JUNE 30, 2013
SEMIANNUAL REPORT
AND SHAREHOLDER LETTER



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INTERNATIONAL

Mutual European Fund



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

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

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

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Shareholder Letter

Average Annual Total Return

Class Z	6/30/13
1-Year	+20.55%
5-Year	+3.78%
10-Year	+10.26%

Performance data represent past performance, which does not guarantee future results.

Investment return and principal value will fluctuate, and you may have a gain or loss when you sell your shares. Current performance may differ from figures shown.

Please visit franklintempleton.com or call (800) 342-5236 for most recent month-end performance.

Dear Mutual European Fund Shareholder:

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

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

The MSCI Europe Index is a free float-adjusted, market capitalization-weighted index designed to measure equity
market performance of developed markets in Europe. The index is calculated in local currency and includes reinvested
daily net dividends.

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

The Fund found value in unloved European insurers, which were buffeted by low interest rates and volatility from the eurozone financial crisis in 2011 and 2012. Delta Lloyd is an Amsterdam-based insurance company primarily focused on life insurance in the Netherlands and Belgium.² We were attracted to the company's strong management team, excess reserve position and well-capitalized balance sheet. Management set forth a financial strategy in 2012 to decrease the volatility of its balance sheet and earnings, which could lead to a lower cost of equity. In addition, changes in the Dutch pension laws could increase business prospects as Delta Lloyd is viewed as the premier pension manager in the Netherlands. We expect Delta Lloyd's strength to become apparent to the market as it delivers strong earnings and capital growth.

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

The Fund's distressed debt investing continued to be relatively modest, as it has been over the past few years. Low interest rates and a rather healthy corporate world have meant fewer bankruptcies at a time when significant amounts of capital are chasing relatively few deals. Merger arbitrage opportunities remain limited by the dearth of corporate deals.

Thus far, 2013 has been characterized by performance differentials across asset classes like equities and bonds and across the globe. In the U.S., the recovery from the global financial crisis continues and monetary authorities

^{2.} Mutual European Fund's holdings are based on total net assets as of 6/30/13: Delta Lloyd 2.3%.

^{3.} Mutual European Fund's holdings are based on total net assets as of 6/30/13: BG Group 1.2%.

have begun to look at the end of stimulus, while Europe struggles to achieve growth, albeit with tentative signs that the worst may have passed. We believe these different forces should continue to provide the Fund with attractive opportunities to allocate capital and generate attractive, long-term returns for our investors.

We thank you for your trust and your support.

Peter A Langerman

Sincerely,

Peter A. Langerman

Chairman, President and Chief Executive Officer

Franklin Mutual Advisers, LLC

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

Semiannual Report

Mutual European Fund

Your Fund's Goals and Main Investments: Mutual European Fund seeks capital appreciation, with income as a secondary goal, by investing at least 80% of its net assets in securities of European companies that the manager believes are available at market prices less than their intrinsic value. The Fund defines European companies as issuers organized under the laws of, or whose principal business operations are located in, or who earn at least 50% of their revenue from, European countries, as defined in the prospectus.

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

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

Performance Overview

Mutual European Fund – Class Z delivered a +6.39% cumulative total return for the six months under review. For comparison, the Fund's benchmark, the MSCI Europe Index, which tracks equity performance in Europe's developed markets, posted a +6.11% total return in local currency terms. You can find the Fund's short- and long-term performance data in the Performance Summary beginning on page 10.

Economic and Market Overview

Global developed and emerging market stocks, as measured by the MSCI All Country World Index, advanced during the first six months of 2013 as many central banks continued supportive fiscal policies. The economic focus and highly correlated market movements characteristic of previous periods appeared to be supplanted by a more fundamentals-based market environment. Regional performance was also more consistent with local economic trends, although periodic volatility highlighted the recovery's fragility. Continued U.S. gross domestic product (GDP) growth accompanied improvements in housing, labor and retail sales. Eurozone first-quarter GDP growth missed expectations,

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 20.

^{1.} Source: © 2013 Morningstar. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. The unmanaged index is calculated in local currency and includes reinvested daily net dividends. One cannot invest directly in an index, and an index is not representative of the Fund's portfolio.

although the number of unemployed declined and manufacturing indicator levels improved. Japan demonstrated economic progress amid major reflationary initiatives as business confidence, industrial production and retail sales improved and inflation stabilized. However, investor confidence in the country's radical policy maneuvers wavered. China's growth rate and manufacturing levels were weaker than expected, and the International Monetary Fund downgraded the country's growth outlook.

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

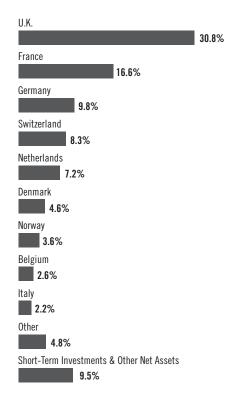
In the second quarter, gold, traditionally a safe haven, posted its worst quarterly performance since 1974 as inflation expectations remained subdued and global commodities stayed under pressure. Investor sentiment improved in the last week of the period, and stock prices rebounded from period lows after China's central bank intervened to calm the country's interbank market, positive economic reports helped stabilize Japanese government bond yields and several Fed members reassured investors that the Fed's accommodative monetary policy would continue.

Investment Strategy

We follow a distinctive value investment approach that combines investments in what we believe are undervalued common stocks with distressed debt investing and risk 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.

Geographic Breakdown

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



What is meant by "hedge"?

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

What is a currency forward contract?

A currency forward contract, also called a "currency forward," is an agreement between the Fund and a counterparty to buy or sell a foreign currency at a specific exchange rate on a future date. In addition, it is our practice to hedge the Fund's currency exposure when we deem it advantageous for our shareholders.

Manager's Discussion

Three top contributors to performance during the six months under review were Belgian insurer Ageas, French aerospace manufacturer Safran and Dutch food retailer Ahold.

Ageas is a diversified insurance company with operations in Belgium, the U.K. and Asia. Strengthened underwriting practices have contributed to steadily improving earnings, and in May, the company announced a substantial increase to its dividend payment. Ageas has monetized its legacy assets more quickly and at higher values than the market had anticipated, contributing to strength in the share price.

Safran is a civil aerospace manufacturer, with additional interests in defense and military/civil security. In April, the company reported positive first-quarter sales and earnings results and its second consecutive quarter of aftermarket sales growth. Safran's largest profit driver is the CFM International joint venture with General Electric, which builds and maintains the CFM series of jet engines for short haul/narrow-bodied aircraft. Following the global financial crisis, airplanes logged fewer miles, and airlines sought to conserve cash by pulling back on maintenance work. However, we have maintained that this was a deferral rather than a permanent reduction in maintenance demand. The recent strength in aftermarket sales appears to have confirmed our view.

Ahold operates supermarkets primarily in the Netherlands and the U.S. Shares rose following the sale of its 60% stake in Scandinavian retailer ICA in March. Management stated that a portion of the sale proceeds would be used to expand the company's existing share buyback program. Ahold has maintained shareholder-friendly policies, has one of the highest free cash flow yields in the industry and has distributed a significant portion of that cash flow through dividends and share buybacks. Following the ICA sale, Ahold has held a substantial cash stockpile generating little in the way of returns for investors. From our perspective, the company's capital structure has remained inefficient and returning more of its cash on hand to shareholders would be a prudent move and could potentially drive the share price higher.

Among the top detractors from performance were U.K.-based transport company FirstGroup, German engineering and steel conglomerate ThyssenKrupp and U.K.-based oil and gas firm Cairn Energy.

In May, FirstGroup announced a rights offering aimed at raising more than 600 million pounds to be used to pay down debt and finance an operational turnaround. While we considered this in our initial investment analysis, the stock declined sharply after the announcement but subsequently regained some of its losses. We were encouraged when the company chairman announced his resignation and the entire board put itself up for re-election at the Extraordinary General Meeting held in June to approve the rights issue. With the proceeds from the rights issue, the company will be able to invest in its U.K. bus operations and refinance high coupon debt, potentially improving operating margins over the medium term.

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

Shares of oil and gas exploration and production company Cairn Energy declined as a result of weakening sentiment for energy exploration companies arising from lower oil prices and the disclosure of poor well results by some competitors. In our view, the company's development projects remained on track, and we continued to be optimistic about its upcoming high-impact exploration program. At period-end, our valuation analyses led us to believe Cairn Energy traded at a discount to the sum of cash on the balance sheet and the value of its Cairn India stake, with the market attributing no value to the development and exploration portfolio.

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

Top 10 Equity Holdings

	% of Total Net Assets
A.P. Moller-Maersk AS, B Marine, Denmark	3.0%
Safran SA Aerospace & Defense, France	2.7%
Ageas Insurance, Belgium	2.6%
Kingfisher PLC Specialty Retail, U.K.	2.5%
Novartis AG Pharmaceuticals, Switzerland	2.5%
Delta Lloyd NV Insurance, Netherlands	2.3%
Reed Elsevier PLC Media, U.K.	2.3%
ING Groep NV, IDR Diversified Financial Services, Netherlands	2.3%
Zurich Insurance Group AG Insurance, Switzerland	2.2%
Accor SA Hotels, Restaurants & Leisure, Fran	2.2% nce

What is a futures contract?

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

Top 10 Sectors/Industries

Based on Equity Securities as of 6/30/13

	% of Total Net Assets
Insurance	13.6%
Oil, Gas & Consumable Fuels	8.5%
Commercial Banks	6.3%
Auto Components	4.5%
Specialty Retail	4.1%
Diversified Telecommunication Servic	es 3.8%
Food & Staples Retailing	3.7%
Media	3.5%
Metals & Mining	3.3%
Marine	3.0%

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





Philippe Brugere-Trelat Co-Portfolio Manager





Katrina Dudley, CFA Co-Portfolio Manager

Mutual European Fund

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

Philippe Brugere-Trelat has been co-portfolio manager for Mutual European Fund since 2010 and portfolio manager since 2005. He also has been portfolio manager for Mutual Global Discovery Fund since 2009. He has been a member of the management team of the Mutual Series Funds since 2004, when he rejoined Franklin Templeton Investments. Previously, he was president and portfolio manager of Eurovest. Between 1984 and 1994, Mr. Brugere-Trelat was employed at Heine Securities Corporation, the Fund's former manager.

Katrina Dudley has been co-portfolio manager for Mutual European Fund since 2010 and was assistant portfolio manager since 2007. She follows industrial companies (foreign and domestic) including transportation, manufacturers, machinery, electrical equipment and general industrial, as well as health care services companies. Prior to joining Franklin Templeton Investments in 2002, Ms. Dudley was an investment analyst at Federated Investors, Inc., responsible for the technology and health care sectors. From 1995 to 2001, Ms. Dudley was a senior manager in the corporate finance division of Ernst & Young LLP, where she specialized in valuation and litigation consulting.

Performance Summary as of 6/30/13

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

Price Information

Class Z (Symbol: MEURX)	Change	6/30/13	12/31/12
Net Asset Value (NAV)	+\$1.35	\$22.48	\$21.13
Class A (Symbol: TEMIX)	Change	6/30/13	12/31/12
Net Asset Value (NAV)	+\$1.28	\$21.99	\$20.71
Class C (Symbol: TEURX)	Change	6/30/13	12/31/12
Net Asset Value (NAV)	+\$1.21	\$22.00	\$20.79
Class R (Symbol: n/a)	Change	6/30/13	12/31/12
Net Asset Value (NAV)	+\$1.26	\$21.81	\$20.55
Class R6 (Symbol: FMEUX)	Change	6/30/13	5/1/13
Net Asset Value (NAV)	-\$0.05	\$22.49	\$22.54

Performance Summary (continued)

Performance

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

Class Z	6-Month	1-Year	5-Year	10-Year
Cumulative Total Return ¹	+6.39%	+20.55%	+20.36%	+165.49%
Average Annual Total Return ²	+6.39%	+20.55%	+3.78%	+10.26%
Value of \$10,000 Investment ³	\$10,639	\$12,055	\$12,036	\$26,549
Total Annual Operating Expenses ⁴		1.13%		
Class A	6-Month	1-Year	5-Year	10-Year
Cumulative Total Return ¹	+6.18%	+20.22%	+18.56%	+157.53%
Average Annual Total Return ²	+0.09%	+13.28%	+2.24%	+9.28%
Value of \$10,000 Investment ³	\$10,009	\$11,328	\$11,174	\$24,278
Total Annual Operating Expenses ⁴		1.43%		
Class C	6-Month	1-Year	5-Year	10-Year
Cumulative Total Return ¹	+5.82%	+19.35%	+14.48%	+140.45%
Average Annual Total Return ²	+4.82%	+18.35%	+2.74%	+9.17%
Value of \$10,000 Investment ³	\$10,482	\$11,835	\$11,448	\$24,045
Total Annual Operating Expenses ⁴		2.13%		
Class R	6-Month	1-Year	3-Year	Inception (10/30/09)
Cumulative Total Return ¹	+6.13%	+20.00%	+27.44%	+28.11%
Average Annual Total Return ²	+6.13%	+20.00%	+8.42%	+6.99%
Value of \$10,000 Investment ³	\$10,613	\$12,000	\$12,744	\$12,811
Total Annual Operating Expenses ⁴		1.63%		
Class R6				Inception (5/1/13)
Cumulative Total Return ¹				-0.22%
Aggregate Total Return ⁵				-0.22%
Value of \$10,000 Investment ³				\$9,978
Total Annual Operating Expenses ⁴		0.92%		

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

Performance Summary (continued)

Endnotes

All investments involve risks, including possible loss of principal. Value securities may not increase in price as anticipated or may decline further in value. Special risks are associated with foreign investing, including currency fluctuations, economic instability and political developments. Because the Fund invests its assets primarily in companies in a specific region, 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. Political, social or economic disruptions in the region, even in countries in which the Fund is not invested, may adversely affect the value of securities held by the Fund. Current political uncertainty surrounding the European Union (EU) and its membership may increase market volatility. The financial instability of some countries in the EU, including Greece, Italy and Spain, together with the risk of that impacting other more stable countries may increase 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.

