



**Annual Report
and Shareholder Letter**

December 31, 2018

Franklin Mutual European Fund

A SERIES OF FRANKLIN MUTUAL SERIES FUNDS



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Franklin Templeton

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

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

Dear Franklin Mutual European Fund Shareholder:

Investors started 2018 seemingly with the wind at their back. The primary tailwinds were strong corporate earnings growth in most developed markets, healthy consumer and business investment spending, and the positive effect of major U.S. tax cuts. In addition, the global economy continued its steady expansion since the financial crisis of 2008–2009. Unemployment continued to decline in the U.S. and other developed markets, while U.S. wage growth showed some signs of accelerating. As a result, equity markets rose to new highs. However, volatility and market downturns soon made their mark on 2018. As measured by the EURO STOXX 50® Volatility (VSTOXX) Index, volatility reached a record low in December 2017, but the VSTOXX surged in February 2018 to its highest level since the summer of 2016 and moved higher again in October and December. U.S. trade tensions with Europe and China, the possibility of Brexit without an agreement, Italy's budget disagreement with the European Commission, and a growing belief that corporate earnings and economic growth will likely decelerate in 2019 hindered equity markets. Despite European central banks keeping rates low, a flattening U.S. Treasury yield curve, wider credit spreads and growing market concern that the U.S. Federal Reserve may raise interest rates too quickly were also important drivers of European market turbulence. For the period ended December 31, 2018, European stocks, as measured by the MSCI Europe (Net Dividends) Index (EURO), had a -10.57% total return.¹ Global developed markets, as measured by the MSCI World Index (USD), had a -8.20% total return, while

investment-grade bonds, as measured by the Bloomberg Barclays Global Aggregate Bond Index, had a -1.20% total return.¹

The return of volatility is a reminder that securities markets are dynamic. We believe active, professional investment management serves investors well since market volatility is more the norm than uninterrupted positive returns. Valuation is an essential factor in our analysis and we always ask ourselves if current and potential investments represent an attractive balance of risk and reward. We remain committed to a bottom-up stock-picking process that is disciplined and driven by rigorous fundamental analysis that attempts to limit downside risk. In our view, investing in underappreciated and misunderstood companies with identifiable catalysts for unlocking shareholder value can offer significant upside potential as well as a degree of downside protection.

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

On the following pages, the Fund's portfolio management team reviews investment decisions that pertain to performance during the past 12 months in light of the economic environment

1. Source: Morningstar.
See www.franklintempletondatasources.com for additional data provider information.

Not FDIC Insured | May Lose Value | No Bank Guarantee

and other factors. Please remember all securities markets fluctuate, as do mutual fund share prices.

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

Sincerely,



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

This letter reflects our analysis and opinions as of December 31, 2018, unless otherwise indicated. The information is not a complete analysis of every aspect of any market, country, industry, security or fund. Statements of fact are from sources considered reliable.

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

Annual Report

Franklin Mutual European Fund

This annual report for Franklin Mutual European Fund covers the fiscal year ended December 31, 2018.

Your Fund's Goal and Main Investments

The Fund seeks capital appreciation, which may occasionally be short term, with income as a secondary goal, by investing at least 80% of its net assets in securities of European companies that the investment manager believes are available at market prices less than their intrinsic value. The equity securities in which the Fund invests are primarily common stock, with a focus on mid- and large cap companies. To a lesser extent, the Fund also invests in merger arbitrage securities and the debt and equity of distressed companies. The Geographic Composition bar chart on this page lists the leading European countries where the Fund invests.

Performance Overview

The Fund's Class Z shares had a -11.12% cumulative total return for the 12 months ended December 31, 2018. For comparison, the Fund's benchmark, the MSCI Europe (Net Dividends) Index, which tracks equity performance in Europe's developed markets, had a -10.59% total return in local currency terms.¹ Also for comparison, the MSCI Europe (Net Dividends) Index had a -14.86% total return in U.S. dollar terms.¹ You can find more of the Fund's performance data in the Performance Summary beginning on page 8.

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

Economic and Market Overview

The global economy expanded during the 12 months under review, despite weakness in certain regions. Global developed and emerging market stocks were aided at certain points during the period by higher crude oil prices, upbeat economic data, easing trade tensions and encouraging corporate earnings

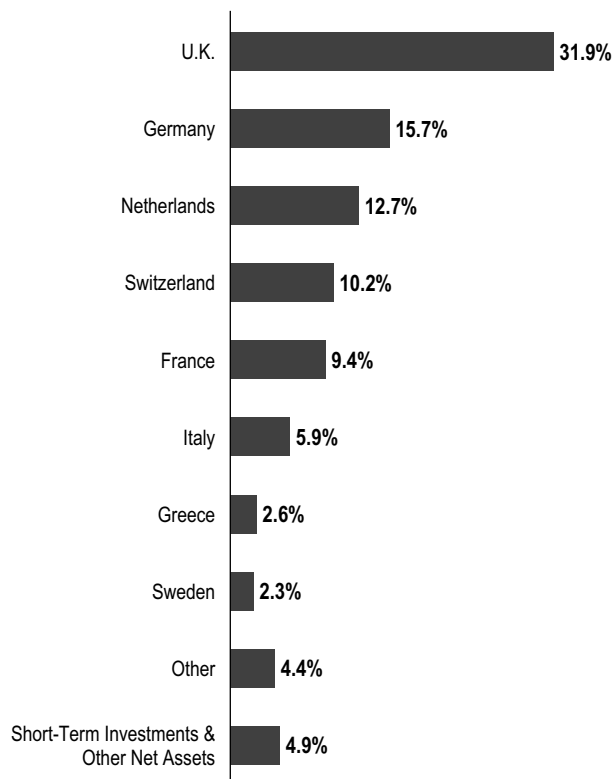
1. Source: Morningstar.

The index is unmanaged and includes reinvestment of any income or distributions (after the deduction of certain withholding taxes). It does not reflect any fees, expenses or sales charges. One cannot invest directly in an index, and an index is not representative of the Fund's portfolio.

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

Geographic Composition*

Based on Total Net Assets as of 12/31/18



*Figures are stated as a percentage of total and may not equal 100% or may be negative due to rounding, use of any derivatives, unsettled trades or other factors.

reports, as well as indications of a slower pace of interest-rate increases from the U.S. Federal Reserve (Fed).

However, various factors weighed on global markets during the period, including concerns about tighter regulation of technology companies, political uncertainties in the U.S. and the European Union, and major central banks' interest-rate path and unwinding of monetary stimulus measures. Markets were further pressured by U.S. trade disputes with its allies and China, and their impact on global growth and corporate earnings. In this environment, global stocks, as measured by the MSCI All Country World Index, had a -8.93% total return for the 12 months ended December 31, 2018.¹

In Europe, the U.K.'s quarterly economic growth moderated in 2018's first quarter, but accelerated in 2018's second and third quarters. The Bank of England raised its key policy rate once during the review period. After moderating in 2018's first quarter, the eurozone's quarterly growth remained stable in the second quarter, but eased in the third quarter. The bloc's annual inflation rate ended the period higher than in December 2017. The European Central Bank (ECB) kept its benchmark interest rate unchanged during the period. In December 2018, the ECB confirmed its plan to conclude its bond purchase program at the end of 2018 and reiterated it expects key interest rates to remain unchanged through the summer of 2019.

Investment Strategy

We follow a distinctive value investment approach that combines investments in what we believe are undervalued common stocks with, to a lesser extent, distressed debt investing and merger arbitrage. Our style aims to provide our shareholders with superior risk-adjusted results over time. We employ rigorous, fundamental analysis to find compelling situations. In our opinion, successful investing is as much about assessing risk and containing losses as it is about achieving profits. In choosing investments, we look at the market price of an individual company's securities relative to our evaluation of its intrinsic value based on factors including book value, cash flow generation, long-term earnings potential and earnings multiples. We may invest in bankrupt or distressed companies if we believe the market overreacted to adverse developments or failed to appreciate positive changes. In addition, it is our practice to hedge the Fund's currency exposure when we deem it advantageous for our shareholders.

What is meant by "hedge"?

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

Manager's Discussion

In 2018, corporate profits in developed markets continued their impressive year-over-year growth. Labor markets showed further improvement, consumer spending was solid, and U.S. corporate tax reforms encouraged companies to buy back more stock, raise dividends and increase capital expenditures. Those positive fundamentals were periodically overshadowed by political and economic concerns, particularly in the final three months of the year.

With the decline in European equity markets, particularly in the fourth quarter, we have seen increasingly attractive valuations

Top 10 Sectors/Industries

Based on Equity Securities as of 12/31/18

	% of Total Net Assets
Insurance	12.4%
Banks	9.9%
Oil, Gas & Consumable Fuels	7.1%
Pharmaceuticals	6.1%
Diversified Telecommunication Services	5.5%
Construction Materials	5.0%
Trading Companies & Distributors	3.7%
Auto Components	3.7%
Automobiles	3.6%
Electric Utilities	3.5%

(e.g., price-to-earnings, price-to-book or price-to-sales) compared to U.S. equity markets, which reached historically high levels in 2018. The sell-off and rise in volatility yielded an opportunity to seek out stocks with strong corporate fundamentals and valuations whose risk/reward profiles seemed to us to have become more favorable. In addition to offering attractive valuation opportunities, Europe's equity markets have seen an increase in investor activism, which we view as encouraging.

In 2019, policy events may have considerable influence, for better or worse, on economic growth, investor sentiment and financial market performance and volatility. Markets are likely to be particularly sensitive to developments in U.S.-China trade relations, monetary policy moves by European and other major central banks, in particular the Fed, oil production decisions by OPEC (The Organization of the Petroleum Exporting Countries) and other oil producing countries, the outcome of Brexit, China's response to its slowing economy and potential political discord in Washington, D.C.

From an investment standpoint, we anticipate 2019 will be a year of resolution and clarity. The biggest political event will likely be Brexit. With the looming March 29, 2019 Article 50 deadline, how the situation will be resolved remained unclear. The uncertainty around the terms and timing of a deal continued to undermine consumer and corporate confidence. From our perspective, we believe the European Union and the U.K. will ultimately reach an agreement that makes sense for both sides, and we believe the approval of such an agreement would likely have a significantly positive effect on investor, consumer and corporate sentiment in the U.K. We will also pay close attention to structural reform efforts in France and the political transition in Germany. In December, Chancellor Angela Merkel stepped down as leader of the Christian

Top 10 Equity Holdings

12/31/18

Company Sector/Industry, Country	% of Total Net Assets
Enel SpA <i>Electric Utilities, Italy</i>	3.5%
Accor SA <i>Hotels, Restaurants & Leisure, France</i>	3.5%
NN Group NV <i>Insurance, Netherlands</i>	3.5%
Novartis AG <i>Pharmaceuticals, Switzerland</i>	3.5%
LafargeHolcim Ltd. <i>Construction Materials, Switzerland</i>	3.2%
GlaxoSmithKline PLC <i>Pharmaceuticals, U.K.</i>	3.0%
Koninklijke KPN NV <i>Diversified Telecommunication Services, Netherlands</i>	2.9%
Hellenic Telecommunications Organization SA <i>Diversified Telecommunication Services, Greece</i>	2.6%
Royal Dutch Shell PLC <i>Oil, Gas & Consumable Fuels, U.K.</i>	2.6%
Standard Chartered PLC <i>Banks, U.K.</i>	2.6%

Democratic Union but stated her intention to remain in office for the remaining three years of her term as Chancellor.

In all market environments, we seek to invest prudently in securities that we believe represent good value. We do this by seeking securities that trade at a discount to our estimate of intrinsic value, taking into account the quality of the asset, the sustainability of returns, and the growth potential of the business. We also believe the potential to deliver the best risk-adjusted return over a full market cycle requires us to be focused on applying our cross-asset approach: owning equities and debt—in certain cases multiple securities across the capital structure of a company—across geographies and sectors with an emphasis on corporate actions as catalysts.

Investment Spotlight

Our insurance industry positions are a good example of our investment process. The Top 10 Sectors/Industries table on page 4 lists insurance and also other leading industries in which the Fund currently invests. The insurance industry has been an area of significant interest for Mutual Series since the Great Recession. We were able to find quality insurers trading at discounts to intrinsic value during the post-crisis period of

financial services recapitalization, followed by the restructuring of the financial services industry in Europe. During the past 10 years, insurance industry trends have provided investment opportunities for value investors. With interest rates at secular low levels, insurers have focused on operational efficiencies, cash flow from underwriting, and rational capital structures to maintain acceptable profitability. Life insurance businesses have mainly focused on improving returns through cost savings and capital rationalization, while property casualty businesses have emphasized better underwriting and capital management.

