JUNE 30, 2013
SEMIANNUAL REPORT
AND SHAREHOLDER LETTER



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## MUTUAL GLOBAL DISCOVERY FUND



Franklin • Templeton • Mutual Series

## Franklin Templeton Investments

### Gain From Our Perspective®

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

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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.

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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



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### Shareholder Letter

### **Average Annual Total Return**

Class Z	6/30/13
1-Year	+19.67%
5-Year	+6.10%
10-Year	+10.53%

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 Global Discovery 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 Global Discovery 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 the MSCI World Index.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 to a lesser extent. The 10-year

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<sup>1.</sup> The MSCI World Index is a free float-adjusted, market capitalization-weighted index designed to measure equity market performance in global developed markets.

Treasury rate climbed from 2.16% at the start of June to 2.52% by monthend, 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 to its long-established strategies seeking invest in deep value equities, distressed debt and merger arbitrage opportunities.

One of the Fund's new investments during this period was Apple.<sup>2</sup> We have watched the company's incredible success but have felt that the share price

<sup>2.</sup> Mutual Global Discovery Fund's holdings are based on total net assets as of 6/30/13: Apple 1.8%.

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.<sup>3</sup> 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 Standard & Poor's® 500 Index bottomed, merger and acquisition volumes remained far below prior peaks<sup>5</sup>. 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 value of PXP. At the last minute, FCX increased the offer and succeeded in acquiring PXP. While the Fund benefited from the

<sup>3.</sup> Mutual Global Discovery Fund's holdings are based on total net assets as of 6/30/13: BG Group 0.9%.

<sup>4.</sup> Mutual Global Discovery Fund's holdings are based on total net assets as of 6/30/13: Lehman Brothers Holdings 1.3%.

<sup>5.</sup> STANDARD & POOR'S®, S&P®, and S&P 500® are registered trademarks of Standard & Poor's Financial Services LLC.

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.6

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

Chairman, President and Chief Executive Officer

Franklin Mutual Advisers, LLC

Peter A Langerman

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.

6. Mutual Global Discovery Fund's holdings are based on total net assets as of 6/30/13: FCX 0.5%.

## Semiannual Report

## Mutual Global Discovery Fund

Your Fund's Goal and Main Investments: Mutual Global Discovery Fund seeks capital appreciation by investing primarily in equity securities of companies of any nation the Fund's managers believe are at prices below their intrinsic value. The Fund may invest up to 100% of its assets in foreign securities.

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

This semiannual report for Mutual Global Discovery Fund covers the period ended June 30, 2013.

#### **Performance Overview**

Mutual Global Discovery Fund - Class Z delivered a +10.40% cumulative total return for the six months ended June 30, 2013. For comparison, the MSCI World Index, which tracks stock performance in global developed markets, generated a total return of +8.79% and the Standard & Poor's 500 Index (S&P 500), which is a broad measure of U.S. stock performance, posted a +13.82% total return. You can find the Fund's short- and long-term performance data in the Performance Summary beginning on page 12.

#### **Economic and Market Overview**

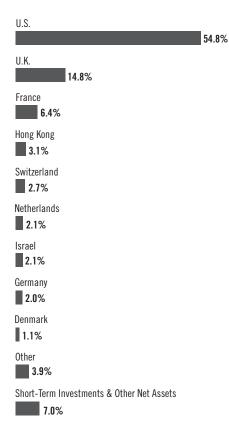
Global developed market stocks, as measured by the MSCI World Index, advanced during the first six months of 2013 as many central banks continued supportive monetary policies. The economic focus and highly correlated market movements characteristic of previous periods appeared to be supplanted by a more fundamentals-based market environment. Regional performance was also more consistent with local economic trends, although periodic volatility highlighted the recovery's fragility. Continued U.S. gross domestic product (GDP) growth accompanied improvements in housing, labor and retail sales. Eurozone first-quarter GDP growth missed expectations, although the number of unemployed declined and manufacturing indicator levels increased in the first half of 2013. Japan demonstrated economic progress amid major reflationary initiatives as business confidence, industrial production and retail sales improved and

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 22.

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#### Geographic Breakdown

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



inflation stabilized. However, investor confidence in the country's radical policy maneuvers wavered. China's growth rate and manufacturing levels were weaker than expected, and the International Monetary Fund downgraded the country's growth outlook.

Despite generally accommodative global monetary policies, central banks changed their strategies during the period to reflect the increasingly varied needs of different economies. The U.S. Federal Reserve Board vowed to keep interest rates low until the unemployment rate reached 6.5% but ignited considerable market volatility and a Treasury sell-off by suggesting it may taper monthly bond purchases should economic conditions warrant. The European Central Bank cut benchmark interest rates and pledged to maintain systemic support after successfully containing a run on a Cyprus bank. Elsewhere in developed markets, the Bank of Japan's new governor set an explicit inflation target and pledged to double bond purchases in what many believe was unprecedented policy reform.

Emerging market central banks were more aggressive, with Brazil's central bank hiking interest rates amid rising inflation and China's central bank taking measures to curb real estate and credit speculation. Chinese liquidity tightening weighed on credit markets at period-end, and a jump in the interbank lending rate underscored concerns about the country's shadow banking system. Volatility surfaced in emerging markets as political protests intensified, and asset prices fell as investors responded to rising bond rates by unwinding highly leveraged emerging market carry trades.<sup>2</sup> 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 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

<sup>2.</sup> In a carry trade, an investor seeks to profit from an interest rate differential by borrowing low-yielding currencies and lending high-yielding currencies. The use of borrowed capital to facilitate the trade creates leverage for the borrower.

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

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

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

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

### Manager's Discussion

In an environment of generally rising equity prices, many Fund investments increased in value during the six-month period. Top contributors included U.S.-based software company Microsoft, U.K-based wireless telecommunications operator Vodafone Group and U.S.-based drugstore chain and pharmacy benefits manager CVS Caremark.

### 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
Merck & Co. Inc.  Pharmaceuticals, U.S.	2.1%
ACE Ltd. Insurance, U.S.	2.0%
Microsoft Corp.  Software, U.S.	1.9%
Vodafone Group PLC  Wireless Telecommunication Servio  U.K.	1.9% ces,
American International Group Inc.  Insurance, U.S.	1.8%
Apple Inc.  Computers & Peripherals, U.S.	1.8%
CVS Caremark Corp.  Food & Staples Retailing, U.S.	1.8%
British American Tobacco PLC <i>Tobacco, U.K.</i>	1.8%
Jardine Strategic Holdings Ltd.  Industrial Conglomerates, Hong Ko	1.7% ong
Medtronic Inc.  Health Care Equipment & Supplies	1.7% s, U.S.

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 apparently returned to viewing Microsoft as a stable business with a reasonable future.

Shares of Vodafone Group rallied after rumors arose that Verizon, Inc. was considering taking full control of Verizon Wireless, the U.S. wireless telecommunications company jointly owned by the two phone operators. In addition, shares appeared to rally further following Vodafone's announcement of its intent to acquire Kabel Deutschland. We viewed the announcement positively as it appeared to offer synergy opportunities and the potential to expand Vodafone's presence in Germany. We continued to believe that other potential drivers of Vodafone stock performance still exist, including possible improvement in economic conditions across Europe, better revenue per customer as a critical mass of customers migrate to data-oriented plans, and a larger dividend payment from Vodafone's existing 45% stake in Verizon Wireless.

CVS Caremark reported better-than-expected first-quarter 2013 earnings despite relatively flat sales. The results reflected the company's improved operating profitability. CVS also continued to return value to its shareholders through its share repurchase program. We believe an aging U.S. population, the upcoming expansion of health care coverage, and the trend of chain drugstores taking market share from independents are favorable for the company's prospects.

During the period under review, some of the Fund's investments negatively affected performance. These included German engineering and steel conglomerate ThyssenKrupp, U.S. diversified energy producer CONSOL Energy and U.K.-based mining firm Anglo American.

For ThyssenKrupp, European economic weakness, slow progress on the sale of the Steel Americas operations and speculation that the company would need to raise additional capital pressured shares. We were disappointed by the announcement that management would not rule out raising capital this year to address the company's low book value of equity and customer concerns of corporate risk. Nonetheless, at period-end we continued to see upside potential in the stock given ThyssenKrupp's strong set of assets, ability to generate strong free cash flow, manageable debt maturity ladder and value-creating restructuring plan.

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.

Anglo American stock was negatively affected by a sell-off in commodities. In addition, shares came under pressure arising from uncertainty associated with possible restructuring actions. However, Anglo American recently appointed a new chief executive officer (CEO) tasked with a mandate to improve operations and capital discipline. The CEO was expected to roll out a plan for the company within the next several months. We initiated an investment based on the belief that recent declines led shares to trade below our assessment of their intrinsic value.

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
Insurance	8.5%
Oil, Gas & Consumable Fuels	8.0%
Commercial Banks	7.5%
Tobacco	5.7%
Pharmaceuticals	5.5%
Food & Staples Retailing	4.7%
Media	4.4%
Diversified Financial Services	4.1%
Software	3.8%
Computers & Peripherals	3.5%

#### 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 Global Discovery Fund. We look forward to continuing to serve your investment needs.



Peter A. Langerman Co-Portfolio Manager



Philippe Brugere-Trelat Co-Portfolio Manager



Timothy Rankin, CFA Assistant Portfolio Manager

Mutual Global Discovery Fund

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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.