- Class Z: Shares are available to certain eligible investors as described in the prospectus.
- Class C: Prior to 1/1/04, these shares were offered with an initial sales charge; thus actual total returns would have differed. These shares have higher annual fees and expenses than Class A shares.
- Class R: Shares are available to certain eligible investors as described in the prospectus. These shares have higher annual fees and expenses than Class A shares.
- **Class R6:** Shares are available to certain eligible investors as described in the prospectus.
- 1. Cumulative total return represents the change in value of an investment over the periods indicated.
- 2. Average annual total return represents the average annual change in value of an investment over the periods indicated. Six-month return has not been annualized.
- 3. These figures represent the value of a hypothetical \$10,000 investment in the Fund over the periods indicated.
- 4. Figures are as stated in the current prospectus. In periods of market volatility, assets may decline significantly, causing total annual Fund operating expenses to become higher than the figures shown.
- 5. Aggregate total return represents the change in value of an investment for the period indicated. Since Class R6 shares have existed for less than one year, average annual total return is not available.

Your Fund's Expenses

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

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

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

Actual Fund Expenses

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

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

- 1. Divide your account value by \$1,000. If an account had an \$8,600 value, then $$8,600 \div $1,000 = 8.6$.
- 2. Multiply the result by the number under the heading "Expenses Paid During Period." If Expenses Paid During Period were \$7.50, then $8.6 \times $7.50 = 64.50 .

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

Hypothetical Example for Comparison with Other Funds

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

Your Fund's Expenses (continued)

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

Class Z	Beginning Account Value 1/1/13	Ending Account Value 6/30/13	Expenses Paid During Period* 1/1/13–6/30/13
Actual	\$1,000	\$1,063.90	\$ 5.58
Hypothetical (5% return before expenses)	\$1,000	\$1,019.39	\$ 5.46
Class A			
Actual	\$1,000	\$1,061.80	\$ 7.11
Hypothetical (5% return before expenses)	\$1,000	\$1,017.90	\$ 6.95
Class C			
Actual	\$1,000	\$1,058.20	\$10.67
Hypothetical (5% return before expenses)	\$1,000	\$1,014.43	\$10.44
Class R			
Actual	\$1,000	\$1,061.30	\$ 8.13
Hypothetical (5% return before expenses)	\$1,000	\$1,016.91	\$ 7.95
Class R6			
Actual (5/1/13 - 6/30/13)	\$1,000	\$ 997.80	\$ 1.54
Hypothetical (5% return before expenses)	\$1,000	\$1,019.39	\$ 4.61

^{*}Expenses are calculated using the most recent six-month expense ratio, annualized for each class (Z: 1.09%; A: 1.39%; C: 2.09%; R: 1.59%; and R6: 0.92%), multiplied by the average account value over the period, multiplied by 181/365 to reflect the one-half year period for Class R6 Hypothetical expenses and Actual and Hypothetical expenses for Classes Z, A, C and R. The multiplier is 61/365 for Actual Class R6 expenses to reflect the number of days since inception.

Financial Highlights

	Six Months Endo June 30, 2013				er 31,	
Class Z	(unaudited)	2012	2011	2010	2009	2008
Per share operating performance (for a share outstanding throughout the period)						
Net asset value, beginning of period	\$21.13	\$18.95	\$21.47	\$20.39	\$17.25	\$26.32
Income from investment operations ^a :						
Net investment income ^b	0.41	0.44	0.50	0.34	0.40	0.48
Net realized and unrealized gains (losses)	0.94	2.89	(2.25)	1.40	3.52	(8.90)
Total from investment operations	1.35	3.33	(1.75)	1.74	3.92	(8.42)
Less distributions from:						
Net investment income	_	(0.68)	(0.77)	(0.66)	(0.78)	(0.03)
Net realized gains		(0.47)		_		(0.62)
Total distributions		(1.15)	(0.77)	(0.66)	(0.78)	(0.65)
Redemption fees ^c						d
Net asset value, end of period	\$22.48	\$21.13	\$18.95	\$21.47	\$20.39	\$17.25
Total returne	6.39%	17.73%	(8.01)%	8.61%	23.01%	(32.47)%
Ratios to average net assets ^f						
Expenses before expense reduction ^g	1.09%	1.13%	1.11%	1.10%	1.13%	1.09%
Expenses net of expense reduction ^g	1.09%	1.13%	1.11%	1.10%	1.12%	1.09% ^h
Expenses incurred in connection with						
securities sold short	—%	—%	—%	—%	—%	—% ⁱ
Net investment income	3.82%	2.16%	2.43%	1.65%	2.17%	2.22%
Supplemental data						
Net assets, end of period (000's)	\$997,342	\$1,101,659	\$964,069	\$1,057,801	\$1,017,962	\$800,264
Portfolio turnover rate	23.18%	41.69%	32.60%	35.44%	58.83%	42.15%

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

bBased on average daily shares outstanding.

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

dAmount rounds to less than \$0.01 per share.

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

fRatios are annualized for periods less than one year.

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

hBenefit of expense reduction rounds to less than 0.01%.

Rounds to less than 0.01%.

	Six Months Ended June 30, 2013			Year Ended December 31,		
Class A	(unaudited)	2012	2011	2010	2009	2008
Per share operating performance (for a share outstanding throughout the period)						
Net asset value, beginning of period	\$20.71	\$18.59	\$21.06	\$20.02	\$16.89	\$25.86
Income from investment operations ^a :						
Net investment income ^b	0.38	0.37	0.44	0.27	0.34	0.42
Net realized and unrealized gains (losses)	0.90	2.84	(2.20)	1.37	3.45	(8.75)
Total from investment operations	1.28	3.21	(1.76)	1.64	3.79	(8.33)
Less distributions from:						
Net investment income	_	(0.62)	(0.71)	(0.60)	(0.66)	(0.02)
Net realized gains		(0.47)	_	_	_	(0.62)
Total distributions		(1.09)	(0.71)	(0.60)	(0.66)	(0.64)
Redemption fees ^c			_		_	d
Net asset value, end of period	\$21.99	\$20.71	\$18.59	\$21.06	\$20.02	\$16.89
						_
Total returne	6.18%	17.37%	(8.27)%	8.25%	22.67%	(32.68)%
Ratios to average net assets ^f						
Expenses before expense reduction ^g	1.39%	1.43%	1.41%	1.40%	1.43%	1.38%
Expenses net of expense reduction ^g	1.39%	1.43%	1.41%	1.40%	1.42%	1.38% ^h
Expenses incurred in connection with						
securities sold short	—%	—%	—%	—%	—%	—%i
Net investment income	3.52%	1.86%	2.13%	1.35%	1.87%	1.93%
Supplemental data						
Net assets, end of period (000's)	\$707,656	\$653,435	\$593,825	\$765,304	\$807,932	\$688,842
Portfolio turnover rate	23.18%	41.69%	32.60%	35.44%	58.83%	42.15%

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

bBased on average daily shares outstanding.

^cEffective September 1, 2008, the redemption fee was eliminated.

dAmount rounds to less than \$0.01 per share.

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

^fRatios are annualized for periods less than one year.

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

 $^{^{\}rm h}\textsc{Benefit}$ of expense reduction rounds to less than 0.01%.

Rounds to less than 0.01%.

	Six Months Ended June 30, 2013		Year Ended December 31,			
Class C	(unaudited)	2012	2011	2010	2009	2008
Per share operating performance (for a share outstanding throughout the period)						
Net asset value, beginning of period	\$20.79	\$18.66	\$21.10	\$20.05	\$16.76	\$25.82
Income from investment operations ^a :						
Net investment income ^b	0.30	0.24	0.31	0.13	0.21	0.28
Net realized and unrealized gains (losses)	0.91	2.83	(2.20)	1.36	3.42	(8.71)
Total from investment operations	1.21	3.07	(1.89)	1.49	3.63	(8.43)
Less distributions from:						
Net investment income	_	(0.47)	(0.55)	(0.44)	(0.34)	(0.01)
Net realized gains		(0.47)	_	_	_	(0.62)
Total distributions		(0.94)	(0.55)	(0.44)	(0.34)	(0.63)
Redemption feesc		_	_	_	_	d
Net asset value, end of period	\$22.00	\$20.79	\$18.66	\$21.10	\$20.05	\$16.76
Total returne	5.82%	16.54%	(8.90)%	7.52%	21.76%	(33.14)%
Ratios to average net assets ^f						
Expenses before expense reduction ^g	2.09%	2.13%	2.11%	2.10%	2.13%	2.08%
Expenses net of expense reduction ^g	2.09%	2.13%	2.11%	2.10%	2.12%	2.08% ^h
Expenses incurred in connection with						
securities sold short	—%	—%	—%	—%	—%	—% ⁱ
Net investment income	2.82%	1.16%	1.43%	0.65%	1.17%	1.23%
Supplemental data						
Net assets, end of period (000's)	\$129,609	\$122,438	\$127,012	\$171,750	\$192,122	\$189,244
Portfolio turnover rate	23.18%	41.69%	32.60%	35.44%	58.83%	42.15%

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

bBased on average daily shares outstanding.

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

dAmount rounds to less than \$0.01 per share.

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

fRatios are annualized for periods less than one year.

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

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

Rounds to less than 0.01%.

	Six Months Ended June 30, 2013		V = 1.15		nber 31,
Class R	(unaudited)	2012	2011	2010	2009a
Per share operating performance					
(for a share outstanding throughout the period)					
Net asset value, beginning of period	\$20.55	\$18.47	\$21.00	\$19.98	\$19.36
Income from investment operations ^b :					
Net investment income ^c	0.36	0.33	0.16	0.19	0.02
Net realized and unrealized gains (losses)	0.90	2.81	(1.97)	1.42	0.79
Total from investment operations	1.26	3.14	(1.81)	1.61	0.81
Less distributions from:					
Net investment income	_	(0.59)	(0.72)	(0.59)	(0.19)
Net realized gains		(0.47)	_	_	
Total distributions		(1.06)	(0.72)	(0.59)	(0.19)
Net asset value, end of period	\$21.81	\$20.55	\$18.47	\$21.00	\$19.98
Total returnd	6.13%	17.16%	(8.45)%	8.02%	4.23%
Ratios to average net assets ^e					
Expenses before expense reduction	1.59%	1.63%	1.61%	1.60%	1.63%
Expenses net of expense reduction	1.59%	1.63%	1.61%	1.60%	1.62%
Net investment income	3.32%	1.66%	1.93%	1.15%	1.67%
Supplemental data					
Net assets, end of period (000's)	\$55	\$46	\$31	\$21	\$5
Portfolio turnover rate	23.18%	41.69%	32.60%	35.44%	58.83%

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

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

^cBased on average daily shares outstanding.

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

eRatios are annualized for periods less than one year.

Class R6	Period Ended June 30, 2013 ^a (unaudited)
Per share operating performance (for a share outstanding throughout the period)	
Net asset value, beginning of period	\$22.54
Income from investment operations ^b :	
Net investment income ^c	0.19
Net realized and unrealized gains (losses)	(0.24)
Total from investment operations	(0.05)
Net asset value, end of period	\$22.49
Total return ^d	(0.22)%
Ratios to average net assets ^e	
Expenses	0.92%
Net investment income	3.98%
Supplemental data	
Net assets, end of period (000's)	\$214,338
Portfolio turnover rate	23.18%

^aFor the period May 1, 2013 (effective date) to June 30, 2013.

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

^cBased on average daily shares outstanding.

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

eRatios are annualized for periods less than one year.

