

ANNUAL REPORT AND SHAREHOLDER LETTER

# FRANKLIN K2 LONG SHORT CREDIT FUND

A Series of Franklin Alternative Strategies Funds

May 31, 2019



FRANKLIN  
TEMPLETON

**Internet Delivery of Fund Reports Unless You Request Paper Copies:** Effective January 1, 2021, as permitted by the SEC, paper copies of the Fund's shareholder reports will no longer be sent by mail, unless you specifically request them from the Fund or your financial intermediary. Instead, the reports will be made available on a website, and you will be notified by mail each time a report is posted and provided with a website link to access the report.

If you already elected to receive shareholder reports electronically, you will not be affected by this change and you need not take any action. If you have not signed up for electronic delivery, we would encourage you to join fellow shareholders who have. You may elect to receive shareholder reports and other communications electronically from the Fund by calling (800) 632-2301 or by contacting your financial intermediary.

You may elect to continue to receive paper copies of all your future shareholder reports free of charge by contacting your financial intermediary or, if you invest directly with a Fund, calling (800) 632-2301 to let the Fund know of your request. Your election to receive reports in paper will apply to all funds held in your account.

# FRANKLIN TEMPLETON

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

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

Dear Fellow Shareholder:

During the 12 months ended May 31, 2019, global markets benefited from upbeat economic data in certain regions, encouraging corporate earnings reports, the U.S. Federal Reserve's (Fed's) recent indications of a patient approach to its monetary policy, and periods of optimism about a potential U.S.-China trade deal. However, global markets also reflected investor concerns about the escalation of U.S.-China and U.S.-Mexico trade tensions near period-end, the Fed's interest-rate hikes and the European Central Bank's unwinding of its bond purchase program in 2018, political uncertainties in the U.S. and the European Union, and slower global economic growth. In this environment, global developed market stocks, as measured by the MSCI World Index, posted a +0.27% total return for the period.<sup>1</sup> Global emerging market stocks, as measured by the MSCI Emerging Markets Index, posted a -8.34% total return.<sup>1</sup> Global government bonds, as measured by the FTSE World Government Bond Index, posted a +2.79% total return.<sup>1</sup>

We are committed to our long-term perspective and disciplined investment approach as we conduct a rigorous, fundamental analysis of securities with a regular emphasis on investment risk management.

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

On the following pages, the Fund's portfolio management team reviews investment decisions that pertain to performance during the past 12 months in light of the economic environment and other factors. Please remember all securities markets fluctuate, as do mutual fund share prices.

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

Sincerely,



Madison S. Gulley, CFA  
President and Chief Executive Officer –  
Investment Management  
Franklin Alternative Strategies Funds

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*This letter reflects our analysis and opinions as of May 31, 2019, unless otherwise indicated. The information is not a complete analysis of every aspect of any market, country, industry, security or fund. Statements of fact are from sources considered reliable.*

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1. Source: Morningstar.

See [www.franklintempletondatasources.com](http://www.franklintempletondatasources.com) for additional data provider information.

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# ANNUAL REPORT

## Franklin K2 Long Short Credit Fund

This annual report for Franklin K2 Long Short Credit Fund covers the fiscal year ended May 31, 2019.

### Your Fund's Goal and Main Investments

The Fund seeks total return through a combination of current income, capital preservation and capital appreciation. The Fund seeks to achieve its investment goal by allocating its assets across multiple non-traditional or alternative strategies in the fixed income and credit areas, including, but not limited to, some or all of the following: credit long short, structured credit and emerging market fixed income. The Fund is structured as a multi-manager fund, meaning the Fund's assets are managed by multiple subadvisors, and the Fund's investment manager has overall responsibility for the Fund's investments.

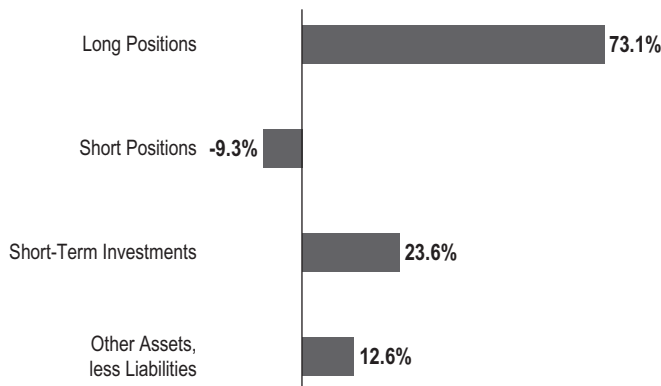
Under normal market conditions, the Fund invests at least 80% of its net assets, plus the amount of any borrowings for investment purposes, in credit-related investments. The Fund invests in a wide range of securities and other investments including, but not limited to: corporate bonds, mortgage-backed securities (MBS) and asset-backed securities (ABS), U.S. government and agency securities, collateralized debt and loan obligations, foreign government and supranational debt securities, loans and loan participations and derivatives with similar economic characteristics. The Fund may also invest in repurchase agreements, reverse repurchase agreements, mortgage real estate investment trusts (REITs) and other similar transactions.

### Performance Overview

The Fund's Class A shares posted a +3.42% cumulative total return for the 12 months under review. For comparison, the Fund's primary benchmark, the HFRX Fixed Income-Credit Index, which measures performance of strategies with exposure to credit across a broad continuum of credit substrategies, posted a -1.20% total return for the same period.<sup>1</sup> Also for comparison, the Fund's secondary benchmark, the ICE BofAML U.S. 3-Month Treasury Bill Index, which is an index of short-term U.S. government securities with a remaining term to final maturity of less than three

### Portfolio Composition\*

Based on Total Net Assets as of 5/31/19



\*Figures represent the net Fund exposure and include certain derivatives held in the portfolio (or their underlying reference assets) or unsettled trades and may not total 100% or may be negative due to rounding, use of any derivatives or other factors.

months, posted a +2.26% total return.<sup>2</sup> You can find more of the Fund's performance data in the Performance Summary beginning on page 7.

*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](http://franklintempleton.com) or call (800) 342-5236.*

### Economic and Market Overview

The global economy expanded during the 12 months ended May 31, 2019, despite weakness in certain regions. Global developed and emerging market stocks were aided by upbeat economic data in some regions, encouraging corporate earnings reports, the U.S. Federal Reserve's (Fed's) recent indications of a patient approach to its monetary policy and periods of optimism about a potential U.S.-China trade deal.

However, various factors weighed on global markets, notably the escalation of U.S.-China trade tensions, as the U.S. raised tariffs on Chinese goods in May and China announced higher tariffs on U.S. goods effective in June. Markets were

1. Source: FactSet. Hedge Fund Research, Inc. – [www.hedgefundresearch.com](http://www.hedgefundresearch.com). The HFRX Fixed Income-Credit Index is being used under license from Hedge Fund Research, Inc., which does not endorse or approve of any of the contents of this report.

2. Source: Morningstar.

The indexes are unmanaged and include reinvestment of any income or distributions. They do not reflect any fees, expenses or sales charges. One cannot invest directly in an index, and an index is not representative of the Fund's portfolio. Unlike most asset class indexes, HFR Index returns reflect fees and expenses.

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 16.

further pressured at period-end when President Trump threatened to impose tariffs on Mexico due to immigration disputes. Concerns about political uncertainties in the U.S. and the European Union, the Fed's interest-rate hikes in 2018 and the European Central Bank's (ECB's) unwinding of its bond purchase program also hurt investor confidence. In this environment, global developed and emerging market stocks, as measured by the MSCI All Country World Index, posted a -0.75% total return for the 12-month period.<sup>2</sup>

The U.S. economy grew during the 12-month period. After moderating for two consecutive quarters, the economy grew significantly faster in 2019's first quarter, driven by growth in consumer spending, inventory investment, exports, business investment, and state and local government spending. The manufacturing and services sectors expanded during the period. The unemployment rate decreased from 3.8% in May 2018 to 3.6% at period-end.<sup>3</sup> The annual inflation rate, as measured by the Consumer Price Index, decreased from 2.8% in May 2018 to 1.8% at period-end.<sup>3</sup>

The Fed raised its target range for the federal funds rate by 0.25% three times during the period, to 2.25%–2.50%, and continued reducing its balance sheet as part of its plan to normalize monetary policy. At its March 2019 meeting, the Fed held its target range for the federal funds rate unchanged and signaled no rate hike in 2019. Furthermore, the Fed mentioned it would end its balance sheet normalization by the end of September 2019. At its April/May meeting, the Fed reiterated its patient approach to future rate adjustments.

In Europe, the U.K.'s quarterly gross domestic product (GDP) growth accelerated in 2018's third quarter, moderated in the fourth quarter and accelerated again in 2019's first quarter. The Bank of England raised its key policy rate once during the period. The eurozone's quarterly GDP growth moderated in 2018's third quarter before accelerating in the next two quarters. However, the bloc's annual inflation rate decreased during the period. The ECB kept its benchmark interest rate unchanged during the period and concluded its bond purchase program at the end of 2018. At its April meeting, the ECB reiterated its expectation to keep its benchmark interest rate unchanged through at least the end of 2019 and stated it would provide details of its new monetary stimulus program at upcoming meetings.

In Asia, Japan's quarterly GDP growth contracted in 2018's third quarter, but accelerated in the next two quarters. The Bank of Japan left its benchmark interest rate unchanged

and indicated it would keep the rate unchanged through the spring of 2020, while continuing its monetary stimulus measures.

In larger emerging markets, Brazil's quarterly GDP growth accelerated in 2018's third quarter, slowed in the fourth quarter and contracted in 2019's first quarter. The Central Bank of Brazil left its benchmark interest rate unchanged during the period. Russia's annual GDP growth held steady in 2018's third quarter, accelerated in the fourth quarter and then moderated in 2019's first quarter. The Bank of Russia increased its key rate twice during the period. China's annual GDP growth rate stabilized in 2019's first quarter after moderating for three consecutive quarters. The People's Bank of China left its benchmark interest rate unchanged, but it took measures to improve financial liquidity to mitigate the effects of the U.S.-China trade dispute and support economic growth. Overall, global emerging market stocks, as measured by the MSCI Emerging Markets Index, posted a -8.34% total return during the 12-month period.<sup>2</sup>

## Investment Strategy

We manage the Fund using a multi-manager approach. While we have overall responsibility for the Fund's investments, we allocate the Fund's assets to multiple subadvisors, each of whom independently manages a separate portion of the Fund's portfolio in accordance with some or all of the following strategies: credit long short, structured credit and emerging market fixed income. We allocate the Fund's assets among these strategies utilizing a top-down approach, generating the Fund's strategy and subadvisor weightings by taking into account market conditions, risk factors, diversification, liquidity, transparency, and other investment options, among other things. We allocate the Fund's assets to specific subadvisors utilizing a bottom-up approach, selecting subadvisors and their weighting within the Fund's portfolio by taking into account their correlation to various markets and to each other, risk profiles and their return expectations.

Credit long short strategies seek to isolate issuer-specific exposure, while limiting general market risks, by taking long and/or short positions in debt securities and other related instruments. Structured credit strategies aim to profit from trading in interest-rate sensitive securities such as residential and commercial MBS, REITs, credit default swaps on various indexes, collateralized loan obligations (CLOs) and ABS. Emerging market fixed income strategies invest in corporate and/or sovereign securities in emerging markets countries

3. Source: U.S. Bureau of Labor Statistics.

See [www.franklintempletondatasources.com](http://www.franklintempletondatasources.com) for additional data provider information.

with a focus on fixed income. The Fund may invest in debt securities of any credit quality or rating, including high-yield (“junk”) bonds, distressed debt securities (securities of companies that are, or are about to be, involved in reorganizations, financial restructurings, or bankruptcy) and securities that are in default. The Fund may engage in active and frequent trading as part of its investment strategies.

#### What are swap agreements?

Swap agreements, such as interest rate, currency and credit default swaps, are contracts between the Fund and another party (the swap counterparty). In a basic swap transaction, the Fund agrees with the swap counterparty to exchange the returns (or differentials in rates of return) earned or realized on a particular “notional amount” of underlying instruments. The notional amount is the set amount selected by the parties as the basis on which to calculate the obligations that they have agreed to exchange. The parties typically do not actually exchange the notional amount. Instead, they agree to exchange the returns that would be earned or realized if the notional amount were invested in given instruments or at given interest rates.

The Fund takes long and/or short positions in a wide range of asset classes, including credit, fixed income, equities and currencies, among others. The Fund may gain long or short exposure to select instruments by utilizing derivatives, engaging in short sales or entering into a series of purchase and sale contracts or repurchase agreements. Long positions benefit from an increase in the price of the underlying instrument, while short positions benefit from a decrease in that price. The Fund may also use derivatives for hedging and nonhedging (investment) purposes, although no subadvisor is required to hedge any of the Fund’s positions or to use derivatives. Such derivative investments may include currency forward contracts; futures contracts; put and call options on currencies, securities, indexes and exchange-traded funds; and swaps. The Fund may engage in active and frequent trading as part of its investment strategies.

#### What is a currency forward contract?

A currency forward contract is an agreement between the Fund and a counterparty to buy or sell a foreign currency in exchange for another currency at a specific exchange rate on a future date. Currency forward contracts are privately traded in the interbank market, not on a centralized exchange.

#### What is a futures contract?

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

## Subadvisors

5/31/19

### Credit Long Short

Apollo Credit Management LLC  
Chatham Asset Management, LLC

### Structured Credit

Ellington Global Asset Management, L.L.C.  
Medalist Partners, LP

### Emerging Markets Fixed Income

Emso Asset Management Limited

#### What is an option?

An option is a contract to buy or sell a specific financial product known as the option’s underlying instrument at a specific price. The buyer of an option has the right, but not the obligation, to buy or sell the underlying instrument at or until a specified expiration date. Conversely, the seller (“writer”) of an option who opens a transaction is obligated to buy or sell the underlying instrument should the option holder exercise that right.

## Manager’s Discussion

The Fund’s subadvisors for the 12 months under review were Apollo Credit Management, Chatham Asset Management, Ellington Global Asset Management, Emso Asset Management and Medalist Partners. These subadvisors are also listed in the Subadvisors table on this page. All subadvisors benefited performance for the 12-month period. Apollo was the top contributor among subadvisors, followed by Medalist, Ellington, Chatham and Emso.

In terms of strategy performance, the largest contributors to the Fund’s performance were credit long short and structured credit, followed by emerging markets fixed income.

By asset class, the top contributors to the Fund’s aggregate returns were credit, currency exposures and equity. All asset classes represented in the Fund’s overall portfolio made positive contributions to performance during the period.

In terms of aggregate sector exposures, the top performance drivers for the Fund were MBS, consumer discretionary and ABS. In contrast, equity index hedges and energy hindered returns.

The credit long short strategy benefited from long positions in corporate bonds, notably in the consumer discretionary, communication services and real estate sectors. Conversely, equity index hedges and long positions in the energy sector detracted from strategy results.

In the structured credit strategy, long positions in MBS, CLOs and other ABS supported performance, while a short position on a three-month U.S. interest-rate derivative hurt performance.

The emerging markets fixed income strategy benefited from solid performance in most emerging market hard currency sovereign bonds, as well as from currency positioning. In contrast, detracting from returns were certain emerging market sovereign bonds, particularly in Argentina.

Thank you for your participation in Franklin K2 Long Short Credit Fund. We look forward to continuing to serve your future investment needs.



A handwritten signature in black ink, appearing to read 'Charmaine Chin'.

Charmaine Chin  
Co-Lead Portfolio Manager



A handwritten signature in black ink, appearing to read 'Jeff Schmidt'.

Jeff Schmidt  
Co-Lead Portfolio Manager



A handwritten signature in black ink, appearing to read 'Robert Christian'.

Robert Christian  
Co-Lead Portfolio Manager

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*The foregoing information reflects our analysis, opinions and portfolio holdings as of May 31, 2019, 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.*



## Performance Summary as of May 31, 2019

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

### Performance as of 5/31/19<sup>1</sup>

*Cumulative total return excludes sales charges. Average annual total return includes maximum sales charges. Sales charges will vary depending on the size of the investment and the class of share purchased. The maximum is 5.50% and the minimum is 0%. **Class A:** 5.50% maximum initial sales charge; **Advisor Class:** no sales charges. For other share classes, visit [franklintempleton.com](http://franklintempleton.com).*

Share Class	Cumulative Total Return <sup>2</sup>	Average Annual Total Return <sup>3</sup>
<b>A<sup>4</sup></b>		
1-Year	+3.42%	-2.26%
3-Year	+15.30%	+2.90%
Since Inception (9/8/15)	+18.74%	+3.14%
<b>Advisor</b>		
1-Year	+3.60%	+3.60%
3-Year	+15.76%	+5.00%
Since Inception (9/8/15)	+19.22%	+4.83%

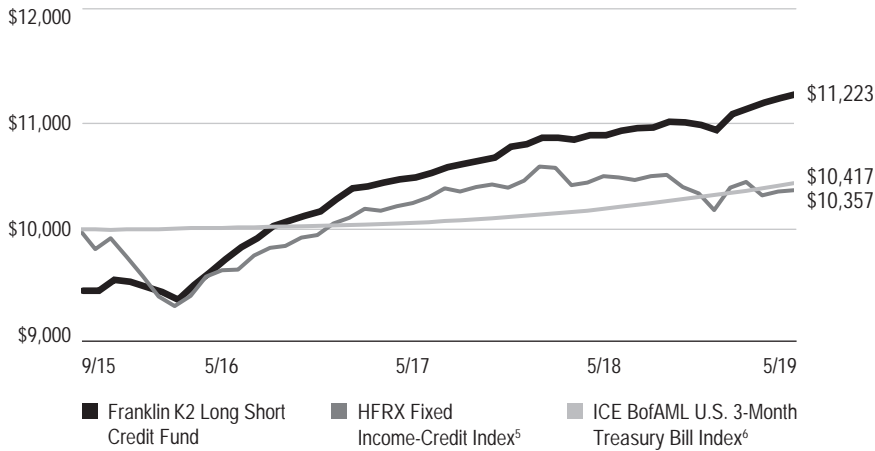
*Performance data represent past performance, which does not guarantee future results. Investment return and principal value will fluctuate, and you may have a gain or loss when you sell your shares. Current performance may differ from figures shown. For most recent month-end performance, go to [franklintempleton.com](http://franklintempleton.com)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

See page 9 for Performance Summary footnotes.

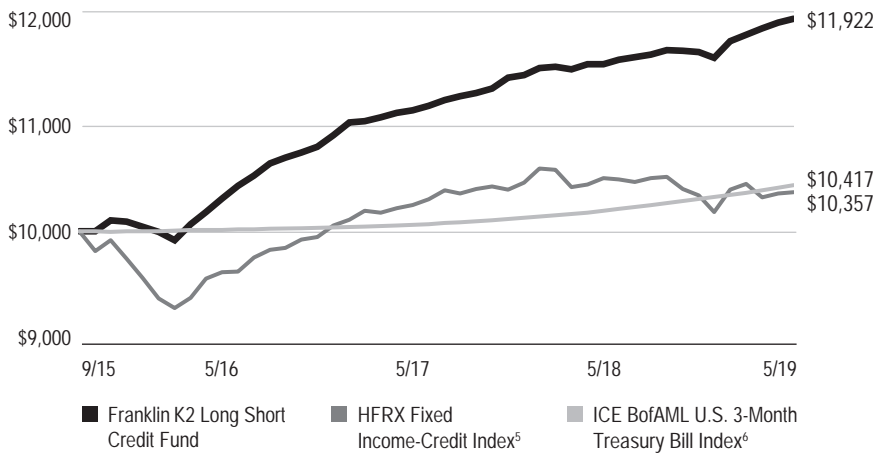
## Total Return Index Comparison for a Hypothetical \$10,000 Investment<sup>1</sup>

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

### Class A (9/8/15–5/31/19)



### Advisor Class (9/8/15–5/31/19)



See page 9 for Performance Summary footnotes.

## Distributions (6/1/18–5/31/19)

Share Class	Net Investment Income	Short-Term Capital Gain	Long-Term Capital Gain	Total
A	\$0.3118	\$0.0310	\$0.0636	\$0.4064
C	\$0.2460	\$0.0310	\$0.0636	\$0.3406
R	\$0.2787	\$0.0310	\$0.0636	\$0.3733
R6	\$0.3325	\$0.0310	\$0.0636	\$0.4271
Advisor	\$0.3299	\$0.0310	\$0.0636	\$0.4245

Total Annual Operating Expenses<sup>7</sup>

Share Class	With Fee Waiver	Without Fee Waiver
A	3.11%	3.59%
Advisor	2.86%	3.34%

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

All investments involve risks, including possible loss of principal. The market values of securities owned by the Fund will go up or down, sometimes rapidly or unpredictably. The Fund's performance depends on the manager's skill in selecting, overseeing and allocating Fund assets to the subadvisors. The Fund is actively managed and could experience losses if the manager's and subadvisors' judgment about particular Fund portfolio investments prove to be incorrect. Some subadvisors may have little or no experience managing the assets of a registered investment company. Bond prices generally move in the opposite direction of interest rates. Changes in the financial strength of a bond issuer or in a bond's credit rating may affect its value. Lower-rated or high-yield debt securities (junk bonds) involve greater credit risk, including the possibility of default or bankruptcy. Liquidity risk exists when securities become more difficult to sell, or are unable to be sold, at the price at which they've been valued. Investments in derivatives involve costs and create economic leverage, which may result in significant volatility and cause the Fund to participate in losses (as well as gains) that significantly exceed the Fund's initial investment. The Fund may make short sales of securities, which involves the risk that losses may exceed the original amount invested. The Fund's prospectus also includes a description of the main investment risks.

1. The Fund has an expense reduction contractually guaranteed through 9/30/19. Fund investment results reflect the expense reduction; without this reduction, the results would have been lower.
2. Cumulative total return represents the change in value of an investment over the periods indicated.
3. Average annual total return represents the average annual change in value of an investment over the periods indicated. Return for less than one year, if any, has not been annualized.
4. Prior to 9/10/18, these shares were offered at a higher initial sales charge of 5.75%, thus actual returns (with sales charges) would have differed. Average annual total returns (with sales charges) have been restated to reflect the current maximum initial sales charge of 5.50%.
5. Source: FactSet. Hedge Fund Research, Inc. – [www.hedgefundresearch.com](http://www.hedgefundresearch.com). The HFRX Fixed Income-Credit Index measures performance of strategies with exposure to credit across a broad continuum of credit substrategies, including corporate, sovereign, distressed, convertible, asset backed, capital structure arbitrage, multi-strategy and other relative value and event driven substrategies. Investment thesis across all strategies is predicated on realization of a valuation discrepancy between the related credit instruments. Strategies may also include and utilize equity securities, credit derivatives, government fixed income, commodities, currencies or other hybrid securities.
6. Source: Morningstar. The ICE BofAML U.S. 3-Month Treasury Bill Index is an index of short-term U.S. government securities with a remaining term to final maturity of less than three months.
7. Figures are as stated in the Fund's current prospectus and may differ from the expense ratios disclosed in the Your Fund's Expenses and Financial Highlights sections in this report. In periods of market volatility, assets may decline significantly, causing total annual Fund operating expenses to become higher than the figures shown. See [www.franklintempletondatasources.com](http://www.franklintempletondatasources.com) for additional data provider information.

## Your Fund's Expenses

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

### Actual Fund Expenses

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

### Hypothetical Example for Comparison with Other Funds

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

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

Share Class	Beginning Account Value 12/1/18	Actual (actual return after expenses)		Hypothetical (5% annual return before expenses)		Net Annualized Expense Ratio <sup>2</sup>
		Ending Account Value 5/31/19	Expenses Paid During Period 12/1/18–5/31/19 <sup>1,2</sup>	Ending Account Value 5/31/19	Expenses Paid During Period 12/1/18–5/31/19 <sup>1,2</sup>	
A	\$1,000	\$1,025.40	\$12.47	\$1,012.62	\$12.39	2.47%
C	\$1,000	\$1,021.20	\$16.98	\$1,008.13	\$16.87	3.37%
R	\$1,000	\$1,024.30	\$14.28	\$1,010.82	\$14.19	2.83%
R6	\$1,000	\$1,025.50	\$11.82	\$1,013.26	\$11.75	2.34%
Advisor	\$1,000	\$1,026.20	\$11.97	\$1,013.11	\$11.90	2.37%

1. Expenses are equal to the annualized expense ratio for the six-month period as indicated above—in the far right column—multiplied by the simple average account value over the period indicated, and then multiplied by 182/365 to reflect the one-half year period.