After several years of equity market outperformance, insurers were hurt by increased natural catastrophe losses around the globe in both 2017 and 2018, jitters regarding global economic growth prospects and a widening of credit spreads. Despite these headwinds, we think valuations at year-end remained attractive, and our holdings have idiosyncratic catalysts that provide attractive return potential. In addition, the large natural catastrophe losses suffered by property and casualty insurers should present an opportunity for them to increase premiums as they adjust risk profiles.

Mutual Series has owned the Netherlands-based NN Group since its 2014 initial public offering (IPO). NN Group was spun out of ING Groep² and consists of life insurance, other insurance and asset management operations in Europe and Japan. The initial investment case revolved around the rationalization of capital and cost efficiencies. In 2017, NN Group acquired Dutch insurer Delta Lloyd at an attractive internal rate of return with the potential for significant synergies from the combined company. Since the IPO, the company has returned a significant amount of capital to shareholders and lowered expenses, while maintaining one of the strongest balance sheets in the industry. We expect additional progress on the integration of Delta Lloyd to generate increased cash flow in the future. NN Group is listed among the Fund's largest positions in the Top 10 Equity Holdings table on this page.

Mergers and Acquisitions

Elsewhere, merger and acquisition activity (M&A) remained healthy in 2018. Since many European M&A transactions involve approval from the U.S. Department of Justice (DOJ), we were encouraged by greater clarity regarding the regulatory environment when a federal judge ruled in favor of AT&T² and Time Warner², and against the DOJ, in its antitrust lawsuit. However, economic, financial market and geopolitical

2. Not a Fund holding.

uncertainty that arose in the second half of the year caused the pace of activity to slow. In our view, it was notable that health care has become one of the busier sectors for M&A as it is relatively more insulated from economic uncertainty. The strength and path of M&A activity in 2019 will likely depend in large part on how the uncertainties carrying over from 2018 play out and how they affect equity markets. From our experience, ups and downs in equity market performance and levels of deal activity have tended to move in a similar direction.

Credit Markets

Finding mispriced risk in credit markets remains difficult as we have seen few large corporate bankruptcies in Europe and with the continued low interest-rate environment, we do not anticipate this will change in the near future.

Fund Performance

Turning to Fund performance, top positive contributors included France-based automaker Peugeot, Finland-based global communications and information technology company Nokia and U.K.-based pay-TV provider Sky³.

Shares of Peugeot rallied through the first three quarters of 2018. Positive global economic fundamentals and quarterly results which showed its restructuring of Opel Vauxhall (OV), acquired from General Motors² in 2017, was going better than investors had been expecting, helped push the stock price higher. We believe the acquisition should enable Peugeot to increase its profit margins and cash flow through additional product development improvements, greater vehicle production efficiency and the utilization of better powertrains (engine, transmission, drive shaft and differential) in its Opel and Vauxhall vehicles. However, shares of Peugeot and other major automakers retreated in the last quarter of 2018 due to signs of slower global economic growth and passenger vehicle sales, as well as U.S.-China trade tensions.

Nokia announced solid fourth-quarter and full-year 2017 results in February 2018, particularly better-than-expected profits for 2017 and significant improvement in cash flow. Management also issued a new earnings target for 2020 that was higher than many investors had anticipated. In August, Nokia announced a larger-than-expected network equipment agreement with T-Mobile² as part of T-Mobile's effort to deploy a 5G network in the U.S. Nokia also announced a large loan from the

European Investment Bank to support research and development efforts in 5G technology. In our view, Nokia is serious about further cost cutting and cash flow improvement related to its acquisition of Alcatel in 2016, and it remains on course to reach its 2020 earnings target.

In February 2018, shares of Sky jumped when U.S.-based cable company Comcast² made a surprise bid for the company. The Comcast bid was considerably higher than a prior bid by Twenty-First Century Fox², which already owned a substantial portion of Sky. In July 2018, Twenty-First Century Fox raised its bid for Sky, but Comcast promptly offered a higher counter-bid. The stock rose again in September 2018 when The Panel on Takeovers and Mergers in the U.K. announced that Comcast had won the mandatory auction for Sky, and Twenty-First Century Fox subsequently agreed to sell its stake of Sky to Comcast. The acquisition of Sky was officially completed in October 2018.

During the period under review, Fund investments that detracted from performance included Germany-based global auto parts supplier Schaeffler, France-based electrical equipment distributor Rexel and U.K.-based global mobile telecommunications company Vodafone Group.

In January 2018, Schaeffler provided investors with an upbeat initial estimate for fourth-quarter and full-year 2017 revenues. However, final results released in February fell considerably short of its initial estimates. In addition, management downgraded its outlook for 2018, stating that increased expenses related to an acceleration of its production efficiency program would hurt 2018 earnings. In the latter stages of 2018, shares of automakers and suppliers, including Schaeffler, were hurt by signs of broad slowdown in global economic growth and passenger vehicle sales, as well as escalating trade tensions between the U.S. and China. In October, Schaeffler issued a profit warning, which cited softer auto sales in China as the primary driver. Following its missteps in early 2018, management has taken steps to repair its credibility and improve communication with investors. We also believe Schaeffler's ongoing efficiency and investment program has been improving profitability and its positioning for increasing electric vehicle production by automakers.

Rexel is a distributor of low voltage electrical equipment headquartered in Paris. In April 2018, shares of Rexel dropped in response to slightly weaker-than-expected quarterly revenue

3. Not held at period-end.

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

and earnings, although free cash flow showed significant improvement. In our view, the results were negatively affected by investments in digital technology and bonus accruals and other one-off factors. In September 2018, the offices of Rexel and three other electrical goods companies in France were searched by French police on suspicion of cartel pricing and corruption. All companies denied wrongdoing, and Rexel had previously stated that it relies on a legal method of obtaining price quotations from suppliers and uses the information to propose prices to final customers. In the final quarter of 2018, Rexel followed the general decline in European equity markets, driven by signs of softening global economic growth and geopolitical events in Europe. Nonetheless, we believe the positive catalysts for Rexel remain in place, as its reorganization efforts and branch openings in the U.S. have begun to produce positive results.

In May 2018, Vodafone Group provided an outlook for its fiscal year ending March 2019 that fell short of market expectations, with much of the growth forecast to come in the latter part of the year. The stock came under further downward pressure from weaker-than-expected revenue growth due in part to price cuts in Spain and a new mobile competitor in Italy. Management stated that conditions in those two markets were likely to experience further short-term deterioration, leading to uncertainty regarding Vodafone's ability to meet its earnings growth guidance for the fiscal year. However, we balanced the negative near-term events against the positive announcements of a merger of Vodafone's operations in India with Idea Cellular², which closed at the end of August 2018, and the August announcement of a merger and deconsolidation of its Australian subsidiary. In addition, we believed the newly appointed chief executive officer's statements regarding the likely initial public offering of Vodafone's New Zealand business and the announcement of a three-year net cost cutting plan and multi-brand strategy to improve competitiveness across all market segments as positive for 2019.

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

What is a currency forward?

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

What is a future?

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

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

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



Katrina Dudley, CFA
Co-Portfolio Manager



Mandana Hormozi
Co-Portfolio Manager

The foregoing information reflects our analysis, opinions and portfolio holdings as of December 31, 2018, the end of the reporting period. The way we implement our main investment strategies and the resulting portfolio holdings may change depending on factors such as market and economic conditions. These opinions may not be relied upon as investment advice or an offer for a particular security. The information is not a complete analysis of every aspect of any market, country, industry, security or the Fund. Statements of fact are from sources considered reliable, but the investment manager makes no representation or warranty as to their completeness or accuracy. Although historical performance is no guarantee of future results, these insights may help you understand our investment management philosophy.

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Performance Summary as of December 31, 2018

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

Performance as of 12/31/18

*Cumulative total return excludes sales charges. Average annual total return includes maximum sales charges. Sales charges will vary depending on the size of the investment and the class of share purchased. The maximum is 5.50% and the minimum is 0%. **Class A:** 5.50% maximum initial sales charge. For other share classes, visit franklintempleton.com.*

Share Class	Cumulative Total Return ¹	Average Annual Total Return ²
Z		
1-Year	-11.12%	-11.12%
5-Year	-2.70%	-0.55%
10-Year	+78.32%	+5.95%
A³		
1-Year	-11.29%	-16.16%
5-Year	-3.98%	-1.92%
10-Year	+73.39%	+5.06%

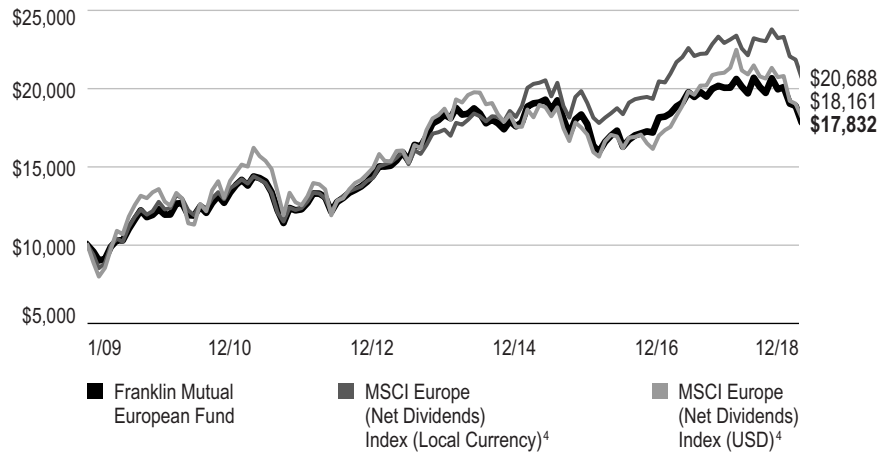
Performance data represent past performance, which does not guarantee future results. Investment return and principal value will fluctuate, and you may have a gain or loss when you sell your shares. Current performance may differ from figures shown. For most recent month-end performance, go to franklintempleton.com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

See page 10 for Performance Summary footnotes.

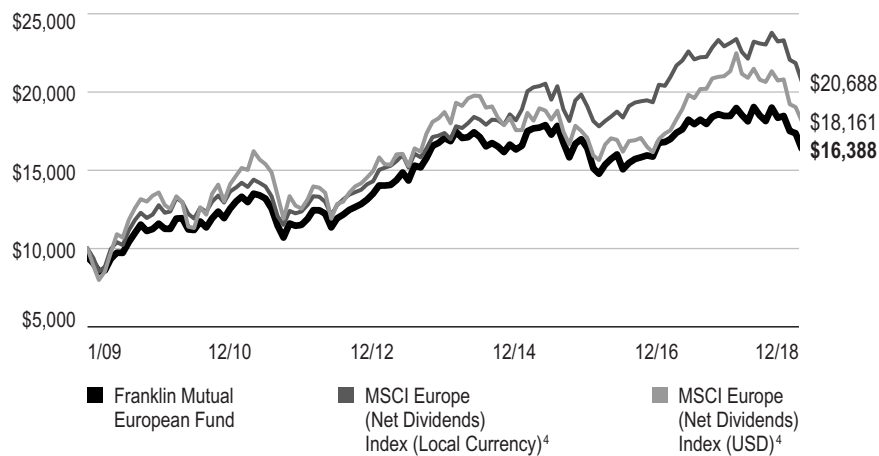
Total Return Index Comparison for a Hypothetical \$10,000 Investment

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

Class Z (1/1/09–12/31/18)



Class A (1/1/09–12/31/18)



See page 10 for Performance Summary footnotes.

Distributions (1/1/18–12/31/18)

Share Class	Net Investment Income
Z	\$0.7273
A	\$0.6784
C	\$0.3900
R	\$0.6304
R6	\$0.7548

Total Annual Operating Expenses⁵

Share Class	
Z	1.04%
A	1.29%

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

All investments involve risks, including possible loss of principal. Value securities may not increase in price as anticipated or may decline further in value. Special risks are associated with foreign investing, including currency fluctuations, economic instability and political developments. Because the Fund may invest its assets in companies in a specific region, including Europe, it is subject to greater risks of adverse developments in that region and/or the surrounding regions than a fund that is more broadly diversified geographically. Current political and financial uncertainty surrounding the European Union may increase market volatility and the economic risk of investing in companies in Europe. The Fund's investments in smaller company stocks carry an increased risk of price fluctuation, especially 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 is actively managed but there is no guarantee that the manager's investment decisions will produce the desired results. The Fund's prospectus also includes a description of the main investment risks.