Statement of Investments, June 30, 2013 (unaudited)

	Country	Shares	Value
Common Stocks and Other Equity Interests 90.3%			
Aerospace & Defense 2.7%			
Safran SA	France	1,054,339	\$ 55,066,760
Airlines 2.0%			
^a International Consolidated Airlines Group SA	United Kingdom	10,151,110	40,726,279
Auto Components 4.5%	_		
Continental AG	Germany	246,996	32,986,139
Pirelli & C. SpA	Italy	2,851,397	33,013,977
Valeo SA	France	417,590	26,245,602
		,	92,245,718
D 0.20/			
Beverages 0.2%	F	00 771	2 100 246
Pernod Ricard SA	France	28,771	3,190,346
Capital Markets 1.3%			
UBS AG	Switzerland	1,510,913	25,713,585
Commercial Banks 6.3%			
Barclays PLC	United Kingdom	6,277,319	26,580,848
BNP Paribas SA	France	780,500	42,643,989
^a Danske Bank AS	Denmark	514,507	8,799,519
HSBC Holdings PLC	United Kingdom	4,103,920	42,563,549
Societe Generale	France	266,170	9,146,549
			129,734,454
Construction & Engineering 1.1%			
Vinci SA	France	435,808	21,871,074
	Trance	400,000	21,071,074
Construction Materials 1.7%	-	552 200	24.006.616
SA des Ciments Vicat	France	553,380	34,286,616
Containers & Packaging 1.6%			
Rexam PLC	United Kingdom	4,639,029	33,685,376
Diversified Financial Services 2.4%			
^a ING Groep NV, IDR	Netherlands	5,063,750	46,138,610
Oslo Bors VPS Holding ASA	Norway	340,000	2,799,045
			48,937,655
Diversified Telecommunication Services 3.8%			
a,b,c Marconi Corp., Contingent Distribution	United Kingdom	28,582,000	_
TDC AS	Denmark	2,914,420	23,620,329
Telenor ASA	Norway	1,485,777	29,453,783
Vivendi SA	France	1,315,725	24,918,525
		_,,,	77,992,637
FL 1: 15 : 1110/			
Electrical Equipment 1.1% Alstom SA	Fue:	(70.025	20.000.010
	France	672,035	22,008,819
Electronic Equipment, Instruments & Components 0.2%			
Premier Farnell PLC	United Kingdom	1,063,554	3,266,554
Energy Equipment & Services 1.8%			
^a DeepOcean Group Holding AS	Norway	915,467	16,020,672
Fugro NV, IDR	Netherlands	397,554	21,552,882
		•	37,573,554

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

	Country	Shares	Value
Common Stocks and Other Equity Interests (continued)			
Food & Staples Retailing 3.7%			
Koninklijke Ahold NV	Netherlands	2,097,711	\$ 31,223,101
Metro AG	Germany	1,418,818	44,914,283
	•		76,137,384
Health Care Providers & Services 2.0%			
Celesio AG	Germany	1,828,893	39,755,661
Hotels, Restaurants & Leisure 2.6%			
Accor SA	France	1,283,346	45,161,082
aTUI AG	Germany	663,648	7,889,427
	,	,	53,050,509
Insurance 13.6%			
ACE Ltd	United States	306,024	27,383,027
Ageas	Belgium	1,488,339	52,258,570
Delta Lloyd NV	Netherlands	2,372,443	47,541,151
Direct Line Insurance Group PLC	United Kingdom	5,765,090	20,437,830
Lancashire Holdings Ltd	United Kingdom	1,027,808	12,360,544
a,d Olympus Re Holdings Ltd	United States	16,080	_
Resolution Ltd.	United Kingdom	2,528,420	10,961,164
RSA Insurance Group PLC	United Kingdom	19,542,566	35,383,224
a Storebrand ASA	Norway	5,404,983	26,074,916
Zurich Insurance Group AG	Switzerland	176,900	45,870,244
Zunen insurance droup //d	OWITZCHANG	170,300	278,270,670
Machinery 2.0%			
Fiat Industrial SpA	Italy	859,993	9,587,745
KUKA AG	Germany	447,003	18,901,119
Schindler Holding AG, PC, non-voting	Switzerland	35,405	4,931,257
Schindler Holding AG, RS	Switzerland	58,477	7,921,952
ochimater florating Ma, No	OWITZCHANG	30,477	41,342,073
Marine 3.0%			
A.P. Moller-Maersk AS, B	Denmark	8,591	61,530,814
	Delilliark	0,331	01,330,814
Media 3.5%	Гиота	200 220	0.400.000
Eutelsat Communications	France	298,328	8,469,229
Reed Elsevier PLC	United Kingdom	4,134,387	46,985,457
RTL Group SA	Luxembourg	201,715	16,580,811
			72,035,497
Metals & Mining 3.3%			
Anglo American PLC	United Kingdom	815,825	15,714,067
^a ThyssenKrupp AG	Germany	1,909,405	37,516,765
Voestalpine AG	Austria	430,754	15,211,545
			68,442,377
Multi-Utilities 1.0%			
GDF Suez	France	1,094,557	21,435,064
Multiline Retail 1.4%			
Marks & Spencer Group PLC	United Kingdom	4,519,499	29,621,264
	zgavill	.,010,100	

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

	Country	Shares	Value
Common Stocks and Other Equity Interests (continued) Oil, Gas & Consumable Fuels 8.5%			
BG Group PLC	United Kingdom	1,437,070	\$ 24,451,043
BP PLC	United Kingdom	6,372,781	44,135,148
^a Cairn Energy PLC	United Kingdom	10,045,707	38,661,015
Repsol SA	Spain	1,185,592	25,015,690
Royal Dutch Shell PLC, A	United Kingdom	1,279,526	40,879,574
,	ooagao	1,273,020	173,142,470
Pharmaceuticals 2.5%			
Novartis AG	Switzerland	710,824	50,480,278
Real Estate Management & Development 0.0%			
^c Canary Wharf Group PLC	United Kingdom	192,100	819,671
Road & Rail 2.4%			
^{d,e} Euro Wagon LP	Jersey Islands	16,127,149	14,572,579
FirstGroup PLC	United Kingdom	23,507,932	34,438,153
			49,010,732
Software 0.9%			
SAP AG	Germany	242,918	17,789,086
Specialty Retail 4.1%			
^a Dufry AG	Switzerland	283,414	34,375,027
Kingfisher PLC	United Kingdom	9,708,475	50,651,796
			85,026,823
Tobacco 1.8%			
British American Tobacco PLC	United Kingdom	526,173	26,961,758
Imperial Tobacco Group PLC	United Kingdom	285,911	9,916,247
			36,878,005
Trading Companies & Distributors 1.2%			
Rexel SA	France	1,126,484	25,337,454
Wireless Telecommunication Services 2.1%			
Vodafone Group PLC	United Kingdom	14,882,161	42,528,414
Total Common Stocks and Other Equity Interests			1 0 40 000 670
(Cost \$1,633,105,949)			1,848,933,673
		Principal Amount*	
Corporate Notes 0.1%			
fWind Acquisition Finance SA, 144A, 11.75%, 7/15/17			
senior secured note	Italy	313,000	327,085
third lien	Italy	915,000 EUR	1,244,605
Total Corporate Notes (Cost \$1,238,205)	reary	310,000 LON	
iotai corporate notes (cost \$1,238,203)			1,571,690

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

	Country	Principal Amount*	Value
Corporate Notes in Reorganization 0.1% f.g Glitnir Banki HF, senior note, 144A,			
6.375%, 9/25/12	Iceland	5,000,000	\$ 1,462,500
^h FRN, 4.763%, 4/20/10	Iceland	5,000,000	1,462,500
Total Corporate Notes in Reorganization (Cost \$2,700,000)			2,925,000
Total Investments before Short Term Investments			
(Cost \$1,637,044,154)			1,853,430,363
Short Term Investments 7.3%			
U.S. Government and Agency Securities 7.3%			
[†] FHLB, 7/01/13	United States	6,300,000	6,300,000
U.S. Treasury Bills,			
7/25/13	United States	25,000,000	24,999,800
^j 7/05/13 - 11/21/13	United States	93,300,000	93,289,789
11/29/13	United States	25,000,000	24,992,400
Total U.S. Government and Agency Securities			
(Cost \$149,574,536)			149,581,989
Total Investments (Cost \$1,786,618,690) 97.8%			2,003,012,352
Other Assets, less Liabilities 2.2%			45,988,180
Net Assets 100.0%			\$2,049,000,532

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

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

eSecurity has been deemed illiquid because it may not be able to be sold within seven days. At June 30, 2013, the aggregate value of these securities was \$819,671, representing 0.04% of net assets.

^dSee Note 10 regarding restricted securities.

eSee Note 12 regarding holdings of 5% voting securities.

Security was purchased pursuant to Rule 144A under the Securities Act of 1933 and may be sold in transactions exempt from registration only to qualified institutional buyers or in a public offering registered under the Securities Act of 1933. These securities have been deemed liquid under guidelines approved by the Trust's Board of Trustees. At June 30, 2013, the aggregate value of these securities was \$4,496,690, representing 0.22% of net assets.

gSee Note 8 regarding credit risk and defaulted securities.

hThe coupon rate shown represents the rate at period end.

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

Security or a portion of the security has been pledged as collateral for open futures contracts. At June 30, 2013, the value of this security and/or cash pledged as collateral was \$3,558,807, representing 0.17% of net assets.

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

^aNon-income producing.

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

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

Futures Contracts

		Number of	Notional	Expiration	Unrealized	Unrealized
Description	Туре	Contracts	Value	Date	Appreciation	Depreciation
Currency Contracts						
EUR/USD	Short	1,056	\$171,903,600	9/16/13	\$3,695,064	\$—
GBP/USD	Short	929	88,278,225	9/16/13	2,483,010	_
Unrealized appreciation (depreciat	tion)				6,178,074	_
Net unrealized appreciation (dep	oreciation) .				\$6,178,074	

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

Forward Exchange Contracts

					Settlement	Unrealized	Unrealized
Currency	Counterparty	Туре	Quantity	Contract Amount	Date	Appreciation	Depreciation
Euro	FBCO	Buy	12,902,429	\$16,976,681	7/17/13	\$ —	\$(180,931)
Euro	SCBT	Buy	1,996,556	2,643,919	7/17/13	_	(44,901)
Euro	BBU	Buy	4,403,194	5,759,853	7/17/13	_	(27,991)
Euro	DBFX	Buy	1,161,857	1,529,514	7/17/13	_	(17,067)
Euro	BANT	Buy	2,201,597	2,882,139	7/17/13	_	(16,208)
Euro	BANT	Sell	10,958,305	14,704,362	7/17/13	439,379	_
Euro	BBU	Sell	67,535,514	90,183,210	7/17/13	2,268,792	_
Euro	FBCO	Sell	7,494,054	10,179,478	7/17/13	424,085	_
Euro	HSBC	Sell	884,346	1,191,745	7/17/13	40,546	_
Euro	DBFX	Sell	62,808,930	82,105,944	7/17/13	344,360	_
Euro	SCBT	Sell	1,449,520	1,942,257	7/17/13	55,343	_
Euro	HAND	Sell	3,906,250	5,348,984	7/17/13	264,020	_
British Pound	BANT	Sell	951,475	1,436,947	7/19/13	_	(9,891)
British Pound	HSBC	Sell	46,809,644	71,291,088	7/19/13	111,124	_
British Pound	BANT	Sell	4,319,978	6,590,517	7/19/13	21,445	_
British Pound	FBCO	Sell	4,560,530	6,979,470	7/19/13	44,610	_
British Pound	DBFX	Sell	1,283,347	1,957,041	7/19/13	5,549	_
British Pound	SCBT	Sell	2,322,511	3,608,424	7/19/13	76,753	_
British Pound	DBFX	Sell	2,204,604	3,372,667	8/12/13	20,847	_
Swiss Franc	FBCO	Buy	9,461,128	10,174,762	8/12/13	_	(157,710)
Swiss Franc	DBFX	Buy	4,457,994	4,782,863	8/12/13	_	(62,743)
Swiss Franc	FBCO	Sell	5,194,791	5,457,443	8/12/13	_	(42,796)
Swiss Franc	BBU	Buy	182,541	196,605	8/12/13	_	(3,331)
Swiss Franc	HAND	Buy	125,049	134,242	8/12/13	_	(1,840)
Swiss Franc	SCBT	Buy	629,112	666,905	8/12/13	_	(802)
Swiss Franc	BANT	Buy	180,065	190,931	8/12/13	_	(278)
Swiss Franc	DBFX	Buy	919,413	955,321	8/12/13	18,152	_
Swiss Franc	SCBT	Buy	97,757	101,601	8/12/13	1,904	_
Swiss Franc	BBU	Buy	1,668,415	1,740,992	8/12/13	25,525	_
Swiss Franc	FBCO	Buy	70,400	74,406	8/12/13	89	_
Swiss Franc	FBCO	Sell	68,010,604	74,004,340	8/12/13	1,994,775	_
Swiss Franc	DBFX	Sell	54,494,195	59,526,779	8/12/13	1,828,376	_