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

## Financial Highlights

### Franklin K2 Long Short Credit Fund

	Year Ended May 31,			
	2019	2018	2017	2016 <sup>a</sup>
<b>Class A</b>				
<b>Per share operating performance</b> (for a share outstanding throughout the year)				
Net asset value, beginning of year	\$10.50	\$10.49	\$10.15	\$10.00
Income from investment operations <sup>b</sup> :				
Net investment income <sup>c</sup>	0.37	0.29	0.23	0.21
Net realized and unrealized gains (losses)	(0.02)	0.08	0.53	0.08
Total from investment operations	0.35	0.37	0.76	0.29
Less distributions from:				
Net investment income	(0.31)	(0.19)	(0.32)	(0.08)
Net realized gains	(0.09)	(0.17)	(0.10)	(0.06)
Total distributions	(0.40)	(0.36)	(0.42)	(0.14)
Net asset value, end of year	\$10.45	\$10.50	\$10.49	\$10.15
Total return <sup>d</sup>	3.42%	3.63%	7.58%	2.99%
<b>Ratios to average net assets<sup>e</sup></b>				
Expenses before waiver, payments by affiliates and expense reductions <sup>f</sup>	3.15%	3.51%	3.50%	3.37%
Expenses net of waiver, payments by affiliates and expense reductions <sup>f</sup>	2.69%	2.98% <sup>g</sup>	2.75%	2.30% <sup>g</sup>
Expenses incurred in connection with securities sold short	0.62%	0.89%	0.76%	0.40%
Net investment income	3.49%	2.71%	2.24%	2.85%
<b>Supplemental data</b>				
Net assets, end of year (000's)	\$27,870	\$45,088	\$41,001	\$28,198
Portfolio turnover rate	158.66%	251.81%	317.70%	511.62%

<sup>a</sup>For the period September 8, 2015 (commencement of operations) to May 31, 2016.

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

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

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

<sup>e</sup>Ratios are annualized for periods less than one year.

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

<sup>g</sup>Benefit of expense reduction rounds to less than 0.01%.

**Franklin K2 Long Short Credit Fund** (continued)

	Year Ended May 31,			
	2019	2018	2017	2016 <sup>a</sup>
<b>Class C</b>				
<b>Per share operating performance</b> (for a share outstanding throughout the year)				
Net asset value, beginning of year	\$10.34	\$10.35	\$10.07	\$10.00
Income from investment operations <sup>b</sup> :				
Net investment income <sup>c</sup>	0.27	0.19	0.14	0.09
Net realized and unrealized gains (losses)	(0.01)	0.07	0.52	0.12
Total from investment operations	0.26	0.26	0.66	0.21
Less distributions from:				
Net investment income	(0.25)	(0.10)	(0.28)	(0.08)
Net realized gains	(0.09)	(0.17)	(0.10)	(0.06)
Total distributions	(0.34)	(0.27)	(0.38)	(0.14)
Net asset value, end of year	\$10.26	\$10.34	\$10.35	\$10.07
Total return <sup>d</sup>	2.61%	2.70%	6.56%	2.20%
<b>Ratios to average net assets<sup>e</sup></b>				
Expenses before waiver, payments by affiliates and expense reductions <sup>f</sup>	4.03%	4.37%	4.44%	3.62%
Expenses net of waiver, payments by affiliates and expense reductions <sup>f</sup>	3.57%	3.84% <sup>g</sup>	3.69%	2.55% <sup>g</sup>
Expenses incurred in connection with securities sold short	0.62%	0.89%	0.76%	0.40%
Net investment income	2.61%	1.85%	1.30%	2.60%
<b>Supplemental data</b>				
Net assets, end of year (000's)	\$2,893	\$2,503	\$1,507	\$270
Portfolio turnover rate	158.66%	251.81%	317.70%	511.62%

<sup>a</sup>For the period September 8, 2015 (commencement of operations) to May 31, 2016.

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

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

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

<sup>e</sup>Ratios are annualized for periods less than one year.

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

<sup>g</sup>Benefit of expense reduction rounds to less than 0.01%.

**Franklin K2 Long Short Credit Fund** (continued)

	Year Ended May 31,			
	2019	2018	2017	2016 <sup>a</sup>
<b>Class R</b>				
<b>Per share operating performance</b> (for a share outstanding throughout the year)				
Net asset value, beginning of year	\$10.41	\$10.41	\$10.10	\$10.00
Income from investment operations <sup>b</sup> :				
Net investment income <sup>c</sup>	0.33	0.25	0.20	0.08
Net realized and unrealized gains (losses)	(0.01)	0.09	0.53	0.16
Total from investment operations	0.32	0.34	0.73	0.24
Less distributions from:				
Net investment income	(0.28)	(0.17)	(0.32)	(0.08)
Net realized gains	(0.09)	(0.17)	(0.10)	(0.06)
Total distributions	(0.37)	(0.34)	(0.42)	(0.14)
Net asset value, end of year	\$10.36	\$10.41	\$10.41	\$10.10
Total return <sup>d</sup>	3.12%	3.29%	7.29%	2.48%
<b>Ratios to average net assets<sup>e</sup></b>				
Expenses before waiver, payments by affiliates and expense reductions <sup>f</sup>	3.50%	3.82%	3.83%	3.37%
Expenses net of waiver, payments by affiliates and expense reductions <sup>f</sup>	3.04%	3.29% <sup>g</sup>	3.08%	2.30% <sup>g</sup>
Expenses incurred in connection with securities sold short	0.62%	0.89%	0.76%	0.40%
Net investment income	3.14%	2.40%	1.91%	2.85%
<b>Supplemental data</b>				
Net assets, end of year (000's)	\$166	\$162	\$127	\$12
Portfolio turnover rate	158.66%	251.81%	317.70%	511.62%

<sup>a</sup>For the period September 8, 2015 (commencement of operations) to May 31, 2016.

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

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

<sup>d</sup>Total return is not annualized for periods less than one year.

<sup>e</sup>Ratios are annualized for periods less than one year.

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

<sup>g</sup>Benefit of expense reduction rounds to less than 0.01%.

**Franklin K2 Long Short Credit Fund** (continued)

	Year Ended May 31,			
	2019	2018	2017	2016 <sup>a</sup>
<b>Class R6</b>				
<b>Per share operating performance</b> (for a share outstanding throughout the year)				
Net asset value, beginning of year	\$10.51	\$10.50	\$10.15	\$10.00
Income from investment operations <sup>b</sup> :				
Net investment income <sup>c</sup>	0.36	0.31	0.24	0.23
Net realized and unrealized gains (losses)	— <sup>g</sup>	0.08	0.53	0.06
Total from investment operations	0.36	0.39	0.77	0.29
Less distributions from:				
Net investment income	(0.33)	(0.21)	(0.32)	(0.08)
Net realized gains	(0.09)	(0.17)	(0.10)	(0.06)
Total distributions	(0.42)	(0.38)	(0.42)	(0.14)
Net asset value, end of year	\$10.45	\$10.51	\$10.50	\$10.15
Total return <sup>d</sup>	3.53%	3.76%	7.71%	3.01%
<b>Ratios to average net assets<sup>e</sup></b>				
Expenses before waiver, payments by affiliates and expense reductions <sup>f</sup>	3.10%	3.35%	3.43%	3.35%
Expenses net of waiver, payments by affiliates and expense reductions <sup>f</sup>	2.55%	2.83% <sup>h</sup>	2.68%	2.28% <sup>h</sup>
Expenses incurred in connection with securities sold short	0.62%	0.89%	0.76%	0.40%
Net investment income	3.63%	2.86%	2.31%	2.87%
<b>Supplemental data</b>				
Net assets, end of year (000's)	\$233	\$13	\$13,052	\$12,384
Portfolio turnover rate	158.66%	251.81%	317.70%	511.62%

<sup>a</sup>For the period September 8, 2015 (commencement of operations) to May 31, 2016.

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

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

<sup>d</sup>Total return is not annualized for periods less than one year.

<sup>e</sup>Ratios are annualized for periods less than one year.

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

<sup>g</sup>Amount rounds to less than \$0.01 per share.

<sup>h</sup>Benefit of expense reduction rounds to less than 0.01%.



**Franklin K2 Long Short Credit Fund** (continued)

	Year Ended May 31,			
	2019	2018	2017	2016 <sup>a</sup>
<b>Advisor Class</b>				
<b>Per share operating performance</b> (for a share outstanding throughout the year)				
Net asset value, beginning of year	\$10.51	\$10.50	\$10.15	\$10.00
Income from investment operations <sup>b</sup> :				
Net investment income <sup>c</sup>	0.38	0.30	0.24	0.20
Net realized and unrealized gains (losses)	(0.01)	0.09	0.53	0.09
Total from investment operations	0.37	0.39	0.77	0.29
Less distributions from:				
Net investment income	(0.33)	(0.21)	(0.32)	(0.08)
Net realized gains	(0.09)	(0.17)	(0.10)	(0.06)
Total distributions	(0.42)	(0.38)	(0.42)	(0.14)
Net asset value, end of year	\$10.46	\$10.51	\$10.50	\$10.15
Total return <sup>d</sup>	3.60%	3.75%	7.70%	2.99%
<b>Ratios to average net assets<sup>e</sup></b>				
Expenses before waiver, payments by affiliates and expense reductions <sup>f</sup>	3.03%	3.37%	3.44%	3.36%
Expenses net of waiver, payments by affiliates and expense reductions <sup>f</sup>	2.57%	2.84% <sup>g</sup>	2.69%	2.29% <sup>g</sup>
Expenses incurred in connection with securities sold short	0.62%	0.89%	0.76%	0.40%
Net investment income	3.61%	2.85%	2.30%	2.86%
<b>Supplemental data</b>				
Net assets, end of year (000's)	\$86,868	\$45,514	\$25,125	\$23,058
Portfolio turnover rate	158.66%	251.81%	317.70%	511.62%

<sup>a</sup>For the period September 8, 2015 (commencement of operations) to May 31, 2016.

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

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

<sup>d</sup>Total return is not annualized for periods less than one year.

<sup>e</sup>Ratios are annualized for periods less than one year.

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

<sup>g</sup>Benefit of expense reduction rounds to less than 0.01%.

## Statement of Investments, May 31, 2019

## Franklin K2 Long Short Credit Fund

	Country	Shares/ Rights	Value
<b>Common Stocks and Other Equity Interests 1.3%</b>			
<b>Automobiles 0.0%†</b>			
<sup>a</sup> Tesla Inc. ....	United States	183	\$ 33,884
<b>Capital Markets 0.1%</b>			
<sup>a</sup> Gores Holdings III Inc. ....	United States	3,614	37,857
<b>Diversified Telecommunication Services 0.0%†</b>			
<sup>a</sup> Frontier Communications Corp. ....	United States	7,180	13,498
<b>Energy Equipment &amp; Services 0.0%†</b>			
<sup>a</sup> Weatherford International PLC ....	United States	602,724	28,027
<b>Equity Real Estate Investment Trusts (REITs) 0.5%</b>			
<sup>b</sup> Vici Properties Inc. ....	United States	23,321	517,260
<b>Independent Power &amp; Renewable Electricity Producers 0.5%</b>			
Atlantica Yield PLC ....	Spain	5,207	111,690
Clearway Energy Inc., A ....	United States	21,640	310,101
Clearway Energy Inc., C ....	United States	13,373	200,595
			622,386
<b>Media 0.2%</b>			
<sup>a</sup> Altice Europe NV, A ....	Netherlands	24,110	74,259
<sup>a</sup> Liberty Global PLC, C ....	United Kingdom	3,816	92,500
<sup>a</sup> Postmedia Network Canada Corp., B ....	Canada	56,068	55,794
			222,553
<b>Metals &amp; Mining 0.0%†</b>			
Vedanta Ltd., ADR ....	India	3,457	31,943
<b>Pharmaceuticals 0.0%†</b>			
<sup>a</sup> Mallinckrodt PLC ....	United States	2,554	22,194
<sup>a</sup> Sanofi, Contingent Value, rts., 12/31/20 ....	France	26,594	13,297
			35,491
<b>Total Common Stocks and Other Equity Interests (Cost \$1,429,029) .....</b>			1,542,899
<b>Preferred Stocks 0.2%</b>			
<b>Electric Utilities 0.2%</b>			
SCE Trust II, 5.10%, pfd. ....	United States	2,127	45,156
SCE Trust III, 5.75%, pfd., H ....	United States	1,674	40,460
SCE Trust IV, 5.375%, pfd., J ....	United States	3,753	87,070
SCE Trust V, 5.45%, pfd., K ....	United States	1,849	43,193
SCE Trust VI, 5.00%, pfd. ....	United States	2,440	50,874
<b>Total Preferred Stocks (Cost \$238,730) .....</b>			266,753
			<b>Principal Amount*</b>
<b>Convertible Bonds 1.4%</b>			
<b>Automobiles 0.2%</b>			
Tesla Inc., senior note, 2.00%, 5/15/24 ....	United States	276,000	242,346
<b>Equity Real Estate Investment Trusts (REITs) 0.2%</b>			
iStar Inc., senior note, 3.125%, 9/15/22 ....	United States	283,000	277,386
<b>Independent Power &amp; Renewable Electricity Producers 0.3%</b>			
Pattern Energy Group Inc., senior note, 4.00%, 7/15/20 ....	United States	359,000	358,577
<b>Internet &amp; Direct Marketing Retail 0.2%</b>			
Wayfair Inc., senior note, 0.375%, 9/01/22 ....	United States	144,000	215,975

Franklin K2 Long Short Credit Fund (continued)

	Country	Principal Amount*	Value
<b>Convertible Bonds (continued)</b>			
<b>Media 0.5%</b>			
Gannett Co. Inc., senior note, 4.75%, 4/15/24 .....	United States	539,000	\$ 536,947
<b>Total Convertible Bonds (Cost \$1,564,496) .....</b>			<b>1,631,231</b>
<b>Corporate Bonds and Notes 22.8%</b>			
<b>Aerospace &amp; Defense 0.4%</b>			
Triumph Group Inc., senior note,			
4.875%, 4/01/21 .....	United States	192,000	189,120
5.25%, 6/01/22 .....	United States	314,000	304,580
			<b>493,700</b>
<b>Automobiles 0.5%</b>			
◦Tesla Inc., senior note, 144A, 5.30%, 8/15/25 .....	United States	690,000	564,951
<b>Capital Markets 0.4%</b>			
◦eG Global Finance PLC, 144A,			
senior secured note, 4.375%, 2/07/25 .....	United Kingdom	192,000 EUR	210,875
senior secured note, 6.75%, 2/07/25 .....	United Kingdom	327,000	321,686
			<b>532,561</b>
<b>Commercial Services &amp; Supplies 3.6%</b>			
◦Harland Clarke Holdings Corp., 144A,			
senior note, 9.25%, 3/01/21 .....	United States	2,495,500	2,448,709
senior secured note, 8.375%, 8/15/22 .....	United States	533,000	455,715
R.R. Donnelley & Sons Co.,			
senior bond, 8.875%, 4/15/21 .....	United States	21,000	21,788
senior bond, 6.50%, 11/15/23 .....	United States	559,000	553,410
senior bond, 6.00%, 4/01/24 .....	United States	447,000	443,089
senior bond, 6.625%, 4/15/29 .....	United States	52,000	49,140
senior note, 7.00%, 2/15/22 .....	United States	241,000	243,410
			<b>4,215,261</b>
<b>Communications Equipment 0.4%</b>			
◦Riverbed Technology Inc., senior note, 144A, 8.875%, 3/01/23 .....	United States	396,000	261,360
◦Viasat Inc., senior secured note, 144A, 5.625%, 4/15/27 .....	United States	192,000	195,262
			<b>456,622</b>
<b>Distributors 0.2%</b>			
◦ <sup>d</sup> American News Co. LLC, senior note, 144A, PIK, 8.50%, 9/01/26 .....	United States	236,675	243,775
<b>Diversified Financial Services 0.9%</b>			
◦One Call Corp., 144A,			
secured note, second lien, 10.00%, 10/01/24 .....	United States	572,000	491,920
senior secured note, first lien, 7.50%, 7/01/24 .....	United States	644,000	576,380
			<b>1,068,300</b>
<b>Diversified Telecommunication Services 2.2%</b>			
◦Digicel Group One Ltd., senior secured note, Reg S, 8.25%, 12/30/22 .....	Jamaica	112,089	70,865
◦Digicel International Finance Ltd., senior secured note, 144A,			
8.75%, 5/25/24 .....	Saint Lucia	162,000	160,380
Frontier Communications Corp.,			
senior note, 10.50%, 9/15/22 .....	United States	375,000	273,289
senior note, 11.00%, 9/15/25 .....	United States	297,000	188,595
◦senior secured note, 144A, 8.00%, 4/01/27 .....	United States	338,000	351,520
Hughes Satellite Systems Corp., senior secured note, 5.25%, 8/01/26 .....	United States	183,000	182,822
◦Intelsat Jackson Holdings SA, senior secured note, 144A,			
<sup>b</sup> 9.50%, 9/30/22 .....	Luxembourg	1,046,000	1,213,360
8.00%, 2/15/24 .....	Luxembourg	190,000	198,265
			<b>2,639,096</b>

**Franklin K2 Long Short Credit Fund** (continued)

	Country	Principal Amount*	Value
<b>Corporate Bonds and Notes</b> (continued)			
<b>Electric Utilities 0.2%</b>			
<sup>e</sup> Eskom Holdings SOC Ltd., senior bond, Reg S, 8.45%, 8/10/28 .....	South Africa	200,000	\$ 219,483
<b>Energy Equipment &amp; Services 1.0%</b>			
<sup>c</sup> Transocean Inc., senior note, 144A, 9.00%, 7/15/23 .....	United States	153,000	157,774
7.50%, 1/15/26 .....	United States	705,000	661,819
<sup>c</sup> Vantage Drilling International, senior secured note, 144A, 9.25%, 11/15/23 .....	United States	371,000	373,782
			<u>1,193,375</u>
<b>Equity Real Estate Investment Trusts (REITs) 0.3%</b>			
<sup>c</sup> AHP Health Partners Inc., senior note, 144A, 9.75%, 7/15/26 .....	United States	366,000	388,875
<b>Food Products 1.0%</b>			
<sup>b,c</sup> JBS USA LLC / Finance Inc., senior bond, 144A, 6.75%, 2/15/28 .....	United States	735,000	779,100
<sup>c</sup> JBS USA LUX SA / Food Co. / Finance Inc., senior bond, 144A, 6.50%, 4/15/29 .....	United States	368,000	387,320
			<u>1,166,420</u>
<b>Health Care Providers &amp; Services 0.1%</b>			
<sup>c</sup> Mallinckrodt International Finance SA / Mallinckrodt CB LLC, senior bond, 144A, 5.50%, 4/15/25 .....	United States	103,000	66,113
<b>Hotels, Restaurants &amp; Leisure 1.2%</b>			
<sup>c</sup> Mohegan Gaming & Entertainment, senior note, 144A, 7.875%, 10/15/24 .....	United States	1,488,000	1,435,920
<b>Household Durables 1.1%</b>			
Beazer Homes USA Inc., senior note, 5.875%, 10/15/27 .....	United States	84,000	69,121
K Hovnanian Enterprises Inc., senior secured bond, 2.00%, 11/01/21 .....	United States	65,000	57,200
senior secured bond, 5.00%, 11/01/21 .....	United States	270,000	245,700
<sup>c</sup> secured note, 144A, 10.00%, 7/15/22 .....	United States	1,167,000	977,363
			<u>1,349,384</u>
<b>Insurance 0.0%†</b>			
<sup>c</sup> Ambac Assurance Corp., sub. bond, 144A, 5.10%, 6/07/20 .....	United States	2	4
<sup>c,f</sup> Ambac LSNI LLC, senior secured note, 144A, FRN, 7.592%, (3-Month USD LIBOR + 5.00%), 2/12/23 .....	Cayman Islands	8	8
			<u>12</u>
<b>Interactive Media &amp; Services 0.5%</b>			
<sup>c</sup> Rackspace Hosting Inc., senior note, 144A, 8.625%, 11/15/24 .....	United States	666,000	581,085
<b>Leisure Products 0.6%</b>			
Mattel Inc., senior bond, 6.20%, 10/01/40 .....	United States	70,000	56,350
senior bond, 5.45%, 11/01/41 .....	United States	181,000	133,940
<sup>b,c</sup> senior note, 144A, 6.75%, 12/31/25 .....	United States	517,000	510,388
			<u>700,678</u>
<b>Media 4.5%</b>			
<sup>c</sup> The McClatchy Co., 144A, senior secured bond, 6.875%, 7/15/31 .....	United States	566,000	653,730
<sup>b</sup> senior secured note, 9.00%, 7/15/26 .....	United States	1,485,000	1,466,437
<sup>c,d</sup> Postmedia Network Inc., secured note, second lien, 144A, PIK, 10.25%, 7/15/23 .....	Canada	537,147	564,004
<sup>b,c</sup> Univision Communications Inc., senior secured note, 144A, 5.125%, 2/15/25 .....	United States	819,000	754,111
<sup>c</sup> Worldwide Media Services Group Inc., sub. note, 144A, zero cpn., 12/01/24 .....	United States	2,564,883	1,821,067
			<u>5,259,349</u>

Franklin K2 Long Short Credit Fund (continued)

	Country	Principal Amount*	Value
<b>Corporate Bonds and Notes</b> (continued)			
<b>Oil, Gas &amp; Consumable Fuels 2.2%</b>			
<sup>e,f</sup> EP PetroEcuador via Noble Sovereign Funding I Ltd., secured note, FRN, Reg S, 8.227%, (3-Month USD LIBOR + 5.63%), 9/24/19 .....	Ecuador	26,316	\$ 26,447
<sup>c</sup> Moss Creek Resources Holdings Inc., senior note, 144A, 10.50%, 5/15/27 .....	United States	447,000	414,593
Petrobras Global Finance BV,			
senior bond, 6.90%, 3/19/49 .....	Brazil	117,000	117,117
senior note, 6.25%, 3/17/24 .....	Brazil	61,000	66,330
senior note, 8.75%, 5/23/26 .....	Brazil	109,000	131,601
Petroleos Mexicanos,			
senior bond, 5.50%, 1/21/21 .....	Mexico	234,000	240,903
senior note, 4.875%, 1/24/22 .....	Mexico	181,000	183,787
senior note, 3.50%, 1/30/23 .....	Mexico	136,000	131,118
senior note, 4.625%, 9/21/23 .....	Mexico	226,000	225,633
<sup>c</sup> Sable Permian Resources Land LLC / AEPB Finance Corp., 144A,			
secured note, 8.00%, 6/15/20 .....	United States	290,000	242,150
<sup>b</sup> senior secured note, first lien, 13.00%, 11/30/20 .....	United States	800,000	768,000
			2,547,679
<b>Specialty Retail 1.5%</b>			
Bed Bath & Beyond Inc., senior bond, 5.165%, 8/01/44 .....	United States	448,000	321,164
<sup>c</sup> Carvana Co., senior note, 144A, 8.875%, 10/01/23 .....	United States	731,000	726,892
<sup>c</sup> PetSmart Inc., senior note, 144A, 7.125%, 3/15/23 .....	United States	300,000	270,000
<sup>c</sup> Staples Inc., senior secured note, 144A, 7.50%, 4/15/26 .....	United States	476,000	455,770
			1,773,826
<b>Total Corporate Bonds and Notes (Cost \$26,184,799) .....</b>			26,896,465
<b>Corporate Bonds and Notes in Reorganization 1.1%</b>			
<b>Electric Utilities 1.1%</b>			
<sup>g</sup> Pacific Gas & Electric Co.,			
senior bond, 2.95%, 3/01/26 .....	United States	152,000	134,900
senior bond, 3.30%, 3/15/27 .....	United States	107,000	95,230
senior bond, 5.80%, 3/01/37 .....	United States	21,000	20,947
senior bond, 5.40%, 1/15/40 .....	United States	324,000	318,128
senior bond, 4.45%, 4/15/42 .....	United States	35,000	32,200
senior note, 2.45%, 8/15/22 .....	United States	62,000	57,040
<sup>c</sup> senior note, 144A, 4.25%, 8/01/23 .....	United States	73,000	69,350
senior note, 3.30%, 12/01/27 .....	United States	389,000	344,265
<sup>c</sup> senior note, 144A, 4.65%, 8/01/28 .....	United States	163,000	156,480
			1,228,540
<b>Oil, Gas &amp; Consumable Fuels 0.0%<sup>†</sup></b>			
<sup>e,g</sup> Petroleos de Venezuela SA, senior note, Reg S, 6.00%, 10/28/22 .....	Venezuela	98,020	17,644
<b>Total Corporate Bonds and Notes in Reorganization (Cost \$1,182,756) .....</b>			1,246,184
<b>Senior Floating Rate Interests 2.4%</b>			
<b>Communications Equipment 0.1%</b>			
Riverbed Technology Inc., Term Loan B, 5.69%, (1-Month USD LIBOR + 3.25%), 4/24/22 .....	United States	181,693	151,486
<b>Containers &amp; Packaging 0.1%</b>			
<sup>i</sup> Flex Acquisition Co. Inc., Term Loan B, 5.876%, (1-Month USD LIBOR + 3.25%), 6/29/25 .....	United States	78,908	76,107
<b>Diversified Consumer Services 0.2%</b>			
Advantage Sales & Marketing Inc.,			
Term Loan, 5.689%, (1-Month USD LIBOR + 3.25%), 7/23/21 .....	United States	150,836	130,662
Term Loan B2, 5.689%, (1-Month USD LIBOR + 3.25%), 7/23/21 .....	United States	109,391	94,760
			225,422