1. Cumulative total return represents the change in value of an investment over the periods indicated.
2. Average annual total return represents the average annual change in value of an investment over the periods indicated. Return for less than one year, if any, has not been annualized.
3. Prior to 9/10/18, these shares were offered at a higher initial sales charge of 5.75%, thus actual returns would have differed. Total returns with sales charges have been restated to reflect the current maximum initial sales charge of 5.50%.
4. Source: Morningstar. The MSCI Europe Index (Local Currency and U.S. Dollar) is a market capitalization-weighted index designed to measure equity market performance of developed markets in Europe. The Net Dividends Index reflects the deduction of withholding taxes on reinvested dividends.
5. Figures are as stated in the Fund's current prospectus and may differ from the expense ratios disclosed in the Your Fund's Expenses and Financial Highlights sections in this report. In periods of market volatility, assets may decline significantly, causing total annual Fund operating expenses to become higher than the figures shown. See www.franklintempletondatasources.com for additional data provider information.

Your Fund's Expenses

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

Actual Fund Expenses

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

Hypothetical Example for Comparison with Other Funds

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

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

Share Class	Beginning Account Value 7/1/18	Actual (actual return after expenses)		Hypothetical (5% annual return before expenses)		Net Annualized Expense Ratio ²
		Ending Account Value 12/31/18	Expenses Paid During Period 7/1/18–12/31/18 ^{1,2}	Ending Account Value 12/31/18	Expenses Paid During Period 7/1/18–12/31/18 ^{1,2}	
Z	\$1,000	\$904.00	\$5.04	\$1,019.91	\$ 5.35	1.05%
A	\$1,000	\$903.10	\$6.24	\$1,018.65	\$ 6.61	1.30%
C	\$1,000	\$899.90	\$9.82	\$1,014.87	\$10.41	2.05%
R	\$1,000	\$902.20	\$7.43	\$1,017.39	\$ 7.88	1.55%
R6	\$1,000	\$905.30	\$4.42	\$1,020.57	\$ 4.69	0.92%

1. Expenses are equal to the annualized expense ratio for the six-month period as indicated above—in the far right column—multiplied by the simple average account value over the period indicated, and then multiplied by 184/365 to reflect the one-half year period.

2. Reflects expenses after fee waivers and expense reimbursements. Does not include acquired fund fees and expenses.

Financial Highlights

	Year Ended December 31,				
	2018	2017	2016	2015	2014
Class Z					
Per share operating performance					
(for a share outstanding throughout the year)					
Net asset value, beginning of year	\$20.93	\$19.20	\$19.48	\$20.86	\$24.76
Income from investment operations ^a :					
Net investment income ^b	0.49	0.35	0.63 ^c	0.42	0.73 ^d
Net realized and unrealized gains (losses)	(2.80)	1.65	(0.17)	(0.27)	(1.73)
Total from investment operations	(2.31)	2.00	0.46	0.15	(1.00)
Less distributions from:					
Net investment income	(0.73)	(0.27)	(0.47)	(0.46)	(0.67)
Net realized gains	—	—	(0.27)	(1.07)	(2.23)
Total distributions	(0.73)	(0.27)	(0.74)	(1.53)	(2.90)
Net asset value, end of year	\$17.89	\$20.93	\$19.20	\$19.48	\$20.86
Total return	(11.12)%	10.45%	2.40%	0.82%	(4.00)%
Ratios to average net assets					
Expenses ^e	1.04% ^{f,g}	1.04% ^f	1.06% ^{f,g}	1.05%	1.04% ^f
Expenses incurred in connection with securities sold short	—% ^h	—%	—%	—% ^h	0.01%
Net investment income	2.38%	1.75%	3.42% ^c	1.93%	2.93% ^d
Supplemental data					
Net assets, end of year (000's)	\$958,149	\$1,328,622	\$1,175,972	\$1,355,780	\$1,128,769
Portfolio turnover rate	35.42%	17.33%	16.43%	32.59%	54.05%

^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's shares in relation to income earned and/or fluctuating fair value of the investments of the Fund.

^bBased on average daily shares outstanding.

^cNet investment income per share includes approximately \$0.17 per share related to a nonrecurring distribution. The amount, although initially recorded as dividend income, is subject to recharacterization once the issuer provides information regarding the actual composition of the distribution. Excluding this amount, the ratio of net investment income to average net assets would have been 2.50%.

^dNet investment income per share includes approximately \$0.29 per share related to income received in the form of a special dividend in connection with certain Fund holdings. Excluding this amount, the ratio of net investment income to average net assets would have been 1.74%.

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

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

^gBenefit of waiver and payments by affiliates rounds to less than 0.01%.

^hRounds to less than 0.01%.

FRANKLIN MUTUAL EUROPEAN FUND
FINANCIAL HIGHLIGHTS

	Year Ended December 31,				
	2018	2017	2016	2015	2014
Class A					
Per share operating performance (for a share outstanding throughout the year)					
Net asset value, beginning of year	\$20.33	\$18.66	\$18.95	\$20.33	\$24.21
Income from investment operations ^a :					
Net investment income ^b	0.41	0.31	0.57 ^c	0.35	0.61 ^d
Net realized and unrealized gains (losses)	(2.69)	1.58	(0.18)	(0.26)	(1.66)
Total from investment operations	(2.28)	1.89	0.39	0.09	(1.05)
Less distributions from:					
Net investment income	(0.68)	(0.22)	(0.41)	(0.40)	(0.60)
Net realized gains	—	—	(0.27)	(1.07)	(2.23)
Total distributions	(0.68)	(0.22)	(0.68)	(1.47)	(2.83)
Net asset value, end of year	\$17.37	\$20.33	\$18.66	\$18.95	\$20.33
Total return ^e	(11.29)%	10.14%	2.12%	0.57%	(4.31)%
Ratios to average net assets					
Expenses ^f	1.29% ^{g,h}	1.29% ^g	1.31% ^{g,h}	1.33%	1.34% ^g
Expenses incurred in connection with securities sold short	—% ⁱ	—%	—%	—% ⁱ	0.01%
Net investment income	2.13%	1.50%	3.17% ^c	1.65%	2.63% ^d
Supplemental data					
Net assets, end of year (000's)	\$564,038	\$714,915	\$769,297	\$1,033,307	\$843,836
Portfolio turnover rate	35.42%	17.33%	16.43%	32.59%	54.05%

^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's shares in relation to income earned and/or fluctuating fair value of the investments of the Fund.

^bBased on average daily shares outstanding.

^cNet investment income per share includes approximately \$0.17 per share related to a nonrecurring distribution. The amount, although initially recorded as dividend income, is subject to recharacterization once the issuer provides information regarding the actual composition of the distribution. Excluding this amount, the ratio of net investment income to average net assets would have been 2.25%.

^dNet investment income per share includes approximately \$0.29 per share related to income received in the form of a special dividend in connection with certain Fund holdings. Excluding this amount, the ratio of net investment income to average net assets would have been 1.44%.

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

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

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

^hBenefit of waiver and payments by affiliates rounds to less than 0.01%.

ⁱRounds to less than 0.01%.

FRANKLIN MUTUAL EUROPEAN FUND
FINANCIAL HIGHLIGHTS

	Year Ended December 31,				
	2018	2017	2016	2015	2014
Class C					
Per share operating performance					
(for a share outstanding throughout the year)					
Net asset value, beginning of year	\$20.38	\$18.70	\$18.97	\$20.37	\$24.25
Income from investment operations ^a :					
Net investment income ^b	0.29	0.15	0.44 ^c	0.19	0.43 ^d
Net realized and unrealized gains (losses)	(2.72)	1.60	(0.19)	(0.25)	(1.64)
Total from investment operations	(2.43)	1.75	0.25	(0.06)	(1.21)
Less distributions from:					
Net investment income	(0.39)	(0.07)	(0.25)	(0.27)	(0.44)
Net realized gains	—	—	(0.27)	(1.07)	(2.23)
Total distributions	(0.39)	(0.07)	(0.52)	(1.34)	(2.67)
Net asset value, end of year.	\$17.56	\$20.38	\$18.70	\$18.97	\$20.37
Total return ^e	(11.96)%	9.37%	1.32%	(0.16)%	(4.97)%
Ratios to average net assets					
Expenses ^f	2.04% ^{g,h}	2.04% ^g	2.06% ^{g,h}	2.05%	2.04% ^g
Expenses incurred in connection with securities sold short	—% ⁱ	—%	—%	—% ⁱ	0.01%
Net investment income	1.38%	0.75%	2.42% ^c	0.93%	1.93% ^d
Supplemental data					
Net assets, end of year (000's)	\$78,149	\$179,123	\$209,196	\$291,752	\$216,258
Portfolio turnover rate	35.42%	17.33%	16.43%	32.59%	54.05%

^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's shares in relation to income earned and/or fluctuating fair value of the investments of the Fund.

^bBased on average daily shares outstanding.

^cNet investment income per share includes approximately \$0.17 per share related to a nonrecurring distribution. The amount, although initially recorded as dividend income, is subject to recharacterization once the issuer provides information regarding the actual composition of the distribution. Excluding this amount, the ratio of net investment income to average net assets would have been 1.50%.

^dNet investment income per share includes approximately \$0.29 per share related to income received in the form of a special dividend in connection with certain Fund holdings. Excluding this amount, the ratio of net investment income to average net assets would have been 0.74%.

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

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

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

^hBenefit of waiver and payments by affiliates rounds to less than 0.01%.

ⁱRounds to less than 0.01%.

FRANKLIN MUTUAL EUROPEAN FUND
FINANCIAL HIGHLIGHTS

	Year Ended December 31,				
	2018	2017	2016	2015	2014
Class R					
Per share operating performance (for a share outstanding throughout the year)					
Net asset value, beginning of year	\$19.97	\$18.35	\$18.62	\$20.04	\$23.95
Income from investment operations ^a :					
Net investment income ^b	0.35	0.22	0.52 ^c	0.27	0.41 ^d
Net realized and unrealized gains (losses)	(2.64)	1.60	(0.18)	(0.23)	(1.49)
Total from investment operations	(2.29)	1.82	0.34	0.04	(1.08)
Less distributions from:					
Net investment income	(0.63)	(0.20)	(0.34)	(0.39)	(0.60)
Net realized gains	—	—	(0.27)	(1.07)	(2.23)
Total distributions	(0.63)	(0.20)	(0.61)	(1.46)	(2.83)
Net asset value, end of year	\$17.05	\$19.97	\$18.35	\$18.62	\$20.04
Total return	(11.54)%	9.92%	1.86%	0.37%	(4.52)%
Ratios to average net assets					
Expenses ^e	1.54% ^{f,g}	1.54% ^f	1.56% ^{f,g}	1.55%	1.54% ^f
Expenses incurred in connection with securities sold short	—% ^h	—%	—%	—% ^h	0.01%
Net investment income	1.88%	1.25%	2.92% ^c	1.43%	2.43% ^d
Supplemental data					
Net assets, end of year (000's)	\$731	\$821	\$626	\$997	\$421
Portfolio turnover rate	35.42%	17.33%	16.43%	32.59%	54.05%

^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's shares in relation to income earned and/or fluctuating fair value of the investments of the Fund.

^bBased on average daily shares outstanding.

^cNet investment income per share includes approximately \$0.17 per share related to a nonrecurring distribution. The amount, although initially recorded as dividend income, is subject to recharacterization once the issuer provides information regarding the actual composition of the distribution. Excluding this amount, the ratio of net investment income to average net assets would have been 2.00%.

^dNet investment income per share includes approximately \$0.29 per share related to income received in the form of a special dividend in connection with certain Fund holdings. Excluding this amount, the ratio of net investment income to average net assets would have been 1.24%.

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

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

^gBenefit of waiver and payments by affiliates rounds to less than 0.01%.

^hRounds to less than 0.01%.