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

Forward Exchange Contracts (continued)

Sowiss Franc SCBT Sell 5,638,229 6,020,503 8/12/13 \$5,0752 \$—8 British Pound FBCO Sell 17,846,914 27,610,776 8/19/13 478,115 ——8 British Pound BANT Sell 28,019,049 43,354,719 8/19/13 757,364 ——8 British Pound DBFX Sell 31,474,715 48,785,808 8/19/13 934,804 ——9 British Pound DBFX Sell 5,947,281 9,138,033 8/19/13 934,804 ——9 Euro BANT Sell 2,632,468 3,405,730 8/30/13 428,993 — Euro BANT Sell 2,632,468 3,405,730 8/30/13 339,436 — Euro BBU Sell 51,269,86 6,719,252 8/30/13 339,436 — Euro HSBC Sell 2,062,937 2,696,795 8/30/13 1,546 — Euro HSBC Sell 2,062,937 2						Settlement	Unrealized	Unrealized
British Pound FBCO Sell 17,846,914 27,610,776 819/13 478,115 — British Pound SCBT Sell 38,1074,1715 48,785,808 819/13 934,804 — British Pound DBFX Sell 5,947,281 9,138,033 819/13 934,804 — British Pound DBFX Sell 5,947,281 9,138,033 819/13 96,383 — CEUTO BANT Sell 62,086,941 81,267,199 8/30/13 428,993 — CEUTO BBU Sell 56,631,646 74,074,759 8/30/13 339,436 — CEUTO BBU Sell 56,631,646 74,074,759 8/30/13 339,436 — CEUTO BBU Sell 56,631,646 74,074,759 8/30/13 43,833 — CEUTO SCBT Sell 92,3588 1,204,073 8/30/13 10,818 — CEUTO HSBC Sell 2,062,937 2,696,795 8/30/13 10,818 — CEUTO HSBC Sell 2,062,937 2,696,795 8/30/13 10,818 — CEUTO HAND Sell 69,718,060 10,914,418 9/06/13 — (535,897) — (535,897) — (535,897) — (545,993 8/30/13 — (535,897) — (545,993 8/30/13 — (535,897) — (545,993 8/30/13 — (535,897) — (545,993 8/30/13 — (545,993 — (545,993 8/30/13 — (545,993 — (545	Currency	Counterparty	Type	Quantity	Contract Amount	Date	Appreciation	Depreciation
British Pound BANT Sell 28,019,049 43,354,719 8/19/13 757,364 ————————————————————————————————————	Swiss Franc	SCBT	Sell	5,638,229	\$ 6,020,503	8/12/13	\$ 50,752	\$ —
British Pound DBFX Sell 31,474,715 48,785,808 81,913 934,804 — British Pound DBFX Sell 5,947,281 9,138,033 81,91/3 96,383 — (21,787) Euro BANT Sell 62,086,941 81,267,199 8/30/13 428,993 — Euro DBFX Sell 51,165,986 6,719,252 8/30/13 43,833 — Euro DBFX Sell 51,165,986 6,719,252 8/30/13 1,546 — Euro DBFX Sell 523,588 1,204,073 8/30/13 1,546 — Euro SCBT Sell 22,027,041 2,645,993 8/30/13 1,546 — SCBT Sell 2,027,041 2,645,993 8/30/13 1,546 — (535,897) Swedish Krona HAND Buy 69,718,060 10,914,418 9/06/13 — (535,897) Swedish Krona HAND Buy 69,718,060 10,914,418 9/06/13 — (535,897) Swedish Krona HAND Sell 52,175 677,637 10/16/13 — (41,103) Euro DBFX Sell 86,358,299 113,152,134 10/16/13 — (41,103) Euro DBFX Sell 86,358,299 113,152,134 10/16/13 685,467 — (46,103) Euro DBFX Sell 86,358,299 113,152,134 10/16/13 685,467 — (46,103) Euro DBFX Sell 86,358,299 113,152,134 10/16/13 685,467 — (46,103) Euro DBFX Sell 86,358,299 113,152,134 10/16/13 685,467 — (46,103) Euro DBFX Sell 86,358,299 113,152,134 10/16/13 685,467 — (46,103) Euro DBFX Sell 86,358,299 113,152,134 10/16/13 685,467 — (46,103) Euro DBFX Sell 86,358,299 113,152,134 10/16/13 685,467 — (46,103) Euro DBFX Sell 86,358,299 113,152,134 10/16/13 685,467 — (46,103) Euro DBFX Sell 86,358,299 113,152,134 10/16/13 685,467 — (46,103) Euro DBFX Sell 86,358,299 113,152,134 10/16/13 685,467 — (46,103) Euro DBFX Sell 47,87,544 77,369,861 10/16/13 685,467 — (46,103) Euro DBFX Sell 47,87,544 77,369,862 10/16/13 685,467 — (46,103) Euro DBFX Sell 47,67,765 77,276,531 11/14/13 1,451 — (46,833) Euro DBFX Sell 47,67,765 77,276,531 11/14/13 — (46,833) Euro DBFX Sell 67,03,292 87,22,994 11/1	British Pound	FBCO	Sell	17,846,914	27,610,776	8/19/13	478,115	_
British Pound DBFX Sell 5,947,281 9,138,033 8/19/13 96,383	British Pound	BANT	Sell	28,019,049	43,354,719	8/19/13	757,364	_
Euro BANT Sell 2,632,468 3,405,730 8/30/13 — (21,787) Euro BANT Sell 62,086,941 81,267,199 8/30/13 339,436 — Euro DBFX Sell 51,26,986 6,719,252 8/30/13 339,436 — Euro SCBT Sell 923,588 1,204,073 8/30/13 1,546 — Euro HSBC Sell 20,62,937 2,696,795 8/30/13 1,546 — Euro HAND Sell 2,027,041 2,645,993 8/30/13 6,753 — Swedish Krona HAND Bul 69,718,060 10,790,409 9/06/13 — (535,897) Swedish Krona HAND Sell 69,718,060 10,790,409 9/06/13 — (41,03) Euro BANT Sell 86,507 112,596 10/16/13 — (41,03) Euro DBFX Sell 86,507 112,596 10/16/13	British Pound	SCBT	Sell	31,474,715	48,785,808	8/19/13	934,804	_
Euro BANT Sell 62,086,941 81,267,199 8,30/13 339,436 — Euro DBFX Sell 56,631,646 74,074,759 8/30/13 339,436 — Euro DBFX Sell 51,126,986 6,719,252 8/30/13 1,546 — Euro HSBC Sell 2,062,937 2,696,795 8/30/13 1,546 — Euro HAND Sell 2,062,937 2,696,795 8/30/13 1,546 — Euro HAND Sell 2,027,041 2,645,993 8/30/13 1,081 — (535,897) Swedish Krona HAND Sell 69,718,060 10,790,409 9/06/13 4 4,103 — (4,103) Euro BANT Sell 69,718,060 10,790,409 9/06/13 4 4 4,103 Euro BANT Sell 86,21,175 677,637 10/16/13 — (4,103) Euro DBFX Sell	British Pound	DBFX	Sell	5,947,281	9,138,033	8/19/13	96,383	_
Euro BBU Sell 56,631,646 74,074,759 8/30/13 339,436 −2 Euro DBFX Sell 5,126,986 6,719,252 8/30/13 1,546 − Euro HSBC Sell 2923,588 1,204,073 8/30/13 1,546 − Euro HAND Sell 2,062,937 2,696,795 8/30/13 10,818 − Euro HAND Sell 2,027,041 2,645,993 8/30/13 6,753 6,758 Swedish Krona HAND Sell 69,718,060 10,790,409 9/06/13 411,888 − Euro BANT Sell 3,830,452 4,943,995 10/16/13 − (4,103) Euro BART Sell 86,507 112,596 10/16/13 655 (655) Euro BANT Sell 86,524,245 112,596 10/16/13 661,403 − Euro BBC Sell 86,242,425 112,596 10/16/13	Euro	BANT	Sell	2,632,468	3,405,730	8/30/13	_	(21,787)
Euro DBFX Sell 5,126,986 6,719,252 8/30/13 43,833 — 6 Euro SCBT Sell 923,588 1,204,073 8/30/13 1,546 — Euro HAND Sell 2,062,937 2,696,795 8/30/13 10,818 — Euro HAND Sell 2,027,041 2,645,993 8/30/13 6,753 — Swedish Krona HAND Sell 69,718,060 10,914,418 9/06/13 411,888 — (4,103) Euro BANT Sell 3,830,452 4,984,395 10/16/13 — (1,103) Euro DBFX Sell 521,175 677,637 10/16/13 — (1,103) Euro DBFX Sell 86,587 112,596 10/16/13 665,467 — Euro BANT Sell 86,388,299 113,152,134 10/16/13 165,496 — Euro DBFX Sell 9,056,403 11,998,86 10/	Euro	BANT	Sell	62,086,941	81,267,199	8/30/13	428,993	_
Euro SCBT Sell 923,588 1,204,073 8/30/13 1,546 — Euro HSBC Sell 2,062,937 2,696,795 8/30/13 10,818 — Euro HAND Sell 2,062,937 2,645,993 8/30/13 10,818 — Swedish Krona HAND Sell 69,718,060 10,914,418 906/13 411,888 — Euro BANT Sell 69,718,060 10,790,409 9/06/13 411,888 — Euro BANT Sell 3,830,452 4,984,395 10/16/13 — (4,103) Euro DBFX Sell 86,507 112,596 10/16/13 685,467 — Euro BANT Sell 86,358,299 113,152,134 10/16/13 685,467 — Euro BANT Sell 85,242,425 112,386,558 10/16/13 165,496 — Euro DBFX Sell 47,897,254 72,899,621 10/16/13	Euro	BBU	Sell	56,631,646	74,074,759	8/30/13	339,436	_
Euro HSBC Sell 2,062,937 2,696,795 8/30/13 10,818 — Euro HAND Sell 2,027,041 2,645,993 8/30/13 6,753 — Swedish Krona HAND Buy 69,718,060 10,790,409 9/06/13 411,888 — Euro BANT Sell 69,718,060 10,790,409 9/06/13 411,888 — Euro BANT Sell 3,830,452 4,984,395 10/16/13 — (4,103) Euro DBFX Sell 86,558,299 113,152,134 10/16/13 — (65) Euro BANT Sell 86,558,299 113,152,134 10/16/13 685,467 — Euro BBU Sell 85,824,245 112,382,558 10/16/13 161,403 — Euro DBFX Sell 9,056,403 11,959,886 10/16/13 165,496 — Euro FBCO Sell 7,423,844 7,136,829 10/16/13 <td>Euro</td> <td>DBFX</td> <td>Sell</td> <td>5,126,986</td> <td>6,719,252</td> <td>8/30/13</td> <td>43,833</td> <td>_</td>	Euro	DBFX	Sell	5,126,986	6,719,252	8/30/13	43,833	_
Euro HAND Sell 2,027,041 2,645,993 8/30/13 6,753 — Swedish Krona HAND Buy 69,718,060 10,914,418 9/06/13 — (535,897) Swedish Krona HAND Sell 69,718,060 10,790,409 9/06/13 411,888 — Euro BANT Sell 3,830,452 4,984,395 10/16/13 — (4,103) Euro DBFX Sell 86,567 112,596 10/16/13 — (1,103) Euro BBU Sell 86,582,929 113,152,134 10/16/13 685,467 — Euro BBU Sell 85,824,245 112,382,558 10/16/13 665,467 — Euro DBFX Sell 9,056,403 11,959,886 10/16/13 165,496 — Euro FBCO Sell 7,428,972,254 72,899,621 10/21/13 109,227 — British Pound FBCO Sell 1,194,820 1,822,684	Euro	SCBT	Sell	923,588	1,204,073	8/30/13	1,546	_
Swedish Krona HAND Buy 69,718,060 10,914,418 9/06/13 — (535,897) Swedish Krona HAND Sell 69,718,060 10,790,409 9/06/13 411,888 — Euro BANT Sell 3,830,452 4,984,395 10/16/13 — (4,103) Euro DBFX Sell 521,175 677,637 10/16/13 — (65) Euro BANT Sell 86,587 112,596 10/16/13 685,467 — Euro BANT Sell 86,582,99 113,152,134 10/16/13 685,467 — Euro DBFX Sell 9,056,403 11,959,886 10/16/13 165,496 — Euro FBCO Sell 5,423,844 7,136,829 10/16/13 165,496 — Euro FBCO Sell 47,897,254 72,899,621 10/21/13 109,227 — British Pound FBCO Sell 1,194,820 1,822,684 <td< td=""><td>Euro</td><td>HSBC</td><td>Sell</td><td>2,062,937</td><td>2,696,795</td><td>8/30/13</td><td>10,818</td><td>_</td></td<>	Euro	HSBC	Sell	2,062,937	2,696,795	8/30/13	10,818	_
