



Franklin K2 Long Short Credit Fund— Class A, C

Credit
Alternatives
March 31, 2020

Product Profile

Product Details

Fund Assets	\$97,175,741.59
Fund Inception Date	09/08/2015
Base Currency	USD
Investment Style	Credit
Benchmark	HFRX Fixed Income - Credit Index
Lipper Classification	Specialty Fixed Income Funds
Morningstar Category™	Long-Short Credit
Dividend Frequency	Annually in December

Inception Date

Class A	09/08/2015
Class C	09/08/2015

CUSIP NASDAQ Symbol

Class A	352 41W 864	FKLSX
Class C	352 41W 856	FKLCX

Maximum Sales Charges

Class A	5.50% initial sales charge
Class C	1.00% contingent deferred sales charge (CDSC) in the first year only

Total Annual Operating Expenses

	Class A	Class C
Management Fee	1.60%	1.60%
Div. Expense and Borrowing Fees for Securities Sold Short	0.62%	0.62%
Additional Expenses	0.78%	1.53%
Without Waiver	3%	3.75%
With Waiver	2.54%	3.29%

Third-Party Fund Data

Fund Description

The fund seeks total return over a complete market cycle (through a combination of current income, capital preservation and capital appreciation), by allocating its assets across multiple alternative fixed income and credit strategies.

Performance Data^{1,2}

Average Annual Total Returns^{3,4} (%)

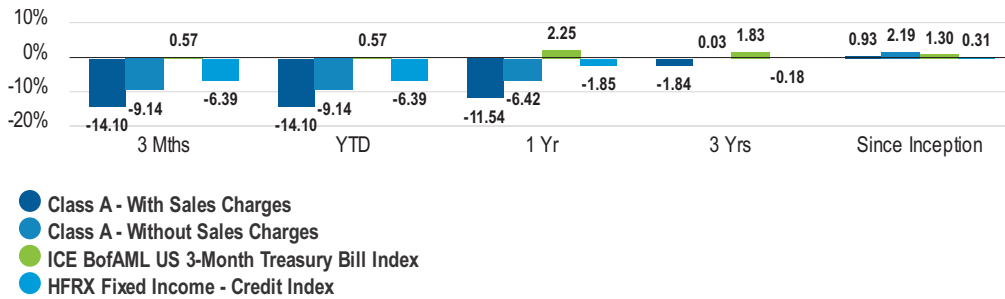
	3 Mths	YTD	1 Yr	3 Yrs	Since Inception
Class A - With Sales Charges	-14.10	-14.10	-11.54	-1.84	0.93
Class A - Without Sales Charges	-9.14	-9.14	-6.42	0.03	2.19
Class C - With Sales Charges	-10.18	-10.18	-7.92	-0.77	1.29
Class C - Without Sales Charges	-9.28	-9.28	-7.00	-0.77	1.29
ICE BofAML US 3-Month Treasury Bill Index	0.57	0.57	2.25	1.83	1.30
HFRX Fixed Income - Credit Index	-6.39	-6.39	-1.85	-0.18	0.31

1. Effective 05/01/1994, the fund implemented a Rule 12b-1 plan, which affects subsequent performance. Class A: Prior to 9/10/18, these shares were offered at a higher initial sales charge of 5.75%; thus actual returns would have differed. Total returns with sales charges have been restated to reflect the current maximum initial sales charge of 5.50%. Class C: Prior to 01/01/2004, these shares were offered with an initial sales charge; thus actual returns may differ. The fund offers other share classes subject to different fees and expenses, which will affect their performance. Please see the prospectus for details.

2. Source for Index: FactSet. Indexes are unmanaged, and one cannot invest directly in an index. They do not reflect any fees, expenses or sales charges. Unlike most asset class indexes, HFR Index returns reflect fees and expenses.

3. Periods shorter than one year are shown as cumulative total returns.

4. Since inception return for the benchmark is calculated to the fund inception date.



Performance data represents past performance, which does not guarantee future results. Current performance may differ from figures shown. The fund's investment return and principal value will change with market conditions, and you may have a gain or a loss when you sell your shares. Please call Franklin Templeton at (800) DIAL BEN/342-5236 or visit franklintempleton.com for the most recent month-end performance.

The fund has an expense reduction contractually guaranteed through 09/30/2020. Fund investment results reflect the expense reduction ("Total Annual Operating Expenses with Waiver"); without this reduction, the results would have been lower.

Total Annual Operating Expenses with Waiver represents the expense ratio applicable to investors.