**Franklin K2 Long Short Credit Fund** (continued)

	Country	Principal Amount*	Value
<b><sup>f,h</sup> Senior Floating Rate Interests</b> (continued)			
<b>Diversified Telecommunication Services 1.1%</b>			
<sup>i</sup> CenturyLink Inc., Term Loan B, 5.189%, (3-Month USD LIBOR + 2.75%), 1/31/25 .....	United States	511,754	\$ 498,694
Digicel International Finance Ltd., Term Loan B, 5.78%, (1-Month USD LIBOR + 3.25%), 5/27/24 .....	Saint Lucia	167,174	150,457
Frontier Communications Corp., Term Loan B1, 6.19%, (1-Month USD LIBOR + 3.75%), 6/15/24 .....	United States	331,723	326,332
Intelsat Jackson Holdings SA, Term Loan, 6.625%, 1/02/24 .....	United States	347,489	348,683
			1,324,166
<b>IT Services 0.1%</b>			
<sup>i</sup> GTT Communications Inc., Term Loan, 5.19%, (1-Month USD LIBOR + 2.75%), 5/31/25 .....	United States	116,070	107,771
<b>Multiline Retail 0.4%</b>			
<sup>i</sup> The Neiman Marcus Group LLC, Term Loan, 5.717%, (1-Month USD LIBOR + 3.25%), 10/25/20 .....	United States	437,684	396,980
<b>Specialty Retail 0.4%</b>			
Staples Inc., Term Loan B, 7.601%, (1-Month USD LIBOR + 5.00%), 4/16/26 .....	United States	562,666	546,138
<b>Total Senior Floating Rate Interests</b> <b>(Cost \$2,834,955)</b> .....			2,828,070
<b>Foreign Government and Agency Securities 4.7%</b>			
Argentina Treasury Bill, Strip, 4/30/20 .....	Argentina	4,350,070 ARS	102,025
7/31/20 .....	Argentina	2,733,783 ARS	55,732
Government of Argentina, 3.38% to 3/31/29, 4.74% thereafter, 12/31/38 .....	Argentina	268,000 EUR	157,977
senior bond, 3.38%, 12/31/38 .....	Argentina	45,282 EUR	26,209
<sup>f</sup> senior note, FRN, 68.805%, (ARLLMONP), 6/21/20 .....	Argentina	1,733,578 ARS	38,946
senior note, 6.875%, 4/22/21 .....	Argentina	275,000	228,387
<sup>e</sup> senior note, Reg S, 3.875%, 1/15/22 .....	Argentina	200,000 EUR	170,481
senior note, 5.625%, 1/26/22 .....	Argentina	568,000	439,916
senior note, 4.625%, 1/11/23 .....	Argentina	113,000	83,621
<sup>e</sup> Government of Bahrain, senior bond, Reg S, 7.00%, 1/26/26 .....	Bahrain	200,000	212,462
Government of Brazil, senior bond, 4.875%, 1/22/21 .....	Brazil	200,000	206,800
<sup>e</sup> Government of Ecuador, senior note, Reg S, 10.75%, 3/28/22 .....	Ecuador	200,000	222,750
<sup>e</sup> Government of Paraguay, senior bond, Reg S, 4.625%, 1/25/23 .....	Paraguay	200,000	207,835
<sup>c</sup> Government of Qatar, senior bond, 144A, 4.817%, 3/14/49 .....	Qatar	200,000	220,500
Government of Russia, senior bond, 7.25%, 5/10/34 .....	Russia	72,300,000 RUB	1,037,422
<sup>e</sup> senior note, Reg S, 5.00%, 4/29/20 .....	Russia	100,000	102,026
<sup>e</sup> senior note, Reg S, 4.50%, 4/04/22 .....	Russia	200,000	207,971
<sup>e</sup> Government of Saudi Arabia, Reg S, senior bond, 5.25%, 1/16/50 .....	Saudi Arabia	200,000	220,708
senior note, 2.375%, 10/26/21 .....	Saudi Arabia	200,000	197,802
Government of South Africa, senior bond, 5.50%, 3/09/20 .....	South Africa	215,000	218,408
R186, 10.50%, 12/21/26 .....	South Africa	8,454,562 ZAR	644,558
Government of Turkey, senior bond, 7.00%, 6/05/20 .....	Turkey	335,000	339,745
<sup>e</sup> National Highways Authority of India, senior note, Reg S, 7.30%, 5/18/22 .....	India	10,000,000 INR	140,574
<b>Total Foreign Government and Agency Securities</b> <b>(Cost \$5,768,875)</b> .....			5,482,855
<b>U.S. Government and Agency Securities 0.7%</b>			
U.S. Treasury Bond, 3.00%, 2/15/48 .....	United States	291,000	315,940
U.S. Treasury Note, 2.25%, 4/30/24 .....	United States	539,000	547,106
<b>Total U.S. Government and Agency Securities</b> <b>(Cost \$830,017)</b> .....			863,046

Franklin K2 Long Short Credit Fund (continued)

	Country	Principal Amount*	Value
<b>Asset-Backed Securities and Commercial Mortgage-Backed Securities 37.7%</b>			
<b>Capital Markets 1.5%</b>			
Citigroup Mortgage Loan Trust,			
<sup>i</sup> 2004-OPT1, M4, FRN, 3.435%, (1-Month USD LIBOR + 1.01%), 10/25/34 . . .	United States	588,602	\$ 559,536
2006-WF1, A2E, 4.894%, 3/25/36 . . . . .	United States	491,659	330,828
<sup>k</sup> 2007-AR5, 2A1A, FRN, 4.606%, 4/25/37 . . . . .	United States	144,182	139,783
<sup>cj</sup> 2008-RR1, A1A1, 144A, FRN, 2.50%, (1-Month USD LIBOR + 0.07%), 1/25/37 . . . . .	United States	763,697	710,395
			1,740,542
<b>Diversified Financial Services 17.7%</b>			
<sup>k</sup> Adjustable Rate Mortgage Trust, 2005-4, 3A1, FRN, 5.116%, 8/25/35 . . . . .	United States	87,926	88,071
Alternative Loan Trust, 2005-J10, 2A4, 6.00%, 10/25/35 . . . . .	United States	471,879	368,341
<sup>cj</sup> Ashford Hospitality Trust, 2018-ASHF, E, 144A, FRN, 5.54%, (1-Month USD LIBOR + 3.10%), 4/15/35 . . . . .	United States	750,000	756,698
<sup>i</sup> Asset Backed Securities Corp. Home Equity Loan Trust, 2001-HE1, M2, FRN, 4.165%, (1-Month USD LIBOR + 1.73%), 4/15/31 . . . . .	United States	421,674	428,050
Bear Stearns ALT-A Trust, FRN, <sup>k</sup> 2004-12, 2A4, 4.175%, 1/25/35 . . . . .	United States	351,900	346,015
<sup>i</sup> 2004-6, B1, 5.28%, (1-Month USD LIBOR + 2.85%), 7/25/34 . . . . .	United States	346,495	371,518
<sup>cj</sup> Carlyle Global Market Strategies CLO Ltd., 2018-1A, CR, 144A, FRN, 5.342%, (3-Month USD LIBOR + 2.75%), 4/20/27 . . . . .	United States	2,500,000	2,494,283
<sup>c</sup> Castlelake Aircraft Securitization Trust, 2018-1, A, 144A, 4.125%, 6/15/43 . . . . .	United States	640,572	653,447
Chaseflex Trust, 2005-2, 1A1, 6.00%, 6/25/35 . . . . .	United States	536,179	515,641
Citimortgage Alternative Loan Trust, 2007-A1, 2A1, 5.50%, 1/25/22 . . . . .	United States	43,831	43,582
<sup>cj</sup> Connecticut Avenue Securities Trust, 2019-R01, 2M2, 144A, FRN, 4.88%, (1-Month USD LIBOR + 2.45%), 7/25/31 . . . . .	United States	500,000	511,196
<sup>il</sup> FNMA, 2011-11, SA, IO, FRN, 4.02%, (6.45% – 1-Month USD LIBOR), 11/25/41 . . . . .	United States	2,548,819	506,817
<sup>cj</sup> Freddie Mac Stacr Trust, 2019-FTR1, B2, 144A, FRN, 10.788%, (1-Month USD LIBOR + 8.35%), 1/25/48 . . . . .	United States	350,000	362,596
<sup>cj</sup> Goldentree Loan Management US CLO 1 Ltd., 2017-1A, D, 144A, FRN, 5.942%, (3-Month USD LIBOR + 3.35%), 4/20/29 . . . . .	United States	1,000,000	1,002,598
<sup>cj</sup> GPMT Ltd., 2019-FL2, D, 144A, FRN, 5.39%, (1-Month USD LIBOR + 2.95%), 2/22/36 . . . . .	United States	1,000,000	1,008,500
<sup>cj</sup> Grippen Park CLO Ltd., 2017-1A, D, 144A, FRN, 5.892%, (3-Month USD LIBOR + 3.30%), 1/20/30 . . . . .	United States	500,000	501,907
<sup>i</sup> GSAMP Trust, 2004-HE2, M2, FRN, 3.849%, (1-Month USD LIBOR + 1.65%), 9/25/34 . . . . .	United States	151,063	151,260
<sup>c</sup> GSMSC Pass-Through Trust, 144A, FRN, <sup>i</sup> 2009-4R, 2A3, 2.927%, (1-Month USD LIBOR + 0.45%), 12/26/36 . . . . .	United States	840,741	463,721
<sup>k</sup> 2009-5R, 3A2, 5.50%, 10/26/35 . . . . .	United States	301,853	264,751
<sup>cj</sup> Home Partners of America Trust, 144A, FRN, 2017-1, F, 5.971%, (1-Month USD LIBOR + 3.54%), 7/17/34 . . . . .	United States	500,000	502,367
2018-1, E, 4.282%, (1-Month USD LIBOR + 1.85%), 7/17/37 . . . . .	United States	1,200,000	1,196,511
JPMorgan Mortgage Acquisition Trust, 2007-CH2, AF2, 4.695%, 1/25/37 . . . . .	United States	190,128	138,029
<sup>cj</sup> KREF Ltd., 2018-FL1, D, 144A, FRN, 4.982%, (1-Month USD LIBOR + 2.55%), 6/15/36 . . . . .	United States	500,000	502,812
<sup>cj</sup> Madison Park Funding XXI Ltd., 2016-21A, B, 144A, FRN, 5.33%, (3-Month USD LIBOR + 2.75%), 7/25/29 . . . . .	United States	500,000	500,303
<sup>cj</sup> Madison Park Funding XXIII Ltd., 2017-23A, C, 144A, FRN, 4.932%, (3-Month USD LIBOR + 2.35%), 7/27/30 . . . . .	United States	500,000	500,691
MASTR Adjustable Rate Mortgages Trust, FRN, <sup>k</sup> 2004-10, B1, 4.408%, 10/25/34 . . . . .	United States	561,309	347,878
<sup>i</sup> 2006-OA1, 1A1, 2.64%, (1-Month USD LIBOR + 0.21%), 4/25/46 . . . . .	United States	429,275	397,507
<sup>i</sup> Morgan Stanley ABS Capital I Inc. Trust, 2004-NC6, M3, FRN, 4.605%, (1-Month USD LIBOR + 2.18%), 7/25/34 . . . . .	United States	179,520	179,788

Franklin K2 Long Short Credit Fund (continued)

	Country	Principal Amount*	Value
<b>Asset-Backed Securities and Commercial Mortgage-Backed Securities</b> (continued)			
<b>Diversified Financial Services</b> (continued)			
<sup>c,j</sup> Morgan Stanley RE-REMIC Trust, 2013-R8, 2B2, 144A, FRN, 3.317%, (1-Month USD LIBOR + 0.42%), 9/26/36	United States	984,488	\$ 691,153
<sup>i</sup> National Collegiate Student Loan Trust, FRN, 2006-1, A5, 2.78%, (1-Month USD LIBOR + 0.35%), 3/25/33	United States	169,764	162,983
2006-4, A4, 2.74%, (1-Month USD LIBOR + 0.31%), 5/25/32	United States	250,000	236,874
<sup>c</sup> Sapphire Aviation Finance I Ltd., 2018-1A, B, 144A, 5.926%, 3/15/40	United States	893,085	930,577
<sup>c,k</sup> Seasoned Credit Risk Transfer Trust, 2016-1, M2, 144A, FRN, 3.75%, 9/25/55	United States	500,000	459,307
<sup>c</sup> S-Jets Ltd., 2017-1, A, 144A, 3.967%, 8/15/42	Bermuda	883,333	901,421
<sup>k</sup> STARM Mortgage Loan Trust, 2007-2, 4A1, FRN, 4.878%, 4/25/37	United States	110,635	90,908
<sup>i</sup> Suntrust Alternative Loan Trust, 2005-1F, 1A1, FRN, 3.08%, (1-Month USD LIBOR + 0.65%), 12/25/35	United States	262,149	219,772
<sup>i</sup> Terwin Mortgage Trust, 2003-6HE, M2, FRN, 5.055%, (1-Month USD LIBOR + 2.63%), 11/25/33	United States	156,271	141,239
<sup>c,j</sup> TPG Real Estate Finance Issuer Ltd., 2018-FL2, D, 144A, FRN, 5.132%, (1-Month USD LIBOR + 2.70%), 11/15/37	United States	300,000	300,937
Wells Fargo Alternative Loan Trust, 2007-PA3, 2A2, 6.00%, 7/25/37	United States	216,577	215,139
<sup>c</sup> Wendys Funding LLC, 2018-1A, A2I, 144A, 3.573%, 3/15/48	United States	493,750	498,051
<sup>c,j</sup> Westchester CLO Ltd., 2007-1A, E, 144A, FRN, 6.879%, (3-Month USD LIBOR + 4.30%), 8/01/22	United States	949,582	949,768
			20,903,007
<b>Mortgage Real Estate Investment Trusts (REITs) 18.5%</b>			
<sup>k</sup> American Home Mortgage Assets Trust, 2005-1, 1A1, FRN, 4.357%, 11/25/35	United States	173,258	154,837
<sup>k</sup> Banc of America Mortgage Trust, FRN, 2005-K, 2A1, 4.489%, 12/25/35	United States	267,444	265,900
2005-L, 1A1, 4.373%, 1/25/36	United States	236,747	220,246
2005-L, 3A1, 4.648%, 1/25/36	United States	320,785	311,338
<sup>c,k</sup> BCAP LLC Trust, 2010-RR1, 1A4, 144A, FRN, 4.179%, 3/26/37	United States	366,373	326,044
<sup>k</sup> Bear Stearns ARM Trust, FRN, 2002-11, 1A2, 4.438%, 2/25/33	United States	4,843	4,611
2006-2, 4A1, 3.971%, 7/25/36	United States	66,093	61,207
<sup>c,i</sup> BX Trust, 144A, FRN, 2017-APPL, 5.59%, (1-Month USD LIBOR + 3.15%), 7/15/34	United States	1,530,000	1,538,676
2017-SLCT, 5.59%, (1-Month USD LIBOR + 3.15%), 7/15/34	United States	637,500	641,890
Countrywide Alternative Loan Trust, 2005-73CB, 1A2, 6.25%, 1/25/36	United States	204,228	211,209
<sup>i</sup> 2005-IM1, A1, FRN, 3.03%, (1-Month USD LIBOR + 0.60%), 1/25/36	United States	176,240	174,051
2006-4CB, 2A3, 5.50%, 4/25/36	United States	96,669	96,294
CS First Boston Mortgage Securities Corp., 2002-9, 1A2, 7.50%, 3/25/32	United States	502,748	577,177
<sup>k</sup> 2004-AR3, CB2, FRN, 4.739%, 4/25/34	United States	155,064	147,318
<sup>c,j</sup> 2004-CF2, 2M2, 144A, FRN, 3.83%, (1-Month USD LIBOR + 1.40%), 5/25/44	United States	297,275	287,590
CSMC Mortgage-Backed Trust, 2006-4, 9A1, 6.50%, 5/25/36	United States	856,087	494,533
<sup>c,k</sup> FHLMC Seasoned Credit Risk Transfer Trust, 2017-2, M1, 144A, FRN, 4.00%, 8/25/56	United States	2,000,000	1,989,275
<sup>c,k</sup> FHLMC Structured Agency Credit Risk Debt Notes, 144A, FRN, 2017-SPI1, M2, 3.982%, 9/25/47	United States	150,000	144,627
2018-SPI1, M2, 3.744%, 2/25/48	United States	693,000	648,466
2018-SPI2, M2, 3.818%, 5/25/48	United States	350,000	333,514
2018-SPI3, M2, 4.165%, 8/25/48	United States	400,000	389,773
2018-SPI4, M2, 4.46%, 11/25/48	United States	850,000	840,480
<sup>k</sup> First Horizon Alternative Mortgage Securities Trust, 2004-AA2, 2A1, FRN, 4.58%, 8/25/34	United States	423,744	425,913



Franklin K2 Long Short Credit Fund (continued)

	Country	Principal Amount*	Value
<b>Asset-Backed Securities and Commercial Mortgage-Backed Securities</b> (continued)			
<b>Mortgage Real Estate Investment Trusts (REITs)</b> (continued)			
GSR Mortgage Loan Trust,			
2004-6F, 2A4, 5.50%, 5/25/34	United States	210,786	\$ 218,467
<sup>k</sup> 2004-9, B1, FRN, 4.299%, 8/25/34	United States	161,766	157,673
<sup>k</sup> 2005-AR6, B1, FRN, 4.679%, 9/25/35	United States	644,356	590,905
2007-1F, 1A1, 5.00%, 12/25/35	United States	233,456	256,907
Home Equity Mortgage Trust, 2004-6, M2, 5.821%, 4/25/35	United States	89,067	89,013
Impac CMB Trust,			
2004-4, 2A2, 4.639%, 9/25/34	United States	178,430	194,698
<sup>i</sup> 2004-8, 3B, FRN, 5.055%, (1-Month USD LIBOR + 2.63%), 8/25/34	United States	170,830	169,249
<sup>i</sup> 2005-2, 2B, FRN, 4.905%, (1-Month USD LIBOR + 2.48%), 4/25/35	United States	123,602	120,055
<sup>i</sup> 2005-4, 2B1, FRN, 4.905%, (1-Month USD LIBOR + 2.48%), 5/25/35	United States	149,334	147,298
<sup>i</sup> 2005-4, 2M1, FRN, 3.18%, (1-Month USD LIBOR + 0.75%), 5/25/35	United States	174,223	164,364
<sup>i</sup> 2005-8, 2B, FRN, 4.68%, (1-Month USD LIBOR + 2.25%), 2/25/36	United States	147,856	145,227
IndyMac INDX Mortgage Loan Trust, FRN,			
<sup>i</sup> 2004-AR14, 2A1A, 3.15%, (1-Month USD LIBOR + 0.72%), 1/25/35	United States	790,147	680,179
<sup>i</sup> 2005-16IP, A1, 3.07%, (1-Month USD LIBOR + 0.64%), 7/25/45	United States	238,937	230,730
<sup>k</sup> 2005-AR21, 4A1, 4.199%, 10/25/35	United States	446,647	429,105
<sup>i</sup> 2006-AR12, A1, 2.62%, (1-Month USD LIBOR + 0.19%), 9/25/46	United States	129,379	123,236
<sup>i</sup> 2006-AR29, A2, 2.51%, (1-Month USD LIBOR + 0.08%), 11/25/36	United States	181,629	175,005
<sup>k</sup> J.P. Morgan Mortgage Trust,			
2006-A5, 6A1, FRN, 3.898%, 8/25/36	United States	382,112	351,707
2006-A7, 2A3, FRN, 4.204%, 1/25/37	United States	162,529	157,737
2007-A2, 2A1, FRN, 4.477%, 4/25/37	United States	243,139	229,630
<sup>c</sup> 2019-2, B4, 144A, FRN, 4.689%, 8/25/49	United States	598,229	577,650
<sup>cj</sup> JPMorgan Chase Commercial Mortgage Securities Trust, 2018-ASH8, F, 144A, FRN, 6.44%, (1-Month USD LIBOR + 4.00%), 2/15/35			
Lehman Mortgage Trust, 2005-3, 2A3, 5.50%, 1/25/36	United States	102,335	102,381
<sup>k</sup> MASTR Seasoned Securitization Trust, 2004-1, 4A1, FRN, 4.625%, 10/25/32	United States	65,274	67,623
<sup>cj</sup> Motel 6 Trust, 2017-MTL6, E, 144A, FRN, 5.69%, (1-Month USD LIBOR + 3.25%), 8/15/34			
United States	397,546	400,347	
<sup>i</sup> New Century Home Equity Loan Trust, 2003-4, M1, FRN, 3.555%, (1-Month USD LIBOR + 1.13%), 10/25/33	United States	622,612	626,734
<sup>k</sup> Provident Funding Mortgage Loan Trust, FRN,			
2003-1, B1, 4.652%, 8/25/33	United States	73,525	71,550
2004-1, B1, 4.858%, 4/25/34	United States	36,871	35,596
<sup>k</sup> RALI Trust, FRN,			
2005-QA2, NB1, 4.281%, 2/25/35	United States	29,175	26,691
2005-QA8, NB2, 4.105%, 7/25/35	United States	95,507	86,223
2005-QA8, NB3, 5.054%, 7/25/35	United States	27,861	22,792
Residential Asset Securitization Trust, 2006-A1, 1A1, 6.00%, 4/25/36	United States	436,379	320,308
<sup>k</sup> RFMSI Trust, 2007-SA2, 3A, FRN, 5.138%, 4/25/37	United States	1,374,903	693,650
<sup>i</sup> Securitized Asset Backed Receivables LLC Trust, 2004-OP2, A2, FRN, 3.13%, (1-Month USD LIBOR + 0.70%), 8/25/34	United States	199,024	193,754
<sup>k</sup> Structured ARM Loan Trust, FRN,			
2004-2, 1A1, 5.218%, 3/25/34	United States	135,644	137,562
2004-4, B1, 4.656%, 4/25/34	United States	454,608	422,700
<sup>k</sup> Wachovia Mortgage Loan Trust LLC, 2005-B, 1A1, FRN, 4.533%, 10/20/35	United States	558,636	555,355
<sup>i</sup> WaMu Mortgage Pass-Through Certificates Trust, 2007-OA3, 2A1A, FRN, 3.241%, (1 Year CMT + 0.76%), 4/25/47	United States	68,656	69,125
<sup>i</sup> Washington Mutual Mortgage Pass-Through Certificates, 2006-4, 3A2B, FRN, 2.51%, (1-Month USD LIBOR + 0.08%), 5/25/36	United States	341,426	246,769
<sup>k</sup> Washington Mutual MSC Mortgage Pass-Through Certificates Series Trust, FRN,			
2003-AR2, M, 3.878%, 5/25/33	United States	142,172	128,868
2003-AR3, B1, 4.268%, 6/25/33	United States	313,682	292,899

Franklin K2 Long Short Credit Fund (continued)

	Country	Principal Amount*	Value
<b>Asset-Backed Securities and Commercial Mortgage-Backed Securities</b> (continued)			
<b>Mortgage Real Estate Investment Trusts (REITs)</b> (continued)			
Wells Fargo Mortgage Backed Securities Trust,			
<sup>k</sup> 2004-G, B1, FRN, 4.792%, 6/25/34 .....	United States	203,707	\$ 193,426
<sup>k</sup> 2005-AR2, 2A2, FRN, 5.147%, 3/25/35 .....	United States	72,514	75,356
2006-19, A4, 5.25%, 12/26/36 .....	United States	222,501	223,527
2007-3, 3B1, 5.50%, 4/25/22 .....	United States	258,240	243,281
			21,742,529
<b>Total Asset-Backed Securities and Commercial Mortgage-Backed Securities (Cost \$43,047,895)</b> .....			44,386,078
<b>Municipal Bonds in Reorganization 0.6%</b>			
<b>Puerto Rico 0.6%</b>			
<sup>9</sup> Puerto Rico Commonwealth GO, Public Improvement, Refunding, Series A, 5.50%, 7/01/39 .....	United States	230,000	128,512
5.00%, 7/01/41 .....	United States	225,000	125,719
<sup>9</sup> Puerto Rico Commonwealth GO, Refunding, Series A, 8.00%, 7/01/35 .....	United States	1,005,000	492,450
<b>Total Municipal Bonds in Reorganization (Cost \$737,388)</b> .....			746,681
	<b>Number of Contracts</b>	<b>Notional Amount#</b>	
<b>Options Purchased 0.2%</b>			
<b>Calls – Exchange-Traded 0.0%†</b>			
Beazer Homes USA Inc., November Strike Price \$11.00, Expires 11/15/19 ...	120	12,000	8,640
Centene Corp., June Strike Price \$60.00, Expires 6/21/19 .....	24	2,400	4,920
Centene Corp., June Strike Price \$65.00, Expires 6/21/19 .....	49	4,900	4,018
Clearway Energy Inc., August Strike Price \$17.50, Expires 8/16/19 .....	160	16,000	1,600
Tenneco Inc., A, January Strike Price \$13.00, Expires 1/17/20 .....	85	8,500	7,650
			26,828
<b>Puts – Exchange-Traded 0.2%</b>			
Carvana Co., August Strike Price \$50.00, Expires 8/16/19 .....	39	3,900	15,600
CNX Resources Corp., July Strike Price \$10.00, Expires 7/19/19 .....	90	9,000	20,745
Edison International, June Strike Price \$55.00, Expires 6/21/19 .....	42	4,200	1,680
Edison International, October Strike Price \$50.00, Expires 10/18/19 .....	35	3,500	5,845
iShares 20+ Year Treasury Bond ETF, June Strike Price \$114.00, Expires 6/21/19 .....	169	16,900	169
S&P 500 Index, June Strike Price \$2,600.00, Expires 6/21/19 .....	72	7,200	64,800
Southwestern Energy Co., June Strike Price \$4.00, Expires 6/21/19 .....	148	14,800	6,956
SPDR S&P 500 ETF Trust, July Strike Price \$280.00, Expires 7/19/19 .....	91	9,100	84,630
Sprint Corp., August Strike Price \$7.00, Expires 8/16/19 .....	59	5,900	6,225
Sprint Corp., January Strike Price \$5.00, Expires 1/17/20 .....	179	17,900	10,740
			217,390
<b>Total Options Purchased (Cost \$194,615)</b> .....			244,218
<b>Total Investments before Short Term Investments (Cost \$84,013,555)</b> .....			86,134,480
	<b>Country</b>	<b>Principal Amount*</b>	
<b>Short Term Investments 23.6%</b>			
<b>Foreign Government and Agency Securities (Cost \$191,935) 0.2%</b>			
<sup>m</sup> Argentina Treasury Bill, 6/28/19 .....	Argentina	7,960,873 ARS	211,872