Swedish Krona HAND BANT SCBT Sell 3,830,452 10,790,409 4,984,395 9/06/13 411,888 — Euro BANT SCBT Sell 3,830,452 4,984,395 10/16/13 — (4,103) Euro DBFX Sell Sell 86,507 112,596 10/16/13 — (1,103) Euro BANT Sell 86,558,299 113,152,134 10/16/13 685,467 — Euro BBBU Sell 86,358,299 113,152,134 10/16/13 611,403 — Euro BBBU Sell 85,824,245 112,382,558 10/16/13 615,496 — Euro PBFX Sell 9,056,403 11,959,886 10/16/13 165,496 — Euro PBFX Sell 47,897,254 72,899,621 10/21/13 109,227 — British Pound FBCO Sell 1,194,820 1,822,684 10/21/13 6,893 — Danish Krone DBFX Suly 2,806,33	Euro	HAND	Sell	2,027,041	2,645,993	8/30/13	6,753	_
Euro BANT Sell 3,830,452 4,984,395 10/16/13 — (4,103) Euro SCBT Sell 521,175 677,637 10/16/13 — (1,103) Euro DBFX Sell 86,507 112,596 10/16/13 — (65) Euro BANT Sell 86,358,299 113,152,134 10/16/13 685,467 — Euro BBW Sell 85,824,245 112,382,558 10/16/13 611,403 — Euro DBFX Sell 9,056,403 11,959,886 10/16/13 165,496 — Euro FBCO Sell 5,423,844 7,136,829 10/16/13 73,215 — British Pound BBCO Sell 47,897,254 72,899,621 10/21/13 109,227 — British Pound FBCO Sell 41,157,736 718,213 11/14/13 — (26,839) Danish Krone DBFX Sell 4,157,736 718,213 11/	Swedish Krona	HAND	Buy	69,718,060	10,914,418	9/06/13	_	(535,897)
Euro SCBT Sell 521,175 677,637 10/16/13 — (1,103) Euro DBFX Sell 86,507 112,596 10/16/13 — (65) Euro BANT Sell 86,587,299 113,152,134 10/16/13 685,467 — Euro BBU Sell 85,824,245 112,382,558 10/16/13 611,403 — Euro DBFX Sell 9,056,403 11,959,386 10/16/13 165,496 — Euro FBCO Sell 5,423,844 7,136,829 10/16/13 165,496 — British Pound BANT Sell 47,897,254 72,899,621 10/21/13 109,227 — British Pound FBCO Sell 1,194,820 1,822,684 10/21/13 6,893 — Danish Krone DBFX Buy 9,190,000 1,633,082 11/14/13 — (26,839) Danish Krone DBFX Sell 4,157,736 718,213	Swedish Krona	HAND	Sell	69,718,060	10,790,409	9/06/13	411,888	_
Euro DBFX Sell 86,507 112,596 10/16/13 — (65) Euro BANT Sell 86,358,299 113,152,134 10/16/13 685,467 — Euro BBU Sell 85,824,245 112,382,558 10/16/13 611,403 — Euro DBFX Sell 9,056,403 11,959,886 10/16/13 165,496 — Euro FBCO Sell 5,423,844 7,136,829 10/16/13 73,215 — British Pound BANT Sell 47,897,254 72,899,621 10/21/13 109,227 — British Pound FBCO Sell 1,194,820 1,822,684 10/21/13 6,893 — British Pound FBCO Sell 4,157,736 718,213 11/14/13 — (26,839) Danish Krone DBFX Sell 4,157,736 718,213 11/14/13 1,451 — Euro FBCO Sell 6,007,602 77,276,531	Euro	BANT	Sell	3,830,452	4,984,395	10/16/13	_	(4,103)
Euro BANT Sell 86,358,299 113,152,134 10/16/13 685,467 — Euro BBU Sell 85,824,245 112,382,558 10/16/13 611,403 — Euro DBFX Sell 9,056,403 11,959,886 10/16/13 165,496 — Euro FBCO Sell 5,423,844 7,136,829 10/16/13 73,215 — British Pound BANT Sell 47,897,254 72,899,621 10/21/13 109,227 — British Pound FBCO Sell 1,194,820 1,822,684 10/21/13 6,893 — Danish Krone DBFX Buy 9,190,000 1,633,082 11/14/13 — (26,839) Danish Krone DBFX Sell 4,157,736 718,213 11/14/13 — (8,483) Danish Krone FBCO Buy 2,2806,330 489,044 11/14/13 1,451 — Euro FBCO Sell 6,703,292 8,677,19	Euro	SCBT	Sell	521,175	677,637	10/16/13	_	(1,103)
Euro BBU Sell 85,824,245 112,382,558 10/16/13 611,403 — Euro DBFX Sell 9,056,403 11,959,886 10/16/13 165,496 — Euro FBCO Sell 5,423,844 7,136,829 10/16/13 73,215 — British Pound BANT Sell 47,897,254 72,899,621 10/21/13 109,227 — British Pound FBCO Sell 1,194,820 1,822,684 10/21/13 6,893 — Danish Krone DBFX Buy 9,190,000 1,633,082 11/14/13 — (26,839) Danish Krone DBFX Sell 4,157,736 718,213 11/14/13 — (84,483) Danish Krone FBCO Buy 2,866,330 489,044 11/14/13 1,451 — Danish Krone FBCO Sell 60,007,602 77,276,531 11/18/13 — (54,275) Euro DBFX Sell 6,703,292	Euro	DBFX	Sell	86,507	112,596	10/16/13	_	(65)
Euro DBFX Sell 9,056,403 11,959,886 10/16/13 165,496 — Euro FBCO Sell 5,423,844 7,136,829 10/16/13 73,215 — British Pound BANT Sell 47,897,254 72,899,621 10/21/13 109,227 — British Pound FBCO Sell 1,194,820 1,822,684 10/21/13 6,893 — Danish Krone DBFX Buy 9,190,000 1,633,082 11/14/13 — (26,839) Danish Krone DBFX Sell 4,157,736 718,213 11/14/13 — (26,839) Danish Krone FBCO Buy 2,806,330 489,044 11/14/13 1,451 — Euro FBCO Sell 188,434,026 33,357,059 11/14/13 1,451 — Euro FBCO Sell 6,703,292 8,677,197 11/18/13 — (54,275) Euro BANT Sell 2,985,557 2,717,324 </td <td>Euro</td> <td>BANT</td> <td>Sell</td> <td>86,358,299</td> <td>113,152,134</td> <td>10/16/13</td> <td>685,467</td> <td>_</td>	Euro	BANT	Sell	86,358,299	113,152,134	10/16/13	685,467	_
Euro FBCO Sell 5,423,844 7,136,829 10/16/13 73,215 — British Pound BANT Sell 47,897,254 72,899,621 10/21/13 109,227 — British Pound FBCO Sell 1,194,820 1,822,684 10/21/13 6,893 — Danish Krone DBFX Buy 9,190,000 1,633,082 11/14/13 — (26,839) Danish Krone DBFX Sell 4,157,736 718,213 11/14/13 — (8,483) Danish Krone FBCO Buy 2,806,330 489,044 11/14/13 1,451 — Danish Krone FBCO Sell 188,434,026 33,357,059 11/14/13 1,422,259 — Euro FBCO Sell 60,007,602 77,276,531 11/18/13 — (54,275) Euro DBFX Sell 6,703,292 8,677,197 11/18/13 — (35,264) Euro BANT Sell 2,958,955 <t< td=""><td>Euro</td><td>BBU</td><td>Sell</td><td>85,824,245</td><td>112,382,558</td><td>10/16/13</td><td>611,403</td><td>_</td></t<>	Euro	BBU	Sell	85,824,245	112,382,558	10/16/13	611,403	_
British Pound BANT Sell 47,897,254 72,899,621 10/21/13 109,227 — British Pound FBCO Sell 1,194,820 1,822,684 10/21/13 6,893 — Danish Krone DBFX Buy 9,190,000 1,633,082 11/14/13 — (26,839) Danish Krone DBFX Sell 4,157,736 718,213 11/14/13 — (8,483) Danish Krone FBCO Buy 2,806,330 489,044 11/14/13 1,451 — Danish Krone FBCO Sell 188,434,026 33,357,059 11/14/13 422,259 — Euro FBCO Sell 60,007,602 77,276,531 11/18/13 — (54,275) Euro DBFX Sell 6,703,292 8,677,197 11/18/13 — (54,275) Euro BANT Sell 2,958,895 3,841,173 11/18/13 — (12,980) Euro BANT Sell 2,085,556 <t< td=""><td>Euro</td><td>DBFX</td><td>Sell</td><td>9,056,403</td><td>11,959,886</td><td>10/16/13</td><td>165,496</td><td>_</td></t<>	Euro	DBFX	Sell	9,056,403	11,959,886	10/16/13	165,496	_
British Pound FBCO Sell 1,194,820 1,822,684 10/21/13 6,893 — Danish Krone DBFX Buy 9,190,000 1,633,082 11/14/13 — (26,839) Danish Krone DBFX Sell 4,157,736 718,213 11/14/13 — (8,483) Danish Krone FBCO Buy 2,806,330 489,044 11/14/13 1,451 — Danish Krone FBCO Sell 188,434,026 33,357,059 11/14/13 422,259 — Euro FBCO Sell 60,007,602 77,276,531 11/18/13 — (887,257) Euro DBFX Sell 6,703,292 8,677,197 11/18/13 — (54,275) Euro SCBT Sell 4,420,708 5,722,994 11/18/13 — (12,980) Euro BANT Sell 2,958,895 3,841,173 11/18/13 751 — Euro BANT Sell 2,085,556 2,718,591 <td>Euro</td> <td>FBCO</td> <td>Sell</td> <td>5,423,844</td> <td>7,136,829</td> <td>10/16/13</td> <td>73,215</td> <td>_</td>	Euro	FBCO	Sell	5,423,844	7,136,829	10/16/13	73,215	_
Danish Krone DBFX Buy 9,190,000 1,633,082 11/14/13 — (26,839) Danish Krone DBFX Sell 4,157,736 718,213 11/14/13 — (8,483) Danish Krone FBCO Buy 2,806,330 489,044 11/14/13 1,451 — Danish Krone FBCO Sell 188,434,026 33,357,059 11/14/13 422,259 — Euro FBCO Sell 60,007,602 77,276,531 11/18/13 — (887,257) Euro DBFX Sell 6,703,292 8,677,197 11/18/13 — (54,275) Euro SCBT Sell 4,420,708 5,722,994 11/18/13 — (12,980) Euro BANT Sell 2,958,895 3,841,173 11/18/13 — (12,980) Euro BANT Sell 2,085,556 2,718,591 11/18/13 2,019 — Euro SCBT Sell 1,511,335 1,970,282	British Pound	BANT	Sell	47,897,254	72,899,621	10/21/13	109,227	_
Danish Krone DBFX Sell 4,157,736 718,213 11/14/13 — (8,483) Danish Krone FBCO Buy 2,806,330 489,044 11/14/13 1,451 — Danish Krone FBCO Sell 188,434,026 33,357,059 11/14/13 422,259 — Euro FBCO Sell 60,007,602 77,276,531 11/18/13 — (54,275) Euro DBFX Sell 6,703,292 8,677,197 11/18/13 — (54,275) Euro SCBT Sell 4,420,708 5,722,994 11/18/13 — (12,980) Euro BANT Sell 2,958,895 3,841,173 11/18/13 — (12,980) Euro BANT Sell 2,085,557 2,717,324 11/18/13 751 — Euro SCBT Sell 1,511,335 1,970,282 11/18/13 1,670 — British Pound DBFX Buy 4,569,052 7,156,826	British Pound	FBCO	Sell	1,194,820	1,822,684	10/21/13	6,893	_