FRANKLIN MUTUAL EUROPEAN FUND
FINANCIAL HIGHLIGHTS

	Year Ended December 31,				
	2018	2017	2016	2015	2014
Class R6					
Per share operating performance					
(for a share outstanding throughout the year)					
Net asset value, beginning of year	\$20.91	\$19.19	\$19.47	\$20.85	\$24.75
Income from investment operations ^a :					
Net investment income ^b	0.56	0.41	0.66 ^c	0.46	0.75 ^d
Net realized and unrealized gains (losses)	(2.85)	1.62	(0.17)	(0.28)	(1.71)
Total from investment operations	(2.29)	2.03	0.49	0.18	(0.96)
Less distributions from:					
Net investment income	(0.75)	(0.31)	(0.50)	(0.49)	(0.71)
Net realized gains	—	—	(0.27)	(1.07)	(2.23)
Total distributions	(0.75)	(0.31)	(0.77)	(1.56)	(2.94)
Net asset value, end of year	\$17.87	\$20.91	\$19.19	\$19.47	\$20.85
Total return	(10.94)%	10.63%	2.53%	0.98%	(3.88)%
Ratios to average net assets					
Expenses before waiver and payments by affiliates ^e	0.92%	0.88%	0.89%	0.89%	0.89%
Expenses net of waiver and payments by affiliates ^e	0.91% ^f	0.88% ^f	0.89% ^{f,g}	0.89%	0.89% ^f
Expenses incurred in connection with securities sold short	—% ^h	—%	—%	—% ^h	0.01%
Net investment income	2.51%	1.91%	3.59% ^c	2.09%	3.08% ^d
Supplemental data					
Net assets, end of year (000's)	\$149,796	\$294,660	\$311,784	\$373,904	\$334,396
Portfolio turnover rate	35.42%	17.33%	16.43%	32.59%	54.05%

^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's shares in relation to income earned and/or fluctuating fair value of the investments of the Fund.

^bBased on average daily shares outstanding.

^cNet investment income per share includes approximately \$0.17 per share related to a nonrecurring distribution. The amount, although initially recorded as dividend income, is subject to recharacterization once the issuer provides information regarding the actual composition of the distribution. Excluding this amount, the ratio of net investment income to average net assets would have been 2.67%.

^dNet investment income per share includes approximately \$0.29 per share related to income received in the form of a special dividend in connection with certain Fund holdings. Excluding this amount, the ratio of net investment income to average net assets would have been 1.89%.

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

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

^gBenefit of waiver and payments by affiliates rounds to less than 0.01%.

^hRounds to less than 0.01%.

Statement of Investments, December 31, 2018

	Country	Shares	Value
Common Stocks 91.1%			
Auto Components 1.9%			
Cie Generale des Etablissements Michelin SCA	France	342,111	\$ 33,985,600
Automobiles 1.0%			
Peugeot SA	France	807,802	17,257,430
Banks 9.9%			
AIB Group PLC	Ireland	6,137,609	25,801,548
Barclays PLC	United Kingdom	13,780,463	26,451,685
HSBC Holdings PLC	United Kingdom	2,444,399	20,165,294
ING Groep NV	Netherlands	2,355,324	25,395,050
Societe Generale SA	France	271,029	8,639,362
Standard Chartered PLC	United Kingdom	5,861,827	45,546,970
UniCredit SpA	Italy	1,948,691	22,073,595
			174,073,504
Biotechnology 0.9%			
Shire PLC	United Kingdom	266,629	15,538,851
Capital Markets 3.2%			
Credit Suisse Group AG	Switzerland	2,572,571	28,136,077
Deutsche Bank AG	Germany	3,582,241	28,570,277
			56,706,354
Chemicals 1.6%			
BASF SE	Germany	407,471	28,383,062
Commercial Services & Supplies 1.2%			
G4S PLC	United Kingdom	8,137,683	20,438,643
Communications Equipment 1.6%			
Nokia OYJ, A	Finland	1,913,359	11,027,403
Nokia OYJ, ADR	Finland	3,051,032	17,757,006
			28,784,409
Construction Materials 5.0%			
HeidelbergCement AG	Germany	500,319	30,669,794
LafargeHolcim Ltd., B	Switzerland	1,372,438	56,664,895
			87,334,689
Diversified Telecommunication Services 5.5%			
Hellenic Telecommunications Organization SA	Greece	4,197,398	45,785,283
Koninklijke KPN NV	Netherlands	17,390,589	51,010,908
			96,796,191
Electric Utilities 3.5%			
Enel SpA	Italy	10,642,224	61,698,280
Electrical Equipment 1.9%			
Osram Licht AG	Germany	764,465	33,269,875
Health Care Equipment & Supplies 1.0%			
Koninklijke Philips NV	Netherlands	488,612	17,316,210
Hotels, Restaurants & Leisure 3.5%			
Accor SA	France	1,439,660	61,215,259
Household Durables 2.6%			
Husqvarna AB, B	Sweden	2,085,623	15,489,208
JM AB	Sweden	1,249,153	24,477,791
^{a,b} Neinor Homes SA, 144A	Spain	334,815	4,987,203
			44,954,202

FRANKLIN MUTUAL EUROPEAN FUND
STATEMENT OF INVESTMENTS

	Country	Shares	Value
Common Stocks (continued)			
Insurance 12.4%			
ASR Nederland NV	Netherlands	916,601	\$ 36,317,347
Direct Line Insurance Group PLC	United Kingdom	10,995,115	44,686,584
Lancashire Holdings Ltd.	United Kingdom	4,178,619	32,239,141
NN Group NV	Netherlands	1,526,383	60,862,748
RSA Insurance Group PLC	United Kingdom	6,461,913	42,323,486
			<u>216,429,306</u>
Machinery 3.4%			
CNH Industrial NV, special voting	United Kingdom	833,461	7,530,886
CNH Industrial NV	United Kingdom	2,753,906	24,883,412
Vossloh AG	Germany	558,342	27,151,664
			<u>59,565,962</u>
Marine 1.4%			
A.P. Moeller-Maersk AS, B	Denmark	19,498	24,527,891
Media 2.0%			
^a Liberty Global PLC, C	United Kingdom	1,675,100	34,574,064
Metals & Mining 1.1%			
thyssenkrupp AG	Germany	1,110,929	19,084,324
Oil, Gas & Consumable Fuels 7.1%			
BP PLC	United Kingdom	5,708,169	36,101,898
^a Cairn Energy PLC	United Kingdom	11,686,571	22,354,948
Royal Dutch Shell PLC, A (EUR Traded)	United Kingdom	458,553	13,479,394
Royal Dutch Shell PLC, A (GBP Traded)	United Kingdom	1,095,418	32,234,200
Saras SpA	Italy	10,256,302	19,900,372
			<u>124,070,812</u>
Pharmaceuticals 6.5%			
GlaxoSmithKline PLC	United Kingdom	2,789,992	53,055,959
Novartis AG	Switzerland	703,087	60,251,061
			<u>113,307,020</u>
Road & Rail 0.0%			
^{a,c,d,e} Euro Wagon LP	Jersey Islands	16,127,149	—
Semiconductors & Semiconductor Equipment 1.8%			
BE Semiconductor Industries NV	Netherlands	1,500,194	31,762,245
Software 0.8%			
^a Avast PLC	United Kingdom	4,021,611	14,565,108
Specialty Retail 2.5%			
Dufry AG	Switzerland	347,239	33,092,041
Hornbach Holding AG & Co. KGaA	Germany	213,786	10,089,856
			<u>43,181,897</u>
Tobacco 1.6%			
British American Tobacco PLC	United Kingdom	881,269	28,095,956
Trading Companies & Distributors 3.7%			
Kloeckner & Co. SE	Germany	3,031,653	20,928,314
Roxel SA	France	4,154,655	44,271,752
			<u>65,200,066</u>
Wireless Telecommunication Services 2.5%			
Vodafone Group PLC	United Kingdom	22,564,874	43,998,281
Total Common Stocks (Cost \$1,812,156,431)			<u>1,596,115,491</u>

FRANKLIN MUTUAL EUROPEAN FUND
STATEMENT OF INVESTMENTS

	Country	Shares	Value
Preferred Stocks 4.4%			
Auto Components 1.8%			
^f Schaeffler AG, 7.398%, pfd.	Germany	3,633,679	\$ 30,954,926
Automobiles 2.6%			
^f Volkswagen AG, 2.845%, pfd.	Germany	285,343	45,501,501
Total Preferred Stocks (Cost \$90,946,579)			<u>76,456,427</u>
Total Investments before Short Term Investments (Cost \$1,903,103,010)			<u>1,672,571,918</u>
		Principal Amount	
Short Term Investments 2.5%			
U.S. Government and Agency Securities 2.5%			
^g FHLB, 1/02/19	United States	\$ 5,500,000	5,500,000
^g U.S. Treasury Bill, 1/02/19	United States	21,000,000	21,000,000
1/03/19 - 4/25/19	United States	12,500,000	12,458,805
^h 5/09/19	United States	5,000,000	4,956,118
Total U.S. Government and Agency Securities (Cost \$43,911,304)			<u>43,914,923</u>
Total Investments (Cost \$1,947,014,314) 98.0%			1,716,486,841
Securities Sold Short (0.4)%			(7,562,155)
Other Assets, less Liabilities 2.4%			<u>41,938,389</u>
Net Assets 100.0%			<u>\$1,750,863,075</u>
		Shares	
ⁱ Securities Sold Short (Proceeds \$9,077,678) (0.4)%			
Common Stocks (0.4)%			
Pharmaceuticals (0.4)%			
Takeda Pharmaceutical Co. Ltd.	Japan	223,701	<u>(7,562,155)</u>

^aNon-income producing.

^bSecurity 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. This security has been deemed liquid under guidelines approved by the Trust's Board of Trustees. At December 31, 2018, the value of this security was \$4,987,203, representing 0.3% of net assets.

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

^dFair valued using significant unobservable inputs. See Note 13 regarding fair value measurements.

^eSee Note 9 regarding restricted securities.

^fVariable rate security. The rate shown represents the yield at period end.

^gThe security was issued on a discount basis with no stated coupon rate.

^hA portion or all of the security has been segregated as collateral for securities sold short. At December 31, 2018, the value of this security pledged amounted to \$2,250,078, representing 0.1% of net assets.

ⁱSee Note 1(d) regarding securities sold short.

FRANKLIN MUTUAL EUROPEAN FUND
STATEMENT OF INVESTMENTS

At December 31, 2018, the Fund had the following futures contracts outstanding. See Note 1(c).

Futures Contracts

Description	Type	Number of Contracts	Notional Amount*	Expiration Date	Value/Unrealized Appreciation (Depreciation)
Currency Contracts					
EUR/USD	Short	3,017	\$434,542,281	3/18/19	\$ 64,851
GBP/USD	Short	1,900	151,881,250	3/18/19	313,942
Total Futures Contracts					\$378,793

*As of period end.

At December 31, 2018, the Fund had the following forward exchange contracts outstanding. See Note 1(c).

Forward Exchange Contracts

Currency	Counterparty ^a	Type	Quantity	Contract Amount	Settlement Date	Unrealized Appreciation	Unrealized Depreciation
OTC Forward Exchange Contracts							
Euro	BOFA	Buy	42,361,994	\$ 48,431,506	1/14/19	\$ 167,172	\$ —
Euro	BOFA	Sell	4,540,537	5,400,106	1/14/19	191,095	—
Euro	BONY	Buy	4,102,879	4,674,779	1/14/19	32,140	—
Euro	BONY	Sell	51,837,542	61,553,971	1/14/19	2,084,720	—
Euro	HSBK	Buy	22,359,927	25,534,901	1/14/19	116,937	—
Euro	HSBK	Sell	2,216,504	2,622,701	1/14/19	79,875	—
Euro	SSBT	Buy	11,766,291	13,441,618	1/14/19	56,949	—
Euro	SSBT	Sell	59,058,182	70,136,344	1/14/19	2,383,404	—
Euro	UBSW	Buy	18,869,068	21,491,407	1/14/19	155,634	—
Euro	UBSW	Sell	2,275,487	2,685,490	1/14/19	74,997	—
Swiss Franc	HSBK	Buy	1,946,140	1,967,764	1/14/19	16,316	—
Swiss Franc	UBSW	Buy	19,855,463	20,124,148	1/14/19	118,393	—
Swiss Franc	UBSW	Sell	108,574,882	109,005,453	1/14/19	—	(1,686,079)
British Pound	HSBK	Buy	1,761,152	2,225,621	1/16/19	22,180	—
British Pound	HSBK	Buy	8,411,840	10,782,456	1/16/19	—	(46,224)
British Pound	SSBT	Sell	32,550,029	43,380,888	1/16/19	1,836,510	—
British Pound	UBSW	Buy	900,722	1,138,293	1/16/19	11,320	—
Norwegian Krone	BONY	Buy	1,150,000	136,180	1/25/19	—	(3,033)
Norwegian Krone	BONY	Buy	37,706,435	4,326,315	1/25/19	39,327	—
Norwegian Krone	BONY	Sell	38,856,435	4,686,512	1/25/19	187,723	—
Swedish Krona	BONY	Sell	341,356,901	37,730,312	1/31/19	—	(901,645)
Swedish Krona	SSBT	Sell	4,543,000	502,998	1/31/19	—	(11,142)
British Pound	HSBK	Sell	2,179,786	2,889,132	2/14/19	103,094	—
British Pound	SSBT	Sell	144,969	190,294	2/14/19	5,005	—
British Pound	UBSW	Sell	77,691,822	100,145,623	2/14/19	845,809	—
Euro	BOFA	Sell	9,165,723	10,802,146	2/20/19	254,781	—
Euro	BONY	Sell	60,109,629	69,595,799	2/20/19	425,237	—
Euro	HSBK	Sell	2,435,388	2,896,724	2/20/19	94,225	—
Euro	SSBT	Sell	57,165,262	66,099,335	2/20/19	316,974	—
Euro	BONY	Sell	7,073,005	8,249,105	4/10/19	75,081	—
Euro	SSBT	Sell	7,073,005	8,249,953	4/10/19	75,930	—
Euro	BOFA	Sell	35,851,104	42,235,827	4/18/19	775,187	—