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

Philippe Brugere-Trelat has been portfolio manager for Mutual Global Discovery Fund since 2009. He has been lead portfolio manager for Mutual European Fund since 2005 and coportfolio manager for Mutual International Fund since 2009. He has been a member of the management team of the Mutual Series Funds since 2004, when he rejoined Franklin Templeton Investments. Previously, he was president and portfolio manager of Eurovest. Between 1984 and 1994, Mr. Brugere-Trelat was employed at Heine Securities Corporation, the Fund's former manager.

Timothy Rankin rejoined the Mutual Series investment group and assumed assistant portfolio manager responsibilities for Mutual Global Discovery Fund in 2010. Mr. Rankin had previously worked at Mutual Series from 1997 through 2004. Most recently, he was managing director of Blue Harbour Group, LLC, a private investment firm focused on small- and mid-cap North American companies. Prior to his original employment with Mutual Series, Mr. Rankin was an equity analyst at Glickenhaus & Co.

## 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: MDISX)	Change	6/30/13	12/31/12
Net Asset Value (NAV)	+\$2.98	\$31.63	\$28.65
Class A (Symbol: TEDIX)	Change	6/30/13	12/31/12
Net Asset Value (NAV)	+\$2.90	\$31.17	\$28.27
Class C (Symbol: TEDSX)	Change	6/30/13	12/31/12
Net Asset Value (NAV)	+\$2.78	\$30.83	\$28.05
Class R (Symbol: TEDRX)	Change	6/30/13	12/31/12
Net Asset Value (NAV)	+\$2.84	\$30.82	\$27.98
Class R6 (Symbol: n/a)	Change	6/30/13	5/1/13
Net Asset Value (NAV)	+\$0.25	\$31.67	\$31.42

## Performance Summary (continued)

### **Performance**

 $\textit{Cumulative total return excludes sales charges. Aggregate and average annual total returns and value of \$10,000$ 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 <sup>1</sup>	+10.40%	+19.67%	+34.46%	+172.26%
Average Annual Total Return <sup>2</sup>	+10.40%	+19.67%	+6.10%	+10.53%
Value of \$10,000 Investment <sup>3</sup>	\$11,040	\$11,967	\$13,446	\$27,226
Total Annual Operating Expenses <sup>4</sup>	1.0	)2%		
Class A	6-Month	1-Year	5-Year	10-Year
Cumulative Total Return <sup>1</sup>	+10.26%	+19.29%	+32.48%	+163.98%
Average Annual Total Return <sup>2</sup>	+3.93%	+12.45%	+4.54%	+9.54%
Value of \$10,000 Investment <sup>3</sup>	\$10,393	\$11,245	\$12,487	\$24,881
Total Annual Operating Expenses <sup>4</sup>	1.3	32%		
Class C	6-Month	1-Year	5-Year	10-Year
Cumulative Total Return <sup>1</sup>	+9.91%	+18.46%	+27.91%	+146.44%
Average Annual Total Return <sup>2</sup>	+8.91%	+17.46%	+5.05%	+9.44%
Value of \$10,000 Investment <sup>3</sup>	\$10,891	\$11,746	\$12,791	\$24,644
Total Annual Operating Expenses <sup>4</sup>	2.0	)2%		
Class R	6-Month	1-Year	5-Year	10-Year
Cumulative Total Return <sup>1</sup>	+10.15%	+19.08%	+31.11%	+159.07%
Average Annual Total Return <sup>2</sup>	+10.15%	+19.08%	+5.57%	+9.99%
Value of \$10,000 Investment <sup>3</sup>	\$11,015	\$11,908	\$13,111	\$25,907
Total Annual Operating Expenses <sup>4</sup>	1.5	52%		
Class R6				Inception (5/1/13)
Cumulative Total Return <sup>1</sup>				+0.80%
Aggregate Annual Total Return <sup>5</sup>				+0.80%
Value of \$10,000 Investment <sup>3</sup>				\$10,080
Total Annual Operating Expenses <sup>4</sup>	0.0	36%		

Performance data represent past performance, which does not guarantee future results. Investment return and principal value will fluctuate, and you may have a gain or loss when you sell your shares. Current performance may differ from figures shown. For most recent month-end performance, go to franklintempleton.com 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 foreign securities involve certain risks including currency fluctuations, and economic and political uncertainties. Smaller company stocks have exhibited greater price volatility than larger company stocks, particularly over the short term. The Fund's investments in companies engaged in mergers, reorganizations or liquidations also involve special risks as pending deals may not be completed on time or on favorable terms. The Fund may invest in lower rated bonds, which entail higher credit risk. The Fund is actively managed but there is no guarantee that the manager's investment decisions will produce the desired results. The Fund's prospectus also includes a description of the main investment risks.

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

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

#### Hypothetical Example for Comparison with Other Funds

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

### Your Fund's Expenses (continued)

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

Class Z	Beginning Account Value 1/1/13	Ending Account Value 6/30/13	Expenses Paid During Period* 1/1/13–6/30/13
Actual	\$1,000	\$1,104.00	\$ 5.22
Hypothetical (5% return before expenses)	\$1,000	\$1,019.84	\$ 5.01
Class A			
Actual	\$1,000	\$1,102.60	\$ 6.78
Hypothetical (5% return before expenses)	\$1,000	\$1,018.35	\$ 6.51
Class C			
Actual	\$1,000	\$1,099.10	\$10.41
Hypothetical (5% return before expenses)	\$1,000	\$1,014.88	\$ 9.99
Class R			
Actual	\$1,000	\$1,101.50	\$ 7.82
Hypothetical (5% return before expenses)	\$1,000	\$1,017.36	\$ 7.50
Class R6			
Actual (5/1/13-6/30/13)	\$1,000	\$1,008.00	\$ 1.43
Hypothetical (5% return before expenses)	\$1,000	\$1,019.84	\$ 4.26

<sup>\*</sup>Expenses are calculated using the most recent six-month expense ratio, annualized for each class (Z: 1.00%; A: 1.30%; C: 2.00%; R: 1.50%; and R6: 0.85%), 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.

### **Financial Highlights**

	Six Months Ended June 30, 2013 Year Ended December 31,					
Class Z	(unaudited)	2012	2011	2010	2009	2008
Per share operating performance (for a share outstanding throughout the period)						
Net asset value, beginning of period	\$28.65	\$27.47	\$29.54	\$27.03	\$22.54	\$32.45
Income from investment operations <sup>a</sup> :						
Net investment income <sup>b</sup>	0.30	0.56	0.61	0.53c	$0.18^{d}$	0.51
Net realized and unrealized gains (losses)	2.68	3.21	(1.46)	2.55	4.62	(9.11)
Total from investment operations	2.98	3.77	(0.85)	3.08	4.80	(8.60)
Less distributions from:						
Net investment income	_	(0.57)	(0.55)	(0.57)	(0.30)	(0.44)
Net realized gains		(2.02)	(0.67)	_	(0.01)	(0.87)
Total distributions		(2.59)	(1.22)	(0.57)	(0.31)	(1.31)
Redemption feese		_	_	_	_	f
Net asset value, end of period	\$31.63	\$28.65	\$27.47	\$29.54	\$27.03	\$22.54
Total returng	10.40%	13.64%	(2.68)%	11.37%	21.31%	(26.55)%
Ratios to average net assets <sup>h</sup>						
Expenses <sup>i</sup>	1.00%	1.02%	1.01%	1.04%	1.12% <sup>j</sup>	1.02% <sup>j</sup>
Expenses incurred in connection with securities sold short	—%	—%k	—%k	0.02%	0.09%	—%k
Net investment income	1.94%	1.89%	2.11%	1.89% <sup>c</sup>	0.75% <sup>d</sup>	1.81%
Supplemental data						
Net assets, end of period (000's)	\$8,408,438	\$7,417,041	\$7,159,033	\$7,210,122	\$5,897,681	\$3,490,622
Portfolio turnover rate	13.58%	24.65%	33.60%	37.76%	37.26%	25.23%

aThe 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.

Includes dividend expense on securities sold short and borrowing fees, if any. See below for the ratios of such expenses to average net assets for the periods presented. See Note 1(f). Benefit of expense reduction rounds to less than 0.01%.

bBased on average daily shares outstanding.

Net investment income per share includes approximately \$0.05 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 1.71%.

<sup>&</sup>lt;sup>4</sup>Net investment income per share includes approximately \$(0.05) 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 0.95%.

eEffective September 1, 2008, the redemption fee was eliminated.

fAmount rounds to less than \$0.01 per share.

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

hRatios are annualized for periods less than one year.

kRounds to less than 0.01%.

	Six Months Ende		Year Ended December 31,			
Class A	(unaudited)	2012	2011	2010	2009	2008
Per share operating performance (for a share outstanding throughout the period)						
Net asset value, beginning of period	\$28.27	\$27.14	\$29.19	\$26.72	\$22.30	\$32.09
Income from investment operations <sup>a</sup> :						
Net investment income <sup>b</sup>	0.25	0.46	0.52	0.44c	0.11d	0.43
Net realized and unrealized gains (losses)	2.65	3.17	(1.44)	2.52	4.55	(8.99)
Total from investment operations	2.90	3.63	(0.92)	2.96	4.66	(8.56)
Less distributions from:						
Net investment income	_	(0.48)	(0.46)	(0.49)	(0.23)	(0.36)
Net realized gains		(2.02)	(0.67)	_	(0.01)	(0.87)
Total distributions		(2.50)	(1.13)	(0.49)	(0.24)	(1.23)
Redemption feese		_	_	_	_	f
Net asset value, end of period	\$31.17	\$28.27	\$27.14	\$29.19	\$26.72	\$22.30
Total returng	10.26%	13.34%	(2.99)%	11.08%	20.89%	(26.73)%
Ratios to average net assets <sup>h</sup>						
Expenses <sup>i</sup>	1.30%	1.32%	1.31%	1.34%	1.42% <sup>j</sup>	1.30% <sup>j</sup>
Expenses incurred in connection with securities sold short	—%	—% <sup>k</sup>	—% <sup>k</sup>	0.02%	0.09%	—% <sup>k</sup>
Net investment income	1.64%	1.59%	1.81%	1.59%⁰	0.45%d	1.53%
Supplemental data						
Net assets, end of period (000's)	\$9,054,871	\$7,977,279	\$7,617,500	\$8,122,714	\$7,259,737	\$5,900,616
Portfolio turnover rate	13.58%	24.65%	33.60%	37.76%	37.26%	25.23%

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.