Danish Krone FBCO Buy 2,806,330 489,044 11/14/13 1,451 — Danish Krone FBCO Sell 188,434,026 33,357,059 11/14/13 422,259 — Euro FBCO Sell 60,007,602 77,276,531 11/18/13 — (887,257) Euro DBFX Sell 6,703,292 8,677,197 11/18/13 — (54,275) Euro SCBT Sell 4,420,708 5,722,994 11/18/13 — (12,980) Euro BANT Sell 2,958,895 3,841,173 11/18/13 — (12,980) Euro BANT Sell 2,085,557 2,717,324 11/18/13 751 — Euro HSBC Sell 2,085,556 2,718,591 11/18/13 1,670 — Euro SCBT Sell 1,511,335 1,970,282 11/18/13 1,670 — British Pound DBFX Buy 4,569,052 7,156,826 1	Danish Krone	DBFX	Buy	9,190,000	1,633,082	11/14/13	_	(26,839)
Danish Krone FBCO Sell 188,434,026 33,357,059 11/14/13 422,259 — Euro FBCO Sell 60,007,602 77,276,531 11/18/13 — (887,257) Euro DBFX Sell 6,703,292 8,677,197 11/18/13 — (54,275) Euro SCBT Sell 4,420,708 5,722,994 11/18/13 — (35,264) Euro BANT Sell 2,958,895 3,841,173 11/18/13 — (12,980) Euro BANT Sell 2,085,556 2,717,324 11/18/13 751 — Euro HSBC Sell 2,085,556 2,718,591 11/18/13 1,670 — Euro SCBT Sell 1,511,335 1,970,282 11/18/13 1,670 — British Pound DBFX Buy 4,569,052 7,156,826 11/21/13 — (214,384) British Pound DBFX Sell 29,310,962 44,494,040	Danish Krone	DBFX	Sell	4,157,736	718,213	11/14/13	_	(8,483)
Euro FBCO Sell 60,007,602 77,276,531 11/18/13 — (887,257) Euro DBFX Sell 6,703,292 8,677,197 11/18/13 — (54,275) Euro SCBT Sell 4,420,708 5,722,994 11/18/13 — (35,264) Euro BANT Sell 2,958,895 3,841,173 11/18/13 — (12,980) Euro BANT Sell 2,958,557 2,717,324 11/18/13 751 — Euro HSBC Sell 2,085,556 2,718,591 11/18/13 2,019 — Euro SCBT Sell 1,511,335 1,970,282 11/18/13 1,670 — British Pound DBFX Buy 4,569,052 7,156,826 11/21/13 — (214,384) British Pound FBCO Sell 36,687,402 55,654,789 11/21/13 — (42,475) British Pound BANT Sell 32,101,477 48,746,093	Danish Krone	FBCO	Buy	2,806,330	489,044	11/14/13	1,451	_
Euro DBFX Sell 6,703,292 8,677,197 11/18/13 — (54,275) Euro SCBT Sell 4,420,708 5,722,994 11/18/13 — (35,264) Euro BANT Sell 2,958,895 3,841,173 11/18/13 — (12,980) Euro BANT Sell 2,085,556 2,717,324 11/18/13 751 — Euro HSBC Sell 2,085,556 2,718,591 11/18/13 2,019 — Euro SCBT Sell 1,511,335 1,970,282 11/18/13 1,670 — British Pound DBFX Buy 4,569,052 7,156,826 11/21/13 — (214,384) British Pound FBCO Sell 36,687,402 55,654,789 11/21/13 — (89,852) British Pound BANT Sell 29,310,962 44,494,040 11/21/13 — (42,475) British Pound FBCO Buy 683,113 1,063,345	Danish Krone	FBCO	Sell	188,434,026	33,357,059	11/14/13	422,259	_
Euro SCBT Sell 4,420,708 5,722,994 11/18/13 — (35,264) Euro BANT Sell 2,958,895 3,841,173 11/18/13 — (12,980) Euro BANT Sell 2,085,557 2,717,324 11/18/13 751 — Euro HSBC Sell 2,085,556 2,718,591 11/18/13 2,019 — Euro SCBT Sell 1,511,335 1,970,282 11/18/13 1,670 — British Pound DBFX Buy 4,569,052 7,156,826 11/21/13 — (214,384) British Pound FBCO Sell 36,687,402 55,654,789 11/21/13 — (89,852) British Pound DBFX Sell 29,310,962 44,494,040 11/21/13 — (42,475) British Pound BANT Sell 32,101,477 48,746,093 11/21/13 — (25,389) British Pound FBCO Sell 306,824 47	Euro	FBCO	Sell	60,007,602	77,276,531	11/18/13	_	(887,257)
Euro BANT Sell 2,958,895 3,841,173 11/18/13 — (12,980) Euro BANT Sell 2,085,557 2,717,324 11/18/13 751 — Euro HSBC Sell 2,085,556 2,718,591 11/18/13 2,019 — Euro SCBT Sell 1,511,335 1,970,282 11/18/13 1,670 — British Pound DBFX Buy 4,569,052 7,156,826 11/21/13 — (214,384) British Pound FBCO Sell 36,687,402 55,654,789 11/21/13 — (89,852) British Pound DBFX Sell 29,310,962 44,494,040 11/21/13 — (42,475) British Pound BANT Sell 32,101,477 48,746,093 11/21/13 — (30,468) British Pound FBCO Buy 683,113 1,063,345 11/21/13 — (25,389) British Pound FBCO Sell 306,824	Euro	DBFX	Sell	6,703,292	8,677,197	11/18/13	_	(54,275)
Euro BANT Sell 2,085,557 2,717,324 11/18/13 751 — Euro HSBC Sell 2,085,556 2,718,591 11/18/13 2,019 — Euro SCBT Sell 1,511,335 1,970,282 11/18/13 1,670 — British Pound DBFX Buy 4,569,052 7,156,826 11/21/13 — (214,384) British Pound FBCO Sell 36,687,402 55,654,789 11/21/13 — (89,852) British Pound DBFX Sell 29,310,962 44,494,040 11/21/13 — (42,475) British Pound BANT Sell 32,101,477 48,746,093 11/21/13 — (30,468) British Pound FBCO Buy 683,113 1,063,345 11/21/13 — (25,389) British Pound FBCO Sell 306,824 472,530 11/21/13 6,327 — Norwegian Krone FBCO Sell 245,067,102	Euro	SCBT	Sell	4,420,708	5,722,994	11/18/13	_	(35,264)
Euro HSBC Sell 2,085,556 2,718,591 11/18/13 2,019 — Euro SCBT Sell 1,511,335 1,970,282 11/18/13 1,670 — British Pound DBFX Buy 4,569,052 7,156,826 11/21/13 — (214,384) British Pound FBCO Sell 36,687,402 55,654,789 11/21/13 — (89,852) British Pound DBFX Sell 29,310,962 44,494,040 11/21/13 — (42,475) British Pound BANT Sell 32,101,477 48,746,093 11/21/13 — (30,468) British Pound FBCO Buy 683,113 1,063,345 11/21/13 — (25,389) British Pound FBCO Sell 306,824 472,530 11/21/13 6,327 — Norwegian Krone FBCO Sell 245,067,102 41,572,028 11/21/13 1,429,822 — Unrealized appreciation (depreciation) 245,067,102	Euro	BANT	Sell	2,958,895	3,841,173	11/18/13	_	(12,980)
Euro SCBT Sell 1,511,335 1,970,282 11/18/13 1,670 — British Pound DBFX Buy 4,569,052 7,156,826 11/21/13 — (214,384) British Pound FBCO Sell 36,687,402 55,654,789 11/21/13 — (89,852) British Pound DBFX Sell 29,310,962 44,494,040 11/21/13 — (42,475) British Pound BANT Sell 32,101,477 48,746,093 11/21/13 — (30,468) British Pound FBCO Buy 683,113 1,063,345 11/21/13 — (25,389) British Pound FBCO Sell 306,824 472,530 11/21/13 6,327 — Norwegian Krone FBCO Sell 245,067,102 41,572,028 11/21/13 1,429,822 — Unrealized appreciation (depreciation) 15,062,359 (2,557,110)	Euro	BANT	Sell	2,085,557	2,717,324	11/18/13	751	_
British Pound DBFX Buy 4,569,052 7,156,826 11/21/13 — (214,384) British Pound FBCO Sell 36,687,402 55,654,789 11/21/13 — (89,852) British Pound DBFX Sell 29,310,962 44,494,040 11/21/13 — (42,475) British Pound BANT Sell 32,101,477 48,746,093 11/21/13 — (30,468) British Pound FBCO Buy 683,113 1,063,345 11/21/13 — (25,389) British Pound FBCO Sell 306,824 472,530 11/21/13 6,327 — Norwegian Krone FBCO Sell 245,067,102 41,572,028 11/21/13 1,429,822 — Unrealized appreciation (depreciation) — 15,062,359 (2,557,110)	Euro	HSBC	Sell	2,085,556	2,718,591	11/18/13	2,019	_
British Pound FBCO Sell 36,687,402 55,654,789 11/21/13 — (89,852) British Pound DBFX Sell 29,310,962 44,494,040 11/21/13 — (42,475) British Pound BANT Sell 32,101,477 48,746,093 11/21/13 — (30,468) British Pound FBCO Buy 683,113 1,063,345 11/21/13 — (25,389) British Pound FBCO Sell 306,824 472,530 11/21/13 6,327 — Norwegian Krone FBCO Sell 245,067,102 41,572,028 11/21/13 1,429,822 — Unrealized appreciation (depreciation) 15,062,359 (2,557,110)	Euro	SCBT	Sell	1,511,335	1,970,282	11/18/13	1,670	_
British Pound DBFX Sell 29,310,962 44,494,040 11/21/13 — (42,475) British Pound BANT Sell 32,101,477 48,746,093 11/21/13 — (30,468) British Pound FBCO Buy 683,113 1,063,345 11/21/13 — (25,389) British Pound FBCO Sell 306,824 472,530 11/21/13 6,327 — Norwegian Krone FBCO Sell 245,067,102 41,572,028 11/21/13 1,429,822 — Unrealized appreciation (depreciation) 15,062,359 (2,557,110)	British Pound	DBFX	Buy	4,569,052	7,156,826	11/21/13	_	(214,384)
British Pound BANT Sell 32,101,477 48,746,093 11/21/13 — (30,468) British Pound FBCO Buy 683,113 1,063,345 11/21/13 — (25,389) British Pound FBCO Sell 306,824 472,530 11/21/13 6,327 — Norwegian Krone FBCO Sell 245,067,102 41,572,028 11/21/13 1,429,822 — Unrealized appreciation (depreciation) 15,062,359 (2,557,110)	British Pound	FBCO	Sell	36,687,402	55,654,789	11/21/13	_	(89,852)
British Pound FBCO Buy 683,113 1,063,345 11/21/13 — (25,389) British Pound FBCO Sell 306,824 472,530 11/21/13 6,327 — Norwegian Krone FBCO Sell 245,067,102 41,572,028 11/21/13 1,429,822 — Unrealized appreciation (depreciation) 15,062,359 (2,557,110)	British Pound	DBFX	Sell	29,310,962	44,494,040	11/21/13	_	(42,475)
British Pound FBCO Buy 683,113 1,063,345 11/21/13 — (25,389) British Pound FBCO Sell 306,824 472,530 11/21/13 6,327 — Norwegian Krone FBCO Sell 245,067,102 41,572,028 11/21/13 1,429,822 — Unrealized appreciation (depreciation) 15,062,359 (2,557,110)	British Pound	BANT	Sell			11/21/13	_	(30,468)
British Pound FBCO Sell 306,824 472,530 11/21/13 6,327 — Norwegian Krone FBCO Sell 245,067,102 41,572,028 11/21/13 1,429,822 — Unrealized appreciation (depreciation) 15,062,359 (2,557,110)	British Pound		Buy				_	
Norwegian Krone FBCO Sell 245,067,102 41,572,028 11/21/13 1,429,822 — Unrealized appreciation (depreciation) 15,062,359 (2,557,110)							6,327	-
Unrealized appreciation (depreciation) 15,062,359 (2,557,110)			Sell		41,572,028			_
								(2,557,110)
Net unrealized appreciation (depreciation)							\$12,505,249	· · · · · · · · · · · · · · · · · · ·