FRANKLIN MUTUAL EUROPEAN FUND
STATEMENT OF INVESTMENTS

Forward Exchange Contracts (continued)

Currency	Counterparty ^a	Type	Quantity	Contract Amount	Settlement Date	Unrealized Appreciation	Unrealized Depreciation
OTC Forward Exchange Contracts (continued)							
Euro	HSBK	Sell	35,851,103	\$ 42,242,996	4/18/19	\$ 782,358	\$ —
Euro	UBSW	Sell	869,218	1,008,037	4/18/19	2,815	—
British Pound	BOFA	Sell	50,582	66,483	4/24/19	1,620	—
British Pound	BONY	Sell	7,854,243	10,254,967	4/24/19	183,219	—
British Pound	UBSW	Sell	62,329,683	81,655,601	4/24/19	1,728,254	—
Euro	BOFA	Sell	35,899,355	41,602,147	5/07/19	17,102	—
Euro	BONY	Sell	1,000,000	1,149,498	5/07/19	—	(8,881)
Euro	HSBK	Sell	2,893,817	3,332,520	5/07/19	—	(19,616)
Euro	HSBK	Sell	36,974,325	42,971,122	5/07/19	140,853	—
Euro	SSBT	Sell	164,970	192,599	5/07/19	1,501	—
Euro	UBSW	Sell	581,699	666,343	5/07/19	—	(7,484)
Euro	UBSW	Sell	35,899,355	41,597,301	5/07/19	12,255	—
Euro	SSBT	Sell	3,171,868	3,661,811	5/21/19	—	(16,892)
Euro	SSBT	Sell	106,744,796	124,298,977	5/21/19	497,345	—
British Pound	BOFA	Sell	323,852	413,559	5/28/19	—	(2,392)
British Pound	BOFA	Sell	11,720,674	15,177,434	5/28/19	123,548	—
Total Forward Exchange Contracts						\$ 14,036,885	\$ (2,703,388)
Net unrealized appreciation (depreciation)						\$ 11,333,497	

^aMay be comprised of multiple contracts with the same counterparty, currency and settlement date.

See Note 10 regarding other derivative information.

Financial Statements

Statement of Assets and Liabilities

December 31, 2018

Assets:

Investments in securities:

Cost - Unaffiliated issuers	\$1,940,731,805
Cost - Controlled affiliates (Note 3f and 11)	6,282,509

Value - Unaffiliated issuers	\$1,716,486,841
Value - Controlled affiliates (Note 3f and 11)	—

Cash	47,120
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Receivables:

Investment securities sold	11,500,550
Capital shares sold	8,438,142
Dividends	7,359,104
European Union tax reclaims	3,609,184

Deposits with brokers for:

Securities sold short	9,155,898
Futures contracts	12,078,370

Unrealized appreciation on OTC forward exchange contracts	14,036,885
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Other assets	288
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Total assets	1,782,712,382
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Liabilities:

Payables:

Investment securities purchased	3,396
Capital shares redeemed	18,050,113
Management fees	1,334,519
Distribution fees	398,398
Transfer agent fees	528,343
Trustees' fees and expenses	125,786
Variation margin on futures contracts	857,738
Securities sold short, at value (proceeds \$9,077,678)	7,562,155
Unrealized depreciation on OTC forward exchange contracts	2,703,388
Accrued expenses and other liabilities	285,471

Total liabilities	31,849,307
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Net assets, at value	\$1,750,863,075
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Net assets consist of:

Paid-in capital	\$2,011,371,699
Total distributable earnings (loss)	(260,508,624)

Net assets, at value	\$1,750,863,075
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Statement of Assets and Liabilities (continued)

December 31, 2018

Class Z:

Net assets, at value	\$958,149,478
Shares outstanding	53,549,071
Net asset value and maximum offering price per share	\$17.89

Class A:

Net assets, at value	\$564,038,158
Shares outstanding	32,474,018
Net asset value per share ^a	\$17.37
Maximum offering price per share (net asset value per share ÷ 94.50%)	\$18.38

Class C:

Net assets, at value	\$ 78,148,610
Shares outstanding	4,449,439
Net asset value and maximum offering price per share ^a	\$17.56

Class R:

Net assets, at value	\$ 731,131
Shares outstanding	42,888
Net asset value and maximum offering price per share	\$17.05

Class R6:

Net assets, at value	\$149,795,698
Shares outstanding	8,381,057
Net asset value and maximum offering price per share	\$17.87

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

FRANKLIN MUTUAL EUROPEAN FUND
FINANCIAL STATEMENTS

Statement of Operations

for the year ended December 31, 2018

Investment income:	
Dividends: (net of foreign taxes)*	
Unaffiliated issuers	\$ 74,982,085
Interest:	
Unaffiliated issuers	2,625,735
Income from securities loaned:	
Non-controlled affiliates (Note 3f)	1,745
Other income (Note 1f)	781,233
Total investment income	<u>78,390,798</u>
Expenses:	
Management fees (Note 3a)	19,593,157
Distribution fees: (Note 3c)	
Class A	1,670,380
Class C	1,476,052
Class R	4,235
Transfer agent fees: (Note 3e)	
Class Z	1,793,245
Class A	971,311
Class C	214,611
Class R	1,234
Class R6	61,123
Custodian fees (Note 4)	257,377
Reports to shareholders	132,640
Registration and filing fees	105,049
Professional fees	156,812
Trustees' fees and expenses	141,192
Dividends on securities sold short	25,832
Other	71,516
Total expenses	26,675,766
Expense reductions (Note 4)	(19,865)
Expenses waived/paid by affiliates (Note 3f and 3g)	(13,582)
Net expenses	<u>26,642,319</u>
Net investment income	<u>51,748,479</u>
Realized and unrealized gains (losses):	
Net realized gain (loss) from:	
Investments:	
Unaffiliated issuers	83,589,320
Foreign currency transactions	769,317
Forward exchange contracts	43,649,772
Futures contracts	40,356,225
Net realized gain (loss)	<u>168,364,634</u>
Net change in unrealized appreciation (depreciation) on:	
Investments:	
Unaffiliated issuers	(507,165,874)
Translation of other assets and liabilities	
denominated in foreign currencies	(541,911)
Forward exchange contracts	37,444,807
Futures contracts	11,212,420
Securities sold short	1,515,523
Net change in unrealized appreciation (depreciation)	<u>(457,535,035)</u>
Net realized and unrealized gain (loss)	<u>(289,170,401)</u>
Net increase (decrease) in net assets resulting from operations	<u>\$ (237,421,922)</u>

*Foreign taxes withheld on dividends \$ 8,339,541

Statements of Changes in Net Assets

	Year Ended December 31,	
	2018	2017
Increase (decrease) in net assets:		
Operations:		
Net investment income	\$ 51,748,479	\$ 41,754,082
Net realized gain (loss)	168,364,634	(36,941,433)
Net change in unrealized appreciation (depreciation)	(457,535,035)	245,053,933
Net increase (decrease) in net assets resulting from operations	(237,421,922)	249,866,582
Distributions to shareholders: (Note 1g)		
Class Z	(39,537,213)	(17,540,243)
Class A	(21,635,584)	(7,669,484)
Class C	(2,285,511)	(661,962)
Class R	(26,901)	(7,585)
Class R6	(6,073,341)	(4,427,392)
Total distributions to shareholders	(69,558,550)	(30,306,666)
Capital share transactions: (Note 2)		
Class Z	(197,936,001)	43,359,185
Class A	(56,127,793)	(118,591,024)
Class C	(84,206,336)	(47,346,696)
Class R	38,579	141,266
Class R6	(122,065,613)	(45,857,168)
Total capital share transactions	(460,297,164)	(168,294,437)
Net increase (decrease) in net assets	(767,277,636)	51,265,479
Net assets:		
Beginning of year	2,518,140,711	2,466,875,232
End of year (Note 1g)	\$1,750,863,075	\$2,518,140,711

Notes to Financial Statements

1. Organization and Significant Accounting Policies

Franklin Mutual Series Funds (Trust) is registered under the Investment Company Act of 1940 (1940 Act) as an open-end management investment company, consisting of seven separate funds and applies the specialized accounting and reporting guidance in U.S. Generally Accepted Accounting Principles (U.S. GAAP). Franklin Mutual European Fund (Fund) is included in this report. The Fund offers five classes of shares: Class Z, Class A, Class C, Class R and Class R6. Beginning on October 19, 2018, Class C shares automatically convert to Class A shares after they have been held for 10 years. Each class of shares may differ by its initial sales load, contingent deferred sales charges, voting rights on matters affecting a single class, its exchange privilege and fees due to differing arrangements for distribution and transfer agent fees.

The following summarizes the Fund's significant accounting policies.

a. Financial Instrument Valuation

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

Equity securities and derivative financial instruments listed on an exchange or on the NASDAQ National Market System are valued at the last quoted sale price or the official closing price of the day, respectively. Foreign equity securities are valued as of the close of trading on the foreign stock exchange on which the security is primarily traded, or as of 4 p.m. Eastern time. The value is then converted into its U.S. dollar equivalent at the foreign exchange rate in effect at 4 p.m. Eastern time on the day that the value of the security is determined. Over-the-counter (OTC) securities are valued within the range of the most recent quoted bid and ask prices. Securities that trade in multiple

markets or on multiple exchanges are valued according to the broadest and most representative market. Certain equity securities are valued based upon fundamental characteristics or relationships to similar securities.

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

Investments in open-end mutual funds are valued at the closing NAV.

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

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

Trading in securities on foreign securities stock exchanges and OTC markets may be completed before 4 p.m. Eastern time. In addition, trading in certain foreign markets may not take place on every Fund's business day. Occasionally, events occur between the time at which trading in a foreign security is completed and 4 p.m. Eastern time that might call into question the reliability of the value of a portfolio security held by the Fund. As a result, differences may arise between the value of the Fund's portfolio securities as determined at the foreign market close and the latest indications of value at 4 p.m. Eastern time. In order to minimize the potential for these differences, the VC monitors price movements following the close of trading in foreign stock markets through a series of country specific market proxies (such as baskets of American Depositary Receipts, futures contracts and exchange traded funds). These price movements are measured against established trigger thresholds for each specific market proxy to assist in determining if an event has occurred that may call into question the reliability of the values of the foreign securities held by the Fund. If such an event occurs, the securities may be valued using fair value procedures, which may include the use of independent pricing services. At December 31, 2018, a market event occurred resulting in a portion of the securities held by the Fund being valued using fair value procedures.

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

b. Foreign Currency Translation

Portfolio securities and other assets and liabilities denominated in foreign currencies are translated into U.S. dollars based on the exchange rate of such currencies against U.S. dollars on the date of valuation. The Fund may enter into foreign currency exchange contracts to facilitate transactions denominated in a foreign currency. Purchases and sales of securities, income and expense items denominated in foreign currencies are translated into U.S. dollars at the exchange rate in effect on the transaction date. Portfolio securities and assets and liabilities denominated in foreign currencies contain risks that those currencies will decline in value relative to the U.S. dollar. Occasionally, events may impact the availability or reliability of foreign exchange

rates used to convert the U.S. dollar equivalent value. If such an event occurs, the foreign exchange rate will be valued at fair value using procedures established and approved by the Board.