Franklin K2 Long Short Credit Fund (continued)

	Country	Principal Amount*	Value
<b>Short Term Investments (continued)</b>			
<b>Convertible Bonds (Cost \$557,136) 0.4%</b>			
<b>Metals &amp; Mining 0.4%</b>			
Royal Gold Inc., senior note, 2.875%, 6/15/19 .....	United States	555,000	\$ 555,028
<b><sup>n</sup> Credit-Linked Notes 0.4%</b>			
<sup>c</sup> HSBC Bank PLC, (Egypt Treasury Bill), 144A, zero cpn., 11/07/19 .....	United Kingdom	4,450,000 EGP	247,470
Goldman Sachs International, senior note, (Nigeria OMO Bill), zero cpn., 9/30/19 .....	United States	84,967,000 NGN	226,870
<b>Total Credit-Linked Notes (Cost \$468,468) .....</b>			<b>474,340</b>
<b>Total Investments before Money Market Funds and Repurchase Agreements (Cost \$85,231,094) .....</b>			<b>87,375,720</b>
		<b>Shares</b>	
<b>Money Market Funds (Cost \$23,296,955) 19.7%</b>			
<sup>o</sup> Fidelity Investments Money Market Government Portfolio, Institutional, 2.27% .....	United States	23,296,955	23,296,955
		<b>Principal Amount*</b>	
<b>Repurchase Agreements (Cost \$3,412,487) 2.9%</b>			
<sup>p</sup> Joint Repurchase Agreement, 2.480%, 6/03/19 (Maturity Value \$3,413,193) .....	United States	3,412,487	3,412,487
BNP Paribas Securities Corp. (Maturity Value \$2,951,798) Deutsche Bank Securities Inc. (Maturity Value \$362,993) HSBC Securities (USA) Inc. (Maturity Value \$98,402) Collateralized by U.S. Government Agency Securities, 4.50%, 1/20/40; and U.S. Treasury Notes, 2.00% – 3.125%, 5/15/21 – 7/31/22; (valued at \$3,481,979) .....			
<b>Total Investments (Cost \$111,940,536) 96.7% .....</b>			<b>\$114,085,162</b>
<b>Options Written (0.0)%<sup>†</sup> .....</b>			<b>(55,169)</b>
<b>Securities Sold Short (9.3)% .....</b>			<b>(10,915,280)</b>
<b>Other Assets, less Liabilities 12.6% .....</b>			<b>14,916,317</b>
<b>Net Assets 100.0% .....</b>			<b>\$118,031,030</b>
	<b>Number of Contracts</b>	<b>Notional Amount#</b>	
<b><sup>q</sup> Options Written (0.0)%<sup>†</sup></b>			
<b>Puts – Exchange-Traded (0.0)%<sup>†</sup></b>			
Edison International, June Strike Price \$47.50, Expires 6/21/19 .....	42	4,200	(525)
Edison International, October Strike Price \$40.00, Expires 10/18/19 .....	35	3,500	(1,820)
SPDR S&P 500 ETF Trust, July Strike Price \$265.00, Expires 7/19/19 .....	142	14,200	(52,824)
<b>Total Options Written (Premiums Received \$48,144) .....</b>			<b>(55,169)</b>
	<b>Country</b>	<b>Shares</b>	
<b><sup>r</sup> Securities Sold Short (9.3)%</b>			
<b>Common Stocks (0.3)%</b>			
<b>Equity Real Estate Investment Trusts (REITs) (0.1)%</b>			
Seritage Growth Properties, A .....	United States	3,271	(136,793)
<b>Internet &amp; Direct Marketing Retail (0.2)%</b>			
Wayfair Inc., A .....	United States	1,423	(204,926)
<b>Total Common Stocks (Proceeds \$284,558) .....</b>			<b>(341,719)</b>

**Franklin K2 Long Short Credit Fund** (continued)

	Country	Shares	Value
<b>† Securities Sold Short</b> (continued)			
<b>Exchange Traded Funds (Proceeds \$2,341,774) (2.0)%</b>			
Invesco Senior Loan ETF .....	United States	103,510	\$ (2,343,466)
		<b>Principal Amount*</b>	
<b>Corporate Bonds and Notes (6.4)%</b>			
<b>Aerospace &amp; Defense (0.0)%†</b>			
Triumph Group Inc., senior note, 7.75%, 8/15/25 .....	United States	25,000	(24,250)
<b>Auto Components (0.2)%</b>			
° Drivetime Automotive Group Inc. / Bridgecrest Acceptance Corp., senior secured note, 144A, 8.00%, 6/01/21 .....	United States	179,000	(181,685)
<b>Automobiles (0.1)%</b>			
° Jaguar Land Rover Automotive PLC, Reg S, 5.625%, 2/01/23 .....	United Kingdom	150,000	(146,063)
<b>Banks (0.1)%</b>			
e,f,s China Minsheng Banking Corp. Ltd., junior sub. note, Reg S, FRN, 4.95%, (US 5 Year CMT T-Note + 3.15%), Perpetual .....	China	88,000	(85,159)
e,f,s China Zheshang Bank Co. Ltd., junior sub. note, Reg S, FRN, 5.45%, (US 5 Year CMT T-Note + 3.52%), Perpetual .....	China	72,000	(68,527)
			(153,686)
<b>Commercial Services &amp; Supplies (0.2)%</b>			
° Intrum AB, senior note, Reg S, 3.125%, 7/15/24 .....	Sweden	200,000 EUR	(218,379)
<b>Communications Equipment (0.1)%</b>			
° Viasat Inc., senior note, 144A, 5.625%, 9/15/25 .....	United States	127,000	(123,825)
<b>Containers &amp; Packaging (0.0)%†</b>			
° Flex Acquisition Co. Inc., senior note, 144A, 7.875%, 7/15/26 .....	United States	23,000	(20,758)
<b>Diversified Telecommunication Services (0.2)%</b>			
Hughes Satellite Systems Corp., senior note, 6.625%, 8/01/26 .....	United States	183,000	(183,000)
<b>Energy Equipment &amp; Services (0.3)%</b>			
Precision Drilling Corp., senior note, 5.25%, 11/15/24 .....	Canada	364,000	(325,780)
° 144A, 7.125%, 1/15/26 .....	Canada	10,000	(9,550)
			(335,330)
<b>Health Care Providers &amp; Services (0.6)%</b>			
° Mallinckrodt International Finance SA / Mallinckrodt CB LLC, senior note, 144A, 5.75%, 8/01/22 .....	United States	896,000	(734,451)
<b>Hotels, Restaurants &amp; Leisure (0.1)%</b>			
° Thomas Cook Group PLC, senior note, Reg S, 6.25%, 6/15/22 .....	United Kingdom	200,000 EUR	(82,406)
<b>Independent Power &amp; Renewable Electricity Producers (0.4)%</b>			
NRG Energy Inc.,			
° senior bond, 144A, 5.25%, 6/15/29 .....	United States	66,000	(67,909)
senior note, 5.75%, 1/15/28 .....	United States	438,000	(459,873)
			(527,782)
<b>IT Services (0.4)%</b>			
° GTT Communications Inc., senior note, 144A, 7.875%, 12/31/24 .....	United States	551,000	(465,595)
<b>Machinery (0.2)%</b>			
° Loxam SAS, senior sub. note, Reg S, 6.00%, 4/15/25 .....	France	151,000 EUR	(178,618)
° Tereos Finance Groupe I SA, senior note, Reg S, 4.125%, 6/16/23 .....	France	100,000 EUR	(92,358)
			(270,976)
<b>Media (1.3)%</b>			
Altice Luxembourg SA, senior bond,			
° Reg S, 6.25%, 2/15/25 .....	Luxembourg	525,000 EUR	(565,305)
° 144A, 7.625%, 2/15/25 .....	Luxembourg	358,000	(330,953)

Franklin K2 Long Short Credit Fund (continued)

	Country	Principal Amount*	Value
<b>† Securities Sold Short (continued)</b>			
<b>Corporate Bonds and Notes (continued)</b>			
<b>Media (continued)</b>			
°MDC Partners Inc., senior note, 144A, 6.50%, 5/01/24 .....	United States	385,000	\$ (354,200)
°Virgin Media Finance PLC, senior note, Reg S, 4.50%, 1/15/25 .....	United Kingdom	255,000 EUR	(294,426)
			<u>(1,544,884)</u>
<b>Metals &amp; Mining (0.1)%</b>			
°First Quantum Minerals Ltd., senior note, 144A, 7.25%, 5/15/22 .....	Zambia	60,000	(57,225)
7.25%, 4/01/23 .....	Zambia	72,000	(65,970)
			<u>(123,195)</u>
<b>Multiline Retail (0.1)%</b>			
Kohl's Corp., senior bond, 4.25%, 7/17/25 .....	United States	89,000	(92,129)
<b>Oil, Gas &amp; Consumable Fuels (1.7)%</b>			
Antero Resources Corp., senior note, 5.00%, 3/01/25 .....	United States	411,000	(391,477)
Chesapeake Energy Corp., senior note, 8.00%, 6/15/27 .....	United States	746,000	(663,940)
Southwestern Energy Co., senior bond, 7.75%, 10/01/27 .....	United States	853,000	(818,880)
senior note, 7.50%, 4/01/26 .....	United States	72,000	(69,480)
			<u>(1,943,777)</u>
<b>Specialty Retail (0.0)%<sup>†</sup></b>			
Bed Bath & Beyond Inc., senior bond, 3.749%, 8/01/24 .....	United States	55,000	(50,822)
<b>Wireless Telecommunication Services (0.3)%</b>			
°Softbank Group Corp., senior bond, Reg S, 5.125%, 9/19/27 .....	Japan	300,000	(297,819)
<b>Total Corporate Bonds and Notes (Proceeds \$7,941,186) .....</b>			<u>(7,520,812)</u>
<b>Foreign Government and Agency Securities (Proceeds \$563,723) (0.5)%</b>			
°Italian Treasury Bond, senior bond, Reg S, 3.00%, 8/01/29 .....	Italy	491,000 EUR	(566,959)
<b>U.S. Government and Agency Securities (0.1)%</b>			
U.S. Treasury Bond, 3.00%, 2/15/49 .....	United States	1,000	(1,089)
U.S. Treasury Note, 2.875%, 5/15/28 .....	United States	133,000	(141,235)
<b>Total U.S. Government and Agency Securities (Proceeds \$134,886) .....</b>			<u>(142,324)</u>
<b>Total Securities Sold Short (Proceeds \$11,266,127) .....</b>			<u>\$ (10,915,280)</u>

†Rounds to less than 0.1% of net assets.

\*The principal amount is stated in U.S. dollars unless otherwise indicated.

#Notional amount is the number of units specified in the contract, and can include currency units, bushels, shares, pounds, barrels or other units. Currency units are stated in U.S. dollars unless otherwise indicated.

°Non-income producing.

°A portion or all of the security has been segregated as collateral for securities sold short, open swap contracts, open forward exchange contracts, open futures contracts and/or open written option contracts. At May 31, 2019, the aggregate value of these securities and/or cash pledged amounted to \$6,242,663, representing 5.3% of net assets.

°Security was purchased pursuant to Rule 144A under the Securities Act of 1933 and may be sold in transactions exempt from registration only to qualified institutional buyers or in 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 May 31, 2019, the net value of these securities was \$46,226,672, representing 39.2% of net assets.

°Income may be received in additional securities and/or cash.

°Security was purchased pursuant to Regulation S under the Securities Act of 1933, which exempts from registration securities offered and sold outside of the United States. Such a security cannot be sold in the United States without either an effective registration statement filed pursuant to the Securities Act of 1933, or pursuant to an exemption from registration. These securities have been deemed liquid under guidelines approved by the Trust's Board of Trustees. At May 31, 2019, the net value of these securities was \$(578,971), representing (0.5)% of net assets.

†The coupon rate shown represents the rate at period end.

°See Note 7 regarding defaulted securities.

**Franklin K2 Long Short Credit Fund** (continued)

<sup>h</sup>See Note 1(h) regarding senior floating rate interests.

<sup>i</sup>See Note 8 regarding unfunded loan commitments.

<sup>j</sup>The coupon rate shown represents the rate inclusive of any caps or floors, if applicable, in effect at period end.

<sup>k</sup>Adjustable rate security with an interest rate that is not based on a published reference index and spread. The rate is based on the structure of the agreement and current market conditions. The coupon rate shown represents the rate at period end.

<sup>l</sup>Investment in an interest-only security entitles holders to receive only the interest payment on the underlying instruments. The principal amount shown is the notional amount of the underlying instruments.

<sup>m</sup>The security was issued on a discount basis with no stated coupon rate.

<sup>n</sup>See Note 1(f) regarding credit-linked notes.

<sup>o</sup>The rate shown is the annualized seven-day yield at period end.

<sup>p</sup>See Note 1(c) regarding joint repurchase agreement.

<sup>q</sup>See Note 1(d) regarding written options.

<sup>r</sup>See Note 1(g) regarding securities sold short.

<sup>s</sup>Perpetual security with no stated maturity date.

At May 31, 2019, the Fund had the following futures contracts outstanding. See Note 1(d).

**Futures Contracts**

Description	Type	Number of Contracts	Notional Amount*	Expiration Date	Value/Unrealized Appreciation (Depreciation)
<b>Equity Contracts</b>					
S&P 500 E-Mini Index	Short	2	\$275,260	6/21/19	\$ 236
<b>Interest Rate Contracts</b>					
Euro BUXL 30 Yr. Bond	Short	1	218,940	6/06/19	(15,514)
U.S. Treasury Long Bond	Long	1	153,719	9/19/19	2,623
					(12,891)
Total Futures Contracts					\$ (12,655)

\*As of period end.

At May 31, 2019, the Fund had the following forward exchange contracts outstanding. See Note 1(d).

**Forward Exchange Contracts**

Currency	Counterparty <sup>a</sup>	Type	Quantity	Contract Amount*	Settlement Date	Unrealized Appreciation	Unrealized Depreciation
<b>OTC Forward Exchange Contracts</b>							
Brazilian Real	JPHQ	Buy	5,180,134	1,308,430	6/04/19	\$11,212	\$ —
Brazilian Real	JPHQ	Sell	5,180,134	1,299,958	6/04/19	—	(19,684)
Argentine Peso	JPHQ	Buy	6,980,876	149,515	6/07/19	4,652	—
Argentine Peso	JPHQ	Sell	6,980,876	155,823	6/07/19	1,656	—
Argentine Peso	JPHQ	Buy	6,980,876	154,137	6/14/19	—	(1,733)
Colombian Peso	JPHQ	Buy	1,808,749,152	582,140	6/19/19	—	(47,335)
Colombian Peso	JPHQ	Sell	1,808,749,152	532,142	6/19/19	—	(2,664)
Hungarian Forint	JPHQ	Sell	32,828,256	104,616 EUR	6/19/19	7,565	(3,500)
Euro	JPHQ	Buy	920,470	1,035,446	6/19/19	1,564	(6,988)
Euro	JPHQ	Sell	921,281	1,054,303	6/19/19	23,373	—
Euro	JPHQ	Sell	103,805	32,828,256 HUF	6/19/19	2,688	(5,846)
Hungarian Forint	JPHQ	Buy	87,466,508	318,772	6/19/19	—	(17,696)
Hungarian Forint	JPHQ	Sell	87,466,508	313,371	6/19/19	12,295	—
Indian Rupee	JPHQ	Buy	10,211,266	145,917	6/19/19	296	—
Indian Rupee	JPHQ	Sell	10,211,266	141,572	6/19/19	—	(4,641)
Indonesian Rupiah	JPHQ	Buy	12,655,836,324	882,089	6/19/19	2,389	—
Indonesian Rupiah	JPHQ	Sell	12,655,836,324	884,898	6/19/19	437	(17)
Mexican Peso	JPHQ	Buy	7,827,021	396,239	6/19/19	1,751	—
Mexican Peso	JPHQ	Sell	7,827,021	403,491	6/19/19	5,501	—
Russian Ruble	JPHQ	Buy	34,516,686	526,352	6/19/19	48	(157)
Russian Ruble	JPHQ	Sell	34,516,686	523,028	6/19/19	1,028	(4,242)
South African Rand	JPHQ	Buy	11,652,449	798,805	6/19/19	2,584	(3,360)
South African Rand	JPHQ	Sell	11,652,449	808,585	6/19/19	10,673	(117)
Turkish Lira	JPHQ	Buy	1,427,888	238,928	6/19/19	3,447	—

**Franklin K2 Long Short Credit Fund** (continued)

**Forward Exchange Contracts** (continued)

Currency	Counterparty <sup>a</sup>	Type	Quantity	Contract Amount*	Settlement Date	Unrealized Appreciation	Unrealized Depreciation
<b>OTC Forward Exchange Contracts</b> (continued)							
Turkish Lira	JPHQ	Sell	2,111,171	351,740	6/19/19	\$ 2,211	\$ (8,828)
Euro	JPHQ	Sell	300,000	338,098	6/28/19	2,152	(24)
Brazilian Real	JPHQ	Buy	2,590,067	641,122	7/02/19	17,001	—
Colombian Peso	JPHQ	Buy	1,808,749,152	529,571	9/18/19	2,511	—
Euro	JPHQ	Sell	509,093	572,400	9/18/19	—	(1,561)
Indian Rupee	JPHQ	Sell	10,211,266	144,288	9/18/19	—	(489)
Indonesian Rupiah	JPHQ	Buy	2,997,688,158	206,197	9/18/19	883	—
Indonesian Rupiah	JPHQ	Sell	9,658,148,166	664,338	9/18/19	—	(2,847)
Russian Ruble	JPHQ	Sell	32,432,494	488,471	9/18/19	327	—
South African Rand	JPHQ	Sell	10,004,091	675,047	9/18/19	—	(2,397)
Total Forward Exchange Contracts						\$118,244	\$(134,126)
Net unrealized appreciation (depreciation)							\$ (15,882)

\*In U.S. dollars unless otherwise indicated.

<sup>a</sup>May be comprised of multiple contracts with the same counterparty, currency and settlement date.

At May 31, 2019, the Fund had the following credit default swap contracts outstanding. See Note 1(d).

**Credit Default Swap Contracts**

Description	Periodic Payment Rate		Maturity Date	Notional Amount <sup>a</sup>	Value	Unamortized Upfront Payments (Receipts)	Unrealized Appreciation (Depreciation)	Rating <sup>b</sup>	
	Received (Paid)	Payment Frequency							
<b>Centrally Cleared Swap Contracts</b>									
<b>Contracts to Buy Protection<sup>c</sup></b>									
<b>Single Name</b>									
Government of Mexico	(1.00)%	Quarterly	6/20/23	\$ 449,000	\$ 720	\$ (63)	\$ 783		
Government of Mexico	(1.00)%	Quarterly	12/20/23	436,000	3,460	5,228	(1,768)		
Government of South Africa	(1.00)%	Quarterly	6/20/24	900,000	42,406	39,510	2,896		
Government of South Africa	(1.00)%	Quarterly	6/20/22	376,000	5,415	19,788	(14,373)		
Government of South Korea	(1.00)%	Quarterly	6/20/24	405,474	(12,242)	(13,756)	1,514		
Government of Turkey	(1.00)%	Quarterly	6/20/24	462,000	74,210	46,375	27,835		
Government of Turkey	(1.00)%	Quarterly	6/20/22	6,000	616	316	300		
<b>Traded Index</b>									
CDX.NA.HY.25	(5.00)%	Quarterly	12/20/20	1,357,800	(62,202)	13,578	(75,780)		
CDX.NA.HY.31	(5.00)%	Quarterly	12/20/23	2,211,600	(122,471)	(161,100)	38,629		
<b>Contracts to Sell Protection<sup>c,d</sup></b>									
<b>Single Name</b>									
Government of Russia	1.00%	Quarterly	6/20/24	865,000	(12,222)	(13,426)	1,204	BBB-	
Government of South Africa	1.00%	Quarterly	12/20/22	184,000	(3,949)	(3,412)	(537)	BB	
Government of Turkey	1.00%	Quarterly	12/20/22	136,000	(16,016)	(6,150)	(9,866)	B+	
Total Centrally Cleared Swap Contracts					\$(102,275)	\$ (73,112)	\$(29,163)		
<b>OTC Swap Contracts</b>									
<b>Contracts to Buy Protection<sup>c</sup></b>									
<b>Single Name</b>									
Altice Luxembourg S.A.	(5.00)%	Quarterly	Counterparty	BZWS	12/20/22	18,000 EUR	(952)	251	(1,203)
Altice Luxembourg S.A.	(5.00)%	Quarterly	Counterparty	BZWS	12/20/22	74,000 EUR	(3,914)	779	(4,693)
Altice Luxembourg S.A.	(5.00)%	Quarterly	Counterparty	CITI	6/20/24	66,000 EUR	119	1,808	(1,689)
Altice Luxembourg S.A.	(5.00)%	Quarterly	Counterparty	GSCO	6/20/24	66,000 EUR	119	1,808	(1,689)
Altice Luxembourg S.A.	(5.00)%	Quarterly	Counterparty	JPHQ	12/20/22	94,000 EUR	(4,972)	1,629	(6,601)