See Abbreviations on page 46.

Financial Statements

Statement of Assets and Liabilities

June 30, 2013 (unaudited)

Assets:	
Investments in securities:	
Cost - Unaffiliated issuers	\$1,780,336,181
Cost - Controlled affiliated issuers (Note 12)	6,282,509
Total cost of investments	\$1,786,618,690
Value - Unaffiliated issuers	\$1,988,439,773
Value - Controlled affiliated issuers (Note 12)	14,572,579
Total value of investments	2,003,012,352
Cash	10,337,233
Restricted Cash (Note 1d)	2,330,000
Foreign currency, at value (cost \$14,525,920)	14,495,756
Receivables:	
Investment securities sold	5,562,031
Capital shares sold	6,548,339
Dividends and interest	8,209,443
Variation margin	667,306
Unrealized appreciation on forward exchange contracts	15,062,359
Other assets	515
Total assets	2,066,225,334
Liabilities:	
Payables:	
Investment securities purchased	7,734,690
Capital shares redeemed	1,823,184
Affiliates Affiliates	2,209,542
Due to brokers	2,330,000
Unrealized depreciation on forward exchange contracts	2,557,110
Accrued expenses and other liabilities	570,276
Total liabilities	
Total Habilities	17,224,802
Net assets, at value	17,224,802 \$2,049,000,532
Net assets, at value	\$2,049,000,532 \$1,650,698,781
Net assets, at value	\$2,049,000,532 \$1,650,698,781 34,469,461
Net assets, at value Net assets consist of: Paid-in capital Undistributed net investment income Net unrealized appreciation (depreciation)	\$2,049,000,532 \$1,650,698,781 34,469,461 234,926,970
Net assets, at value	\$2,049,000,532 \$1,650,698,781 34,469,461

Financial Statements (continued)

Statement of Assets and Liabilities (continued)

June 30, 2013 (unaudited)

Class Z:

Net assets, at value	\$997,342,405
Shares outstanding	44,360,267
Net asset value and maximum offering price per share	\$22.48
Class A:	
Net assets, at value	\$707,656,373
Shares outstanding	32,181,334
Net asset value per share ^a	\$21.99
Maximum offering price per share (net asset value per share ÷ 94.25%)	\$23.33
Class C:	
Net assets, at value	\$129,608,651
Shares outstanding	5,891,242
Net asset value and maximum offering price per share ^a	\$22.00
Class R:	
Net assets, at value	\$ 54,657
Shares outstanding	2,506
Net asset value and maximum offering price per share	\$21.81
Class R6:	
Net assets, at value	\$214,338,446
Shares outstanding	9,530,958
Net asset value and maximum offering price per share	\$22.49

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

Financial Statements (continued)

Statement of Operations

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

Investment income:	
Dividends: (net of foreign taxes of \$4,437,691)	
Unaffiliated issuers	\$ 47,189,994
Controlled affiliated issuers (Note 12)	1,131,806
Interest	299,018
Income from securities loaned	294,435
Total investment income	48,915,253
Expenses:	
Management fees (Note 3a)	7,821,233
Administrative fees (Note 3b)	760,484
Distribution fees: (Note 3c)	
Class A	1,038,009
Class B	726
Class C	636,772
Class R	127
Transfer agent fees: (Note 3e)	
Class Z	934,743
Class A	588,653
Class B	128
Class C	108,330
Class R	43
Class R6	3,785
Special servicing agreement fees (Note 13)	130,953
Custodian fees (Note 4)	166,756
Reports to shareholders	65,127
Registration and filing fees	48,947
Professional fees	86,209
Trustees' fees and expenses Other	43,323 22,297
Total expenses	12,456,645
Net investment income	36,458,608
Realized and unrealized gains (losses):	
Net realized gain (loss) from:	
Investments	115,925,096
Foreign currency transactions	(12,858,184)
Futures contracts	(1,328,350)
Net realized gain (loss)	101,738,562
Net change in unrealized appreciation (depreciation) on:	
Investments	(86,935,474)
Translation of other assets and liabilities denominated in foreign currencies	66,386,620
Net change in unrealized appreciation (depreciation)	(20,548,854)
Net realized and unrealized gain (loss)	81,189,708
Net increase (decrease) in net assets resulting from operations	\$117,648,316
- · ·	

Financial Statements (continued)

Statements of Changes in Net Assets

		x Months Ended June 30, 2013 (unaudited)		ear Ended nber 31, 2012
Increase (decrease) in net assets:				
Operations:		06 450 600	4	04.500.504
Net investment income	\$	36,458,608	\$	34,680,624
contracts		101,738,562		175,449,463
Net change in unrealized appreciation (depreciation) on investments and translation of		(00 - 10 0 - 1)		
other assets and liabilities denominated in foreign currencies		(20,548,854)		73,994,425
Net increase (decrease) in net assets resulting from operations		117,648,316		284,124,512
Distributions to shareholders from:				
Net investment income:				
Class Z		_		(34,243,460)
Class A		_		(18,593,208)
Class B		_		(16,762)
Class C		_		(2,717,937)
Class R		_		(1,211)
Class Z				(23,828,682)
		_		(14,131,427)
Class A		_		
Class B		_		(16,218)
Class C		_		(2,702,029)
				(1,014)
Total distributions to shareholders				(96,251,948)
Capital share transactions: (Note 2)				
Class Z		(174,459,443)		28,633,900
Class A		13,513,518		(5,833,466)
Class B		(630,113)		(3,131,339)
Class C		90,346		(17,810,148)
Class R		6,052		11,045
Class R6		214,644,284		
Total capital share transactions		53,164,644		1,869,992
Net increase (decrease) in net assets		170,812,960		189,742,556
Net assets:				
Beginning of period	_	,878,187,572		688,445,016
End of period	\$2	,049,000,532	\$1,	878,187,572
Undistributed net investment income (distributions in excess of net investment income) included in net assets:				
End of period	\$	34,469,461	\$	(1,989,147)

Notes to Financial Statements (unaudited)

1. Organization and Significant Accounting Policies

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

The following summarizes the Fund's significant accounting policies.

a. Financial Instrument Valuation

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

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

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

Notes to Financial Statements (unaudited) (continued)

1. Organization and Significant Accounting Policies (continued)

a. Financial Instrument Valuation (continued)

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

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

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

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

Notes to Financial Statements (unaudited) (continued)

1. Organization and Significant Accounting Policies (continued)

a. Financial Instrument Valuation (continued)

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

b. Foreign Currency Translation

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

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

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

c. Derivative Financial Instruments

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

Notes to Financial Statements (unaudited) (continued)

1. Organization and Significant Accounting Policies (continued)

c. Derivative Financial Instruments (continued)

Derivative counterparty credit risk is managed through a formal evaluation of the creditworthiness of all potential counterparties. The Fund attempts to reduce its exposure to counterparty credit risk on OTC derivatives, whenever possible, by entering into International Swaps and Derivatives Association (ISDA) master agreements with certain counterparties. These agreements contain various provisions, including but not limited to collateral requirements, events of default, or early termination. Termination events applicable to the counterparty include certain deteriorations in the credit quality of the counterparty. Termination events applicable to the Fund include failure of the Fund to maintain certain net asset levels and/or limit the decline in net assets over various periods of time. In the event of default or early termination, the ISDA master agreement gives the non-defaulting party the right to net and close-out all transactions traded, whether or not arising under the ISDA agreement, to one net amount payable by one counterparty to the other. Early termination by the counterparty may result in an immediate payment by the Fund of any net liability owed to that counterparty under the ISDA agreement. At June 30, 2013, the Fund had no OTC derivatives in a net liability position for such contracts. However, absent an event of default or early termination, OTC derivative assets and liabilities are presented gross and not offset in the Statement of Assets and Liabilities.

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

At June 30, 2013, the Fund received \$7,536,369 in U.S. Treasury Notes as collateral for derivatives.

The Fund entered into exchange traded futures contracts primarily to manage exposure to certain foreign currencies. A futures contract is an agreement between the Fund and a counterparty to buy or sell an asset for a specified price on a future date. Required initial margin deposits of cash or securities are pledged by the Fund. Subsequent payments, known as variation margin, are made or received by the Fund, depending on fluctuations in the value of the asset underlying the futures

Notes to Financial Statements (unaudited) (continued)

1. Organization and Significant Accounting Policies (continued)

c. Derivative Financial Instruments (continued)

contract. Such variation margin is accounted for as unrealized appreciation or depreciation until the contract is closed, at which time the gains or losses are realized.

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

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

See Notes 7 and 11 regarding investment transactions and other derivative information, respectively.

d. Restricted Cash

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

e. Securities Lending

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

Notes to Financial Statements (unaudited) (continued)

1. Organization and Significant Accounting Policies (continued)

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.

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

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 is recorded on the ex-dividend date except that certain dividends from foreign securities are recognized as soon as the Fund is notified of the ex-dividend date. Distributions to shareholders are recorded on the ex-dividend date and are determined according to income tax regulations (tax basis). Distributable earnings determined on a tax basis may differ from earnings recorded in accordance with accounting principles generally accepted in the United States of America. These differences may be permanent or temporary. Permanent differences are reclassified among capital accounts to reflect their tax character. These reclassifications have no impact on net assets or the results of operations. Temporary differences are not reclassified, as they may reverse in subsequent periods.

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

Notes to Financial Statements (unaudited) (continued)

1. Organization and Significant Accounting Policies (continued)

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

Realized and unrealized gains and losses and net investment income, not including class specific expenses, are allocated daily to each class of shares based upon the relative proportion of net assets of each class. Differences in per share distributions, by class, are generally due to differences in class specific expenses.

h. Accounting Estimates

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

i. Guarantees and Indemnifications

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

2. SHARES OF BENEFICIAL INTEREST

At June 30, 2013, there were an unlimited number of shares authorized (without par value). Transactions in the Fund's shares were as follows:

	Six Months Ended June 30, 2013			Ended er 31, 2012
	Shares	Amount	Shares	Amount
Class Z Shares:				
Shares sold	6,212,184	\$ 139,172,228	5,987,954	\$ 122,427,609
Shares issued in reinvestment of				
distributions	485	10,281	2,622,257	55,401,510
Shares redeemed ^a	(13,977,347)	(313,641,952)	(7,365,879)	(149,195,219)
Net increase (decrease)	(7,764,678)	\$(174,459,443)	1,244,332	\$ 28,633,900
Class A Shares:				
Shares sold	3,478,132	\$ 75,743,456	6,618,726	\$ 132,551,979
Shares issued in reinvestment of				
distributions	25	524	928,602	19,210,403
Shares redeemed	(2,855,822)	(62,230,462)	(7,937,505)	(157,595,848)
Net increase (decrease)	622,335	\$ 13,513,518	(390,177)	\$ (5,833,466)

Notes to Financial Statements (unaudited) (continued)

2. SHARES OF BENEFICIAL INTEREST (continued)

	Six Months Ended June 30, 2013		Year End December 3			
	Shares	Shares Amount		Shares		Amount
Class B Sharesb:						
Shares sold	151	\$	3,172	5,863	\$	118,713
Shares issued in reinvestment of						
distributions	_		_	1,403		28,810
Shares redeemed	(29,455)		(633,285)	(167,661)		(3,278,862)
Net increase (decrease)	(29,304)	\$	(630,113)	(160,395)	\$	(3,131,339)
Class C Shares:						_
Shares sold	562,435	\$	12,343,982	547,006	\$	10,949,269
Shares issued in reinvestment of						
distributions	8		166	237,674		4,925,285
Shares redeemed	(561,233)		(12,253,802)	(1,702,604)		(33,684,702)
Net increase (decrease)	1,210	\$	90,346	(917,924)	\$	(17,810,148)
Class R Shares:						
Shares sold	484	\$	10,467	698	\$	13,869
Shares issued in reinvestment of						
distributions	_		_	108		2,225
Shares redeemed	(208)		(4,415)	(277)		(5,049)
Net increase (decrease)	276	\$	6,052	529	\$	11,045
Class R6 Shares:						
Shares sold ^a	10,412,068	\$2	234,727,284			
Shares redeemed	(881,110)	(20,083,000)				
Net increase (decrease)	9,530,958	\$2	214,644,284			

^aEffective May 1, 2013, a portion of Class Z shares were exchanged into Class R6.

3. TRANSACTIONS WITH AFFILIATES

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

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

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

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

Notes to Financial Statements (unaudited) (continued)

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
0.800%	Up to and including \$1 billion
0.770%	Over \$1 billion, up to and including \$2 billion
0.750%	Over \$2 billion, up to and including \$5 billion
0.730%	In excess of \$5 billion

b. Administrative Fees

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

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

c. Distribution Fees

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

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

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

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

Notes to Financial Statements (unaudited) (continued)

3. Transactions with Affiliates (continued)

d. Sales Charges/Underwriting Agreements

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

Sales charges retained net of commissions paid to	
unaffiliated broker/dealers	\$90,202
CDSC retained	\$ 5,162

e. Transfer Agent Fees

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

For the period ended June 30, 2013, the Fund paid transfer agent fees of \$1,635,682, of which \$988,536 was retained by Investor Services.

4. EXPENSE OFFSET ARRANGEMENT

The Fund has entered into an arrangement with its custodian whereby credits realized as a result of uninvested cash balances are used to reduce a portion of the Fund's custodian expenses. During the period ended June 30, 2013, there were no credits earned.

5. INDEPENDENT TRUSTEES' RETIREMENT PLAN

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

Notes to Financial Statements (unaudited) (continued)

5. INDEPENDENT TRUSTEES' RETIREMENT PLAN (continued)

During the period ended June 30, 2013, the Fund's projected benefit obligation and benefit payments under the Plan were as follows:

^a Projected benefit obligation at June 30, 2013	\$108,823
bIncrease in projected benefit obligation	\$ 12,134
Benefit payments made to retired trustees	\$ 1,256

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

6. INCOME TAXES

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

For tax purposes, the Fund may elect to defer any portion of a post-October capital loss to the first day of the following fiscal year. At December 31, 2012, the Fund deferred post-October capital losses of \$13,757,505.

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

Cost of investments	\$1,795,737,794
Unrealized appreciation	\$ 307,515,193
Unrealized depreciation	(100,240,635)
Net unrealized appreciation (depreciation)	\$ 207,274,558

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

7. Investment Transactions

Purchases and sales of investments (excluding short term securities) for the period ended June 30, 2013, aggregated \$486,054,543 and \$424,139,220, respectively.

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

Notes to Financial Statements (unaudited) (continued)

7. Investment Transactions (continued)

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

	Number of Contracts	Premiums Received
Options outstanding at December 31, 2012	_	\$ —
Options written	271	37,940
Options expired	_	_
Options exercised	(271)	(37,940)
Options closed		
Options outstanding at June 30, 2013		\$ —

See Note 1(c) regarding derivative financial instruments.