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

Net investment income per share includes approximately \$0.05 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 1.41%.

<sup>4</sup>Net investment income per share includes approximately \$(0.05) 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 0.65%.

eEffective September 1, 2008, the redemption fee was eliminated.

fAmount rounds to less than \$0.01 per share.

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

hRatios are annualized for periods less than one year.

Includes dividend expense on securities sold short and borrowing fees, if any. See below for the ratios of such expenses to average net assets for the periods presented. See Note 1(f). Benefit of expense reduction rounds to less than 0.01%.

kRounds to less than 0.01%.

	Six Months Ended June 30, 2013 Year Ended December 31,					
Class C	(unaudited)	2012	2011	2010	2009	2008
Per share operating performance (for a share outstanding throughout the period)						
Net asset value, beginning of period	\$28.05	\$26.95	\$28.97	\$26.53	\$22.16	\$31.84
Income from investment operations <sup>a</sup> :						
Net investment income (loss) <sup>b</sup>	0.14	0.25	0.32	0.24℃	(0.06)d	0.23
Net realized and unrealized gains (losses)	2.64	3.14	(1.42)	2.49	4.51	(8.89)
Total from investment operations	2.78	3.39	(1.10)	2.73	4.45	(8.66)
Less distributions from:						
Net investment income	_	(0.27)	(0.25)	(0.29)	(0.07)	(0.15)
Net realized gains	_	(2.02)	(0.67)	_	(0.01)	(0.87)
Total distributions	_	(2.29)	(0.92)	(0.29)	(0.08)	(1.02)
Redemption feese	_	_	_	_	_	f
Net asset value, end of period	\$30.83	\$28.05	\$26.95	\$28.97	\$26.53	\$22.16
Total returng	9.91%	12.53%	(3.64)%	10.26%	20.07%	(27.27)%
Ratios to average net assets <sup>h</sup>						
Expenses <sup>i</sup>	2.00%	2.02%	2.01%	2.04%	2.12% <sup>j</sup>	2.01% <sup>j</sup>
Expenses incurred in connection with securities sold short	—%	—% <sup>k</sup>	—% <sup>k</sup>	0.02%	0.09%	—% <sup>k</sup>
Net investment income (loss)	0.94%	0.89%	1.11%	0.89%⁵	(0.25)% <sup>d</sup>	0.82%
Supplemental data						
Net assets, end of period (000's)	\$2,462,639	\$2,222,484	\$2,268,995	\$2,587,189	\$2,460,205	\$1,978,793
Portfolio turnover rate	13.58%	24.65%	33.60%	37.76%	37.26%	25.23%

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.

bBased on average daily shares outstanding.

Net investment income per share includes approximately \$0.05 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 0.71%.

Net investment income per share includes approximately \$(0.05) 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 (0.05)%.

eEffective September 1, 2008, the redemption fee was eliminated.

fAmount rounds to less than \$0.01 per share.

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

hRatios are annualized for periods less than one year.

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

Benefit of expense reduction rounds to less than 0.01%.

kRounds to less than 0.01%.

	Six Months Ended June 30, 2013 Year Ended December 31,					
Class R	(unaudited)	2012	2011	2010	2009	2008
Per share operating performance (for a share outstanding throughout the period)						
Net asset value, beginning of period	\$27.98	\$26.89	\$28.93	\$26.50	\$22.12	\$31.85
Income from investment operations <sup>a</sup> :						
Net investment income <sup>b</sup>	0.21	0.39	0.46	0.38c	0.06d	0.36
Net realized and unrealized gains (losses)	2.63	3.14	(1.42)	2.49	4.52	(8.92)
Total from investment operations	2.84	3.53	(0.96)	2.87	4.58	(8.56)
Less distributions from:						
Net investment income	_	(0.42)	(0.41)	(0.44)	(0.19)	(0.30)
Net realized gains	_	(2.02)	(0.67)	_	(0.01)	(0.87)
Total distributions	_	(2.44)	(1.08)	(0.44)	(0.20)	(1.17)
Redemption feese	_	_	_	_	_	f
Net asset value, end of period	\$30.82	\$27.98	\$26.89	\$28.93	\$26.50	\$22.12
Total returns	10.15%	13.09%	(3.17)%	10.84%	20.72%	(26.92)%
Ratios to average net assets <sup>h</sup>						
Expenses <sup>i</sup>	1.50%	1.52%	1.51%	1.54%	1.62%j	1.52% <sup>j</sup>
Expenses incurred in connection with securities sold short	—%	—% <sup>k</sup>	—% <sup>k</sup>	0.02%	0.09%	—% <sup>k</sup>
Net investment income	1.44%	1.39%	1.61%	1.39%⁰	0.25% <sup>d</sup>	1.31%
Supplemental data						
Net assets, end of period (000's)	\$488,274	\$458,142	\$434,893	\$422,042	\$335,702	\$206,858
Portfolio turnover rate	13.58%	24.65%	33.60%	37.76%	37.26%	25.23%
						/ •

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

bBased on average daily shares outstanding.

Net investment income per share includes approximately \$0.05 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 1.21%.

<sup>4</sup>Net investment income per share includes approximately \$(0.05) 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 0.45%.

eEffective September 1, 2008, the redemption fee was eliminated.

fAmount rounds to less than \$0.01 per share.

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

hRatios are annualized for periods less than one year.

Includes dividend expense on securities sold short and borrowing fees, if any. See below for the ratios of such expenses to average net assets for the periods presented. See Note 1(f). Benefit of expense reduction rounds to less than 0.01%.

kRounds to less than 0.01%.

Class R6	Period Ended June 30, 2013 <sup>a</sup> (unaudited)
Per share operating performance (for a share outstanding throughout the period)	
Net asset value, beginning of period	\$31.42
Income from investment operations <sup>b</sup> :	
Net investment income <sup>c</sup>	0.29
Net realized and unrealized gains (losses)	(0.04)
Total from investment operations	0.25
Net asset value, end of period	\$31.67
Total return <sup>d</sup>	0.80%
Ratios to average net assets <sup>e</sup>	
Expenses	0.85%
Net investment income	2.09%
Supplemental data	
Net assets, end of period (000's)	\$5
Portfolio turnover rate	13.58%

<sup>&</sup>lt;sup>a</sup>For the period May 1, 2013 (effective date) to June 30, 2013.

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

<sup>&</sup>lt;sup>c</sup>Based on average daily shares outstanding.

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

eRatios are annualized for periods less than one year.

### Statement of Investments, June 30, 2013 (unaudited)

	Country	Shares/Units	Value
Common Stocks and Other Equity Interests 87.2% Aerospace & Defense 1.3%			
Raytheon Co	United States	1,505,061	\$ 99,514,633
Safran SA	France	3,248,169	169,647,660
			269,162,293
At- C 0 10/			
Auto Components 0.1%	D!!	2.010.405	020 555
a,b International Automotive Components Group Brazil LLC	Brazil	3,819,425	838,555
a,b,c,d International Automotive Components Group  North America, LLC	United States	35,491,081	15,930,171
North America, LLC	Officed States	33,491,081	
			16,768,726
Automobiles 0.6%			
<sup>a</sup> General Motors Co	United States	3,781,830	125,972,757
Beverages 1.7%			
Coca-Cola Enterprises Inc.	United Kingdom	4,983,592	175,223,095
Dr. Pepper Snapple Group Inc	_	2,121,923	97,459,923
Pernod Ricard SA	France	643,618	71,369,230
			344,052,248
0 11111 1 1 100			
Capital Markets 1.6%	Heiter Cteter	7 402 000	100 020 166
Morgan Stanley	United States Switzerland	7,483,920	182,832,166
UBS AG	Switzeriand	8,005,099	136,235,373
			319,067,539
Chemicals 0.0%			
a,e,f Dow Corning Corp., Contingent Distribution	United States	11,430,153	
Commercial Banks 7.5%			
Barclays PLC	United Kingdom	19,032,051	80,589,828
BNP Paribas SA	France	3,078,332	168,190,078
<sup>a</sup> Capital Bank Financial Corp., A	United States	866,477	16,454,398
<sup>a,g</sup> Capital Bank Financial Corp., B, 144A, non-voting	United States	2,980,444	56,598,632
<sup>a</sup> CIT Group Inc	United States	2,388,674	111,383,869
HSBC Holdings PLC	United Kingdom	22,629,178	234,697,099
KB Financial Group Inc.	South Korea	5,111,638	153,026,978
PNC Financial Services Group Inc	United States	3,118,000	227,364,560
Societe Generale	France	2,629,310	90,352,449
SunTrust Banks Inc.	United States	2,597,346	81,998,213
Wells Fargo & Co	United States	7,620,708	314,506,619
			1,535,162,723
Communications Equipment 0.9%			
Cisco Systems Inc.	United States	7,847,650	190,776,372
	Jintod Otatos	,,5 ,,,000	
Computers & Peripherals 3.5%	United Otata	011 570	261 054 645
Apple Inc.	United States	911,570	361,054,645
Dell Inc.	United States	12,266,459	163,757,228
Hewlett-Packard Co	United States	7,397,210	183,450,808
			708,262,681