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

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

c. Derivative Financial Instruments

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

Derivative counterparty credit risk is managed through a formal evaluation of the creditworthiness of all potential 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

1. Organization and Significant Accounting Policies (continued)

c. Derivative Financial Instruments (continued)

the counterparty include certain deteriorations in the credit quality of the counterparty. Termination events applicable to the Fund include failure of the Fund to maintain certain net asset levels and/or limit the decline in net assets over various periods of time. In the event of default or early termination, the ISDA master agreement gives the non-defaulting party the right to net and close-out all transactions traded, whether or not arising under the ISDA agreement, to one net amount payable by one counterparty to the other. However, absent an event of default or early termination, OTC derivative assets and liabilities are presented gross and not offset in the Statement of Assets and Liabilities. Early termination by the counterparty may result in an immediate payment by the Fund of any net liability owed to that counterparty under the ISDA agreement. At December 31, 2018, the Fund had no OTC derivatives in a net liability position for such contracts.

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

At December 31, 2018, the Fund received \$14,289,885 in U.K. Treasury Bonds and U.S. Treasury Bills, Bonds and Notes as collateral for derivatives.

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

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

See Note 10 regarding other derivative information.

d. Securities Sold Short

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

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

e. Securities Lending

The Fund participates in an agency based securities lending program to earn additional income. The Fund receives cash collateral against the loaned securities in an amount equal to at

least 102% of the fair value of the loaned securities. Collateral is maintained over the life of the loan in an amount not less than 100% of the fair value of loaned securities, as determined at the close of Fund business each day; any additional collateral required due to changes in security values is delivered to the Fund on the next business day. The collateral is deposited into a joint cash account with other funds and is used to invest in a money market fund managed by Franklin Advisers, Inc., an affiliate of the Fund, and/or a joint repurchase agreement. The Fund may receive income from the investment of cash collateral, in addition to lending fees and rebates paid by the borrower. Income from securities loaned, net of fees paid to the securities lending agent and/or third-party vendor, is reported separately in the Statement of Operations. The Fund bears the market risk with respect to the collateral investment, securities loaned, and the risk that the agent may default on its obligations to the Fund. If the borrower defaults on its obligation to return the securities loaned, the Fund has the right to repurchase the securities in the open market using the collateral received. The securities lending agent has agreed to indemnify the Fund in the event of default by a third party borrower. At December 31, 2018, the Fund had no securities on loan.

f. Income and Deferred Taxes

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

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

As a result of several court cases, in certain countries across the European Union, the Fund filed additional tax reclaims for previously withheld taxes on dividends earned in those countries (EU reclaims). These additional filings are subject to various administrative proceedings by the local jurisdictions' tax authorities within the European Union, as well as a number

of related judicial proceedings. Income recognized, if any, for EU reclaims is reflected as other income in the Statement of Operations and any related receivable, if any, is reflected as European Union tax reclaims in the Statement of Assets and Liabilities. When uncertainty exists as to the ultimate resolution of these proceedings, the likelihood of receipt of these EU reclaims, and the potential timing of payment, no amounts are reflected in the financial statements. For U.S. income tax purposes, EU reclaims received by the Fund, if any, reduce the amounts of foreign taxes Fund shareholders can use as tax credits in their individual income tax returns.

The Fund may recognize an income tax liability related to its uncertain tax positions under U.S. GAAP when the uncertain tax position has a less than 50% probability that it will be sustained upon examination by the tax authorities based on its technical merits. As of December 31, 2018, the Fund has determined that no tax liability is required in its financial statements related to uncertain tax positions for any open tax years (or expected to be taken in future tax years). Open tax years are those that remain subject to examination and are based on the statute of limitations in each jurisdiction in which the Fund invests.

g. Security Transactions, Investment Income, Expenses and Distributions

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

1. Organization and Significant Accounting Policies (continued)

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

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

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

h. Accounting Estimates

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and

liabilities at the date of the financial statements and the amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

i. Guarantees and Indemnifications

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

*Effective during the current reporting period, it is no longer required to present certain line items in the Statements of Changes in Net Assets. The below prior period amounts affected by this change are shown as they were in the prior year Statements of Changes in Net Assets.

For the year ended December 31, 2017, distributions to shareholders were as follows:

Distributions from net investment income :	
Class Z	\$(17,540,243)
Class A	(7,669,484)
Class C	(661,962)
Class R	(7,585)
Class R6	(4,427,392)

For the year ended December 31, 2017, undistributed net investment income included in net assets was \$21,175,134.

2. Shares of Beneficial Interest

At December 31, 2018, there were an unlimited number of shares authorized (without par value). Transactions in the Fund's shares were as follows:

	Year Ended December 31,			
	2018		2017	
	Shares	Amount	Shares	Amount
Class Z Shares:				
Shares sold	15,870,789	\$ 328,884,286	17,236,906	\$ 350,944,087
Shares issued in reinvestment of distributions	2,023,721	37,225,839	789,963	16,435,905
Shares redeemed	(27,834,376)	(564,046,126)	(15,782,895)	(324,020,807)
Net increase (decrease)	(9,939,866)	\$(197,936,001)	2,243,974	\$ 43,359,185
Class A Shares:				
Shares sold ^a	6,861,993	\$ 134,662,400	15,602,529	\$ 310,200,219
Shares issued in reinvestment of distributions	870,701	15,538,916	287,521	5,802,513
Shares redeemed	(10,421,209)	(206,329,109)	(21,954,991)	(434,593,756)
Net increase (decrease)	(2,688,515)	\$ (56,127,793)	(6,064,941)	\$(118,591,024)
Class C Shares:				
Shares sold	486,940	\$ 9,826,395	1,180,124	\$ 23,513,530
Shares issued in reinvestment of distributions	117,682	2,203,229	32,119	639,507
Shares redeemed ^a	(4,944,916)	(96,235,960)	(3,606,833)	(71,499,733)
Net increase (decrease)	(4,340,294)	\$ (84,206,336)	(2,394,590)	\$ (47,346,696)
Class R Shares:				
Shares sold	8,109	\$ 162,976	16,679	\$ 329,815
Shares issued in reinvestment of distributions	1,528	26,901	382	7,585
Shares redeemed	(7,860)	(151,298)	(10,067)	(196,134)
Net increase (decrease)	1,777	\$ 38,579	6,994	\$ 141,266
Class R6 Shares:				
Shares sold	1,059,999	\$ 21,160,059	3,235,565	\$ 65,830,080
Shares issued in reinvestment of distributions	261,913	4,800,226	185,294	3,853,120
Shares redeemed	(7,032,513)	(148,025,898)	(5,580,242)	(115,540,368)
Net increase (decrease)	(5,710,601)	\$(122,065,613)	(2,159,383)	\$ (45,857,168)

^aMay include a portion of Class C shares that were automatically 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. Certain officers and trustees of the Fund are also officers and/or directors of the following subsidiaries:

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

3. Transactions with Affiliates (continued)

a. Management Fees

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

Annualized Fee Rate	Net Assets
0.875%	Up to and including \$1 billion
0.845%	Over \$1 billion, up to and including \$2 billion
0.825%	Over \$2 billion, up to and including \$5 billion
0.805%	In excess of \$5 billion

For the year ended December 31, 2018, the gross effective investment management fee rate was 0.856% of the Fund's average daily net assets.

b. Administrative Fees

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

c. Distribution Fees

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

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

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

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

d. Sales Charges/Underwriting Agreements

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

Sales charges retained net of commissions paid to unaffiliated brokers/dealers	\$48,231
CDSC retained	\$16,930

Effective September 10, 2018, the Board approved changes to certain front-end sales charges and dealer commissions on Class A shares. Further details are disclosed in the Fund's Prospectus.

e. Transfer Agent Fees

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

For the year ended December 31, 2018, the Fund paid transfer agent fees of \$3,041,524, of which \$1,097,353 was retained by Investor Services.

f. Investments in Affiliated Management Investment Companies

The Fund invests in one or more affiliated management investment companies for purposes other than exercising a controlling influence over the management or policies. Management fees paid by the Fund are waived on assets invested in the affiliated management investment companies, as noted in the Statement of Operations, in an amount not to exceed the management and administrative fees paid directly or indirectly by each affiliate. During the year ended December 31, 2018, the Fund held investments in affiliated management investment companies as follows:

	Number of Shares Held at Beginning of Year	Gross Additions	Gross Reductions	Number of Shares Held at End of Year	Value at End of Year	Income from securities loaned	Realized Gain (Loss)	Net Change in Unrealized Appreciation (Depreciation)
Non-Controlled Affiliates								
Institutional Fiduciary Trust Money Market Portfolio, 1.99% .	—	938,000	(938,000)	—	\$ —	\$1,745	\$ —	\$ —

g. Waiver and Expense Reimbursements

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

h. Other Affiliated Transactions

At December 31, 2018, one or more of the funds in Franklin Fund Allocator Series owned 6.2% of the Fund's outstanding shares.

i. Interfund Transactions

The Fund engaged in purchases and sales of investments with funds or other accounts that have common investment managers (or affiliated investment managers), directors, trustees or officers. During the year ended December 31, 2018, these purchase and sale transactions aggregated \$1,820,107 and \$—, respectively.

4. Expense Offset Arrangement

The Fund has entered into an arrangement with its custodian whereby credits realized as a result of uninvested cash balances are used to reduce a portion of the Fund's custodian expenses. During the year ended December 31, 2018, the custodian fees were reduced as noted in the Statement of Operations.

5. Independent Trustees' Retirement Plan

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

5. Independent Trustees' Retirement Plan (continued)

During the year ended December 31, 2018, the Fund's projected benefit obligation and benefit payments under the Plan were as follows:

^a Projected benefit obligation at December 31, 2018	\$125,786
^b Increase in projected benefit obligation	\$ 33,573
Benefit payments made to retired trustees	\$ (2,507)

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

6. Income Taxes

For tax purposes, capital losses may be carried over to offset future capital gains.

At December 31, 2018, the capital loss carryforwards were as follows:

Capital loss carryforwards not subject to expiration:	
Short Term	\$26,173,614
Long Term	12,955,592
Total capital loss carryforwards	<u>\$39,129,206</u>

During the year ended December 31, 2018, the Fund utilized \$214,998,777 of capital loss carryforwards.

The tax character of distributions paid during the years ended December 31, 2018 and 2017, was as follows:

	<u>2018</u>	<u>2017</u>
Distributions paid from ordinary income	\$69,558,550	\$30,306,666

At December 31, 2018, the cost of investments, net unrealized appreciation (depreciation) and undistributed ordinary income for income tax purposes were as follows:

Cost of investments	<u>\$1,946,108,213</u>
Unrealized appreciation	\$ 128,651,040
Unrealized depreciation	<u>(354,105,020)</u>
Net unrealized appreciation (depreciation)	\$ (225,453,980)
Distributable earnings:	
Undistributed ordinary income	<u>\$ 686,227</u>

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

7. Investment Transactions

Purchases and sales of investments (excluding short term securities and securities sold short) for the year ended December 31, 2018, aggregated \$744,776,763 and \$954,906,946, respectively.

8. 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. Current political and financial uncertainty surrounding the European Union may increase market volatility and the economic risk of investing in securities in Europe. In addition, certain foreign securities may not be as liquid as U.S. securities.

9. Restricted Securities

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

At December 31, 2018, investments in restricted securities, excluding securities exempt from registration under the 1933 Act deemed to be liquid, were as follows:

Shares	Issuer	Acquisition Date	Cost	Value
16,127,149	Euro Wagon LP (Value is —% of Net Assets)	12/08/05 - 1/02/08	\$6,282,509	\$ —

10. Other Derivative Information

At December 31, 2018, the Fund's investments in derivative contracts are reflected in the Statement of Assets and Liabilities as follows:

Derivative Contracts Not Accounted for as Hedging Instruments	Asset Derivatives		Liability Derivatives	
	Statement of Assets and Liabilities Location	Fair Value	Statement of Assets and Liabilities Location	Fair Value
Foreign exchange contracts	Variation margin on futures contracts	\$ 378,793 ^a	Variation margin on futures contracts	\$ —
	Unrealized appreciation on OTC forward exchange contracts	14,036,885	Unrealized depreciation on OTC forward exchange contracts	2,703,388
Totals		<u>\$14,415,678</u>		<u>\$2,703,388</u>

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

For the year ended December 31, 2018, the effect of derivative contracts in the Fund's Statement of Operations was as follows:

Derivative Contracts Not Accounted for as Hedging Instruments	Statement of Operations Location	Net Realized Gain (Loss) for the Year	Statement of Operations Location	Net Change in Unrealized Appreciation (Depreciation) for the Year
	Net realized gain (loss) from:		Net change in unrealized appreciation (depreciation) on:	
Foreign exchange contracts . . .	Forward exchange contracts	\$43,649,772	Forward exchange contracts	\$37,444,807
	Futures contracts	40,356,225	Futures contracts	11,212,420
Totals		<u>\$84,005,997</u>		<u>\$48,657,227</u>

10. Other Derivative Information (continued)

For the year ended December 31, 2018, the average month end notional amount of futures contracts represented \$681,668,407. The average month end contract value of forward exchange contracts was \$1,264,108,979.