8. CREDIT RISK AND DEFAULTED SECURITIES

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

At June 30, 2013, the aggregate value of distressed company securities for which interest recognition has been discontinued was \$2,925,000, representing 0.14% of the Fund's net assets. For information as to specific securities, see the accompanying Statement of Investments.

9. CONCENTRATION OF RISK

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

Notes to Financial Statements (unaudited) (continued)

10. RESTRICTED SECURITIES

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

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

Shares	Issuer	Acquisition Dates	Cost	Value
16,127,149	Euro Wagon LP	12/08/05 - 1/02/08	\$6,282,509	\$14,572,579
16,080	Olympus Re Holdings Ltd	12/19/01	1,510,300	_
	Total Restricted Securities (Value is	0.71% of Net Assets)	\$7,792,809	\$14,572,579

11. OTHER DERIVATIVE INFORMATION

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

Asset Derivatives		es	Liability Derivatives		
Derivative Contracts Not Accounted for as Hedging Instruments	Statement of Assets and Liabilities Location	Fair Value Amount	Statement of Assets and Liabilities Location	Fair Value Amount	
Foreign exchange contracts	Unrealized appreciation on forward exchange contracts/ Net assets consist of - net unrealized appreciation	\$21,240,433ª	Unrealized depreciation on forward exchange contracts	\$2,557,110	

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

Notes to Financial Statements (unaudited) (continued)

11. OTHER DERIVATIVE INFORMATION (continued)

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

Derivative Contracts Not Accounted for as Hedging Instruments	Statement of Operations Locations	Realized Gain (Loss) for the Period	Change in Unrealized Appreciation (Depreciation) for the Period
Foreign exchange contracts	Net realized gain (loss) from foreign currency transactions and futures contracts / Net change in unrealized appreciation (depreciation) on translation of other assets and liabilities denominated in foreign currencies	\$(13,926,187)	\$66,517,684

For the period ended June 30, 2013, the average month end market value of derivatives represented 1.67% of average month end net assets. The average month end number of open derivative contracts for the period was 166.

See Note 1(c) regarding derivative financial instruments.

12. HOLDINGS OF 5% VOTING SECURITIES OF PORTFOLIO COMPANIES

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

Name of Issuer	Number of Shares Held at Beginning of Period	Gross Additions	Gross Reductions	Number of Shares Held at End of Period	Value at End of Period	Investment Income	Realized Capital Gain (Loss)
Controlled Affiliates ^a Euro Wagon LP							
(Value is 0.71% of Net Assets)	16,127,149	_	_	16,127,149	\$14,572,579	\$1,131,806	\$

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

13. Special Servicing Agreement

The Fund, which is an eligible underlying investment of one or more of the Franklin Templeton Fund Allocator Series Funds (Allocator Funds), participates in a Special Servicing Agreement (SSA) with the Allocator Funds and certain service providers of the Fund and the Allocator Funds. Under the SSA, the Fund may pay a portion of the Allocator Funds' expenses (other than any asset allocation, administrative, and distribution fees) to the extent such payments are less than the amount of the benefits realized or expected to be realized by the Fund (e.g., due to

Notes to Financial Statements (unaudited) (continued)

13. Special Servicing Agreement (continued)

reduced costs associated with servicing accounts) from the investment in the Fund by the Allocator Funds. The Allocator Funds are either managed by Franklin Advisers, Inc. or administered by FT Services, affiliates of Franklin Mutual. For the period ended June 30, 2013, the Fund was held by one or more of the Allocator Funds and the amount of expenses borne by the Fund is noted in the Statement of Operations. At June 30, 2013, 10.36% of the Fund's outstanding shares were held by one or more of the Allocator Funds. Effective May 1, 2013, the SSA was discontinued until further notice and approval by the Board.

14. CREDIT FACILITY

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

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

15. FAIR VALUE MEASUREMENTS

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

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

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

Notes to Financial Statements (unaudited) (continued)

15. FAIR VALUE MEASUREMENTS (continued)

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

A summary of inputs used as of June 30, 2013, in valuing the Fund's assets and liabilities carried at fair value, is as follows:

	Level 1	Level 2	Level 3	Total
Assets:				
Investments in Securities				
Equity Investments: ^a				
Energy Equipment & Services	\$ 21,552,882	\$16,020,672	\$ —	\$ 37,573,554
Real Estate Management &				
Development	_	_	819,671	819,671
Road & Rail	34,438,153	_	14,572,579	49,010,732
All Other Equity Investments ^b	1,761,529,716	_	с	1,761,529,716
Corporate Notes	_	1,571,690	_	1,571,690
Corporate Notes in Reorganization	_	2,925,000	_	2,925,000
Short Term Investments	143,281,989	6,300,000		149,581,989
Total Investments in Securities	\$1,960,802,740	\$26,817,362	\$15,392,250	\$2,003,012,352
Futures Contracts	\$ 6,178,074	\$ —	\$ —	\$ 6,178,074
Forward Exchange Contracts	_	15,062,359	_	15,062,359
Liabilities:				
Forward Exchange Contracts	_	2,557,110	_	2,557,110

alncludes common stocks as well as other equity investments.

A reconciliation of assets in which Level 3 inputs are used in determining fair value is presented when there are significant Level 3 investments at the end of the period.

16. New Accounting Pronouncements

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

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

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

Notes to Financial Statements (unaudited) (continued)

17. SUBSEQUENT EVENTS

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

ABBREVIATIONS

Counterparty

BANT - Bank of America N.A. **BBU** - Barclays Bank PLC **DBFX** - Deutsche Bank AG FBCO - Credit Suisse Group AG HAND - Svenska Handelsbanken HSBC - HSBC Bank USA, N.A. SCBT - Standard Chartered Bank

Currency

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

Selected Portfolio

FHLB - Federal Home Loan Bank FRN - Floating Rate Note IDR - International Depositary Receipt PC - Participation Certificate - Registered Shares RS

Shareholder Information

Board Review of Investment Management Agreement

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

In reaching their decision on the investment management agreement (as well as the administrative services agreement), the trustees took into account information furnished throughout the year at regular Board meetings, as well as information specifically requested and furnished for the renewal process, which culminated in the meetings referred to above for the specific purpose of considering such agreements. Information furnished throughout the year included, among others, reports on the Fund's investment performance, expenses, portfolio composition, portfolio brokerage execution, client commission arrangements, derivatives, securities lending, portfolio turnover, Rule 12b-1 plans, distribution, shareholder servicing, legal and compliance matters, pricing of securities and sales and redemptions, as well as a third-party survey of transfer agent fees charged funds within the Franklin Templeton Investments complex in comparison with those charged other fund complexes deemed comparable. Also, related financial statements and other information about the scope and quality of services provided by the investment manager and its affiliates and enhancements to such services over the past year were provided. In addition, the trustees received periodic reports throughout the year and during the renewal process relating to compliance with the Fund's investment policies and restrictions. During the renewal process, the independent trustees considered the investment manager's methods of operation within the Franklin Templeton group and its activities on behalf of other clients.

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

In addition, the trustees received a Profitability Study (Profitability Study) prepared by management discussing the profitability to Franklin Templeton Investments from its overall U.S. Fund operations, as well as on an individual fund-by-fund basis. Over the past year, the Board and counsel to the

Shareholder Information (continued)

Board Review of Investment Management Agreement (continued)

independent trustees continued to receive reports on management's handling of recent regulatory inquiries and pending legal actions against the investment manager and its affiliates. The independent trustees were satisfied with the actions taken to date by management in response to such regulatory and legal proceedings.

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

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

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

Shareholder Information (continued)

Board Review of Investment Management Agreement (continued)

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

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

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

INVESTMENT PERFORMANCE. The trustees reviewed and placed significant emphasis on the investment performance of the Fund over the one-, three-, five- and 10-year periods ended December 31, 2012. They considered the history of successful performance of the Fund relative to various benchmarks. As part of their review, they inquired of management regarding benchmarks, style drift and restrictions on permitted investments. Consideration was also given to performance in the context of available levels of cash during the periods. The trustees had meetings during the year, including the meetings referred to above held in connection with the renewal process, with the Fund's portfolio managers to discuss performance and the management of the Fund. In addition, particular attention in assessing performance was given to the Lipper Section 15(c) Report. That report showed the investment performance of the Fund (Class A shares) in comparison to other funds determined comparable by Lipper.

Shareholder Information (continued)

Board Review of Investment Management Agreement (continued)

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

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

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

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

The Fund's contractual management fee rate was in the second-most expensive quintile of its Lipper expense group and its total expenses were in the least expensive quintile of such group. The Board noted that the Fund's contractual management fee rate was within 6.6 basis points of its Lipper expense group median. The Board was satisfied with such comparative fees and expenses.

Shareholder Information (continued)

Board Review of Investment Management Agreement (continued)

The trustees also reviewed the Profitability Study addressing profitability of Franklin Resources, Inc., from its overall U.S. fund business, as well as profitability to the Fund's investment manager and its affiliates, from providing investment management and other services to the Fund during the 12-month period ended September 30, 2012, the most recent fiscal year-end of Franklin Resources, Inc. The trustees reviewed the basis on which such reports are prepared and the cost allocation methodology utilized in the Profitability Study, it being recognized that allocation methodologies may each be reasonable while producing different results. In this respect, the Board noted that the reasonableness of the cost allocation methodologies was reviewed by independent accountants on an every other year basis.

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

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

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

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

Shareholder Information (continued)

Board Review of Investment Management Agreement (continued)

economies of scale may result in the investment manager realizing a larger profit margin on investment management services provided to such a fund. The trustees also noted that benefits of economies of scale will be shared with Fund shareholders due to the decline in the effective investment management fee rate as breakpoints are achieved by the Fund.

The trustees noted that breakpoints had been instituted as part of the Fund's investment management fee in 2004. The trustees assessed the savings to shareholders resulting from such breakpoints and believed they were, and continue to be, appropriate and they agreed to continue to monitor the appropriateness of the breakpoints. The trustees also considered the effects an increase in assets under management would have on the investment management fee and expense ratios of the Fund. To the extent further economies of scale may be realized by the investment manager and its affiliates, the Board believed the investment management and administrative fees provide a sharing of benefits with the Fund and its shareholders.

Proxy Voting Policies and Procedures

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

Quarterly Statement of Investments

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

Franklin Templeton Funds

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

VALUE

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

BLEND

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

GROWTH

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

SECTOR

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

GLOBAL

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

INTERNATIONAL

Franklin India Growth Fund

Franklin International Growth Fund
Franklin International Small Cap Growth Fund³
Mutual European Fund
Mutual International Fund
Templeton Asian Growth Fund
Templeton BRIC Fund
Templeton China World Fund
Templeton Developing Markets Trust
Templeton Emerging Markets Small Cap Fund
Templeton Foreign Fund
Templeton Foreign Smaller Companies Fund
Templeton Frontier Markets Fund⁴

HYBRID

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

ASSET ALLOCATION

Franklin Templeton Corefolio® Allocation Fund
Franklin Templeton Founding Funds Allocation Fund
Franklin Templeton Conservative Allocation Fund
Franklin Templeton Growth Allocation Fund
Franklin Templeton Moderate Allocation Fund
Franklin LifeSmart™ 2015 Retirement Target Funds
Franklin LifeSmart™ 2020 Retirement Target Funds
Franklin LifeSmart™ 2025 Retirement Target Funds
Franklin LifeSmart™ 2030 Retirement Target Funds
Franklin LifeSmart™ 2045 Retirement Target Funds
Franklin LifeSmart™ 2045 Retirement Target Funds
Franklin LifeSmart™ 2045 Retirement Target Funds
Franklin LifeSmart™ 2050 Retirement Target Funds
Franklin LifeSmart™ 2050 Retirement Target Funds
Franklin Templeton Global Allocation Fund
Franklin Templeton Multi-Asset Real Return Fund

FIXED INCOME

Franklin Adjustable U.S. Government Securities Fund⁶ Franklin Floating Rate Daily Access Fund Franklin High Income Fund Franklin Limited Maturity U.S. Government Securities Fund⁶ Franklin Low Duration Total Return Fund Franklin Real Return Fund Franklin Strategic Income Fund Franklin Strategic Mortgage Portfolio Franklin Templeton Hard Currency Fund Franklin Total Return Fund Franklin U.S. Government Securities Fund⁶ Templeton Emerging Markets Bond Fund Templeton Global Bond Fund Templeton Global Total Return Fund Templeton International Bond Fund

TAX-FREE INCOME⁷

National

Double Tax-Free Income Fund⁸ Federal Tax-Free Income Fund High Yield Tax-Free Income Fund Insured Tax-Free Income Fund^{9, 10}

Limited-/Intermediate-Term

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

State-Specific

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

INSURANCE FUNDS

Franklin Templeton Variable Insurance Products Trust¹¹

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

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

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