	Country	Shares/Units	Value
Common Stocks and Other Equity Interests (continued)			
Construction & Engineering 0.8%			
Vinci SA	France	3,281,974	\$ 164,706,240
Consumer Finance 0.0%†			
<sup>a</sup> Comdisco Holding Co. Inc	United States	929	4,599
Diversified Financial Services 4.1%			
Citigroup Inc.	United States	5,809,671	278,689,918
a ING Groep NV, IDR	Netherlands	29,029,616	264,504,789
JPMorgan Chase & Co.	United States	2,751,690	145,261,715
NYSE Euronext	United States	3,470,598	143,682,757
			832,139,179
Diversified Telecommunication Services 0.7%			
e,f Global Crossing Holdings Ltd., Contingent Distribution	United States	45,658,716	
e.f Marconi Corp., Contingent Distribution	United States United Kingdom	33,909,700	_
Vivendi SA	France	8,058,477	— 152,619,552
vivenui 3A	Trance	0,030,477	
			152,619,552
Electric Utilities 0.8%			
Exelon Corp.	United States	5,081,970	156,931,234
Electrical Equipment 0.6%			
Alstom SA	France	3,647,335	119,448,445
Energy Equipment & Services 2.0%			
Baker Hughes Inc.	United States	3,760,487	173,471,265
Ensco PLC, A	United States	1,364,410	79,299,509
Transocean Ltd	United States	3,123,804	149,786,402
			402,557,176
Food & Staples Retailing 4.7%			
CVS Caremark Corp.	United States	6,264,778	358,220,006
Koninklijke Ahold NV	Netherlands	11,414,989	169,904,889
Metro AG	Germany	7,814,516	247,377,311
Walgreen Co	United States	4,220,050	186,526,210
			962,028,416
Health Care Equipment & Supplies 2.1%			<del></del>
Medtronic Inc	United States	6,763,400	348,112,198
Stryker Corp.	United States	1,155,371	74,729,396
outhor corp.	Officer Otates	1,100,071	422,841,594
Health Care Providers & Services 2.3%	11-3-101	4 470 007	204.050.555
Cigna Corp.	United States	4,470,307	324,052,555
UnitedHealth Group Inc.	United States	227,665	14,907,504
WellPoint Inc.	United States	1,501,160	122,854,934
			461,814,993
Hotels, Restaurants & Leisure 0.9%			
Accor SA	France	5,478,324	192,782,806
Independent Power Producers & Energy Traders 1.0%			
NRG Energy Inc.	United States	7,323,147	195,528,025

	Country	Shares/Units	Value
Common Stocks and Other Equity Interests (continued)			
Industrial Conglomerates 3.0%			
Jardine Matheson Holdings Ltd	Hong Kong	4,224,266	\$ 255,568,09
Jardine Strategic Holdings Ltd	Hong Kong	9,774,205	354,803,64
			610,371,73
Insurance 8.5%			
ACE Ltd	United States	4,552,150	407,326,38
<sup>a</sup> Alleghany Corp	United States	81,228	31,135,50
<sup>a</sup> American International Group Inc	United States	8,245,065	368,554,40
China Pacific Insurance (Group) Co. Ltd., H	China	30,535,609	97,442,13
E-L Financial Corp. Ltd.	Canada	177,619	107,279,27
d Imagine Group Holdings Ltd	Bermuda	566,317	4,936,30
MetLife Inc	United States	4,082,420	186,811,53
<sup>b</sup> Olympus Re Holdings Ltd	United States	47,160	-
PartnerRe Ltd	Bermuda	1,813,630	164,242,33
PICC Property and Casualty Co. Ltd., H	China	16,319,233	18,431,84
RSA Insurance Group PLC	United Kingdom	16,916,055	30,627,73
White Mountains Insurance Group Ltd	United States	172,815	99,358,25
Zurich Insurance Group AG	Switzerland	813,000	210,811,24
			1,726,956,95
Internet Software & Services 0.5%			
<sup>a</sup> Google Inc., A	United States	114,173	100,514,48
Machinery 1.5%			
Caterpillar Inc.	United States	1,333,279	109,982,18
Fiat Industrial SpA	Italy	8,188,091	91,286,01
Schindler Holding AG, PC, non-voting	Switzerland	91,130	12,692,71
Schindler Holding AG, RS	Switzerland	57,411	7,777,53
Stanley Black & Decker Inc.	United States	1,116,076	86,272,67
		, , , , , ,	308,011,12
Marine 1.0%			
A.P. Moller-Maersk AS, B	Denmark	30,011	214,946,02
Media 4.4%		30,011	
British Sky Broadcasting Group PLC	United Kingdom	12,114,430	146,012,03
Comcast Corp., Special A	United States	1,094,160	43,405,32
Daekyo Co. Ltd.		2,077,440	13,165,84
Eutelsat Communications	France	1,605,888	45,589,53
Reed Elsevier PLC	United Kingdom	21,794,590	247,685,75
Time Warner Cable Inc.	United States	1,411,309	158,744,03
<sup>a</sup> Tribune Co., A	United States	989,868	56,323,48
<sup>a</sup> Tribune Co., B	United States	606,923	34,442,88
Twenty-First Century Fox Inc., B	United States	4,401,800	144,467,07
	54 0.4.00	., ,	889,835,98
Metals & Mining 2.1%			
Anglo American PLC	United Kingdom	8,179,884	157,557,37
Freeport-McMoRan Copper & Gold Inc., B	United States	3,621,030	99,976,63
<sup>a</sup> ThyssenKrupp AG	Germany	8,350,774	164,079,39
111,000 ирр Ла	acimany	0,000,774	
			421,613,41

	Country	Shares/Units	Value
Common Stocks and Other Equity Interests (continued)			
Multi-Utilities 0.7%			
GDF Suez	France	7,055,931	\$ 138,178,5
Multiline Retail 0.6%			
Kohl's Corp.	United States	2,501,430	126,347,2
		_,,	
Office Electronics 0.9%		10.610.707	177.007.0
Xerox Corp	United States	19,612,707	177,887,2
Oil, Gas & Consumable Fuels 8.0%			
Apache Corp	United States	3,653,751	306,293,9
BG Group PLC	United Kingdom	10,853,884	184,673,5
BP PLC	United Kingdom	31,838,677	220,501,0
CONSOL Energy Inc	United States	5,719,750	155,005,2
Marathon Oil Corp	United States	5,814,486	201,064,9
Murphy Oil Corp.	United States	1,168,040	71,121,9
Petroleo Brasileiro SA, ADR	Brazil	9,729,240	130,566,4
Royal Dutch Shell PLC, A	United Kingdom	10,353,688	330,789,9
WPX Energy Inc	United States	1,329,727	25,185,0
			1,625,201,9
Paper & Forest Products 0.2%			
NewPage Holdings Inc.	United States	583,268	51,035,9
	Officed States	303,200	
Personal Products 0.7%			
Avon Products Inc.	United States	7,066,850	148,615,8
Pharmaceuticals 5.5%			
Eli Lilly & Co	United States	1,800,450	88,438,1
Hospira Inc	United States	2,150,184	82,373,5
Merck & Co. Inc.	United States	9,354,960	434,537,8
Novartis AG, ADR	Switzerland	2,692,791	190,407,2
Pfizer Inc.	United States	4,397,537	123,175,0
Teva Pharmaceutical Industries Ltd., ADR	Israel	4,992,010	195,686,7
Zoetis Inc.	United States	597,824	18,466,7
		,	1,133,085,3
Deal Estate Management & Development 0 29/			
Real Estate Management & Development 0.2%  Canary Wharf Group PLC	United Kingdom	5,400,183	23,042,0
	Hong Kong	4,010,113	25,042,0 15,304,2
Great Eagle Holdings Ltd.		, ,	, ,
Swire Pacific Ltd., B	Hong Kong	3,193,835	7,544,0
			45,890,3
Software 3.8%			
<sup>3</sup> Check Point Software Technologies Ltd	Israel	4,768,670	236,907,5
Microsoft Corp.	United States	11,367,680	392,525,9
Symantec Corp	United States	6,923,850	155,578,9
			785,012,4
Specialty Retail 0.8%			
Kingfisher PLC	United Kingdom	32,521,663	169,674,5
		,,	
Tobacco 5.7%	11 11 101 1	4.045.045	1.40 560 1
Altria Group Inc.	United States	4,246,046	148,569,1
British American Tobacco PLC	United Kingdom	6,977,821	357,552,2