**Franklin K2 Long Short Credit Fund** (continued)

**Credit Default Swap Contracts** (continued)

Description	Periodic Payment Rate Received	Payment Frequency	Counterparty	Maturity Date	Notional Amount <sup>a</sup>	Value	Unamortized Upfront Payments (Receipts)	Unrealized Appreciation (Depreciation)	Rating <sup>b</sup>
<b>OTC Swap Contracts</b> (continued)									
<b>Contracts to Buy Protection<sup>c</sup></b> (continued)									
<b>Single Name</b> (continued)									
Avis Budget Group Inc. ....	(5.00)%	Quarterly	GSCO	12/20/22	10,000	\$ (1,139)	\$ (522)	\$ (617)	
Avis Budget Group Inc. ....	(5.00)%	Quarterly	JPHQ	12/20/22	78,000	(8,888)	(5,406)	(3,482)	
Avis Budget Group Inc. ....	(5.00)%	Quarterly	JPHQ	12/20/22	75,000	(8,546)	(3,091)	(5,455)	
Casino									
Guichard-Perrachon .....	(1.00)%	Quarterly	GSCO	6/20/24	24,000 EUR	5,600	4,943	657	
Caterpillar Financial Services Corp. ....	(1.00)%	Quarterly	JPHQ	6/20/21	618,000	(11,606)	1,076	(12,682)	
CenturyLink Inc. ....	(1.00)%	Quarterly	BZWS	12/20/23	63,000	6,004	6,305	(301)	
CenturyLink Inc. ....	(1.00)%	Quarterly	BZWS	12/20/23	63,000	6,004	6,366	(362)	
CenturyLink Inc. ....	(1.00)%	Quarterly	CITI	12/20/23	38,000	3,622	3,736	(114)	
CenturyLink Inc. ....	(1.00)%	Quarterly	CITI	12/20/23	63,000	6,004	6,413	(409)	
CenturyLink Inc. ....	(1.00)%	Quarterly	GSCO	12/20/23	63,000	6,004	6,242	(238)	
CenturyLink Inc. ....	(1.00)%	Quarterly	JPHQ	12/20/23	89,000	8,483	8,939	(456)	
Dean Foods Co. ....	(5.00)%	Quarterly	GSCO	12/20/19	125,000	8,079	9,217	(1,138)	
Dean Foods Co. ....	(5.00)%	Quarterly	GSCO	3/20/20	37,000	3,391	3,762	(371)	
Frontier Communications Corp. ....	(5.00)%	Quarterly	BZWS	12/20/21	232,000	65,285	64,583	702	
Frontier Communications Corp. ....	(5.00)%	Quarterly	GSCO	12/20/21	65,000	18,291	18,532	(241)	
Frontier Communications Corp. ....	(5.00)%	Quarterly	GSCO	12/20/22	2,000	713	514	199	
Frontier Communications Corp. ....	(5.00)%	Quarterly	GSCO	12/20/22	56,000	19,953	13,152	6,801	
Frontier Communications Corp. ....	(5.00)%	Quarterly	GSCO	12/20/22	94,000	33,493	22,426	11,067	
Frontier Communications Corp. ....	(5.00)%	Quarterly	JPHQ	12/20/21	26,000	7,316	7,267	49	
Frontier Communications Corp. ....	(5.00)%	Quarterly	JPHQ	12/20/22	10,000	3,563	2,107	1,456	
Frontier Communications Corp. ....	(5.00)%	Quarterly	JPHQ	12/20/22	49,000	17,459	10,916	6,543	
Frontier Communications Corp. ....	(5.00)%	Quarterly	JPHQ	12/20/22	94,000	33,493	22,339	11,154	
Frontier Communications Corp. ....	(5.00)%	Quarterly	MSCS	12/20/22	82,000	29,218	23,600	5,618	
The Hertz Corp. ....	(5.00)%	Quarterly	BZWS	6/20/20	62,000	(3,272)	(165)	(3,107)	
The Hertz Corp. ....	(5.00)%	Quarterly	BZWS	12/20/21	27,000	(1,146)	121	(1,267)	
The Hertz Corp. ....	(5.00)%	Quarterly	BZWS	12/20/21	68,000	(2,885)	757	(3,642)	
The Hertz Corp. ....	(5.00)%	Quarterly	BZWS	6/20/22	102,000	(2,038)	9,187	(11,225)	
The Hertz Corp. ....	(5.00)%	Quarterly	GSCO	6/20/20	59,000	(3,114)	—	(3,114)	
The Hertz Corp. ....	(5.00)%	Quarterly	GSCO	12/20/20	138,000	(8,312)	(376)	(7,936)	
The Hertz Corp. ....	(5.00)%	Quarterly	GSCO	12/20/20	96,000	(5,782)	(263)	(5,519)	
The Hertz Corp. ....	(5.00)%	Quarterly	GSCO	12/20/20	41,000	(2,469)	(112)	(2,357)	
The Hertz Corp. ....	(5.00)%	Quarterly	GSCO	12/20/21	68,000	(2,885)	(1,230)	(1,655)	
The Hertz Corp. ....	(5.00)%	Quarterly	GSCO	12/20/21	68,000	(2,885)	1,204	(4,089)	
The Hertz Corp. ....	(5.00)%	Quarterly	GSCO	12/20/21	68,000	(2,885)	1,352	(4,237)	
The Hertz Corp. ....	(5.00)%	Quarterly	GSCO	12/20/21	136,000	(5,771)	1,512	(7,283)	
The Hertz Corp. ....	(5.00)%	Quarterly	GSCO	6/20/22	68,000	(1,359)	2,549	(3,908)	
The Hertz Corp. ....	(5.00)%	Quarterly	GSCO	6/20/22	69,000	(1,379)	3,650	(5,029)	
The Hertz Corp. ....	(5.00)%	Quarterly	GSCO	6/20/22	42,000	(839)	3,781	(4,620)	
The Hertz Corp. ....	(5.00)%	Quarterly	GSCO	6/20/24	274,000	25,773	25,773	—	
The Hertz Corp. ....	(5.00)%	Quarterly	JPHQ	12/20/20	98,000	(5,903)	(1,851)	(4,052)	
The Hertz Corp. ....	(5.00)%	Quarterly	MSCS	6/20/22	22,000	(440)	2,634	(3,074)	
Intrum AB .....	(5.00)%	Quarterly	BZWS	6/20/24	65,000 EUR	(3,762)	(5,449)	1,687	
Intrum AB .....	(5.00)%	Quarterly	BZWS	6/20/24	25,000 EUR	(1,447)	(1,677)	230	



**Franklin K2 Long Short Credit Fund** (continued)

**Credit Default Swap Contracts** (continued)

Description	Periodic Payment Rate	Payment Frequency	Counterparty	Maturity Date	Notional Amount <sup>a</sup>	Value	Unamortized Upfront Payments (Receipts)	Unrealized Appreciation (Depreciation)	Rating <sup>b</sup>
<b>OTC Swap Contracts</b> (continued)									
<b>Contracts to Buy Protection<sup>c</sup></b> (continued)									
<b>Single Name</b> (continued)									
Intrum AB	(5.00)%	Quarterly	CITI	6/20/24	38,000 EUR	\$ (2,200)	\$ (2,644)	\$ 444	
Itochu Corp.	(1.00)%	Quarterly	GSCO	6/20/22	17,300,000 JPY	(4,066)	(3,166)	(900)	
Itochu Corp.	(1.00)%	Quarterly	JPHQ	6/20/22	4,307,000 JPY	(1,012)	(813)	(199)	
Jaguar Land Rover Automotive PLC	(5.00)%	Quarterly	BZWS	12/20/23	60,000 EUR	1,753	5,360	(3,607)	
Jaguar Land Rover Automotive PLC	(5.00)%	Quarterly	JPHQ	12/20/23	60,000 EUR	1,753	8,367	(6,614)	
JFE Holdings Inc.	(1.00)%	Quarterly	GSCO	6/20/22	5,746,000 JPY	(1,207)	(1,085)	(122)	
JFE Holdings Inc.	(1.00)%	Quarterly	JPHQ	6/20/22	3,802,000 JPY	(799)	(729)	(70)	
K. Hovnanian Enterprises Inc.	(5.00)%	Quarterly	BZWS	12/20/22	64,000	22,010	26,822	(4,812)	
K. Hovnanian Enterprises Inc.	(5.00)%	Quarterly	BZWS	6/20/24	38,000	16,072	16,314	(242)	
K. Hovnanian Enterprises Inc.	(5.00)%	Quarterly	GSCO	6/20/23	24,000	9,154	3,467	5,687	
K. Hovnanian Enterprises Inc.	(5.00)%	Quarterly	GSCO	6/20/23	62,000	23,648	10,504	13,144	
K. Hovnanian Enterprises Inc.	(5.00)%	Quarterly	GSCO	6/20/23	99,000	37,760	14,188	23,572	
K. Hovnanian Enterprises Inc.	(5.00)%	Quarterly	JPHQ	12/20/22	12,000	4,127	2,876	1,251	
K. Hovnanian Enterprises Inc.	(5.00)%	Quarterly	MSCS	12/20/19	32,000	1,682	2,150	(468)	
K. Hovnanian Enterprises Inc.	(5.00)%	Quarterly	MSCS	12/20/19	42,000	2,207	2,505	(298)	
K. Hovnanian Enterprises Inc.	(5.00)%	Quarterly	MSCS	12/20/23	21,000	8,489	6,060	2,429	
Kimco Realty Corp.	(1.00)%	Quarterly	JPHQ	6/20/24	121,000	(159)	279	(438)	
Kohl's Corp.	(1.00)%	Quarterly	GSCO	6/20/24	1,051,000	36,943	12,070	24,873	
Lloyds Bank PLC	(1.00)%	Quarterly	BOFA	12/20/22	196,000 EUR	(1,784)	(1,723)	(61)	
Lloyds Bank PLC	(1.00)%	Quarterly	GSCO	12/20/23	210,000 EUR	(256)	324	(580)	
Lloyds Bank PLC	(1.00)%	Quarterly	GSCO	6/20/24	127,000 EUR	(3,336)	999	(4,335)	
Lloyds Bank PLC	(1.00)%	Quarterly	JPHQ	12/20/22	196,000 EUR	(1,784)	(1,877)	93	
Lloyds Bank PLC	(1.00)%	Quarterly	JPHQ	12/20/23	67,000 EUR	(82)	1,007	(1,089)	
Lloyds Bank PLC	(1.00)%	Quarterly	JPHQ	6/20/24	121,000 EUR	7,169	7,169	—	
Marubeni Corp.	(1.00)%	Quarterly	GSCO	6/20/22	27,269,000 JPY	(5,599)	(4,128)	(1,471)	
Marubeni Corp.	(1.00)%	Quarterly	JPHQ	6/20/22	6,291,000 JPY	(1,292)	(1,006)	(286)	
MBIA Inc.	(5.00)%	Quarterly	GSCO	12/20/23	116,000	(13,560)	(4,368)	(9,192)	
MBIA Inc.	(5.00)%	Quarterly	GSCO	12/20/23	35,000	(4,091)	(1,560)	(2,531)	
MBIA Inc.	(5.00)%	Quarterly	JPHQ	6/20/21	269,000	(23,971)	(17,579)	(6,392)	
MBIA Inc.	(5.00)%	Quarterly	JPHQ	12/20/23	23,000	(2,689)	(848)	(1,841)	
Mitsui O.S.K. Lines Ltd.	(1.00)%	Quarterly	JPHQ	6/20/22	9,678,000 JPY	(612)	(455)	(157)	
Mitsui O.S.K. Lines Ltd.	(1.00)%	Quarterly	JPHQ	6/20/22	3,618,000 JPY	(229)	(171)	(58)	
Nordstrom Inc.	(1.00)%	Quarterly	BOFA	6/20/24	61,000	3,492	3,369	123	
Nordstrom Inc.	(1.00)%	Quarterly	CITI	6/20/24	61,000	3,492	3,164	328	
Nordstrom Inc.	(1.00)%	Quarterly	GSCO	6/20/24	61,000	3,492	3,241	251	
Nordstrom Inc.	(1.00)%	Quarterly	GSCO	6/20/24	60,800	3,481	3,439	42	
Nordstrom Inc.	(1.00)%	Quarterly	GSCO	6/20/24	121,000	6,927	6,413	514	
Novafives SAS	(5.00)%	Quarterly	BZWS	12/20/23	100,000 EUR	508	6,826	(6,318)	
NRG Energy Inc.	(5.00)%	Quarterly	GSCO	6/20/24	24,000	(4,180)	(4,230)	50	
Pizzaexpress Financing 1 PLC	(5.00)%	Quarterly	GSCO	12/20/20	61,000 EUR	18,499	13,909	4,590	
Simon Property Group LP	(1.00)%	Quarterly	JPHQ	6/20/24	301,000	(4,965)	(4,231)	(734)	

**Franklin K2 Long Short Credit Fund** (continued)

**Credit Default Swap Contracts** (continued)

Description	Periodic Payment Rate	Payment Frequency	Counterparty	Maturity Date	Notional Amount <sup>a</sup>	Value	Unamortized Upfront Payments (Receipts)	Unrealized Appreciation (Depreciation)	Rating <sup>b</sup>
<b>OTC Swap Contracts</b> (continued)									
<b>Contracts to Buy Protection<sup>c</sup></b> (continued)									
<b>Single Name</b> (continued)									
Simon Property Group LP	(1.00)%	Quarterly	JPHQ	6/20/24	181,000	\$ (2,985)	\$ (2,544)	\$ (441)	
Simon Property Group LP	(1.00)%	Quarterly	JPHQ	6/20/24	60,000	(990)	(931)	(59)	
Softbank Group Corp.	(1.00)%	Quarterly	BZWS	12/20/23	12,747,000	JPY 3,345	4,827	(1,482)	
Softbank Group Corp.	(1.00)%	Quarterly	BZWS	12/20/23	12,747,000	JPY 3,345	5,126	(1,781)	
Softbank Group Corp.	(1.00)%	Quarterly	BZWS	6/20/24	12,747,000	JPY 4,414	5,039	(625)	
Softbank Group Corp.	(1.00)%	Quarterly	BZWS	6/20/24	25,494,000	JPY 8,827	8,302	525	
Softbank Group Corp.	(1.00)%	Quarterly	GSCO	12/20/23	12,747,000	JPY 3,345	5,030	(1,685)	
Sprint Corp.	(5.00)%	Quarterly	JPHQ	12/20/23	90,000	(9,252)	(7,894)	(1,358)	
Staples Inc.	(5.00)%	Quarterly	BOFA	6/20/24	39,000	2,078	1,423	655	
Staples Inc.	(5.00)%	Quarterly	BZWS	6/20/24	39,000	2,078	152	1,926	
Staples Inc.	(5.00)%	Quarterly	BZWS	6/20/24	25,000	1,332	804	528	
Staples Inc.	(5.00)%	Quarterly	BZWS	6/20/24	65,000	3,464	3,560	(96)	
Staples Inc.	(5.00)%	Quarterly	CITI	6/20/24	25,000	1,332	985	347	
Staples Inc.	(5.00)%	Quarterly	CITI	6/20/24	38,000	2,025	1,479	546	
Staples Inc.	(5.00)%	Quarterly	CITI	6/20/24	125,000	6,661	3,790	2,871	
Staples Inc.	(5.00)%	Quarterly	JPHQ	6/20/24	61,000	3,250	(1,090)	4,340	
Staples Inc.	(5.00)%	Quarterly	JPHQ	6/20/24	25,000	1,332	912	420	
Thomas Cook Group PLC	(5.00)%	Quarterly	BZWS	12/20/20	42,000 EUR	23,650	3,602	20,048	
Thomas Cook Group PLC	(5.00)%	Quarterly	CITI	12/20/20	36,000 EUR	20,272	2,977	17,295	
Transocean Inc.	(5.00)%	Quarterly	BZWS	6/20/22	2,000	(24)	48	(72)	
Transocean Inc.	(5.00)%	Quarterly	BZWS	12/20/23	17,000	685	2,020	(1,335)	
Transocean Inc.	(1.00)%	Quarterly	BZWS	6/20/24	17,000	3,831	2,409	1,422	
Transocean Inc.	(5.00)%	Quarterly	GSCO	6/20/22	43,000	(518)	1,288	(1,806)	
Transocean Inc.	(5.00)%	Quarterly	GSCO	6/20/23	98,000	1,878	(2,656)	4,534	
Transocean Inc.	(5.00)%	Quarterly	GSCO	6/20/23	109,000	2,089	(2,104)	4,193	
Transocean Inc.	(5.00)%	Quarterly	GSCO	6/20/23	34,000	652	(1,807)	2,459	
Transocean Inc.	(5.00)%	Quarterly	GSCO	12/20/23	60,000	2,418	(5,219)	7,637	
Transocean Inc.	(5.00)%	Quarterly	GSCO	12/20/23	60,000	2,418	(4,837)	7,255	
<b>Contracts to Sell Protection<sup>c,d</sup></b>									
<b>Single Name</b>									
Avis Budget Group Inc.	5.00%	Quarterly	BZWS	12/20/22	27,000	3,077	1,878	1,199	BB
Frontier Communications Corp.	5.00%	Quarterly	GSCO	6/20/21	80,000	(18,099)	(20,105)	2,006	CCC+
Frontier Communications Corp.	5.00%	Quarterly	GSCO	12/20/23	65,000	(26,301)	(25,187)	(1,114)	CCC+
Frontier Communications Corp.	5.00%	Quarterly	GSCO	12/20/23	26,000	(10,521)	(9,897)	(624)	CCC+
Jaguar Land Rover Automotive PLC	5.00%	Quarterly	BZWS	12/20/21	60,000 EUR	1,774	(3,110)	4,884	B+
Jaguar Land Rover Automotive PLC	5.00%	Quarterly	JPHQ	12/20/21	60,000 EUR	1,774	(1,494)	3,268	B+
K. Hovnanian Enterprises Inc.	5.00%	Quarterly	BZWS	12/20/20	63,000	(9,988)	(13,021)	3,033	CC
K. Hovnanian Enterprises Inc.	5.00%	Quarterly	BZWS	12/20/20	53,000	(8,402)	(7,909)	(493)	CC
K. Hovnanian Enterprises Inc.	5.00%	Quarterly	BZWS	12/20/23	9,000	(3,638)	(4,264)	626	CC
K. Hovnanian Enterprises Inc.	5.00%	Quarterly	GSCO	12/20/19	53,000	(2,785)	(3,443)	658	CC
K. Hovnanian Enterprises Inc.	5.00%	Quarterly	GSCO	12/20/20	32,000	(5,073)	(3,484)	(1,589)	CC

**Franklin K2 Long Short Credit Fund** (continued)

**Credit Default Swap Contracts** (continued)

Description	Periodic Payment Rate		Maturity Date	Notional Amount <sup>a</sup>	Value	Unamortized Upfront Payments (Receipts)	Unrealized Appreciation (Depreciation)	Rating <sup>b</sup>
	Received (Paid)	Payment Frequency Counterparty						
<b>OTC Swap Contracts</b> (continued)								
<b>Contracts to Sell Protection<sup>c,d</sup></b> (continued)								
<b>Single Name</b> (continued)								
K. Hovnanian Enterprises Inc. ....	5.00%	Quarterly	GSCO 12/20/23	12,000	\$ (4,851)	\$ (4,788)	\$ (63)	CC
K. Hovnanian Enterprises Inc. ....	5.00%	Quarterly	MSCS 12/20/19	21,000	(1,104)	(1,767)	663	CC
K. Hovnanian Enterprises Inc. ....	5.00%	Quarterly	MSCS 12/20/22	17,000	(5,846)	(6,677)	831	CC
Thomas Cook Group PLC ..	5.00%	Quarterly	CITI 6/20/24	200,000 EUR	(138,343)	(57,261)	(81,082)	CCC+
Thomas Cook Group PLC ..	5.00%	Quarterly	CITI 6/20/24	26,000 EUR	(17,985)	(6,863)	(11,122)	CCC+
Total OTC Swap Contracts .....					\$ 188,822	\$ 248,596	\$(59,774)	
Total Credit Default Swap Contracts .....					\$ 86,547	\$ 175,484	\$(88,937)	

<sup>a</sup>In U.S. dollars unless otherwise indicated. For contracts to sell protection, the notional amount is equal to the maximum potential amount of the future payments and no recourse provisions have been entered into in association with the contracts.

<sup>b</sup>Based on Standard and Poor's (S&P) Rating for single name swaps.

<sup>c</sup>Performance triggers for settlement of contract include default, bankruptcy or restructuring for single name swaps and failure to pay or bankruptcy of the underlying securities for traded index swaps.

<sup>d</sup>The Fund enters contracts to sell protection to create a long credit position.

At May 31, 2019, the Fund had the following interest rate swap contracts outstanding. See Note 1(d).

**Interest Rate Swap Contracts**

Description	Payment Frequency	Maturity Date	Notional Amount*	Value/Unrealized Appreciation (Depreciation)
<b>Centrally Cleared Swap Contracts</b>				
Receive Floating rate 3 Month GBP-LIBOR				
Pay Fixed rate 1.75% .....	Semi-Annually	3/21/20	1,012,000	\$ (2,039)
Receive Floating rate 3 Month USD-LIBOR				
Pay Fixed rate 1.75% .....	Semi-Annually	6/20/20	1,500,000	(24,146)
Receive Fixed rate 8.33%				
Pay Floating rate BRL-BRLCDI .....	Annually	1/02/23	4,462,618 BRL	38,784
Receive Fixed rate 8.36%				
Pay Floating rate BRL-BRLCDI .....	Annually	1/02/23	4,338,150 BRL	38,515
Receive Floating rate MIBOR				
Pay Fixed rate 6.67% .....	Annually	6/20/23	13,265,333 INR	(7,069)
Receive Floating rate 3 Month USD-LIBOR				
Pay Fixed rate 2.25% .....	Semi-Annually	6/20/28	1,100,000	(92,241)
Receive Floating rate 6 Month GBP-LIBOR				
Pay Fixed rate 1.41% .....	Semi-Annually	8/04/67	108,000 GBP	(6,504)
Receive Floating rate 6 Month GBP-LIBOR				
Pay Fixed rate 1.47% .....	Semi-Annually	9/18/69	253,637 GBP	(28,181)
Total Interest Rate Swap Contracts .....				\$(82,881)

\*In U.S. dollars unless otherwise indicated.

**Franklin K2 Long Short Credit Fund** (continued)

At May 31, 2019, the Fund had the following total return swap contracts outstanding. See Note 1(d).

**Total Return Swap Contracts**

Underlying Instrument	Financing Rate	Payment Frequency	Counterparty	Maturity Date	Notional Value	Value/Unrealized Appreciation (Depreciation)
<b>OTC Swap Contracts</b>						
<b>Credit Contracts – Short<sup>a</sup></b>						
iBoxx USD Liquid High Yield Index . . . . .	1-Month LIBOR	Monthly	JPHQ	6/20/19	\$268,000	\$ 2,302
iBoxx USD Liquid High Yield Index . . . . .	1-Month LIBOR	Monthly	JPHQ	6/20/19	113,000	736
iBoxx USD Liquid High Yield Index . . . . .	1-Month LIBOR	Monthly	JPHQ	6/20/19	274,000	1,159
iBoxx USD Liquid High Yield Index . . . . .	1-Month LIBOR	Quarterly	MSCS	6/20/19	160,000	(3,863)
iBoxx USD Liquid High Yield Index . . . . .	1-Month LIBOR	Monthly	MSCS	6/20/19	31,000	136
iBoxx USD Liquid Leveraged Loan Index . . . . .	1-Month LIBOR	Monthly	GSCO	6/03/20	608,718	(3,556)
						(3,086)
<b>Equity Contracts – Long<sup>b</sup></b>						
CNX Resources Corp. . . . .	1-Month LIBOR + 0.40%	Monthly	GSCO	5/06/20	26,161	(3,057)
CNX Resources Corp. . . . .	1-Month LIBOR + 0.40%	Monthly	GSCO	5/27/20	47,071	(756)
Energy Transfer Equity LP . . . . .	1-Month LIBOR + 0.65%	Monthly	JPHQ	1/28/20	80,403	(11,076)
Energy Transfer Equity LP . . . . .	1-Month LIBOR + 0.65%	Monthly	JPHQ	1/28/20	27,738	(6,094)
Energy Transfer Equity LP . . . . .	1-Month LIBOR + 0.65%	Monthly	JPHQ	1/28/20	164,869	8,981
Energy Transfer Equity LP . . . . .	1-Month LIBOR + 0.65%	Monthly	JPHQ	1/28/20	31,865	4,145
Energy Transfer Equity LP . . . . .	1-Month LIBOR + 0.65%	Monthly	JPHQ	5/25/20	33,168	(1,761)
Energy Transfer Equity LP . . . . .	1-Month LIBOR + 0.65%	Monthly	JPHQ	6/29/20	59,665	(6,026)
Suncoke Energy Partners LP . . . . .	1-Month LIBOR + 2.50%	Monthly	MSCS	6/02/20	31,628	(7,963)
Suncoke Energy Partners LP . . . . .	1-Month LIBOR + 2.50%	Monthly	MSCS	6/02/20	1,133	(415)
Suncoke Energy Partners LP . . . . .	1-Month LIBOR + 2.50%	Monthly	MSCS	6/02/20	2,728	(999)
Suncoke Energy Partners LP . . . . .	1-Month LIBOR + 2.50%	Monthly	MSCS	6/02/20	4,886	(1,896)
Suncoke Energy Partners LP . . . . .	1-Month LIBOR + 2.50%	Monthly	MSCS	6/02/20	10,918	(4,192)
Suncoke Energy Partners LP . . . . .	1-Month LIBOR + 2.50%	Monthly	MSCS	6/02/20	3,783	(1,471)
Suncoke Energy Partners LP . . . . .	1-Month LIBOR + 2.50%	Monthly	MSCS	6/02/20	2,132	(829)
Suncoke Energy Partners LP . . . . .	1-Month LIBOR + 2.50%	Monthly	MSCS	6/02/20	5,866	(2,210)
Suncoke Energy Partners LP . . . . .	1-Month LIBOR + 2.50%	Monthly	MSCS	6/02/20	8,328	(3,235)
Suncoke Energy Partners LP . . . . .	1-Month LIBOR + 2.50%	Monthly	MSCS	6/02/20	7,989	(3,009)
Suncoke Energy Partners LP . . . . .	1-Month LIBOR + 2.50%	Monthly	MSCS	6/02/20	449	8
Suncoke Energy Partners LP . . . . .	1-Month LIBOR + 2.50%	Monthly	MSCS	6/02/20	6,397	(2,397)
Suncoke Energy Partners LP . . . . .	1-Month LIBOR + 2.50%	Monthly	MSCS	6/02/20	4,171	(1,532)
Suncoke Energy Partners LP . . . . .	1-Month LIBOR + 2.50%	Monthly	MSCS	6/02/20	11,495	(4,034)
Suncoke Energy Partners LP . . . . .	1-Month LIBOR + 2.50%	Monthly	MSCS	6/02/20	3,193	(1,133)
Suncoke Energy Partners LP . . . . .	1-Month LIBOR + 2.50%	Monthly	MSCS	6/02/20	1,475	(575)
Suncoke Energy Partners LP . . . . .	1-Month LIBOR + 2.50%	Monthly	MSCS	6/02/20	109	6
						(51,520)
<b>Equity Contracts – Short<sup>a</sup></b>						
Tesla Inc. . . . .	1-Day OBFR	Monthly	GSCO	6/11/19	44,469	10,661
<b>Interest Rate Contracts – Long<sup>b</sup></b>						
Egyptian Treasury Bill . . . . .	—	Monthly	DBAB	8/13/19	103,019	11,018
Egyptian Treasury Bill . . . . .	3-Month LIBOR + 0.50%	Monthly	GSCO	8/13/19	101,820	10,773
Government of Indonesia . . . . .	3-Month LIBOR + 0.60%	Monthly	BOFA	4/15/20	437,914	(25,642)
Government of Indonesia . . . . .	3-Month LIBOR + 0.60%	Monthly	DBAB	6/15/32	472,635	(27,234)
						(31,085)
Total Total Return Swap Contracts . . . . .						\$(75,030)

<sup>a</sup>The Fund receives the variable financing rate and pays the total return on the underlying instrument.