See Note 1(c) regarding derivative financial instruments.

11. Holdings of 5% Voting Securities of Portfolio Companies

The 1940 Act defines "affiliated companies" to include investments in portfolio companies in which a fund owns 5% or more of the outstanding voting securities. During the year ended December 31, 2018, investments in "affiliated companies" were as follows:

Name of Issuer	Number of Shares Held at Beginning of Year	Gross Additions	Gross Reductions	Number of Shares Held at End of Year	Value at End of Year	Dividend Income	Realized Gain (Loss)	Net Change in Unrealized Appreciation (Depreciation)
Controlled Affiliates^a								
Euro Wagon LP (Value is —% of Net Assets)	16,127,149	—	—	16,127,149	\$—	\$—	\$—	\$—

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

12. Credit Facility

The Fund, together with other U.S. registered and foreign investment funds (collectively, Borrowers), managed by Franklin Templeton, are borrowers in a joint syndicated senior unsecured credit facility totaling \$2 billion (Global Credit Facility) which matured on February 8, 2019. This Global Credit Facility provides a source of funds to the Borrowers for temporary and emergency purposes, including the ability to meet future unanticipated or unusually large redemption requests. Effective February 8, 2019, the Borrowers renewed the Global Credit Facility for a one year term, maturing February 7, 2020, for a total of \$2 billion.

Under the terms of the Global Credit Facility, the Fund shall, in addition to interest charged on any borrowings made by the Fund and other costs incurred by the Fund, pay its share of fees and expenses incurred in connection with the implementation and maintenance of the Global Credit Facility, based upon its relative share of the aggregate net assets of all of the Borrowers, including an annual commitment fee of 0.15% based upon the unused portion of the Global Credit Facility. These fees are reflected in other expenses in the Statement of Operations. During the year ended December 31, 2018, the Fund did not use the Global Credit Facility.

13. Fair Value Measurements

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

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

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

A summary of inputs used as of December 31, 2018, in valuing the Fund's assets and liabilities carried at fair value, is as follows:

	Level 1	Level 2	Level 3	Total
Assets:				
Investments in Securities: ^a				
Equity Investments: ^b				
Auto Components	\$ 33,985,600	\$ 30,954,926	\$ —	\$ 64,940,526
Automobiles	17,257,430	45,501,501	—	62,758,931
Banks	126,198,361	47,875,143	—	174,073,504
Capital Markets	—	56,706,354	—	56,706,354
Chemicals	—	28,383,062	—	28,383,062
Construction Materials	—	87,334,689	—	87,334,689
Electric Utilities	—	61,698,280	—	61,698,280
Electrical Equipment	—	33,269,875	—	33,269,875
Household Durables	4,987,203	39,966,999	—	44,954,202
Machinery	—	59,565,962	—	59,565,962
Marine	—	24,527,891	—	24,527,891
Metals & Mining	—	19,084,324	—	19,084,324
Oil, Gas & Consumable Fuels	104,170,440	19,900,372	—	124,070,812
Pharmaceuticals	53,055,959	60,251,061	—	113,307,020
Specialty Retail	—	43,181,897	—	43,181,897
Trading Companies & Distributors	44,271,752	20,928,314	—	65,200,066
All Other Equity Investments	609,514,523	—	— ^c	609,514,523
Short Term Investments	38,414,923	5,500,000	—	43,914,923
Total Investments in Securities	\$ 1,031,856,191	\$ 684,630,650	\$ —	\$ 1,716,486,841
Other Financial Instruments:				
Futures Contracts	\$ 378,793	\$ —	\$ —	\$ 378,793
Forward Exchange Contracts	—	14,036,885	—	14,036,885
Total Other Financial Instruments	\$ 378,793	\$ 14,036,885	\$ —	\$ 14,415,678
Liabilities:				
Other Financial Instruments:				
Securities Sold Short ^a	\$ 7,562,155	\$ —	\$ —	\$ 7,562,155
Forward Exchange Contracts	—	2,703,388	—	2,703,388
Total Other Financial Instruments	\$ 7,562,155	\$ 2,703,388	\$ —	\$ 10,265,543

^aFor detailed categories, see the accompanying Statement of Investments.

^bIncludes common and preferred stocks.

^cIncludes securities determined to have no value at December 31, 2018.

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

14. New Accounting Pronouncements

In August 2018, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2018-14, Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans. The amendments in the ASU modify the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. The ASU is effective for annual reporting periods ending after December 15, 2020. Management is currently evaluating the impact, if any, of applying this provision.

15. Subsequent Events

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

Abbreviations

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

Report of Independent Registered Public Accounting Firm

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

Opinion on the Financial Statements

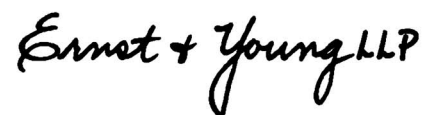
We have audited the accompanying statement of assets and liabilities of Franklin Mutual European Fund (the “Fund”) (one of the funds constituting Franklin Mutual Series Funds), including the schedule of investments, as of December 31, 2018, and the related statement of operations for the year then ended, the statements of changes in net assets for each of the two years in the period then ended, the financial highlights for each of the five years in the period then ended and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of Franklin Mutual European Fund (one of the funds constituting Franklin Mutual Series Funds) at December 31, 2018, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended and its financial highlights for each of the five years in the period then ended, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These financial statements are the responsibility of the Fund’s management. Our responsibility is to express an opinion on the Fund’s financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Fund in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Fund is not required to have, nor were we engaged to perform, an audit of the Fund’s internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Fund’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of December 31, 2018, by correspondence with the custodian and brokers or by other appropriate auditing procedures where replies from others were not received. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.



Ernst & Young LLP

We have served as the auditor of one or more Franklin investment companies since 1987.

Boston, Massachusetts
February 20, 2019

Tax Information (unaudited)

Under Section 854(b)(1)(B) of the Internal Revenue Code, the Fund hereby reports the maximum amount allowable but no less than \$76,112,927 as qualified dividends for purposes of the maximum rate under Section 1(h)(11) of the Internal Revenue Code for the fiscal year ended December 31, 2018. Distributions, including qualified dividend income, paid during calendar year 2018 will be reported to shareholders on Form 1099-DIV by mid-February 2019. Shareholders are advised to check with their tax advisors for information on the treatment of these amounts on their individual income tax returns.

At December 31, 2018, more than 50% of the Fund's total assets were invested in securities of foreign issuers. In most instances, foreign taxes were withheld from income paid to the Fund on these investments. As shown in the table below, the Fund hereby reports to shareholders the foreign source income and foreign taxes paid, pursuant to Section 853 of the Internal Revenue Code. This written statement will allow shareholders of record on December 20, 2018, to treat their proportionate share of foreign taxes paid by the Fund as having been paid directly by them. The shareholder shall consider these amounts as foreign taxes paid in the tax year in which they receive the Fund distribution.

The following table provides a detailed analysis of foreign tax paid, foreign source income and foreign source qualified dividends as reported by the Fund, to Class Z, Class A, Class C, Class R and Class R6 shareholders of record.

Class	Foreign Tax Paid Per Share	Foreign Source Income Per Share	Foreign Source Qualified Dividends Per Share
Class Z	\$0.0842	\$0.6717	\$0.6095
Class A	\$0.0842	\$0.6353	\$0.5764
Class C	\$0.0842	\$0.4191	\$0.3802
Class R	\$0.0842	\$0.5994	\$0.5438
Class R6	\$0.0842	\$0.6916	\$0.6274

Foreign Tax Paid Per Share (Column 1) is the amount per share available to you, as a tax credit (assuming you held your shares in the Fund for a minimum of 16 days during the 31-day period beginning 15 days before the ex-dividend date of the Fund's distribution to which the foreign taxes relate), or, as a tax deduction.

Foreign Source Income Per Share (Column 2) is the amount per share of income dividends attributable to foreign securities held by the Fund, plus any foreign taxes withheld on these dividends. The amounts reported include foreign source qualified dividends that have not been adjusted for the rate differential applicable to such dividend income.¹

Foreign Source Qualified Dividends Per Share (Column 3) is the amount per share of foreign source qualified dividends, plus any foreign taxes withheld on these dividends. These amounts represent the portion of the Foreign Source Income reported to you in column 2 that were derived from qualified foreign securities held by the Fund.¹

By mid-February 2019, shareholders will receive Form 1099-DIV which will include their share of taxes paid and foreign source income distributed during the calendar year 2018. The Foreign Source Income reported on Form 1099-DIV has not been adjusted for the rate differential on foreign source qualified dividend income. Shareholders are advised to check with their tax advisors for information on the treatment of these amounts on their 2018 individual income tax returns.

¹Qualified dividends are taxed at reduced long term capital gains tax rates. In determining the amount of foreign tax credit that may be applied against the U.S. tax liability of individuals receiving foreign source qualified dividends, adjustments may be required to the foreign tax credit limitation calculation to reflect the rate differential applicable to such dividend income. The rules however permit certain individuals to elect not to apply the rate differential adjustments for capital gains and/or dividends for any taxable year. Please consult your tax advisor and the instructions to Form 1116 for more information.

Board Members and Officers

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

Independent Board Members

Name, Year of Birth and Address	Position	Length of Time Served	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years
Edward I. Altman, Ph.D. (1941) c/o Franklin Mutual Advisers, LLC 101 John F. Kennedy Parkway Short Hills, NJ 07078-2716	Trustee	Since 1987	14	None
Principal Occupation During at Least the Past 5 Years: Max L. Heine Professor of Finance, Emeritus and Director of The Credit and Debt Markets Research Program, Salomon Center, Stern School of Business, New York University; editor and author of numerous financial publications; financial consultant; an adviser to numerous financial and publishing organizations; and formerly , Vice Director, Salomon Center, Stern School of Business, New York University.				
Ann Torre Bates (1958) c/o Franklin Mutual Advisers, LLC 101 John F. Kennedy Parkway Short Hills, NJ 07078-2716	Trustee	Since 1995	38	Ares Capital Corporation (specialty finance company) (2010-present), United Natural Foods, Inc. (distributor of natural, organic and specialty foods) (2013-present), Allied Capital Corporation (financial services) (2003-2010), SLM Corporation (Sallie Mae) (1997-2014) and Navient Corporation (loan management, servicing and asset recovery) (2014-2016).
Principal Occupation During at Least the Past 5 Years: Director of various companies; and formerly , Executive Vice President and Chief Financial Officer, NHP Incorporated (manager of multifamily housing) (1995-1997); and Vice President and Treasurer, US Airways, Inc. (until 1995).				
Burton J. Greenwald (1929) c/o Franklin Mutual Advisers, LLC 101 John F. Kennedy Parkway Short Hills, NJ 07078-2716	Trustee and Vice Chairman	Trustee since 2002 and Vice Chairman since 2015	14	Franklin Templeton Emerging Markets Debt Opportunities Fund PLC (1999-present) and Fiduciary International Ireland Limited (1999-2015).
Principal Occupation During at Least the Past 5 Years: Managing Director, B.J. Greenwald Associates (management consultants to the financial services industry); and formerly , Chairman, Fiduciary Trust International Funds; Executive Vice President, L.F. Rothschild Fund Management, Inc.; President and Director, Merit Mutual Funds; President, Underwriting Division and Director, National Securities & Research Corporation; Governor, Investment Company Institute; and Chairman, ICI Public Information Committee.				
Jan Hopkins Trachtman (1947) c/o Franklin Mutual Advisers, LLC 101 John F. Kennedy Parkway Short Hills, NJ 07078-2716	Trustee	Since 2009	14	FinTech Acquisition Corp. III (special purpose fintech acquisition company) (2018-present)
Principal Occupation During at Least the Past 5 Years: President and Founder, The Jan Hopkins Group (communications consulting firm); serves on Advisory Board of Knight Bagehot Fellowship; and formerly , President, Economic Club of New York (2007-2015); Anchor/Correspondent, CNN Financial News (until 2003); Managing Director and Head of Client Communications, Citigroup Private Bank (until 2005); Off-Air reporter, ABC News' World News Tonight; and Editor, CBS Network News.				
Keith Mitchell (1954) c/o Franklin Mutual Advisers, LLC 101 John F. Kennedy Parkway Short Hills, NJ 07078-2716	Trustee	Since 2009	14	None
Principal Occupation During at Least the Past 5 Years: Director of various boards of asset management firms; and formerly , Managing Member, Mitchell, Hartley & Bechtel Advisers, LLC (formerly, Mitchell Advisers, LLC) (advisory firm) (2003-2015) and Managing Director, Putman Lovell NBF.				