	Country	Shares/Units	Value
Common Stocks and Other Equity Interests (continued)			
Tobacco (continued)			
Imperial Tobacco Group PLC	United Kingdom	7,628,819	\$ 264,590,22
Lorillard Inc	United States	5,914,641	258,351,51
Philip Morris International Inc	United States	1,484,505	128,587,82
			1,157,650,93
Wireless Telecommunication Services 1.9%			
Vodafone Group PLC	United Kingdom	133,141,090	380,474,27
Total Common Stocks and Other Equity Interests (Cost \$14,530,934,644)			17,783,932,02
Preferred Stocks (Cost \$7,620,000) 0.0%†			
Diversified Financial Services 0.0%			
a,b Hightower Holding LLC, pfd., A, Series 2	United States	3,048,000	6,916,36
Fringitiower Holding LLO, pid., A, Jenes 2	Officed States	3,040,000	0,510,50
		Principal Amount*	
Corporate Bonds, Notes and Senior Floating Rate			
Interests 3.8%			
Avaya Inc.,			
gsenior note, 144A, 10.50%, 3/01/21	United States	74,335,000	56,680,43
gsenior secured note, 144A, 7.00%, 4/01/19	United States	46,964,000	42,619,83
h,i,j Tranche B-3 Term Loan, 4.70%, 10/26/17	United States	58,665,574	51,512,3
h,i,j Tranche B-5 Term Loan, 6.95%, 3/31/18	United States	19,935,038	18,726,4
ां। Caesars Entertainment Operating Co. Inc., Senior Tranche Term Loan,			
first lien 1/28/18,			
B5, 4.50%	United States	5,605,000	4,841,3
B6, 5.443%	United States	35,480,000	31,430,84
h,i Cengage Learning Acquisitions Inc., FRN, 2.70%, 7/03/14	United States	76,436,203	57,327,1
Clear Channel Communications Inc.,			
gsenior secured note, first lien, 144A, 9.00%, 12/15/19	United States	95,618,000	93,227,5
h,j Tranche B Term Loan, 3.845%, 1/29/16	United States	35,670,000	32,709,3
h.j Tranche C Term Loan, 3.845%, 1/29/16	United States	4,328,703	3,917,4
h.j Tranche D Term Loan, 6.945%, 1/30/19	United States	117,978,997	107,840,23
Energy Future Intermediate Holding Co. LLC/EFIH Finance Inc.,	11 11 101 1	10 401 000	10 446 6
second lien, 11.00%, 10/01/21	United States	12,481,000	13,448,2
h Hilton Worldwide Inc., FRN, 11/12/15,		16 545 101	16 007 0
Mezzanine F Loan, 4.443%	United States	16,545,181	16,297,0
Mezzanine G Loan, 4.693%	United States	29,780,962	29,334,2
h,j Texas Competitive Electric Holdings Co. LLC, Extended	United Ctates	140 205 612	100.054.0
Term Loan, 4.693%, 10/10/17	United States	142,325,613	100,054,9
Texas Competitive Electric Holdings Co. LLC/Texas Competitive			
Electric Holdings Finance Inc.,	United States	0E 202 000	0 500 00
senior note, A, 10.25%, 11/01/15	United States United States	85,292,000	8,529,20
gsenior secured note, 144A, 11.50%, 10/01/20	Officed States	118,132,000	88,894,3
gWind Acquisition Finance SA, 144A, 11.75%, 7/15/17,	ltalu	3 970 000	11106
senior secured note	Italy Italy	3,970,000 9,316,000 EUR	4,148,65 12,671,84
	italy	5,510,000 EUK	1∠,∪/1,0²
Total Corporate Bonds, Notes and Senior Floating			
Rate Interests (Cost \$817,929,343)			774,211,53

	Country	Principal Amount*	Value
Corporate Notes in Reorganization 0.7% g.k American Airlines Inc., senior secured note, 144A, 7.50%,			
3/15/16	United States	127,997,000	\$ 149,436,498
2/01/12	United States	8,893	
Total Corporate Notes in Reorganization (Cost \$132,482,020)			149,436,498
(665) \$152,162,625			1+3,+00,+30
Communica in Linuidation 1 20/		Shares	
Companies in Liquidation 1.2%  a Adelphia Recovery Trust	United States	45,477,593	63,669
a.e Adelphia Recovery Trust, Arahova Contingent Value Vehicle	United States	5,538,790	67,573
a,b AET&D Holdings No. 1 Pty. Ltd.	Australia	14,532,996	07,373 —
a,e,f Century Communications Corp., Contingent Distribution	United States	15,282,000	_
<sup>a,b</sup> FIM Coinvestor Holdings I, LLC	United States	30,279,560	_
a.I Lehman Brothers Holdings Inc., Bankruptcy Claim	United States	587,363,521	258,439,949
a,e,f NewPage Corp. Litigation Trust, Contingent Distribution	United States	145,817,000	_
<sup>a,e,f</sup> Tribune Litigation Trust, Contingent Distribution	United States	1,285,023	
Total Companies in Liquidation (Cost \$264,824,881)			258,571,191
		Principal Amount*	
Asset-Backed Securities 0.1%		i ilicipai Allioulit	
Airlines 0.1%	United Ctates	1 (44 45)	1 751 246
American Airlines Inc., first lien, 13.00%, 8/01/16  American Airlines Pass Through Trust,	United States	1,644,456	1,751,346
2009-1A, 10.375%, 7/02/19	United States	2,727,734	2,906,741
2011-2A, 8.625%, 4/15/23	United States	11,554,096	12,319,555
Total Asset-Backed Securities (Cost \$16,684,502)		,_,	16,977,642
			10,977,042
Total Investments before Short Term Investments			10 000 045 061
(Cost \$15,770,475,390)			18,990,045,261
Short Term Investments (Cost \$1,456,301,116) 7.2%			
U.S. Government and Agency Securities 7.2%			
<sup>m,n</sup> U.S. Treasury Bills, 7/05/13 - 11/29/13	United States	1,456,600,000	1,456,457,683_
Total Investments (Cost \$17,226,776,506)			
100.2%			20,446,502,944
Other Assets, less Liabilities (0.2)%			(32,277,412)
Net Assets 100.0%			\$20,414,225,532

 $<sup>^{\</sup>dagger}$ Rounds to less than 0.1% of net assets.

<sup>\*</sup>The principal amount is stated in U.S. dollars unless otherwise indicated.

<sup>&</sup>lt;sup>a</sup>Non-income producing.

 $<sup>{}^{\</sup>mathrm{b}}\mathrm{See}$  Note 10 regarding restricted securities.

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

dSee Note 12 regarding holdings of 5% voting securities.

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

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

'Security has been deemed illiquid because it may not be able to be sold within seven days. At June 30, 2013, the aggregate value of these securities was \$23,042,025, representing 0.11% of net assets.

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 \$504,277,776, representing 2.47% of net assets.

hThe coupon rate shown represents the rate at period end.

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

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

kSee Note 8 regarding credit risk and defaulted securities.

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

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

"Security or a portion of the security has been pledged as collateral for open futures contracts. At June 30, 2013, the value of this security and/or cash pledged as collateral was 13,937,729, representing 0.07% of net assets.

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

#### **Futures Contracts**

Description	Туре	Number of Contracts	Notional Value	Expiration Date	Unrealized Appreciation	Unrealized Depreciation
Currency Contracts						
EUR/USD	Short	4,421	\$719,683,538	9/16/13	\$15,468,387	\$ —
GBP/USD	Short	3,226	306,550,650	9/16/13	8,622,576	
Unrealized appreciation (depreciation)					24,090,963	_
Net unrealized appreciation (depreciation)					\$24,090,963	

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

#### **Forward Exchange Contracts**

Currency	Counterparty	Туре	Quantity	Contract Amount	Settlement Date	Unrealized Appreciation	Unrealized Depreciation
Euro	FBCO	Buy	53,362,594	\$ 70,300,736	7/17/13	\$ —	\$ (835,930)
Euro	BANT	Buy	16,901,747	22,276,689	7/17/13	_	(274,824)
Euro	DBFX	Buy	15,855,994	20,818,413	7/17/13	_	(177,859)
Euro	SCBT	Buy	10,481,364	13,771,150	7/17/13	_	(127,024)
Euro	BBU	Buy	12,445,501	16,280,059	7/17/13	_	(79,117)
Euro	FBCO	Buy	4,146,000	5,366,790	7/17/13	30,270	_
Euro	BBU	Sell	208,638,116	278,603,866	7/17/13	7,009,001	_
Euro	FBCO	Sell	14,216,184	19,295,037	7/17/13	789,106	_
Euro	BANT	Sell	11,371,350	15,366,023	7/17/13	563,357	_
Euro	HSBC	Sell	3,291,225	4,435,255	7/17/13	150,900	_
Euro	DBFX	Sell	168,738,196	220,681,862	7/17/13	1,026,757	_
Euro	SCBT	Sell	3,600,374	4,826,121	7/17/13	139,331	_
Euro	HAND	Sell	4,785,156	6,552,506	7/17/13	323,424	_
British Pound	BANT	Sell	15,398,569	23,266,747	7/19/13	_	(148,718)
British Pound	FBCO	Sell	5,441,122	8,239,011	7/19/13	_	(34,900)
British Pound	HSBC	Sell	3,192,905	4,827,960	7/19/13	_	(27,255)
British Pound	SCBT	Sell	2,196,585	3,317,985	7/19/13	_	(22,199)

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

Forward Exchange Contracts (continued)