<sup>b</sup>The Fund receives the total return on the underlying instrument and pays a variable financing rate.

See Note 9 regarding other derivative information.

See Abbreviations on page 52.

## Statement of Assets and Liabilities

May 31, 2019

## Franklin K2 Long Short Credit Fund

## Assets:

Investments in securities:	
Cost – Unaffiliated issuers .....	\$108,528,049
Cost – Unaffiliated repurchase agreements .....	3,412,487
Value – Unaffiliated issuers .....	\$110,672,675
Value – Unaffiliated repurchase agreements .....	3,412,487
Cash .....	1,902,487
Restricted cash for OTC derivatives (Note 1e) .....	110,000
Foreign currency, at value (cost \$124,070) .....	173,626
Receivables:	
Investment securities sold .....	3,979,772
Capital shares sold .....	169,526
Dividends and interest .....	699,258
Affiliates .....	48,546
Deposits with brokers for:	
Securities sold short .....	8,597,628
OTC derivative contracts .....	103,413
Futures contracts .....	22,039
Centrally cleared swap contracts .....	1,146,623
Due from brokers .....	629,996
Variation margin on futures contracts .....	5,061
Variation margin on centrally cleared swap contracts .....	13,341
OTC swap contracts (upfront payments \$594,284) .....	517,703
Unrealized appreciation on OTC forward exchange contracts .....	118,244
Unrealized appreciation on OTC swap contracts .....	267,648
Unrealized appreciation on unfunded loan commitments (Note 8) .....	149,096
Other assets .....	91
Total assets .....	132,739,260

## Liabilities:

Payables:	
Investment securities purchased .....	2,372,875
Capital shares redeemed .....	33,297
Management fees .....	177,228
Distribution fees .....	5,784
Deposits from brokers for:	
OTC derivative contracts .....	110,000
Due to brokers .....	93,370
OTC swap contracts (upfront receipts \$300,900) .....	269,107
Options written, at value (premiums received \$48,144) .....	55,169
Securities sold short, at value (proceeds \$11,266,127) .....	10,915,280
Unrealized depreciation on OTC forward exchange contracts .....	134,126
Unrealized depreciation on OTC swap contracts .....	402,452
Accrued expenses and other liabilities .....	139,542
Total liabilities .....	14,708,230
Net assets, at value .....	\$118,031,030
Net assets consist of:	
Paid-in capital .....	\$115,115,128
Total distributable earnings (loss) .....	2,915,902
Net assets, at value .....	\$118,031,030

**Statement of Assets and Liabilities** (continued)  
May 31, 2019

**Franklin K2 Long Short Credit Fund**

**Class A:**

Net assets, at value .....	\$27,870,319
Shares outstanding .....	2,665,826
Net asset value per share <sup>a</sup> .....	\$10.45
Maximum offering price per share (net asset value per share ÷ 94.50%) .....	\$11.06

**Class C:**

Net assets, at value .....	\$2,893,217
Shares outstanding .....	281,859
Net asset value and maximum offering price per share <sup>a</sup> .....	\$10.26

**Class R:**

Net assets, at value .....	\$166,469
Shares outstanding .....	16,075
Net asset value and maximum offering price per share .....	\$10.36

**Class R6:**

Net assets, at value .....	\$233,404
Shares outstanding .....	22,328
Net asset value and maximum offering price per share .....	\$10.45

**Advisor Class:**

Net assets, at value .....	\$86,867,621
Shares outstanding .....	8,305,353
Net asset value and maximum offering price per share .....	\$10.46

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

Statement of Operations  
for the year ended May 31, 2019

**Franklin K2 Long Short Credit Fund**

Investment income:	
Dividends: (net of foreign taxes)*	
Unaffiliated issuers:	
Paid in cash	\$ 468,911
Non-cash dividends	363,131
Interest:	
Unaffiliated issuers:	
Paydown gain (loss)	303,123
Paid in cash	5,439,437
Total investment income	<u>6,574,602</u>
Expenses:	
Management fees (Note 3a)	2,021,634
Distribution fees: (Note 3c)	
Class A	48,160
Class C	28,901
Class R	771
Transfer agent fees: (Note 3e)	
Class A	32,705
Class C	2,422
Class R	138
Class R6	241
Advisor Class	53,708
Custodian fees (Note 4)	83,719
Reports to shareholders	35,787
Registration and filing fees	86,441
Professional fees	172,795
Trustees' fees and expenses	33,828
Dividends and interest on securities sold short	535,738
Security borrowing fees	123,413
Other	49,779
Total expenses	3,310,180
Expense reductions (Note 4)	(12,386)
Expenses waived/paid by affiliates (Note 3f)	(485,969)
Net expenses	<u>2,811,825</u>
Net investment income	<u>3,762,777</u>
Realized and unrealized gains (losses):	
Net realized gain (loss) from:	
Investments:	
Unaffiliated issuers	(815,900)
Written options	64,261
Foreign currency transactions	(33,685)
Forward exchange contracts	408,428
Futures contracts	(28,411)
Securities sold short	832,877
Swap contracts	(120,737)
Net realized gain (loss)	<u>306,833</u>
Net change in unrealized appreciation (depreciation) on:	
Investments:	
Unaffiliated issuers	32,561
Translation of other assets and liabilities denominated in foreign currencies	(94,500)
Forward exchange contracts	(226,770)
Written options	(13,737)
Futures contracts	(510)
Securities sold short	(15,363)
Swap contracts	119,020
Net change in unrealized appreciation (depreciation)	<u>(199,299)</u>
Net realized and unrealized gain (loss)	<u>107,534</u>
Net increase (decrease) in net assets resulting from operations	<u>\$3,870,311</u>
* Foreign taxes withheld on dividends	\$ 13

## Statements of Changes in Net Assets

### Franklin K2 Long Short Credit Fund

	Year Ended May 31,	
	2019	2018
Increase (decrease) in net assets:		
Operations:		
Net investment income .....	\$ 3,762,777	\$ 2,327,629
Net realized gain (loss) .....	306,833	481,921
Net change in unrealized appreciation (depreciation) .....	(199,299)	206,551
Net increase (decrease) in net assets resulting from operations .....	3,870,311	3,016,101
Distributions to shareholders: (Note 1j)		
Class A .....	(1,424,776)	(1,512,713)
Class C .....	(100,011)	(44,183)
Class R .....	(5,804)	(5,125)
Class R6 .....	(7,008)	(420,793)
Advisor Class .....	(2,656,330)	(1,068,736)
Total distributions to shareholders .....	(4,193,929)	(3,051,550)
Capital share transactions: (Note 2)		
Class A .....	(17,059,204)	4,137,021
Class C .....	409,512	996,451
Class R .....	5,307	34,638
Class R6 .....	221,435	(13,046,394)
Advisor Class .....	41,498,540	20,379,574
Total capital share transactions .....	25,075,590	12,501,290
Net increase (decrease) in net assets .....	24,751,972	12,465,841
Net assets:		
Beginning of year .....	93,279,058	80,813,217
End of year (Note 1j) .....	\$118,031,030	\$ 93,279,058



# Notes to Financial Statements

## 1. Organization and Significant Accounting Policies

Franklin Alternative Strategies Funds (Trust) is registered under the Investment Company Act of 1940 (1940 Act) as an open-end management investment company, consisting of four separate funds and applies the specialized accounting and reporting guidance in U.S. Generally Accepted Accounting Principles (U.S. GAAP). Franklin K2 Long Short Credit Fund (Fund) is included in this report. The Fund offers five classes of shares: Class A, Class C, Class R, Class R6 and Advisor Class. Beginning on October 19, 2018, Class C shares automatically convert to Class A shares after they have been held for 10 years. Each class of shares may differ by its initial sales load, contingent deferred sales charges, voting rights on matters affecting a single class, its exchange privilege and fees due to differing arrangements for distribution and transfer agent fees.

The following summarizes the Fund's significant accounting policies.

### a. Financial Instrument Valuation

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

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

range of the most recent quoted bid and ask prices. Securities that trade in multiple markets or on multiple exchanges are valued according to the broadest and most representative market. Certain equity securities are valued based upon fundamental characteristics or relationships to similar securities.

Debt securities generally trade in the OTC market rather than on a securities exchange. The Fund's pricing services use multiple valuation techniques to determine fair value. In instances where sufficient market activity exists, the pricing services may utilize a market-based approach through which quotes from market makers are used to determine fair value. In instances where sufficient market activity may not exist or is limited, the pricing services also utilize proprietary valuation models which may consider market characteristics such as benchmark yield curves, credit spreads, estimated default rates, anticipated market interest rate volatility, coupon rates, anticipated timing of principal repayments, underlying collateral, and other unique security features in order to estimate the relevant cash flows, which are then discounted to calculate the fair value. Securities denominated in a foreign currency are converted into their U.S. dollar equivalent at the foreign exchange rate in effect at 4 p.m. Eastern time on the date that the values of the foreign debt securities are determined.

Investments in open-end mutual funds are valued at the closing NAV. Investments in repurchase agreements are valued at cost, which approximates fair value.

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

The Fund has procedures to determine the fair value of financial instruments for which market prices are not reliable or readily available. Under these procedures, the Fund primarily employs a market-based approach which may use related or comparable assets or liabilities, recent transactions, market multiples, book values, and other relevant information for the investment to determine the fair value of the investment. An income-based valuation approach may also be used in which the anticipated future cash flows of the investment are discounted to calculate fair value. Discounts may also be applied due to the nature or duration of any restrictions on the disposition of the investments. Due to the inherent

### **Franklin K2 Long Short Credit Fund** (continued)

uncertainty of valuations of such investments, the fair values may differ significantly from the values that would have been used had an active market existed.

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

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

#### **b. Foreign Currency Translation**

Portfolio securities and other assets and liabilities denominated in foreign currencies are translated into U.S. dollars based on the exchange rate of such currencies against U.S. dollars on the date of valuation. The Fund may enter into foreign currency exchange contracts to facilitate transactions denominated in a foreign currency. Purchases and sales of securities, income and expense items denominated in foreign currencies are translated into U.S. dollars at the exchange rate in effect on the transaction date. Portfolio securities and assets and liabilities denominated in foreign currencies

contain risks that those currencies will decline in value relative to the U.S. dollar. Occasionally, events may impact the availability or reliability of foreign exchange rates used to convert the U.S. dollar equivalent value. If such an event occurs, the foreign exchange rate will be valued at fair value using procedures established and approved by the Board.

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

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

#### **c. Joint Repurchase Agreement**

The Fund enters into a joint repurchase agreement whereby its uninvested cash balance is deposited into a joint cash account with other funds managed by the investment manager or an affiliate of the investment manager and is used to invest in one or more repurchase agreements. The value and face amount of the joint repurchase agreement are allocated to the funds based on their pro-rata interest. A repurchase agreement is accounted for as a loan by the Fund to the seller, collateralized by securities which are delivered to the Fund's custodian. The fair value, including accrued interest, of the initial collateralization is required to be at least 102% of the dollar amount invested by the funds, with the value of the underlying securities marked to market daily to maintain coverage of at least 100%. Repurchase agreements are subject to the terms of Master Repurchase Agreements (MRAs) with approved counterparties (sellers). The MRAs contain various provisions, including but not limited to events of default and maintenance of collateral for repurchase agreements. In the event of default by either the seller or the Fund, certain MRAs may permit the non-defaulting party to net and close-out all transactions, if any, traded under such agreements. The Fund may sell securities it holds as collateral and apply the proceeds towards the repurchase price and any

**Franklin K2 Long Short Credit Fund** (continued)

other amounts owed by the seller to the Fund in the event of default by the seller. This could involve costs or delays in addition to a loss on the securities if their value falls below the repurchase price owed by the seller. The joint repurchase agreement held by the Fund at period end, as indicated in the Statement of Investments, had been entered into on May 31, 2019.

**d. Derivative Financial Instruments**

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

Derivative counterparty credit risk is managed through a formal evaluation of the creditworthiness of all potential counterparties. The Fund attempts to reduce its exposure to counterparty credit risk on OTC derivatives, whenever possible, by entering into International Swaps and Derivatives Association (ISDA) master agreements with certain counterparties. These agreements contain various provisions, including but not limited to collateral requirements, events of default, or early termination. Termination events applicable to the counterparty include certain deteriorations in the credit quality of the counterparty. Termination events applicable to the Fund include failure of the Fund to maintain certain net asset levels and/or limit the decline in net assets over various periods of time. In the event of default or early termination, the ISDA master agreement gives the non-defaulting party the right to net and close-out all transactions traded, whether or not arising under the ISDA agreement, to one net amount payable by one counterparty to the other. However, absent an event of default or early termination, OTC derivative assets and liabilities are presented gross and not offset in the Statement of Assets and Liabilities. Early termination by the

counterparty may result in an immediate payment by the Fund of any net liability owed to that counterparty under the ISDA agreement.

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

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

The Fund entered into OTC forward exchange contracts primarily to manage and/or gain 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 entered into credit default swap contracts primarily to manage and/or gain exposure to credit risk. A credit default swap is an agreement between the Fund and a counterparty whereby the buyer of the contract receives credit protection and the seller of the contract guarantees the credit

### **Franklin K2 Long Short Credit Fund** (continued)

worthiness of a referenced debt obligation. These agreements may be privately negotiated in the over-the-counter market (OTC credit default swaps) or may be executed in a multilateral trade facility platform, such as a registered exchange (centrally cleared credit default swaps). The underlying referenced debt obligation may be a single issuer of corporate or sovereign debt, a credit index, a basket of issuers or indices, or a tranche of a credit index or basket of issuers or indices. In the event of a default of the underlying referenced debt obligation, the buyer is entitled to receive the notional amount of the credit default swap contract from the seller in exchange for the referenced debt obligation, a net settlement amount equal to the notional amount of the credit default swap less the recovery value of the referenced debt obligation, or other agreed upon amount. For centrally cleared credit default swaps, required initial margins are pledged by the Fund, and the daily change in fair value is accounted for as a variation margin payable or receivable in the Statement of Assets and Liabilities. Over the term of the contract, the buyer pays the seller a periodic stream of payments, provided that no event of default has occurred. Such periodic payments are accrued daily as an unrealized appreciation or depreciation until the payments are made, at which time they are realized. Upfront payments and receipts are reflected in the Statement of Assets and Liabilities and represent compensating factors between stated terms of the credit default swap agreement and prevailing market conditions (credit spreads and other relevant factors). These upfront payments and receipts are amortized over the term of the contract as a realized gain or loss in the Statement of Operations.

The Fund entered into interest rate swap contracts primarily to manage interest rate risk. An interest rate swap is an agreement between the Fund and a counterparty to exchange cash flows based on the difference between two interest rates, applied to a notional amount. These agreements may be privately negotiated in the over-the-counter market (OTC interest rate swaps) or may be executed on a registered exchange (centrally cleared interest rate swaps). For centrally cleared interest rate swaps, required initial margins are pledged by the Fund, and the daily change in fair value is accounted for as a variation margin payable or receivable in the Statement of Assets and Liabilities. Over the term of the contract, contractually required payments to be paid and to be received are accrued daily and recorded as unrealized depreciation and appreciation until the payments are made, at which time they are realized.

The Fund entered into OTC total return swap contracts primarily to manage and/or gain exposure to interest rate, equity price and credit risk of an underlying instrument such as a stock, bond, index or basket of securities or indices. A total return swap is an agreement between the Fund and a counterparty to exchange a return linked to an underlying instrument for a floating or fixed rate payment, both based upon a notional amount. Over the term of the contract, contractually required payments to be paid or received are accrued daily and recorded as unrealized appreciation or depreciation until the payments are made, at which time they are recognized as realized gain or loss.

The Fund purchased or wrote exchange traded and/or OTC option contracts primarily to manage and/or gain 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. When an option is purchased or written, an amount equal to the premium paid or received is recorded as an asset or liability, respectively. 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 received or paid and the cost to close the position is recorded as a realized gain or loss.

See Note 9 regarding other derivative information.

#### **e. Restricted Cash**

At May 31, 2019, the Fund held restricted cash in connection with investments in certain derivative securities. Restricted cash is held in a segregated account with the Fund's custodian/counterparty broker and is reflected in the Statement of Assets and Liabilities.

#### **f. Credit-Linked Notes**

The Fund purchases credit-linked notes. Credit-linked notes are intended to replicate the economic effects that would apply had the Fund directly purchased the underlying reference asset. The risks of credit-linked notes include the potential default of the underlying reference asset, the movement in the value of the currency of the underlying reference asset relative to the credit-linked note, the potential inability of the Fund to dispose of the credit-linked note in the normal course of business, and the possible inability of the counterparties to fulfill their obligations under the contracts.

**Franklin K2 Long Short Credit Fund** (continued)**g. Securities Sold Short**

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

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

**h. Senior Floating Rate Interests**

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

**i. Income and Deferred Taxes**

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

The Fund may be subject to foreign taxation related to income received, capital gains on the sale of securities and certain foreign currency transactions in the foreign jurisdictions in which it 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 may recognize an income tax liability related to its uncertain tax positions under U.S. GAAP when the uncertain tax position has a less than 50% probability that it will be sustained upon examination by the tax authorities based on its technical merits. As of May 31, 2019, the Fund has determined that no tax liability is required in its financial statements related to uncertain tax positions for any open tax years (or expected to be taken in future tax years). Open tax years are those that remain subject to examination and are based on the statute of limitations in each jurisdiction in which the Fund invests.

**j. Security Transactions, Investment Income, Expenses and Distributions**

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

**Franklin K2 Long Short Credit Fund** (continued)

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

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

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

**k. Accounting Estimates**

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and

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

For the year ended May 31, 2018, distributions to shareholders were as follows:

Distributions from net investment income:	
Class A .....	\$(798,159)
Class C .....	(16,539)
Class R .....	(2,505)
Class R6 .....	(229,423)
Advisor Class .....	(581,543)
Distributions from net realized gains:	
Class A .....	(714,554)
Class C .....	(27,644)
Class R .....	(2,620)
Class R6 .....	(191,370)
Advisor Class .....	(487,193)

For the year ended May 31, 2018, undistributed net investment income included in net assets was \$496,750.

**2. Shares of Beneficial Interest**

At May 31, 2019, there were an unlimited number of shares authorized (without par value). Transactions in the Fund's shares were as follows:

	Year Ended May 31,			
	2019		2018	
	Shares	Amount	Shares	Amount
<b>Class A Shares:</b>				
Shares sold <sup>a</sup> .....	518,127	\$ 5,443,153	1,068,222	\$11,330,973
Shares issued in reinvestment of distributions .....	49,211	498,509	48,302	502,336
Shares redeemed .....	(2,195,001)	(23,000,866)	(730,238)	(7,696,288)
Net increase (decrease) .....	(1,627,663)	\$(17,059,204)	386,286	\$ 4,137,021

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

**l. Guarantees and Indemnifications**

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

**Franklin K2 Long Short Credit Fund** (continued)

	Year Ended May 31,			
	2019		2018	
	Shares	Amount	Shares	Amount
<b>Class C Shares:</b>				
Shares sold	176,881	\$ 1,824,644	156,509	\$ 1,621,784
Shares issued in reinvestment of distributions	10,021	100,011	4,283	44,033
Shares redeemed <sup>a</sup>	(147,058)	(1,515,143)	(64,430)	(669,366)
Net increase (decrease)	39,844	\$ 409,512	96,362	\$ 996,451
<b>Class R Shares:</b>				
Shares sold	1,059	\$ 10,958	2,884	\$ 30,055
Shares issued in reinvestment of distributions	533	5,358	457	4,720
Shares redeemed	(1,066)	(11,009)	(13)	(137)
Net increase (decrease)	526	\$ 5,307	3,328	\$ 34,638
<b>Class R6 Shares:</b>				
Shares sold	22,273	\$ 233,301	90,935	\$ 964,819
Shares issued in reinvestment of distributions	642	6,497	40,378	420,337
Shares redeemed	(1,782)	(18,363)	(1,373,217)	(14,431,550)
Net increase (decrease)	21,133	\$ 221,435	(1,241,904)	\$(13,046,394)
<b>Advisor Class Shares:</b>				
Shares sold	5,072,991	\$ 52,995,139	2,309,752	\$ 24,300,041
Shares issued in reinvestment of distributions	166,635	1,688,016	20,313	211,456
Shares redeemed	(1,263,815)	(13,184,615)	(392,942)	(4,131,923)
Net increase (decrease)	3,975,811	\$ 41,498,540	1,937,123	\$ 20,379,574

<sup>a</sup>May include a portion of Class C shares that were automatically converted to Class A.

**3. Transactions with Affiliates**

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

Subsidiary	Affiliation
K2/D&S Management Co., L.L.C. (K2 Advisors)	Investment manager
Franklin Templeton Services, LLC (FT Services)	Administrative manager
Franklin Templeton Distributors, Inc. (Distributors)	Principal underwriter
Franklin Templeton Investor Services, LLC (Investor Services)	Transfer agent

**a. Management Fees**

The Fund pays an investment management fee to K2 Advisors of 1.90% per year of the average daily net assets of the Fund.

Under each subadvisory agreement, the below entities provide subadvisory services to the Fund. The subadvisory fees are paid by K2 Advisors based on the Fund's average daily net assets, and is not an additional expense of the Fund.

**Subadvisors**

Apollo Credit Management LLC
Chatham Asset Management, LLC
Ellington Global Asset Management, L.L.C.
Emso Asset Management Limited
Medalist Partners, L.P.

**Franklin K2 Long Short Credit Fund** (continued)

**b. Administrative Fees**

Under an agreement with K2 Advisors, FT Services provides administrative services to the Fund. The fee is paid by K2 Advisors based on the Fund's average daily net assets, and is not an additional expense of the Fund.

**c. Distribution Fees**

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

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

Class A .....	0.25%
Class C .....	1.00%
Class R .....	0.50%

**d. Sales Charges/Underwriting Agreements**

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

Sales charges retained net of commissions paid to unaffiliated brokers/dealers ..	\$3,018
CDSC retained .....	\$5,434

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

**e. Transfer Agent Fees**

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

For the year ended May 31, 2019, the Fund paid transfer agent fees of \$89,214, of which \$40,621 was retained by Investor Services.

**f. Waiver and Expense Reimbursements**

K2 Advisors and Investor Services have contractually agreed in advance to waive or limit their respective fees and to assume as their own expense certain expenses otherwise payable by the Fund so that the expenses (excluding distribution fees, acquired fund fees and expenses, expenses related to securities sold short, and certain non-routine expenses or costs, including those related to litigation, indemnification, reorganizations and liquidations) for each class of the Fund do not exceed 1.95%, and Class R6 does not exceed 1.93% based on the average net assets of each class until September 30, 2019. Total expenses waived or paid are not subject to recapture subsequent to the Fund's fiscal year end.

Prior to October 1, 2018, expenses (excluding certain fees and expenses as previously disclosed) for Class R6 were limited to 1.94% based on the average net assets of the class.



**Franklin K2 Long Short Credit Fund** (continued)**g. Other Affiliated Transactions**

At May 31, 2019, Franklin Resources, Inc. owned 33.0% of the Fund's outstanding shares. Investment activities of this shareholder could have a material impact on the Fund.

**4. Expense Offset Arrangement**

The Fund has entered into an arrangement with its custodian whereby credits realized as a result of uninvested cash balances are used to reduce a portion of the Fund's custodian expenses. During the year ended May 31, 2019, the custodian fees were reduced as noted in the Statement of Operations.

