 2025 Retirement Target Fund[5]
Franklin LifeSmart™ 2030 Retirement Target Fund
Franklin LifeSmart™ 2035 Retirement Target Fund[5]
Franklin LifeSmart™ 2040 Retirement Target Fund
Franklin LifeSmart™ 2045 Retirement Target Fund[5]
Franklin LifeSmart™ 2050 Retirement Target Fund
Franklin Templeton Global Allocation Fund
Franklin Templeton Multi-Asset Real Return Fund

FIXED INCOME
Franklin Adjustable U.S. Government Securities Fund[6]
Franklin Floating Rate Daily Access Fund
Franklin High Income Fund
Franklin Limited Maturity U.S. Government Securities Fund[6]
Franklin Low Duration Total Return Fund
Franklin Real Return Fund
Franklin Strategic Income Fund
Franklin Strategic Mortgage Portfolio
Franklin Templeton Hard Currency Fund
Franklin Total Return Fund
Franklin U.S. Government Securities Fund[6]
Templeton Emerging Markets Bond Fund
Templeton Global Bond Fund
Templeton Global Total Return Fund
Templeton International Bond Fund

TAX-FREE INCOME[7]

National
Double Tax-Free Income Fund[8]
Federal Tax-Free Income Fund
High Yield Tax-Free Income Fund
Insured Tax-Free Income Fund[9, 10]

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

State-Specific
Alabama
Arizona
California (4 funds)[10]
Colorado
Connecticut
Florida
Georgia
Kentucky
Louisiana
Maryland
Massachusetts
Michigan
Minnesota
Missouri
New Jersey
New York (2 funds)
North Carolina
Ohio
Oregon
Pennsylvania
Tennessee
Virginia

INSURANCE FUNDS
Franklin Templeton Variable Insurance Products Trust[11]

1. The fund is closed to new investors. Existing shareholders and select retirement plans may add to their accounts.
2. The fund is a continuously offered, closed-end fund. Shares may be purchased daily; there is no daily redemption. However, each quarter, pending board approval, the fund will authorize the repurchase of 5%–25% of the outstanding number of shares. Investors may tender all or a portion of their shares during the tender period.
3. Effective 6/3/13, the fund closed to new investors, with limited exceptions.
4. Effective 6/28/13, the fund closed to new investors. Existing shareholders and select retirement plans may add to their accounts.
5. Effective 5/1/13, the Franklin Templeton Retirement Target Funds changed their names to Franklin LifeSmart Retirement Target Funds. The funds' investment goals and principal investment strategies remained unchanged.
6. An investment in the fund is neither insured nor guaranteed by the U.S. government or by any other entity or institution.
7. For investors subject to the alternative minimum tax, a small portion of fund dividends may be taxable. Distributions of capital gains are generally taxable.
8. The fund is closed to all new investments (other than reinvestment of dividends and capital gains distributions).
9. The fund invests primarily in insured municipal securities.
10. Effective at the close of market 3/1/13, Franklin Insured Tax-Free Income Fund and Franklin California Insured Tax-Free Income Fund closed to all new investments (other than reinvestment of dividends and capital gains distributions).
11. The funds of the Franklin Templeton Variable Insurance Products Trust are generally available only through insurance company variable contracts.

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

FRANKLIN TEMPLETON INVESTMENTS

< GAIN FROM OUR PERSPECTIVE® >

Semiannual Report and Shareholder Letter

Mutual Beacon Fund

Investment Manager
Franklin Mutual Advisers, LLC

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

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

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

To ensure the highest quality of service, telephone calls to or from our service departments may be monitored, recorded and accessed. These calls can be identified by the presence of a regular beeping tone.

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