Currency	Counterparty	Туре	Quantity	Contract Amount	Settlement Date	Unrealized Appreciation	Unrealized Depreciation
British Pound	DBFX	Sell	800,198	\$ 1,212,493	7/19/13	\$ —	\$ (4,310)
British Pound	HSBC	Sell	174,356,908	265,545,571	7/19/13	413,915	_
British Pound	BANT	Sell	35,651,740	54,789,496	7/19/13	576,531	_
British Pound	FBCO	Sell	36,261,756	55,619,953	7/19/13	479,382	_
British Pound	DBFX	Sell	20,259,097	31,186,728	7/19/13	380,217	_
British Pound	SCBT	Sell	8,253,253	12,828,186	7/19/13	278,074	_
British Pound	DBFX	Sell	13,536,209	20,708,085	8/12/13	127,997	_
South Korean Won	FBCO	Sell	8,576,766,814	7,447,893	8/12/13	_	(42,406)
South Korean Won	DBFX	Sell	6,564,756,719	5,702,603	8/12/13	_	(30,558)
South Korean Won	FBCO	Sell	79,858,796,191	71,334,815	8/12/13	1,592,187	_
South Korean Won	DBFX	Sell	35,639,104,559	31,877,714	8/12/13	753,218	_
South Korean Won	BANT	Sell	36,713,182,951	32,720,270	8/12/13	657,755	_
Swiss Franc	FBCO	Buy	83,466,105	89,300,323	8/12/13	_	(927,472)
Swiss Franc	DBFX	Buy	10,185,784	10,958,306	8/12/13	_	(173,608)
Swiss Franc	BBU	Buy	4,963,383	5,345,917	8/12/13	_	(90,692)
Swiss Franc	HSBC	Buy	1,600,723	1,726,572	8/12/13	_	(31,729)
Swiss Franc	SCBT	Buy	4,989,287	5,313,403	8/12/13	_	(30,750)
Swiss Franc	BANT	Buy	12,131,936	12,875,102	8/12/13	_	(29,819)
Swiss Franc	FBCO	Sell	1,732,105	1,833,439	8/12/13	_	(512)
Swiss Franc	FBCO	Buy	31,357,127	32,878,344	8/12/13	322,442	_
Swiss Franc	DBFX	Buy	38,955,155	40,712,437	8/12/13	533,245	_
Swiss Franc	BANT	Buy	6,223,773	6,490,067	8/12/13	99,658	_
Swiss Franc	SCBT	Buy	1,720,540	1,788,187	8/12/13	33,519	_
Swiss Franc	BBU	Buy	433,880	452,754	8/12/13	6,638	_
Swiss Franc	FBCO	Sell	168,960,010	184,819,385	8/12/13	5,924,682	_
Swiss Franc	DBFX	Sell	170,488,404	186,331,697	8/12/13	5,818,731	_
Swiss Franc	BANT	Sell	4,455,318	4,820,302	8/12/13	103,015	_
British Pound	BANT	Sell	17,556,874	26,611,359	8/19/13	_	(80,353)
British Pound	DBFX	Sell	3,052,392	4,618,635	8/19/13	_	(21,916)
British Pound	FBCO	Sell	70,542,616	109,044,074	8/19/13	1,798,146	_
British Pound	BANT	Sell	110,555,562	170,979,032	8/19/13	2,901,430	_
British Pound	SCBT	Sell	118,627,034	183,871,903	8/19/13	3,523,243	_
British Pound	DBFX	Sell	59,795,262	91,672,323	8/19/13	765,596	_
Euro	SCBT	Sell	22,540,772	28,962,413	8/30/13	_	(386,039)
Euro	FBCO	Sell	2,132,309	2,764,863	8/30/13	_	(11,438)
Euro	BANT	Sell	1,713,156	2,220,971	8/30/13	_	(9,586)
Euro	BANT	Sell	153,978,417	201,477,024	8/30/13	994,623	_
Euro	BBU	Sell	150,889,839	197,365,419	8/30/13	904,396	_
Euro	DBFX	Sell	7,983,379	10,448,576	8/30/13	54,087	_
Euro	FBCO	Sell	15,074,094	19,663,898	8/30/13	37,182	_
Euro	HSBC	Sell	6,177,156	8,075,149	8/30/13	32,391	_
Euro	SCBT	Sell	5,566,085	7,259,622	8/30/13	12,489	_
Euro	HAND	Sell	5,986,616	7,815,154	8/30/13	20,483	_
Canadian Dollar	SCBT	Sell	15,831,596	15,543,711	9/18/13	515,900	_
Canadian Dollar	DBFX	Sell	82,373,613	80,432,981	9/18/13	2,241,554	_
Euro	BANT	Sell	547,939	713,433	10/16/13	_	(163)
Euro	BANT	Sell	194,006,655	254,213,711	10/16/13	1,553,779	_

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

Forward Exchange Contracts (continued)

				Contract	Settlement	Unrealized	Unrealized
Currency	Counterparty	Туре	Quantity	Amount	Date	Appreciation	Depreciation
Euro	BBU	Sell	194,879,970	\$255,185,577	10/16/13	\$ 1,388,304	\$ —
Euro	DBFX	Sell	1,831,459	2,402,325	10/16/13	17,168	_
Euro	FBCO	Sell	6,484,347	8,538,229	10/16/13	93,495	_
British Pound	BANT	Sell	178,408,047	271,537,048	10/21/13	406,850	_
British Pound	FBCO	Sell	7,590,342	11,569,806	10/21/13	34,615	_
Euro	FBCO	Sell	177,393,375	228,440,392	11/18/13	_	(2,625,968)
Euro	DBFX	Sell	15,794,500	20,448,314	11/18/13	_	(125,046)
Euro	SCBT	Sell	12,642,193	16,369,029	11/18/13	_	(98,246)
Euro	BANT	Sell	6,851,889	8,896,466	11/18/13	_	(28,563)
Euro	BANT	Sell	6,425,200	8,371,554	11/18/13	2,315	_
Euro	HSBC	Sell	6,425,200	8,375,460	11/18/13	6,220	_
Euro	SCBT	Sell	4,656,133	6,070,061	11/18/13	5,145	_
British Pound	FBCO	Sell	139,556,361	211,707,000	11/21/13	_	(341,791)
British Pound	SCBT	Buy	11,366,233	17,462,853	11/21/13	_	(192,440)
British Pound	DBFX	Sell	111,496,891	169,252,280	11/21/13	_	(161,573)
British Pound	BANT	Sell	122,111,817	185,426,794	11/21/13	_	(115,899)
British Pound	SSBT	Buy	2,829,482	4,363,599	11/21/13	_	(64,344)
British Pound	HSBC	Buy	1,465,898	2,251,136	11/21/13	_	(23,777)
Unrealized appreciation (dep	reciation)					45,442,763	(7,376,824)
Net unrealized appreciation	(depreciation)					\$38,065,939	

See Abbreviations on page 51.

### **Financial Statements**

### Statement of Assets and Liabilities

June 30, 2013 (unaudited)

Assets:	
Investments in securities:	
Cost - Unaffiliated issuers	\$17,066,166,150
Cost - Non-controlled affiliated issuers (Note 12)	160,610,356
Total cost of investments	\$17,226,776,506
Value - Unaffiliated issuers	\$20,374,600,521
Value - Non-controlled affiliated issuers (Note 12)	71,902,423
Total value of investments	20,446,502,944
Cash	3,206,053
Restricted Cash (Note 1e)	10,690,000
Foreign currency, at value (cost \$26,105,405)	26,056,126
Receivables:	
Investment securities sold	29,822,874
Capital shares sold	40,224,559
Dividends and interest	60,321,913
Variation margin	2,590,575
Unrealized appreciation on forward exchange contracts	45,442,763
Other assets	1,059,763
Total assets	20,665,917,570
Liabilities:	
Payables:	470 404 406
Investment securities purchased	170,131,186
Capital shares redeemed	32,399,625
Affiliates	23,970,031
Due to brokers	10,690,000
Unrealized depreciation on forward exchange contracts	7,376,824
Accrued expenses and other liabilities	7,124,372
Total liabilities	251,692,038
Net assets, at value	\$20,414,225,532
Net assets consist of:	
Paid-in capital	\$16,041,540,059
Undistributed net investment income	168,253,286
Net unrealized appreciation (depreciation)	3,280,846,719
Accumulated net realized gain (loss)	923,585,468
Net assets, at value	\$20,414,225,532
	,,,

### Financial Statements (continued)

### Statement of Assets and Liabilities (continued)

June 30, 2013 (unaudited)

Class Z:	
Net assets, at value	\$8,408,437,525
Shares outstanding	265,804,990
Net asset value and maximum offering price per share	\$31.63
Class A:	
Net assets, at value	\$9,054,870,764
Shares outstanding	290,463,408
Net asset value per share <sup>a</sup>	\$31.17
Maximum offering price per share (net asset value per share ÷ 94.25%)	\$33.07
Class C:	
Net assets, at value	\$2,462,638,678
Shares outstanding	79,890,516
Net asset value and maximum offering price per share <sup>a</sup>	\$30.83
Class R:	
Net assets, at value	\$ 488,273,530
Shares outstanding	15,841,124
Net asset value and maximum offering price per share	\$30.82
Class R6:	
Net assets, at value	\$ 5,035
Shares outstanding	159
Net asset value and maximum offering price per share	\$31.67