**5. Income Taxes**

The tax character of distributions paid during the years ended May 31, 2019 and 2018, was as follows:

	2019	2018
Distributions paid from:		
Ordinary income .....	\$3,552,269	\$2,560,135
Long term capital gains .....	641,660	491,415
Total distributions paid .....	<u>\$4,193,929</u>	<u>\$3,051,550</u>

At May 31, 2019, the cost of investments, net unrealized appreciation (depreciation) and undistributed ordinary income for income tax purposes were as follows:

Cost of investments .....	<u>\$101,336,794</u>
Unrealized appreciation .....	\$ 4,287,571
Unrealized depreciation .....	(2,365,234)
Net unrealized appreciation (depreciation) .....	<u>\$ 1,922,337</u>
Distributable earnings	
Undistributed ordinary income .....	<u>\$ 902,986</u>

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

The Fund utilized a tax accounting practice to treat a portion of the proceeds from the capital shares redeemed as a distribution from realized capital gains.

**6. Investment Transactions**

Purchases and sales of investments and securities sold short (excluding short term securities) for the year ended May 31, 2019, aggregated \$151,166,135 and \$143,078,386, respectively.

**7. Credit Risk and Defaulted Securities**

At May 31, 2019, the Fund had 19.6% of its portfolio invested in high yield, senior secured floating rate loans, or other securities rated below investment grade and unrated securities, if any. These securities may be more sensitive to economic conditions causing greater price volatility and are potentially subject to a greater risk of loss due to default than higher rated securities.

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

**Franklin K2 Long Short Credit Fund** (continued)

At May 31, 2019, the aggregate long value of distressed company securities for which interest recognition has been discontinued was \$1,992,865, representing 1.7% of the Fund's net assets. For information as to specific securities, see the accompanying Statement of Investments.

**8. Unfunded Loan Commitments**

The Fund enters into certain credit agreements, all or a portion of which may be unfunded. The Fund is obligated to fund these loan commitments at the borrowers' discretion. Unfunded loan commitments and funded portions of credit agreements are marked to market daily and any unrealized appreciation or depreciation is included in the Statement of Assets and Liabilities and Statement of Operations. Funded portions of credit agreements are presented in the Statement of Investments.

At May 31, 2019, unfunded commitments were as follows:

<b>Borrower</b>	<b>Unfunded Commitment</b>
CenturyLink Inc., Term Loan B . . . . .	\$ 64,307
Flex Acquisition Co. Inc., Term Loan B . . . . .	132,888
GTT Communications Inc., Term Loan . . . . .	71,966
The Neiman Marcus Group LLC, Term Loan . . . . .	38,035
Pacific Gas & Electric Co., Term Loan . . . . .	379,207
PetSmart Inc., Term Loan B2 . . . . .	1,444,427
	<u>\$2,130,830</u>

**9. Other Derivative Information**

At May 31, 2019, the investments in derivative contracts are reflected in the Statement of Assets and Liabilities as follows:

<b>Derivative Contracts Not Accounted for as Hedging Instruments</b>	<b>Asset Derivatives</b>		<b>Liability Derivatives</b>	
	<b>Statement of Assets and Liabilities Location</b>	<b>Fair Value</b>	<b>Statement of Assets and Liabilities Location</b>	<b>Fair Value</b>
Interest rate contracts . . . . .	Variation margin on futures contracts	\$ 2,623 <sup>a</sup>	Variation margin on futures contracts	\$ 15,514 <sup>a</sup>
	Variation margin on centrally cleared swap contracts	77,299 <sup>a</sup>	Variation margin on centrally cleared swap contracts	160,180 <sup>a</sup>
	Unrealized appreciation on OTC swap contracts	21,791	Unrealized depreciation on OTC swap contracts	52,876
Foreign exchange contracts . . . . .	Unrealized appreciation on OTC forward exchange contracts	118,244	Unrealized depreciation on OTC forward exchange contracts	134,126
Credit contracts . . . . .	Variation margin centrally cleared swap contracts	73,161 <sup>a</sup>	Variation margin centrally cleared swap contracts	102,324 <sup>a</sup>
	OTC swap contracts (upfront payments)	517,703	OTC swap contracts (upfront receipts)	269,107
	Unrealized appreciation on OTC swap contracts	222,056	Unrealized depreciation on OTC swap contracts	284,916
Equity contracts . . . . .	Investments in securities, at value	244,218 <sup>b</sup>	Options written, at value	55,169
	Unrealized appreciation on OTC swap contracts	23,801	Unrealized depreciation on OTC swap contracts	64,660
	Variation margin on futures contracts	236 <sup>a</sup>		
Totals . . . . .		<u>\$1,301,132</u>		<u>\$1,138,872</u>

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

<sup>b</sup>Purchased option contracts are included in investments in securities, at value in the Statement of Assets and Liabilities.

**Franklin K2 Long Short Credit Fund** (continued)

For the year ended May 31, 2019, the effect of derivative contracts in the Statement of Operations was as follows:

Derivative Contracts Not Accounted for as Hedging Instruments	Statement of Operations Location	Net Realized Gain (Loss) for the Year	Statement of Operations Location	Net Change in Unrealized Appreciation (Depreciation) for the Year
	Net realized gain (loss) from:		Net change in unrealized appreciation (depreciation) on:	
Interest rate contracts .....	Futures contracts	\$ (7,007)	Futures contracts	\$ (6,122)
	Swap contracts	37,763	Swap contracts	(100,984)
Foreign exchange contracts .....	Forward exchange contracts	408,428	Forward exchange contracts	(226,770)
Credit contracts .....	Swap contracts	(229,259)	Swap contracts	207,306
Equity contracts .....	Investments	(380,165) <sup>a</sup>	Investments	152,664 <sup>a</sup>
	Written options	64,261	Written options	(13,737)
	Futures contracts	(21,404)	Futures contracts	5,612
	Swap contracts	70,759	Swap contracts	12,698
Totals .....		<u>\$ (56,624)</u>		<u>\$ 30,667</u>

<sup>a</sup>Purchased option contracts are included in net realized gain (loss) from investments and net change in unrealized appreciation (depreciation) on investments in the Statement of Operations.

For the year ended May 31, 2019, the average month end notional amount of futures contracts, options and swap contracts represented \$645,930, 156,333 shares and \$26,957,616, respectively. The average month end contract value of forward exchange contracts was \$10,032,219.

At May 31, 2019, OTC derivative assets and liabilities are as follows:

	<b>Gross Amounts of Assets and Liabilities Presented in the Statement of Assets and Liabilities</b>	
	Assets <sup>a</sup>	Liabilities <sup>a</sup>
<b>Derivatives</b>		
Forward Exchange Contracts .....	\$118,244	\$134,126
Swap Contracts .....	785,351	671,559
Total .....	<u>\$903,595</u>	<u>\$805,685</u>

<sup>a</sup>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.

**Franklin K2 Long Short Credit Fund** (continued)

At May 31, 2019, OTC derivative assets, which may be offset against OTC derivative liabilities, and collateral received from the counterparty, are as follows:

Counterparty	Gross Amounts of Assets Presented in the Statement of Assets and Liabilities	Amounts Not Offset in the Statement of Assets and Liabilities			Net Amount (Not less than zero)
		Financial Instruments Available for Offset	Financial Instruments Collateral Received <sup>a,b</sup>	Cash Collateral Received	
BOFA .....	\$ 5,570	\$ (5,570)	\$ —	\$ —	\$ —
BZWS .....	218,248	(82,258)	—	—	135,990
CITI .....	46,183	(46,183)	—	—	—
DBAB .....	11,018	(11,018)	—	—	—
GSCO .....	336,912	(191,989)	—	—	144,923
JPHQ .....	2,152	(24)	(2,128)	—	—
JPHQ <sup>d</sup> .....	236,872	—	—	—	236,872
MSCS .....	46,640	(46,640)	—	—	—
Total .....	\$903,595	\$(383,682)	\$(2,128)	\$—	\$517,785

At May 31, 2019, OTC derivative liabilities, which may be offset against OTC derivative assets, and collateral pledged to the counterparty, are as follows:

Counterparty	Gross Amounts of Liabilities Presented in the Statement of Assets and Liabilities	Amounts Not Offset in the Statement of Assets and Liabilities			Net Amount (Not less than zero)
		Financial Instruments Available for Offset	Financial Instruments Collateral Pledged <sup>c</sup>	Cash Collateral Pledged <sup>a</sup>	
BOFA .....	\$ 27,426	\$ (5,570)	\$ —	\$(21,856)	\$ —
BZWS .....	82,258	(82,258)	—	—	—
CITI .....	161,184	(46,183)	—	—	115,001
DBAB .....	27,234	(11,018)	—	—	16,216
GSCO .....	191,989	(191,989)	—	—	—
JPHQ .....	24	(24)	—	—	—
JPHQ <sup>d</sup> .....	263,533	—	—	—	263,533
MSCS .....	52,037	(46,640)	—	—	5,397
Total .....	\$805,685	\$(383,682)	\$ —	\$(21,856)	\$400,147

<sup>a</sup>In some instances, the collateral amounts disclosed in the table above were adjusted due to the requirement to limit the collateral amounts to avoid the effect of over collateralization. Actual collateral received and/or pledged may be more than the amounts disclosed herein.

<sup>b</sup>At May 31, 2019, the Fund received U.S. Treasury Bonds and Notes as collateral for derivatives.

<sup>c</sup>See the accompanying Statement of Investments for securities pledged as collateral for derivatives.

<sup>d</sup>Represents derivatives not subject to an ISDA master agreement.

See Note 1(d) regarding derivative financial instruments.

See Abbreviations on page 52.

**10. Credit Facility**

The Fund, together with other U.S. registered and foreign investment funds (collectively, Borrowers), managed by Franklin Templeton, are borrowers in a joint syndicated senior unsecured credit facility totaling \$2 billion (Global Credit Facility) which matures on February 7, 2020. 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.

## Franklin K2 Long Short Credit Fund (continued)

Under the terms of the Global Credit Facility, the Fund shall, in addition to interest charged on any borrowings made by the Fund and other costs incurred by the Fund, pay its share of fees and expenses incurred in connection with the implementation and maintenance of the Global Credit Facility, based upon its relative share of the aggregate net assets of all of the Borrowers, including an annual commitment fee of 0.15% based upon the unused portion of the Global Credit Facility. These fees are reflected in other expenses in the Statement of Operations. During the year ended May 31, 2019, the Fund did not use the Global Credit Facility.

## 11. Fair Value Measurements

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

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

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

A summary of inputs used as of May 31, 2019, in valuing the Fund's assets and liabilities carried at fair value, is as follows:

	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Investments in Securities: <sup>a</sup>				
Equity Investments <sup>b</sup> . . . . .	\$ 1,809,652	\$ —	\$ —	\$ 1,809,652
Convertible Bonds . . . . .	—	1,631,231	—	1,631,231
Corporate Bonds and Notes . . . . .	—	26,896,465	—	26,896,465
Corporate Bonds and Notes in Reorganization . . . . .	—	1,246,184	—	1,246,184
Senior Floating Rate Interests . . . . .	—	2,828,070	—	2,828,070
Foreign Government and Agency Securities . . . . .	—	5,482,855	—	5,482,855
U.S. Government and Agency Securities . . . . .	—	863,046	—	863,046
Asset-Backed Securities and Commercial Mortgage-Backed Securities . . . . .	—	44,386,078	—	44,386,078
Municipal Bonds in Reorganization . . . . .	—	746,681	—	746,681
Options Purchased . . . . .	244,218	—	—	244,218
Short Term Investments . . . . .	23,296,955	4,653,727	—	27,950,682
Total Investments in Securities . . . . .	\$25,350,825	\$88,734,337	\$—	\$114,085,162
Other Financial Instruments:				
Futures Contracts . . . . .	\$ 2,859	\$ —	\$ —	\$ 2,859
Forward Exchange Contracts . . . . .	—	118,244	—	118,244
Swap Contracts . . . . .	—	418,108	—	418,108
Unfunded Loan Commitments . . . . .	—	149,096	—	149,096
Total Other Financial Instruments . . . . .	\$ 2,859	\$ 685,448	\$—	\$ 688,307
<b>Liabilities:</b>				
Other Financial Instruments:				
Options Written . . . . .	\$ 55,169	\$ —	\$ —	\$ 55,169
Securities Sold Short <sup>a</sup> . . . . .	2,685,185	8,230,095	—	10,915,280
Futures Contracts . . . . .	15,514	—	—	15,514
Forward Exchange Contracts . . . . .	—	134,126	—	134,126
Swap Contracts . . . . .	—	664,956	—	664,956
Total Other Financial Instruments . . . . .	\$ 2,755,868	\$ 9,029,177	\$—	\$ 11,785,045

<sup>a</sup>For detailed categories, see the accompanying Statement of Investments.

<sup>b</sup>Includes common and preferred stocks as well as other equity interests.

### Franklin K2 Long Short Credit Fund (continued)

A reconciliation of assets in which Level 3 inputs are used in determining fair value is presented when there are significant Level 3 financial instruments at the beginning and/or end of the year. At May 31, 2019, the reconciliation of assets, is as follows:

	Balance at Beginning of Year	Purchases	Sales	Transfer Into (Out of) Level 3 <sup>a</sup>	Cost Basis Adjustments	Net Realized Gain (Loss)	Net Unrealized Appreciation (Depreciation)	Balance at End of Year	Net Change in Unrealized Appreciation (Depreciation) on Assets Held at Year End
<b>Assets:</b>									
Investments in Securities:									
Equity Investments <sup>b</sup>	\$1,048,870	\$—	\$(679,501)	\$(313,233)	\$—	\$193,865	\$(250,001)	\$—	\$—
Asset-Backed Securities and Commercial Mortgage-Backed Securities	421,168	—	—	(389,536)	—	(5,796)	(25,836)	—	—
<b>Total Investments in Securities</b>	<b>\$1,470,038</b>	<b>\$—</b>	<b>\$(679,501)</b>	<b>\$(702,769)</b>	<b>\$—</b>	<b>\$188,069</b>	<b>\$(275,837)</b>	<b>\$—</b>	<b>\$—</b>

<sup>a</sup>The investments were transferred out of Level 3 as a result of the availability of other significant observable valuation inputs. May include amounts related to a corporate action.

<sup>b</sup>Includes common and preferred stocks as well as other equity interests.

## 12. 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	Currency	Selected Portfolio	Index
<b>BOFA</b> Bank of America, N.A.	<b>ARS</b> Argentine Peso	<b>ADR</b> American Depository Receipt	<b>CDX.NA.HY</b> CDX North America High Yield
<b>BZWS</b> Barclays Bank PLC	<b>BRL</b> Brazilian Real	<b>ARLLMONP</b> Argentina Blended Policy Rate	
<b>CITI</b> Citigroup, Inc.	<b>EGP</b> Egyptian Pound	<b>ARM</b> Adjustable Rate Mortgage	
		<b>BRLCDI</b> Brazil Cetip Di Interbank Deposit Rate	
<b>DBAB</b> Deutsche Bank AG	<b>EUR</b> Euro	<b>CLO</b> Collateralized Loan Obligation	
<b>GSCO</b> Goldman Sachs International	<b>GBP</b> British Pound	<b>CMT</b> 1 year Constant Maturity Treasury Index	
<b>JPHQ</b> JP Morgan Chase Bank, N.A.	<b>HUF</b> Hungarian Forint	<b>ETF</b> Exchange Traded Fund	
<b>MSCS</b> Morgan Stanley Capital Services LLC	<b>INR</b> Indian Rupee	<b>FHLMC</b> Federal Home Loan Mortgage Corp.	
	<b>JPY</b> Japanese Yen	<b>FNMA</b> Federal National Mortgage Association	
	<b>NGN</b> Nigerian Naira	<b>FRN</b> Floating Rate Note	
	<b>RUB</b> Russian Ruble	<b>GO</b> General Obligation	
	<b>USD</b> United States Dollar	<b>IO</b> Interest-Only	
	<b>ZAR</b> South African Rand	<b>LIBOR</b> London InterBank Offered Rate	
		<b>MIBOR</b> Mumbai InterBank Offered Rate	
		<b>OBFR</b> Overnight Bank Funding Rate	
		<b>OMO</b> Open Market Operations	
		<b>PIK</b> Payment In-Kind	
		<b>REIT</b> Real Estate Investment Trust	
		<b>REMIC</b> Real Estate Mortgage Investment Conduit	
		<b>SPDR</b> Standard & Poor Depository Receipt	

## Report of Independent Registered Public Accounting Firm

To the Board of Trustees of Franklin Alternative Strategies Funds  
and Shareholders of Franklin K2 Long Short Credit Fund:

### **Opinion on the Financial Statements**

We have audited the accompanying statement of assets and liabilities of Franklin K2 Long Short Credit Fund (the "Fund") (one of the funds constituting the Franklin Alternative Strategies Funds), including the statement of investments, as of May 31, 2019, and the related statement of operations for the year then ended, the statements of changes in net assets for each of the two years in the period then ended, the financial highlights for each of the three years in the period then ended and the period from September 8, 2015 (commencement of operations) through May 31, 2016 and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of Franklin K2 Long Short Credit Fund (one of the funds constituting the Franklin Alternative Strategies Funds) at May 31, 2019, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended and its financial highlights for each of the three years in the period then ended and the period from September 8, 2015 (commencement of operations) through May 31, 2016, in conformity with U.S. generally accepted accounting principles.

### **Basis for Opinion**

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

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

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of May 31, 2019, by correspondence with the custodian and brokers, or by other appropriate auditing procedures where replies from brokers were not received. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.



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

Boston, Massachusetts  
July 25, 2019

## Tax Information (unaudited)

Under Section 852(b)(3)(C) of the Internal Revenue Code, the Fund hereby reports the maximum amount allowable but no less than \$961,420 as long term capital gain dividend for the fiscal year ended May 31, 2019.

Under Section 871(k)(2)(C) of the Internal Revenue Code, the Fund hereby reports the maximum amount allowable but no less than \$410,210 as short term capital gain dividend for purposes of the tax imposed under Section 871(a)(1)(A) of the Internal Revenue Code for the fiscal year ended May 31, 2019.



## Board Members and Officers

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

### Independent Board Members

Name, Year of Birth and Address	Position	Length of Time Served	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years
<b>Edward I. Altman, Ph.D. (1941)</b> c/o Franklin Mutual Advisers, LLC 101 John F. Kennedy Parkway Short Hills, NJ 07078-2716	Trustee	Since 2011	14	None
<b>Principal Occupation During at Least the Past 5 Years:</b> Max L. Heine Professor of Finance, Emeritus and Director of The Credit and Debt Markets Research Program, Salomon Center, Stern School of Business, New York University; editor and author of numerous financial publications; financial consultant; an adviser to numerous financial and publishing organizations; and <b>formerly</b> , Vice Director, Salomon Center, Stern School of Business, New York University.				
<b>Ann Torre Bates (1958)</b> c/o Franklin Mutual Advisers, LLC 101 John F. Kennedy Parkway Short Hills, NJ 07078-2716	Trustee	Since 2011	38	Ares Capital Corporation (specialty finance company) (2010-present), United Natural Foods, Inc. (distributor of natural, organic and specialty foods) (2013-present), Allied Capital Corporation (financial services) (2003-2010), SLM Corporation (Sallie Mae) (1997-2014) and Navient Corporation (loan management, servicing and asset recovery) (2014-2016).
<b>Principal Occupation During at Least the Past 5 Years:</b> Director of various companies; and <b>formerly</b> , Executive Vice President and Chief Financial Officer, NHP Incorporated (manager of multifamily housing) (1995-1997); and Vice President and Treasurer, US Airways, Inc. (until 1995).				
<b>Burton J. Greenwald (1929)</b> c/o Franklin Mutual Advisers, LLC 101 John F. Kennedy Parkway Short Hills, NJ 07078-2716	Trustee and Vice Chairman of the Board	Trustee since 2011 and Vice Chairman of the Board since 2015	14	Franklin Templeton Emerging Markets Debt Opportunities Fund PLC (1999-present) and Fiduciary International Ireland Limited (1999-2015).
<b>Principal Occupation During at Least the Past 5 Years:</b> Managing Director, B.J. Greenwald Associates (management consultants to the financial services industry); and <b>formerly</b> , Chairman, Fiduciary Trust International Funds; Executive Vice President, L.F. Rothschild Fund Management, Inc.; President and Director, Merit Mutual Funds; President, Underwriting Division and Director, National Securities & Research Corporation; Governor, Investment Company Institute; and Chairman, ICI Public Information Committee.				
<b>Jan Hopkins Trachtman (1947)</b> c/o Franklin Mutual Advisers, LLC 101 John F. Kennedy Parkway Short Hills, NJ 07078-2716	Trustee	Since 2011	14	FinTech Acquisition Corp. III (special purpose fintech acquisition company) (2018-present)
<b>Principal Occupation During at Least the Past 5 Years:</b> President and Founder, The Jan Hopkins Group (communications consulting firm); serves on Advisory Board of Knight Bagehot Fellowship; and <b>formerly</b> , President, Economic Club of New York (2007-2015); Anchor/Correspondent, CNN Financial News (until 2003); Managing Director and Head of Client Communications, Citigroup Private Bank (until 2005); Off-Air Reporter, ABC News' World News Tonight; and Editor, CBS Network News.				

## Independent Board Members (continued)

Name, Year of Birth and Address	Position	Length of Time Served	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years
<b>Keith E. Mitchell (1954)</b> c/o Franklin Mutual Advisers, LLC 101 John F. Kennedy Parkway Short Hills, NJ 07078-2716	Trustee	Since 2011	14	None
<b>Principal Occupation During at Least the Past 5 Years:</b> Director of various boards of asset management firms; and <b>formerly</b> , Managing Member, Mitchell, Hartley & Bechtel Advisers, LLC (formerly, Mitchell Advisers, LLC) (advisory firm) (2003-2015) and Managing Director, Putman Lovell NBF.				
<b>David W. Niemiec (1949)</b> c/o Franklin Mutual Advisers, LLC 101 John F. Kennedy Parkway Short Hills, NJ 07078-2716	Trustee	Since 2015	38	Hess Midstream Partners LP (oil and gas midstream infrastructure) (2017-present).
<b>Principal Occupation During at Least the Past 5 Years:</b> Advisor, Saratoga Partners (private equity fund); and <b>formerly</b> , Managing Director, Saratoga Partners (1998-2001) and SBC Warburg Dillon Read (investment banking) (1997-1998); Vice Chairman, Dillon, Read & Co. Inc. (investment banking) (1991-1997); and Chief Financial Officer, Dillon, Read & Co. Inc. (1982-1997).				
<b>Charles Rubens II (1930)</b> c/o Franklin Mutual Advisers, LLC 101 John F. Kennedy Parkway Short Hills, NJ 07078-2716	Trustee	Since 2011	14	None
<b>Principal Occupation During at Least the Past 5 Years:</b> Private investor and president of non-profit organizations; and <b>formerly</b> , an executive of Time, Inc.; and Trustee of Colorado College.				
<b>Robert E. Wade (1946)</b> c/o Franklin Mutual Advisers, LLC 101 John F. Kennedy Parkway Short Hills, NJ 07078-2716	Trustee and Chairman of the Board	Since 2011	38	El Oro Ltd (investments) (2003-June 2019).
<b>Principal Occupation During at Least the Past 5 Years:</b> Attorney at law engaged in private practice as a sole practitioner (1972-2008) and member of various boards.				
<b>Gregory H. Williams (1943)</b> c/o Franklin Mutual Advisers, LLC 101 John F. Kennedy Parkway Short Hills, NJ 07078-2716	Trustee	Since 2015	14	None
<b>Principal Occupation During at Least the Past 5 Years:</b> Private investor; Consultant; and <b>formerly</b> , President, University of Cincinnati (2009-2012); President, The City College of New York (2001-2009); Dean, College of Law, Ohio State University (1993-2001); and Associate Vice President, Academic Affairs and Professor of Law, University of Iowa (1977-1993).				

## Interested Board Members and Officers

Name, Year of Birth and Address	Position	Length of Time Served	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years
<b>**Gregory E. Johnson (1961)</b> One Franklin Parkway San Mateo, CA 94403-1906	Trustee	Since 2011	152	None
<b>Principal Occupation During at Least the Past 5 Years:</b> Chairman of the Board, Member – Office of the Chairman, Director and Chief Executive Officer, Franklin Resources, Inc.; officer and/or director or trustee, as the case may be, of some of the other subsidiaries of Franklin Resources, Inc. and of 42 of the investment companies in Franklin Templeton; Vice Chairman, Investment Company Institute; and <b>formerly</b> , President, Franklin Resources, Inc. (1994-2015).				