Independent Board Members (continued)

Name, Year of Birth and Address	Position	Length of Time Served	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years
David W. Niemiec (1949) c/o Franklin Mutual Advisers, LLC 101 John F. Kennedy Parkway Short Hills, NJ 07078-2716	Trustee	Since 2015	38	Hess Midstream Partners LP (oil and gas midstream infrastructure) (2017-present).
Principal Occupation During at Least the Past 5 Years: Advisor, Saratoga Partners (private equity fund); and formerly , Managing Director, Saratoga Partners (1998-2001) and SBC Warburg Dillon Read (investment banking) (1997-1998); Vice Chairman, Dillon, Read & Co. Inc. (investment banking) (1991-1997); and Chief Financial Officer, Dillon, Read & Co. Inc. (1982-1997).				
Charles Rubens II (1930) c/o Franklin Mutual Advisers, LLC 101 John F. Kennedy Parkway Short Hills, NJ 07078-2716	Trustee	Since 1998	14	None
Principal Occupation During at Least the Past 5 Years: Private investor and president of non-profit organizations; and formerly , an executive of Time, Inc.; and Trustee of Colorado College.				
Robert E. Wade (1946) c/o Franklin Mutual Advisers, LLC 101 John F. Kennedy Parkway Short Hills, NJ 07078-2716	Trustee and Chairman of the Board	Trustee since 1993 and Chairman of the Board since 2005	38	El Oro Ltd (investments) (2003-present).
Principal Occupation During at Least the Past 5 Years: Attorney at law engaged in private practice as a sole practitioner (1972-2008) and member of various boards.				
Gregory H. Williams (1943) c/o Franklin Mutual Advisers, LLC 101 John F. Kennedy Parkway Short Hills, NJ 07078-2716	Trustee	Since 2015	14	None
Principal Occupation During at Least the Past 5 Years: Private investor; Consultant; and formerly , President, University of Cincinnati (2009-2012); President, The City College of New York (2001-2009); Dean, College of Law, Ohio State University (1993-2001); and Associate Vice President, Academic Affairs and Professor of Law, University of Iowa (1977-1993).				

Interested Board Members and Officers

Name, Year of Birth and Address	Position	Length of Time Served	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years
**Gregory E. Johnson (1961) One Franklin Parkway San Mateo, CA 94403-1906	Trustee	Since 2007	150	None
Principal Occupation During at Least the Past 5 Years: Chairman of the Board, Member – Office of the Chairman, Director and Chief Executive Officer, Franklin Resources, Inc.; officer and/or director or trustee, as the case may be, of some of the other subsidiaries of Franklin Resources, Inc. and of 42 of the investment companies in Franklin Templeton Investments; Vice Chairman, Investment Company Institute; and formerly , President, Franklin Resources, Inc. (1994-2015).				
**Peter A. Langerman (1955) c/o Franklin Mutual Advisers, LLC 101 John F. Kennedy Parkway Short Hills, NJ 07078-2716	Trustee, President, and Chief Executive Officer – Investment Management	Trustee since 2007, President, and Chief Executive Officer – Investment Management since 2005	7	American International Group, Inc. (AIG) Credit Facility Trust (2010-2011).
Principal Occupation During at Least the Past 5 Years: Chairman of the Board, Chief Executive Officer and President, Franklin Mutual Advisers, LLC; President and Chief Investment Officer, Franklin Advisory Services, LLC; and officer and/or director, as the case may be, of three of the investment companies in Franklin Templeton Investments.				

Interested Board Members and Officers (continued)

Name, Year of Birth and Address	Position	Length of Time Served	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years
Alison E. Baur (1964) One Franklin Parkway San Mateo, CA 94403-1906	Vice President	Since 2012	Not Applicable	Not Applicable
Principal Occupation During at Least the Past 5 Years: Deputy General Counsel, Franklin Templeton Investments; and officer of some of the other subsidiaries of Franklin Resources, Inc. and of 44 of the investment companies in Franklin Templeton Investments.				
Aliya S. Gordon (1973) One Franklin Parkway San Mateo, CA 94403-1906	Vice President	Since 2009	Not Applicable	Not Applicable
Principal Occupation During at Least the Past 5 Years: Senior Associate General Counsel, Franklin Templeton Investments; and officer of 44 of the investment companies in Franklin Templeton Investments.				
Steven J. Gray (1955) One Franklin Parkway San Mateo, CA 94403-1906	Vice President and Secretary	Vice President since 2009 and Secretary since 2005	Not Applicable	Not Applicable
Principal Occupation During at Least the Past 5 Years: Senior Associate General Counsel, Franklin Templeton Investments; Vice President, Franklin Templeton Distributors, Inc. and FASA, LLC; and officer of 44 of the investment companies in Franklin Templeton Investments.				
Matthew T. Hinkle (1971) One Franklin Parkway San Mateo, CA 94403-1906	Chief Executive Officer – Finance and Administration	Since 2017	Not Applicable	Not Applicable
Principal Occupation During at Least the Past 5 Years: Senior Vice President, Franklin Templeton Services, LLC; officer of 44 of the investment companies in Franklin Templeton Investments; and formerly , Vice President, Global Tax (2012-April 2017) and Treasurer/Assistant Treasurer, Franklin Templeton Investments (2009-2017).				
Robert G. Kubilis (1973) 300 S.E. 2nd Street Fort Lauderdale, FL 33301-1923	Chief Financial Officer, Chief Accounting Officer and Treasurer	Since 2012	Not Applicable	Not Applicable
Principal Occupation During at Least the Past 5 Years: Treasurer, U.S. Fund Administration & Reporting, Franklin Templeton Investments; and officer of 16 of the investment companies in Franklin Templeton Investments.				
Robert Lim (1948) One Franklin Parkway San Mateo, CA 94403-1906	Vice President – AML Compliance	Since 2016	Not Applicable	Not Applicable
Principal Occupation During at Least the Past 5 Years: Vice President, Franklin Templeton Companies, LLC; Chief Compliance Officer, Franklin Templeton Distributors, Inc. and Franklin Templeton Investor Services, LLC; and officer of 44 of the investment companies in Franklin Templeton Investments.				
Kimberly H. Novotny (1972) 300 S.E. 2nd Street Fort Lauderdale, FL 33301-1923	Vice President	Since 2013	Not Applicable	Not Applicable
Principal Occupation During at Least the Past 5 Years: Associate General Counsel, Franklin Templeton Investments; Vice President and Corporate Secretary, Fiduciary Trust International of the South; Vice President, Templeton Investment Counsel, LLC; Assistant Secretary, Franklin Resources, Inc.; and officer of 44 of the investment companies in Franklin Templeton Investments.				

Interested Board Members and Officers (continued)

Name, Year of Birth and Address	Position	Length of Time Served	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years
Robert C. Rosselot (1960) 300 S.E. 2nd Street Fort Lauderdale, FL 33301-1923	Chief Compliance Officer	Since 2013	Not Applicable	Not Applicable
Principal Occupation During at Least the Past 5 Years: Director, Global Compliance, Franklin Templeton Investments; Vice President, Franklin Templeton Companies, LLC; officer of 44 of the investment companies in Franklin Templeton Investments; and formerly , Senior Associate General Counsel, Franklin Templeton Investments (2007-2013); and Secretary and Vice President, Templeton Group of Funds (2004-2013).				
Navid J. Tofigh (1972) One Franklin Parkway San Mateo, CA 94403-1906	Vice President	Since 2015	Not Applicable	Not Applicable
Principal Occupation During at Least the Past 5 Years: Associate General Counsel, Franklin Templeton Investments; and officer of 44 of the investment companies in Franklin Templeton Investments.				
Craig S. Tyle (1960) One Franklin Parkway San Mateo, CA 94403-1906	Vice President	Since 2005	Not Applicable	Not Applicable
Principal Occupation During at Least the Past 5 Years: General Counsel and Executive Vice President, Franklin Resources, Inc.; and officer of some of the other subsidiaries of Franklin Resources, Inc. and of 44 of the investment companies in Franklin Templeton Investments.				
Lori A. Weber (1964) 300 S.E. 2nd Street Fort Lauderdale, FL 33301-1923	Vice President	Since 2011	Not Applicable	Not Applicable
Principal Occupation During at Least the Past 5 Years: Senior Associate General Counsel, Franklin Templeton Investments; Assistant Secretary, Franklin Resources, Inc.; Vice President and Secretary, Templeton Investment Counsel, LLC; and officer of 44 of the investment companies in Franklin Templeton Investments.				

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

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

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

The Sarbanes-Oxley Act of 2002 and Rules adopted by the U.S. Securities and Exchange Commission require the Fund to disclose whether the Fund's Audit Committee includes at least one member who is an audit committee financial expert within the meaning of such Act and Rules. The Fund's Board has determined that there is at least one such financial expert on the Audit Committee and has designated each of Edward I. Altman, Ph.D., Ann Torre Bates and David W. Niemiec as an audit committee financial expert. The Board believes that Messrs. Altman and Niemiec and Ms. Bates qualify as such an expert in view of their extensive business background and experience. Mr. Altman has served as a member of the Fund Audit Committee since 1987. He currently serves as a Max L. Hine Professor of Finance, Emeritus and Director of The Credit and Debt Markets Research Program, Salomon Center, Stern School of Business, New York University. Ms. Bates has served as a member of the Fund Audit Committee since 1995. She currently serves as a director of Ares Capital Corporation (2010-present) and United Natural Foods, Inc. (2013-present) and was formerly a director of Navient Corporation from 2014 to 2016, SLM Corporation from 1997 to 2014 and Allied Capital Corporation from 2003 to 2010, Executive Vice President and Chief Financial Officer of NHP Incorporated from 1995 to 1997 and Vice President and Treasurer of US Airways, Inc. until 1995. Mr. Niemiec has served as a member of the Fund Audit Committee since 2015, currently serves as an Advisor to Saratoga Partners and was formerly its Managing Director from 1998 to 2001 and serves as a director of Hess Midstream Partners LP (2017-present). Mr. Niemiec was formerly a director of Emeritus Corporation from 1999 to 2010 and OSI Pharmaceuticals, Inc. from 2006 to 2010, Managing Director of SBC Warburg Dillon Read from 1997 to 1998, and was Vice Chairman from 1991 to 1997 and Chief Financial Officer from 1982 to 1997 of Dillon, Read & Co. Inc. As a result of such background and experience, the Board believes that Messrs. Altman and Niemiec and Ms. Bates have each acquired an understanding of generally accepted accounting principles and financial statements, the general application of such principles in connection with the accounting estimates, accruals and reserves, and analyzing and evaluating financial statements that present a breadth and level of complexity of accounting issues generally comparable to those of the Fund, as well as an understanding of internal controls and procedures for financial reporting and an understanding of audit committee functions. Messrs. Altman and Niemiec and Ms. Bates are independent Board members as that term is defined under the applicable U.S. Securities and Exchange Commission Rules and Releases.

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

Shareholder Information

Proxy Voting Policies and Procedures

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

Quarterly Statement of Investments

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

Householding of Reports and Prospectuses

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

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**FRANKLIN
TEMPLETON**

**Annual Report and Shareholder Letter
Franklin Mutual European Fund**

Investment Manager

Franklin Mutual Advisers, LLC

Distributor

Franklin Templeton Distributors, Inc.

(800) DIAL BEN® / 342-5236

franklintempleton.com

Shareholder Services

(800) 632-2301 - (Class A, C, R & R6)

(800) 448-FUND - (Class Z)

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

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