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

### Financial Statements (continued)

### **Statement of Operations**

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

Investment income:	
Dividends (net of foreign taxes of \$11,238,912)	\$ 249,606,271
Interest	39,180,361
Income from securities loaned	144,308
Total investment income	288,930,940
Expenses:	
Management fees (Note 3a)	72,982,112
Administrative fees (Note 3b)	7,508,941
Distribution fees: (Note 3c)	
Class A	13,040,483
Class B	8,482
Class C	11,930,689
Class R	1,203,381
Transfer agent fees: (Note 3e)	
Class Z	6,147,816
Class A	6,574,457
Class B	1,298
Class C	1,804,395
Class R	364,080
Custodian fees (Note 4)	834,021
Reports to shareholders	986,763
Registration and filing fees	129,102
Professional fees	182,888
Trustees' fees and expenses	444,755
Other	158,889
Total expenses	124,302,552
Net investment income	164,628,388
Realized and unrealized gains (losses):	
Net realized gain (loss) from:	
Investments	781,047,228
Written options	760,734
Foreign currency transactions	(31,079,954)
Futures contracts	(7,473,250)
Net realized gain (loss)	743,254,758
Net change in unrealized appreciation (depreciation) on:	
Investments	757,552,065
Translation of other assets and liabilities denominated in foreign currencies	207,197,115
Net change in unrealized appreciation (depreciation)	964,749,180
Net realized and unrealized gain (loss)	1,708,003,938
Net increase (decrease) in net assets resulting from operations	\$1,872,632,326
Net morease (decrease) in het assets resulting nom operations	Ψ1,072,032,320

### 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	\$ 164,628,388	\$ 291,955,293
futures contracts and securities sold short	743,254,758	1,451,964,919
other assets and liabilities denominated in foreign currencies	964,749,180	470,701,010
Net increase (decrease) in net assets resulting from operations	1,872,632,326	2,214,621,222
Distributions to shareholders from:  Net investment income:		
Class Z	_	(139,002,935)
Class A	_	(128,442,097)
Class C	_	(20,244,527)
Class R	_	(6,559,914)
Net realized gains:		
Class Z	_	(489,534,243)
Class A	_	(536,717,158)
Class B	_	(790,263)
Class C	_	(151,736,225)
Class R		(31,523,552)
Total distributions to shareholders		(1,504,550,914)
Capital share transactions: (Note 2)		
Class Z	209,154,281	(25,440,581)
Class A	253,115,216	48,452,407
Class B	(7,791,204)	(40,766,815)
Class C	20,698,897	(141,067,734)
Class R	(15,933,621)	4,979,898
Class R6	5,000	
Total capital share transactions	459,248,569	(153,842,825)
Net increase (decrease) in net assets	2,331,880,895	556,227,483
Net assets:		
Beginning of period	18,082,344,637	17,526,117,154
End of period	\$20,414,225,532	\$18,082,344,637
Undistributed net investment income included in net assets:		
End of period	\$ 168,253,286	\$ 3,624,898

## 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 Global Discovery 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. Overthe-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,

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

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

### a. Financial Instrument Valuation (continued)

credit spreads, estimated default rates, anticipated market interest rate volatility, coupon rates, anticipated timing of principal repayments, underlying collateral, and other unique security features in order to estimate the relevant cash flows, which are then discounted to calculate the fair value. Securities denominated in a foreign currency are converted into their U.S. dollar equivalent at the foreign exchange rate in effect at the 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.

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

### 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

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

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

### d. Derivative Financial Instruments (continued)

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

Derivative counterparty credit risk is managed through a formal evaluation of the creditworthiness of all potential counterparties. The Fund attempts to reduce its exposure to counterparty credit risk on OTC derivatives, whenever possible, by entering into International Swaps and Derivatives Association (ISDA) master agreements with certain counterparties. These agreements contain various provisions, including but not limited to collateral requirements, events of default, or early termination. Termination events applicable to the counterparty include certain deteriorations in the credit quality of the counterparty. Termination events applicable to the Fund include failure of the Fund to maintain certain net asset levels and/or limit the decline in net assets over various periods of time. In the event of default or early termination, the ISDA master agreement gives the non-defaulting party the right to net and close-out all transactions traded, whether or not arising under the ISDA agreement, to one net amount payable by one counterparty to the other. 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 offset 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 OTC derivatives, if any, is held in segregated accounts with the Fund's custodian/ counterparty broker and can be in the form of cash and/or securities. Unrestricted cash may be invested according to the Fund's investment objectives.

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

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

### d. Derivative Financial Instruments (continued)

At June 30, 2013, the Fund received \$15,779,814 in U.S. Treasury Bills 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 option contracts primarily to manage exposure to equity price 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 11 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 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.

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

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

### f. Securities Sold Short (continued)

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.

### 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

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

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

### i. Income and Deferred Taxes (continued)

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

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

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

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

### k. Accounting Estimates

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

### 1. Guarantees and Indemnifications

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

#### 2. SHARES OF BENEFICIAL INTEREST

At 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	21,570,064	\$ 664,925,220	35,838,283	\$1,045,037,865
Shares issued in reinvestment of				
distributions	<u> </u>	_	20,207,742	588,402,069
Shares redeemed	(14,692,089)	(455,770,939)	(57,727,689)	(1,658,880,515)
Net increase (decrease)	6,877,975	\$ 209,154,281	(1,681,664)	\$ (25,440,581)
Class A Shares:				
Shares sold	31,577,490	\$ 965,875,437	45,025,798	\$1,299,390,618
Shares issued in reinvestment of				
distributions	_	_	22,347,099	642,432,714
Shares redeemed	(23,288,278)	(712,760,221)	(65,832,868)	(1,893,370,925)
Net increase (decrease)	8,289,212	\$ 253,115,216	1,540,029	\$ 48,452,407
Class B Sharesa:				
Shares sold	327	\$ 9,532	27,155	\$ 767,214
Shares issued in reinvestment of				
distributions	_	_	24,515	703,980
Shares redeemed	(263,544)	(7,800,736)	(1,492,359)	(42,238,009)
Net increase (decrease)	(263,217)	\$ (7,791,204)	(1,440,689)	\$ (40,766,815)
Class C Shares:				
Shares sold	6,320,860	\$ 191,835,861	6,835,643	\$ 195,370,937
Shares issued in reinvestment of				
distributions	_	_	5,472,763	156,094,260
Shares redeemed	(5,658,202)	(171,136,964)	(17,268,421)	(492,532,931)
Net increase (decrease)	662,658	\$ 20,698,897	(4,960,015)	\$ (141,067,734)

## 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 R Shares:				
Shares sold	1,613,980	\$ 48,747,924	3,364,735	\$ 95,615,574
Shares issued in reinvestment of				
distributions	_	_	1,309,620	37,260,903
Shares redeemed	(2,145,883)	(64,681,545)	(4,475,164)	(127,896,579)
Net increase (decrease)	(531,903)	\$ (15,933,621)	199,191	\$ 4,979,898
Class R6 Sharesb:				
Shares sold	159	\$ 5,000		

<sup>&</sup>lt;sup>a</sup>Effective March 22, 2013, all Class B shares were converted to Class A.

### 3. TRANSACTIONS WITH AFFILIATES

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

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

## a. Management Fees

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

Annualized Fee Rate	Net Assets
0.800%	Up to and including \$4 billion
0.770%	Over \$4 billion, up to and including \$7 billion
0.750%	Over \$7 billion, up to and including \$10 billion
0.730%	Over \$10 billion, up to and including \$13 billion
0.710%	Over \$13 billion, up to and including \$16 billion
0.690%	Over \$16 billion, up to and including \$19 billion
0.670%	Over \$19 billion, up to and including \$22 billion
0.650%	In excess of \$22 billion

<sup>&</sup>lt;sup>b</sup>For the period May 1, 2013 (effective date) to June 30, 2013.

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

### 3. Transactions with Affiliates (continued)

### b. Administrative Fees

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

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

#### c. Distribution Fees

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

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

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

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

### d. Sales Charges/Underwriting Agreements

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

Sales charges retained net of commissions paid to unaffiliated		
broker/dealers	\$3,	,240,417
CDSC retained	\$	60,784

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

### 3. Transactions with Affiliates (continued)

## e. Transfer Agent Fees

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

For the period ended June 30, 2013, the Fund paid transfer agent fees of \$14,892,046, of which \$5,891,449 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:

<sup>a</sup> Projected benefit obligation at June 30, 2013	\$902,015
bIncrease in projected benefit obligation	\$122,928
Benefit payments made to retired trustees	\$ 12,365

<sup>&</sup>lt;sup>a</sup>The projected benefit obligation is included in accrued expenses and other liabilities in the Statement of Assets and Liabilities.

#### 6. INCOME TAXES

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

Cost of investments	\$17,259,286,397
Unrealized engressisting	¢ 4 224 579 016
Unrealized appreciation	
Unrealized depreciation	
Net unrealized appreciation (depreciation)	\$ 3,187,216,547

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

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

#### 6. Income Taxes (continued)

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

#### 7. Investment Transactions

Purchases and sales of investments (excluding short term securities) for the period ended June 30, 2013, aggregated \$3,182,894,650 and \$2,425,105,791, 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	_	\$ —
Options written	2,934	825,861
Options expired	(2,712)	(594,484)
Options exercised	_	_
Options closed	(222)	(231,377)
Options outstanding at June 30, 2013	_	\$ —

See Notes 1(d) and 11 regarding derivative financial instruments and other derivative information, respectively.

### 8. CREDIT RISK AND DEFAULTED SECURITIES

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

At June 30, 2013, the aggregate value of distressed company securities for which interest recognition has been discontinued was \$149,436,498, representing 0.73% of the Fund's net assets. For information as to specific securities, see the accompanying Statement of Investments.