## Interested Board Members and Officers (continued)

Name, Year of Birth and Address	Position	Length of Time Served	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years
<b>**Jennifer M. Johnson (1964)</b> One Franklin Parkway San Mateo, CA 94403-1906	Trustee	Since 2015	46	None
<b>Principal Occupation During at Least the Past 5 Years:</b> President and Chief Operating Officer, Franklin Resources, Inc.; officer and/or director or trustee, as the case may be, of some of the other subsidiaries of Franklin Resources, Inc. and of four of the investment companies in Franklin Templeton; and <b>formerly</b> , Chief Operating Officer and Executive Vice President, Franklin Resources, Inc. (1994-2015); Executive Vice President of Operations and Technology, Franklin Resources, Inc. (2005-2010); and Senior Vice President, Franklin Resources, Inc. (2003-2005).				
<b>Alison E. Baur (1964)</b> One Franklin Parkway San Mateo, CA 94403-1906	Vice President	Since 2012	Not Applicable	Not Applicable
<b>Principal Occupation During at Least the Past 5 Years:</b> Deputy General Counsel, Franklin Templeton; and officer of some of the other subsidiaries of Franklin Resources, Inc. and of 44 of the investment companies in Franklin Templeton.				
<b>Aliya S. Gordon (1973)</b> One Franklin Parkway San Mateo, CA 94403-1906	Vice President	Since 2011	Not Applicable	Not Applicable
<b>Principal Occupation During at Least the Past 5 Years:</b> Senior Associate General Counsel and officer of 44 of the investment companies in Franklin Templeton.				
<b>Steven J. Gray (1955)</b> One Franklin Parkway San Mateo, CA 94403-1906	Secretary and Vice President	Since 2011	Not Applicable	Not Applicable
<b>Principal Occupation During at Least the Past 5 Years:</b> Senior Associate General Counsel, Franklin Templeton; Vice President, Franklin Templeton Distributors, Inc. and FASA, LLC; and officer of 44 of the investment companies in Franklin Templeton.				
<b>Madison S. Gulley (1964)</b> 300 S.E. 2nd Street Fort Lauderdale, FL 33301-1923	President and Chief Executive Officer – Investment Management	Since 2017	Not Applicable	Not Applicable
<b>Principal Occupation During at Least the Past 5 Years:</b> President, FASA, LLC; Executive Vice President, Franklin Advisers, Inc., Franklin Templeton Institutional, LLC, Templeton Global Advisors Limited and Templeton Investment Counsel, LLC; Executive Vice President, Head of Alternatives, K2 Advisors, LLC and K2/D&S Management Co., LLC; Senior Vice President, Franklin Templeton Companies, LLC; officer and/or director or trustee, as the case may be, of some of the other subsidiaries of Franklin Resources, Inc. and of one of the investment companies in Franklin Templeton.				
<b>Matthew T. Hinkle (1971)</b> One Franklin Parkway San Mateo, CA 94403-1906	Chief Executive Officer – Finance and Administration	Since 2017	Not Applicable	Not Applicable
<b>Principal Occupation During at Least the Past 5 Years:</b> Senior Vice President, Franklin Templeton Services, LLC; officer of 44 of the investment companies in Franklin Templeton; and <b>formerly</b> , Vice President, Global Tax (2012-April 2017) and Treasurer/Assistant Treasurer, Franklin Templeton (2009-2017).				

## Interested Board Members and Officers (continued)

Name, Year of Birth and Address	Position	Length of Time Served	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years
<b>Robert G. Kubilis (1973)</b> 300 S.E. 2nd Street Fort Lauderdale, FL 33301-1923	Chief Financial Officer, Chief Accounting Officer and Treasurer	Since 2015	Not Applicable	Not Applicable
<b>Principal Occupation During at Least the Past 5 Years:</b> Treasurer, U.S. Fund Administration & Reporting and officer of 16 of the investment companies in Franklin Templeton.				
<b>Robert Lim (1948)</b> One Franklin Parkway San Mateo, CA 94403-1906	Vice President – AML Compliance	Since 2016	Not Applicable	Not Applicable
<b>Principal Occupation During at Least the Past 5 Years:</b> Vice President, Franklin Templeton Companies, LLC; Chief Compliance Officer, Franklin Templeton Distributors, Inc. and Franklin Templeton Investor Services, LLC; and officer of 44 of the investment companies in Franklin Templeton.				
<b>Kimberly H. Novotny (1972)</b> 300 S.E. 2nd Street Fort Lauderdale, FL 33301-1923	Vice President	Since 2013	Not Applicable	Not Applicable
<b>Principal Occupation During at Least the Past 5 Years:</b> Associate General Counsel, Franklin Templeton; Vice President and Corporate Secretary, Fiduciary Trust International of the South; Vice President, Templeton Investment Counsel, LLC; Assistant Secretary, Franklin Resources, Inc.; and officer of 44 of the investment companies in Franklin Templeton.				
<b>Robert C. Rosselot (1960)</b> 300 S.E. 2nd Street Fort Lauderdale, FL 33301-1923	Chief Compliance Officer	Since 2013	Not Applicable	Not Applicable
<b>Principal Occupation During at Least the Past 5 Years:</b> Director, Global Compliance, Franklin Templeton; Vice President, Franklin Templeton Companies, LLC; officer of 44 of the investment companies in Franklin Templeton; and <b>formerly</b> , Senior Associate General Counsel, Franklin Templeton (2007-2013); and Secretary and Vice President, Templeton Group of Funds (2004-2013).				
<b>Navid J. Tofigh (1972)</b> One Franklin Parkway San Mateo, CA 94403-1906	Vice President	Since 2015	Not Applicable	Not Applicable
<b>Principal Occupation During at Least the Past 5 Years:</b> Associate General Counsel and officer of 44 of the investment companies in Franklin Templeton.				
<b>Craig S. Tyle (1960)</b> One Franklin Parkway San Mateo, CA 94403-1906	Vice President	Since 2011	Not Applicable	Not Applicable
<b>Principal Occupation During at Least the Past 5 Years:</b> General Counsel, Executive Vice President and Secretary, Franklin Resources, Inc.; and officer of some of the other subsidiaries of Franklin Resources, Inc. and of 44 of the investment companies in Franklin Templeton.				

## Interested Board Members and Officers (continued)

Name, Year of Birth and Address	Position	Length of Time Served	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years
<b>Lori A. Weber (1964)</b> 300 S.E. 2nd Street Fort Lauderdale, FL 33301-1923	Vice President	Since 2011	Not Applicable	Not Applicable

**Principal Occupation During at Least the Past 5 Years:**

Senior Associate General Counsel, Franklin Templeton; Assistant Secretary, Franklin Resources, Inc.; Vice President and Secretary, Templeton Investment Counsel, LLC; and officer of 44 of the investment companies in Franklin Templeton.

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

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

Note 1: Gregory E. Johnson and Jennifer M. Johnson are siblings.

Note 2: Officer information is current as of the date of this report. It is possible that after this date, information about officers may change.

The Sarbanes-Oxley Act of 2002 and Rules adopted by the U.S. Securities and Exchange Commission require the Fund to disclose whether the Fund's Audit Committee includes at least one member who is an audit committee financial expert within the meaning of such Act and Rules. The Fund's Board has determined that there is at least one such financial expert on the Audit Committee and has designated each of Edward I. Altman, Ph.D., Ann Torre Bates and David W. Niemiec as an audit committee financial expert. The Board believes that Messrs. Altman and Niemiec and Ms. Bates qualify as such an expert in view of their extensive business background and experience. Mr. Altman has served as a member of the Fund Audit Committee since 2011. He currently serves as a Max L. Hines Professor of Finance, Emeritus and Director of The Credit and Debt Markets Research Program, Salomon Center, Stern School of Business, New York University. Ms. Bates has served as a member of the Fund Audit Committee since 2011. She currently serves as a director of Ares Capital Corporation (2010-present) and United Natural Foods, Inc. (2013-present) and was formerly a director of Navient Corporation from 2014 to 2016, SLM Corporation from 1997 to 2014 and Allied Capital Corporation from 2003 to 2010, Executive Vice President and Chief Financial Officer of NHP Incorporated from 1995 to 1997 and Vice President and Treasurer of US Airways, Inc. until 1995. Mr. Niemiec has served as a member of the Fund Audit Committee since 2015, currently serves as an Advisor to Saratoga Partners and was formerly its Managing Director from 1998 to 2001 and serves as a director of Hess Midstream Partners LP (2017-present). Mr. Niemiec was formerly a director of Emeritus Corporation from 1999 to 2010 and OSI Pharmaceuticals, Inc. from 2006 to 2010, Managing Director of SBC Warburg Dillon Read from 1997 to 1998, and was Vice Chairman from 1991 to 1997 and Chief Financial Officer from 1982 to 1997 of Dillon, Read & Co. Inc. As a result of such background and experience, the Board believes that Messrs. Altman and Niemiec and Ms. Bates have each acquired an understanding of generally accepted accounting principles and financial statements, the general application of such principles in connection with the accounting estimates, accruals and reserves, and analyzing and evaluating financial statements that present a breadth and level of complexity of accounting issues generally comparable to those of the Fund, as well as an understanding of internal controls and procedures for financial reporting and an understanding of audit committee functions. Messrs. Altman and Niemiec and Ms. Bates are independent Board members as that term is defined under the applicable U.S. Securities and Exchange Commission Rules and Releases.

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

## Shareholder Information

### Board Approval of Investment Management Agreement and Sub-Advisory Agreements

#### **FRANKLIN ALTERNATIVE STRATEGIES FUNDS** **Franklin K2 Long Short Credit Fund** (Fund)

The Board of Trustees (Board) of Franklin Alternative Strategies Funds (the Trust), including a majority of trustees that are not “interested persons” as such term is defined in section 2(a)(19) of the Investment Company Act of 1940 (hereinafter referred to as “independent trustees”), at an in-person meeting held on May 22, 2019, unanimously approved the renewal of the Fund’s investment management agreement with K2/D&S Management Co., L.L.C. (K2 Advisors), and of each sub-advisory agreement between K2 Advisors and each of following sub-advisors (the Sub-Advisors):

Apollo Credit Management, LLC  
Medalist Partners, LP  
Chatham Asset Management, LLC  
Ellington Global Asset Management, L.L.C.  
EMSO Asset Management Limited

Prior to a meeting of all of the trustees for the purpose of considering such renewal, the independent trustees participated in two other meetings held in connection with the renewal process. Throughout the process, the independent trustees received assistance and advice from and met separately with independent counsel. The independent trustees met with and interviewed officers of K2 Advisors and certain Sub-Advisors (including portfolio managers), the transfer agent and shareholder services group and the distributor. In approving the renewal of the investment management agreement and the sub-advisory agreements for the Fund, the Board, including the independent trustees, determined that the investment management fee structure was fair and reasonable and that continuance of the agreement was in the best interests of the Fund and its shareholders.

In making the foregoing approvals, the Board considered various materials related to the investment management agreement and the sub-advisory agreements including: (1) a copy of the investment management agreement and sub-advisory agreements; (2) information describing the nature, quality and extent of services that K2 Advisors and each Sub-Advisor provided, and are expected to provide, to the Fund, and the investment management fees and

sub-advisory fees payable to K2 Advisors and each Sub-Advisor; (3) reports from K2 Advisors on the continued diligence conducted on each Sub-Advisor and the reasons for recommending renewal of each of the sub-advisory agreements, including, but not limited to, each Sub-Advisor’s background, experience, personnel, operations, policies, procedures and compliance functions; and (4) a report from the Trust’s Chief Compliance Officer regarding K2 Advisors’ and each Sub-Advisor’s compliance program and capabilities, including policies and procedures in place to address potential conflicts of interest, and the diligence undertaken by the Trust’s Chief Compliance Officer with respect thereto. The Board also noted that it received an annual report on all payments made by Franklin Templeton Investments (FTI) or the Fund to financial intermediaries engaged in the sale of Fund shares, as well as a memorandum relating to third-party servicing arrangements in response to a Guidance Update from the U.S. Securities and Exchange Commission (SEC) relating to mutual fund distribution and sub-accounting fees. The Board also 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, derivatives, asset segregation, portfolio turnover, Rule 12b-1 plan, distribution, shareholder servicing, legal and compliance matters, pricing of securities, sales and redemptions, and marketing support payments made to financial intermediaries, as well as a third-party survey of transfer agent fees charged to funds within the FTI complex in comparison with those charged to other fund complexes deemed comparable. Also, related financial statements and other information about the scope and quality of services provided by K2 Advisors 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 K2 Advisors’ 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 Broadridge Financial Solutions, Inc., an independent third-party analyst that utilizes data from Lipper, Inc. (“Lipper”), comparing the Fund’s investment performance and expenses with those of

other mutual funds deemed comparable to such Fund as selected by Lipper (Broadridge Section 15(c) Report). The trustees reviewed the Broadridge Section 15(c) Report and its usefulness in the renewal process with respect to matters such as comparative fees, expenses, expense ratios and performance. The Board considered K2 Advisors' views that the peer group determined by Lipper for comparison purposes may not be an entirely appropriate representation of the Fund's peer universe. K2 Advisors explained that the universe of funds that are managed using multi-manager, multi-strategy structures, like the Fund, continues to evolve, and has presented challenges in identifying an appropriate set of peers for the Fund. It was noted by K2 Advisors that the peer group compiled by Lipper includes single-manager funds which, due to their nature and relative simplicity, have lower expense ratios and are not true peers for fee comparison purposes ("Base Expense Group"). Because some of the sponsors of funds with multi-manager strategies that K2 Advisors considers to be peers were excluded from the peer group determined by Lipper, K2 Advisors requested a second peer group including funds that K2 Advisors considers to be peer funds ("Alternate Expense Group"). K2 Advisors believes that the Fund's expenses are in line with the second peer group. While noting the limitations of the Broadridge Section 15(c) Report, the Board concluded that the Broadridge Section 15(c) Report was helpful in the performance of its duties.

In addition, the trustees received a Profitability Study (Profitability Study) prepared by management discussing the profitability to FTI from its overall U.S. fund operations, as well as on an individual fund-by-fund basis. Over the past year, the Board and counsel to the independent trustees continued to receive reports on management's handling of recent regulatory inquiries and pending legal actions against K2 Advisors and its affiliates. The independent trustees were satisfied with the actions taken to date by management in response to such regulatory and legal matters. The independent trustees also received reports from the Trust's Chief Compliance Officer on regulatory inquiries and pending legal actions against the Sub-Advisors applicable to the services provided by the Sub-Advisors to the Fund and noted that there were not any issues in this regard that should prevent the renewal of the sub-advisory agreements.

The trustees reviewed the personnel, operations, financial condition, and investment management capabilities, methodologies and resources of K2 Advisors and each Sub-Advisor, including each management team's expertise in the management of other alternative strategies funds. As part of this

review, particular attention was given to (1) the diligent risk management program of K2 Advisors and its parent, including those aspects of the program related to selecting and overseeing sub-advisors to the Fund and continual monitoring and management of cybersecurity, liquidity and counterparty credit risk, (2) each Sub-Advisor's risk management program, and (3) derivatives and other complex instruments that are held and expected to be held by the Fund and how such instruments are used to carry out the Fund's investment goal.

The Board also took into account, among other things, management's efforts in establishing a global credit facility for the benefit of the Fund and other accounts managed by FTI to provide a source of cash for temporary and emergency purposes or to meet unusual redemption requests as well as the strong financial position of K2 Advisors' parent company and its commitment to the mutual fund business. The Board noted management's continuing efforts and expenditures in establishing effective business continuity plans and developing strategies to address areas of heightened concern in the mutual fund industry, such as cybersecurity and liquidity risk management. The Board also recognized management's commitment to facilitating Board oversight of particular areas, including derivatives and payments to intermediaries, by enhanced reporting. In addition, the Board received updates from management on the compliance of the investment manager with comprehensive rules and regulations promulgated by the SEC and the U.S. Commodity Futures Trading Commission.

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

**NATURE, EXTENT AND QUALITY OF SERVICES.** The trustees reviewed the nature, extent and quality of the services provided, and to be provided, by K2 Advisors and each Sub-Advisor. In this regard, they reviewed the Fund's investment goal and K2 Advisors' and each Sub-Advisor's investment strategy and sub-strategy, and K2 Advisors' and

each Sub-Advisor's ability to implement such investment strategy and/or sub-strategy, including, but not limited to, K2 Advisors' and each Sub-Advisor's trading practices, investment decision processes and reputation.

The Board noted that the Fund employs a "manager of managers" structure, whereby K2 Advisors is responsible for selecting sub-advisors (subject to Board approval), allocating the Fund's assets among them, and overseeing the sub-advisors' day-to-day management of the Fund's assets. The Board noted the responsibilities that K2 Advisors has as the Fund's investment manager, including (1) due diligence on the Sub-Advisors and any potential new sub-advisors to the Fund, their respective trading strategies, risk management, operations and businesses, (2) on-going oversight and monitoring of the day-to-day investment activities of Sub-Advisors and other service providers, including their respective compliance with the investment mandate and restrictions, compliance policies and procedures and federal securities laws, and K2 Advisors' ongoing assessment of their performance, (3) portfolio construction with respect to the allocation of assets among Sub-Advisors, investment funds, cash and other investments, (4) risk management, (5) preparing quarterly reports to the Board, and (6) the implementation of Board directives as they relate to the Fund. The Trustees also considered the successful performance of K2 Advisors in managing the Fund and other investment products with similar investment strategies to the investment strategies of the Fund that are not subject to the Investment Company Act of 1940.

With respect to the sub-advisory services provided, and to be provided, by each Sub-Advisor, the Board noted the responsibilities that each Sub-Advisor has with respect to the portion of the Fund's assets allocated to the Sub-Advisor by K2 Advisors (Sub-Advised Portion), including, among others, implementing the investment strategies with respect to the Sub-Advised Portion and ensuring compliance with the investment strategies, policies and limitations of the Sub-Advised Portion. The trustees considered the successful performance of each Sub-Advisor in managing the Fund and other investment products with similar investment strategies to the investment strategies of its Sub-Advised Portion of the Fund, including, with respect to certain Sub-Advisors, mutual funds with similar investment strategies. The Board considered K2 Advisors' rationale for recommending the continued retention of each Sub-Advisor.

The trustees reviewed the Fund's portfolio management teams at K2 Advisors and each Sub-Advisor, including each

such team's 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 for K2 Advisors' portfolio management team and noted that a portion of a K2 Advisors' portfolio manager's incentive-based compensation is paid in shares of pre-designated funds from the portfolio manager's fund management area. The trustees noted that the portfolio manager compensation program aligned the interests of the portfolio managers with that of Fund shareholders. During regular Board meetings and the aforementioned meetings of the independent trustees, the trustees considered periodic reports provided to them showing that K2 Advisors and the Sub-Advisors complied with the investment policies and restrictions of the Fund as well as other reports periodically furnished to the Board covering matters such as the compliance of portfolio managers and other management personnel with the code of ethics covering the investment management personnel, the adherence to fair value pricing procedures established by the Board and the accuracy of net asset value calculations. The Board noted the extent of the benefits provided to Fund shareholders from being part of the Franklin Templeton group of funds, including the right to exchange investments between funds (same class) without a sales charge, the ability to reinvest Fund dividends into other funds and the right to combine holdings of other funds to obtain reduced sales charges.

The trustees discussed with management various other products, portfolios and entities that are advised by K2 Advisors and each Sub-Advisor 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.

The Board also considered a report from the Trust's Chief Compliance Officer regarding K2 Advisors' and each Sub-Advisor's compliance programs and capabilities as such programs and capabilities relate to the operations of the Fund and the monitoring and testing of such program undertaken by the Trust's Chief Compliance Officer. The Board considered the selection and due diligence process employed by K2 Advisors in selecting and deciding to retain each Sub-Advisor as a sub-advisor to the Fund, including the due diligence undertaken with respect to the Sub-Advisor's compliance and risk management capabilities. The trustees considered K2 Advisors' significant efforts in developing and implementing compliance procedures established in accordance with SEC and other requirements.



The Board also considered the nature, extent and quality of the services to be provided under the Fund's other service agreements to determine that, on an overall basis, Fund shareholders were well served. In this connection, the Board also took into account transfer agent and shareholder services provided to Fund shareholders by an affiliate of K2 Advisors, noting continuing expenditures by management to increase and improve the scope of such services and favorable periodic reports on shareholder services conducted by independent third parties. While such considerations directly affected the trustees' decision in renewing the Fund's transfer agent and shareholder services agreement, the Board also considered these commitments as incidental benefits to Fund shareholders deriving from the investment management relationship.

Based on their review, the trustees were satisfied with the nature and quality of the overall services provided, and to be provided, by K2 Advisors and its affiliates and each Sub-Advisor to the Fund and its shareholders and were confident in the abilities of K2 Advisors and each Sub-Advisor to implement their respective investment strategy and/or sub-strategy and to provide quality services to the Fund and its shareholders.

**INVESTMENT PERFORMANCE.** As the Fund commenced operations in September 2015, the trustees reviewed the investment performance of the Fund for the one- through three-year periods ended December 31, 2018.

As part of their review, they inquired of management regarding benchmark and hedging activities. Consideration was also given to performance in the context of available levels of cash, including as affected by net flows, 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 and each Sub-Advisor.

In addition, attention in assessing performance was given to the Broadridge Section 15(c) Report. That report showed the investment performance of the Fund (Advisor Class shares) in comparison to other funds determined comparable by Lipper.

The comparable funds to the Fund, as chosen by Lipper, included all retail and institutional specialty fixed income funds. The Fund had total returns in the second-best performing quintile for the one-year period ended December 31, 2018 and total returns in the best performing quintile for the

two- and three-year periods ended December 31, 2018. The Board was satisfied with such 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 investment goal.

**COMPARATIVE EXPENSES AND PROFITABILITY.** The trustees considered the cost of the services provided, and to be provided, by K2 Advisors and each Sub-Advisor and the losses realized by K2 Advisors and its affiliates from their relationships with the Fund. As part of the renewal process, they explored with management the trends in expense ratios over the past three fiscal years (or, if earlier, inception) 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 K2 Advisors personnel. The Board also reviewed and considered the investment management fees in light of the nature, extent and quality of the investment management services provided, and to be provided, by K2 Advisors and each Sub-Advisor, as more fully discussed above. The Board noted that the sub-advisory fees are paid by K2 Advisors to each Sub-Advisor and are not additional fees borne by the Fund. The Board also noted that the sub-advisory fees paid, and to be paid, by K2 Advisors to each Sub-Advisor were the product of arms-length negotiations between K2 Advisors and each Sub-Advisor.

Furthermore, the Board took into account that information regarding Sub-Advisor profitability is not legally required to be provided. Accordingly, profitability information of the sub-advisors was given lesser weight than other factors. In addition, the Board considered the allocation of the investment management fee charged to the Fund between K2 Advisors and each Sub-Advisor in light of the nature, extent and quality of the investment management services provided, and to be provided, by K2 Advisors and each Sub-Advisor. As part of this discussion, the Board took into account the fee waiver and expense limitation arrangement in effect, and the amount of Fund expenses that were absorbed since inception of the Fund by K2 Advisors through such waivers and arrangements.

Consideration was also given to a comparative analysis in the Broadridge Section 15(c) Report of the investment

management fee and total expense ratio of the Fund in comparison with those of a group of other funds selected by Lipper as its appropriate Lipper expense group.

Lipper expense data is based upon information taken from each fund's most recent annual report, which reflects historical asset levels that may be quite different from those currently existing, particularly in a period of market volatility.

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 Advisor Class shares. The Fund's contractual management fee rate was in the most expensive quintile of both its Base Expense Group and Alternate Expense Group. The Fund's total expenses were also in the most expensive quintile of both its Base Expense Group and Alternate Expense Group.

Noting the factors and limitations with respect to the Broadridge Section 15(c) Report (including the inclusion of single-manager funds in both peer groups) and factors relating to the Fund's operations, such as the quality and experience of K2 Advisors and the Sub-Advisors and the nature and quality of the services provided and to be provided by K2 Advisors and the Sub-Advisors, the Board found such comparative fees and expenses to be acceptable.

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 K2 Advisors and its affiliates, from providing investment management and other services to the Fund during the 12-month period ended September 30, 2018, 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 K2 Advisors and its parent. In discussing the Profitability Study with the Board, K2 Advisors stated its belief that the costs incurred in establishing the infrastructure necessary to operate the type of mutual fund operations conducted by it and its affiliates may not be fully reflected in the expenses allocated to the Fund in determining its profitability.

The Board also took into account management's expenditures in improving shareholder services provided to the Fund, as well as the need to meet additional regulatory and compliance requirements. The trustees also considered the extent to which K2 Advisors and the Sub-Advisors may derive ancillary benefits from Fund operations, including those derived from the allocation of Fund brokerage and the use of commission dollars to pay for research and other similar services.

The Board noted that shareholders are able to redeem their Fund shares at any time if shareholders believe that Fund fees and expenses are too high or if they are dissatisfied with the performance of the Fund.

**ECONOMIES OF SCALE.** The Board considered economies of scale realized by K2 Advisors and its affiliates and the Sub-Advisors 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 fees charged, in the quality and efficiency of services rendered and in increased capital commitments benefiting the Fund directly or indirectly. The Board also considered the fee waiver and expense limitation arrangement in effect, and the amount of Fund expenses that were absorbed since inception of the Fund by K2 Advisors through such waiver and arrangement. The Board concluded that economies of scale were deemed not to be a significant factor at that time in light of, among other matters, the fee waiver and expense limitation arrangement in effect and the fact that the Fund had less than four complete years of operating results.

## 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](http://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](http://franklintempleton.com) and posted on the U.S. Securities and Exchange Commission's website at [sec.gov](http://sec.gov) and reflect the most recent 12-month period ended June 30.

## Quarterly Statement of Investments

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

## Householding of Reports and Prospectuses

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

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

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



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