### 9. CONCENTRATION OF RISK

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

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

### 10. 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/Units/		Acquisition		
Shares	Issuer	Dates	Cost	Value
14,532,996	AET&D Holdings No. 1 Pty. Ltd	10/13/10	\$	\$ —
8,893	Broadband Ventures III LLC, secured promissory note, 5.00%, 2/01/12	7/01/10 - 11/30/12	8,893	_
30,279,560	FIM Coinvestor Holdings I, LLC	11/20/06 - 6/02/09	_	_
3,048,000	Hightower Holding LLC, pfd., A, Series 2	6/10/10 - 5/10/12	7,620,000	6,916,369
566,317	Imagine Group Holdings Ltd	8/31/04	5,799,936	4,936,302
3,819,425	International Automotive Components Group Brazil LLC	4/13/06 - 12/26/08	2,536,498	838,555
35,491,081	International Automotive Components Group North America, LLC	1/12/06 - 3/18/13	29,095,371	15,930,171
583,268	<sup>a</sup> NewPage Holdings Inc	5/05/11 - 8/16/11	125,715,049	51,035,950
47,160	Olympus Re Holdings Ltd	12/19/01	4,429,462	_
	<b>Total Restricted Securities</b> (Value is 0.39% of Net Assets)		\$175,205,209	\$79,657,347

<sup>&</sup>lt;sup>a</sup>The Fund also invests in unrestricted securities or other investments in the issuer, valued at \$- as of June 30, 2013.

#### 11. 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 Derivativ	es	Liability Derivativ	es
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
Foreign exchange contracts	Unrealized appreciation on forward exchange contracts / Net assets consist of - net unrealized appreciation (depreciation)	\$69,533,726ª	Unrealized depreciation on forward exchange contracts	\$7,376,824

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

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

### 11. OTHER DERIVATIVE INFORMATION (continued)

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
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	\$(36,817,787)	\$207,992,273
Equity contracts	Net realized gain (loss) from written options	760,734	

For the period ended June 30, 2013, the average month end market value of derivatives represented 0.52% of average month end net assets. The average month end number of open derivative contracts for the period was 166.

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

### 12. HOLDINGS OF 5% VOTING SECURITIES OF PORTFOLIO COMPANIES

The 1940 Act defines "affiliated companies" to include investments in portfolio companies in which a fund owns 5% or more of the outstanding voting securities. 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)
Non-Controlled Affiliates							
Imagine Group Holdings Ltd	566,317	_	_	566,317	\$ 4,936,302	\$	\$
International Automotive Components Group North							
America, LLC	26,272,706	9,218,375	_	35,491,081	15,930,171	_	_
NewPage Holdings Inc	583,268	_	_	583,268	51,035,950	_	_
Total Affiliated Securi	ties (Value is 0.35% (	of Net Assets	s)		\$71,902,423	\$	\$—

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

### 13. CREDIT FACILITY

The Fund, together with other U.S. registered and foreign investment funds (collectively, Borrowers), managed by Franklin Templeton Investments, are borrowers in a joint syndicated senior unsecured credit facility totaling \$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.

#### 14. FAIR VALUE MEASUREMENTS

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

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

The 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.

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

### 14. FAIR VALUE MEASUREMENTS (continued)

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: <sup>a</sup>				
Auto Components	\$ —	\$ —	\$16,768,726	\$ 16,768,726
Diversified Financial Services	832,139,179	_	6,916,369	839,055,548
Insurance	1,722,020,652	_	4,936,302b	1,726,956,954
Media	855,393,106	34,442,880	_	889,835,986
Paper & Forest Products	_	51,035,950	_	51,035,950
Real Estate Management & Development	22,848,316	_	23,042,025	45,890,341
All Other Equity Investments <sup>c</sup>	14,221,304,887	_	b	14,221,304,887
Corporate Bonds, Notes and Senior Floating Rate Interests	_	774,211,538	_	774,211,538
Corporate Notes in Reorganization	_	149,436,498		149,436,498
Companies in Liquidation	_	258,571,191	b	113,100,130
Asset-Backed Securities		16.977.642		16,977,642
Short Term Investments	1,456,457,683	- / - / -	_	
Total Investments in Securities	\$19,110,163,823		\$51,663,422	\$20,446,502,944
Futures Contracts	\$ 24,090,963	\$ —	\$ —	\$ 24,090,963
Forward Exchange Contracts		45,442,763	_	45,442,763
Liabilities:				
Forward Exchange Contracts	_	7,376,824	_	7,376,824

alncludes common and preferred stocks as well as other equity investments.

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.

## 15. 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.

blncludes securities determined to have no value at June 30, 2013.

<sup>&</sup>lt;sup>c</sup>For detailed categories, see the accompanying Statement of Investments.

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

### 16. Subsequent Events

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

### **ABBREVIATIONS**

## 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. SCBT - Standard Chartered Bank SSBT - State Street Bank and Trust Co., N.A.

## Currency

EUR - Euro GBP - British Pound **USD** - United States Dollar

### Selected Portfolio

ADR - American Depositary Receipt

FRN - Floating Rate Note

IDR - International Depositary Receipt - Participation Certificate

RS - Registered Shares

## **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.

## **Shareholder Information** (continued)

## **Board Review of Investment Management Agreement** (continued)

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 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

## **Shareholder Information** (continued)

## **Board Review of Investment Management Agreement** (continued)

trustees discussed with management various other products, portfolios and entities that are advised by the investment manager and the allocation of assets and expenses among and within them, as well as their relative fees and reasons for differences with respect thereto and any potential conflicts.

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

## **Shareholder Information** (continued)

## **Board Review of Investment Management Agreement** (continued)

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.

The comparable funds to the Fund, as chosen by Lipper, included all retail and institutional global large-cap value funds. The Fund had total returns in the second-lowest 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 best performing quintile. The trustees noted that the Fund's total return on an annualized basis for the 10-year period ended December 31, 2012, was also in the best performing quintile and exceeded 10%, as shown in the Lipper Section 15(c) Report. The Board was satisfied with such comparative performance.

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

## **Shareholder Information** (continued)

### **Board Review of Investment Management Agreement** (continued)

Lipper contractual management fee analysis includes administrative charges as being part of the management fee, and total expenses, for comparative consistency, are shown by Lipper for Fund Class A shares.

The Fund's contractual management fee rate was in the second-most expensive quintile of its Lipper expense group and its total expenses were in the middle quintile of such group. The Board noted that the Fund's contractual management fee rate was within 4.9 basis points of its expense group median. The Board found such comparative fees and expenses to be acceptable in view of factors relating to the Fund's operations, such as the quality and experience of its portfolio managers.

The trustees also reviewed the Profitability Study addressing profitability of Franklin Resources, Inc., from its overall U.S. fund business, as well as profitability to the Fund's investment manager and its affiliates, from providing investment management and other services to the Fund during the 12-month period ended September 30, 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.

## **Shareholder Information** (continued)

## **Board Review of Investment Management Agreement** (continued)

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

The trustees noted that breakpoints had been instituted as part of the Fund's investment management fee in 2004, with additional breakpoints being added as deemed appropriate by the Board. The trustees assessed the savings to shareholders resulting from such breakpoints and believed they were, and continue to be, appropriate and they agreed to continue to monitor the appropriateness of the breakpoints. The trustees also considered the effects an increase in assets under management would have on the investment management fee and expense 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.

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# Franklin Templeton Funds

Literature Request. To receive a summary prospectus and/or prospectus, please call us at (800) DIAL BEN/342-5236 or visit franklintempleton.com. 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
Franklin MidCap Value Fund
Franklin Small Cap Value Fund
Mutual Beacon Fund
Mutual Quest Fund
Mutual Recovery Fund<sup>2</sup>
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<sup>3</sup>
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<sup>4</sup>

#### **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 Funds
Franklin LifeSmart™ 2020 Retirement Target Funds
Franklin LifeSmart™ 2025 Retirement Target Funds
Franklin LifeSmart™ 2030 Retirement Target Funds
Franklin LifeSmart™ 2040 Retirement Target Funds
Franklin LifeSmart™ 2045 Retirement Target Funds
Franklin LifeSmart™ 2045 Retirement Target Funds
Franklin LifeSmart™ 2050 Retirement Target Funds
Franklin LifeSmart™ 2050 Retirement Target Funds
Franklin LifeSmart™ 2050 Retirement Target Funds
Franklin Templeton Global Allocation Fund
Franklin Templeton Multi-Asset Real Return Fund

#### **FIXED INCOME**

Franklin Adjustable U.S. Government Securities Fund<sup>6</sup>
Franklin Floating Rate Daily Access Fund
Franklin High Income Fund
Franklin Limited Maturity U.S. Government
Securities Fund<sup>6</sup>
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<sup>6</sup>
Templeton Emerging Markets Bond Fund
Templeton Global Bond Fund
Templeton Global Total Return Fund

### TAX-FREE INCOME<sup>7</sup>

#### National

Double Tax-Free Income Fund<sup>8</sup> Federal Tax-Free Income Fund High Yield Tax-Free Income Fund Insured Tax-Free Income Fund<sup>9, 10</sup>

Templeton International Bond Fund

#### 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

otato opoomio		
Alabama	Kentucky	New York
Arizona	Louisiana	(2 funds)
California	Maryland	North Carolina
(4 funds)10	Massachusetts	Ohio
Colorado	Michigan	Oregon
Connecticut	Minnesota	Pennsylvania
Florida	Missouri	Tennessee
Georgia	New Jersev	Virginia

#### **INSURANCE FUNDS**

Franklin Templeton Variable Insurance Products Trust<sup>11</sup>

- 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.
- 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 INCOM



### < GAIN FROM OUR PERSPECTIVE® >

# Semiannual Report and Shareholder Letter MUTUAL GLOBAL DISCOVERY 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.