Div. Expense and Borrowing Fees for Securities Sold Short: Costs associated with the fund's short positions. The fund's manager and sub-advisors use short positions in an attempt to either protect against losses or provide an additional source of returns versus long-only strategies. There is no guarantee that these positions will perform as the fund's manager or sub-advisors intend, and losses may occur.

Additional Expenses: Includes distribution and service (12b-1) fees; acquired fund fees and expenses; and other expenses of the fund or the subsidiary.

Calendar Year Returns (% Without Sales Charges)

	2019	2018	2017	2016
Class A	5.33	1.22	4.84	8.31
Class C	4.56	0.30	3.91	7.15
ICE BofAML US 3-Month Treasury Bill Index	2.28	1.87	0.86	0.33
HFRX Fixed Income - Credit Index	6.21	-2.55	3.87	4.97

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If the sales charge had been included, the returns would have been lower.

Portfolio Manager Insight⁵

Performance Review

QUARTERLY KEY PERFORMANCE DRIVERS

	Manager	Allocation (Fund Level)	Countries (Fund Level)
HELPED	Apollo	Currencies (net short vs US dollar)	China (Short)
	Chatham	Real Estate (Short)	South Africa (Short)
	—	Consumer Discretionary (Long)	Japan (Short)
HURT	Medalist	Mortgage Backed Securities (Long)	United States (Long)
	Ellington	Asset Backed Securities (Long)	Cayman Islands (Long)
	Emso	Government (Short)	Ukraine (Long)

- The specialist credit strategy had the top performing subadvisors (Apollo and Chatham). Structured credit had the top two detracting subadvisors (Medalist and Ellington).
- Currencies contributed to gains with Emso accounting for most of the contribution with their short position vs the US dollar.
- Given the selloff in risk assets, Apollo sourced gains from short positions, especially within the real estate, consumer discretionary, and energy sectors, with much of that coming in March. On the long side, energy was the primary detractor as commodity prices suffered significant negative price action. Index hedges partially offset losses from longs in March.
- Structured credit subadvisors Medalist and Ellington struggled with their mortgage backed and asset backed security positioning. Structured products in general face significant selling pressure in March given coronavirus containment efforts and technical pressures in the form of forced selling.
- Emso lost ground during the period with their positioning within government securities. Long positions in credits issued by Russia provided the primary drag on returns for the sector, followed by Ukraine.

Outlook & Strategy

- We expect a sharp contraction in global growth—especially in the next few months—and moderate inflation over the long term. COVID-19 presents a significant and evolving headwind, which is pushing the global economy into recession. As a result, we retain a broadly neutral stance toward riskier assets. Our view balances caution regarding growth with optimism that a broad policy response will be supportive.
 - We regard emerging market bond valuations as fair among local- and hard-currency bonds. Dovish global central bank policy measures may mitigate exchange-rate risks in local-currency bonds. However, with continued fears regarding global growth, we have adopted a neutral view on these markets, and we continue to think selective positioning is important.
 - Pressure on energy companies and broader fears of recession weigh on the outlook for lower-rated fixed income sectors such as high yield. Default rates are rising to above historical averages. Overall, we maintain a tactical preference away from these riskier assets, whilst Fed support is more focused on investment grade issuers. Longer-term we have adopted a more constructive view on this market, tempered by caution over remaining fundamental uncertainties.
5. The information provided is not a complete analysis of every material fact regarding any country, market, industry, security or fund. Because market and economic conditions are subject to change, comments, opinions and analyses are rendered as of the date of this material and may change without notice. A portfolio manager's assessment of a particular security, investment or strategy is not intended as individual investment advice or a recommendation or solicitation to buy, sell or hold any security or to adopt any investment strategy; it is intended only to provide insight into the fund's portfolio selection process. Holdings are subject to change.

Manager Allocations⁶

	% of Invested Capital
Credit Long Short	
Apollo Credit Management, LLC	27.04
Chatham Asset Management, LLC	5.04
	% of Invested Capital
Structured Credit	
Medalist Partners, L.P.	24.01
Ellington Global Asset Management, LLC	27.69

	% of Invested Capital
Emerging Market Fixed Income	
Emso Asset Management Limited	16.22

Portfolio Characteristics**Portfolio Exposure⁷**

Percent of Total

	%
Long Exposure	86.78
Net Exposure	67.57
Short Exposure	-19.20
Gross Exposure	105.98

6. Source: HedgeMark. Weightings as a percent of invested capital into fund managers (sub-advisors or co-managers). Percentage may not equal 100% due to rounding. Manager allocation includes managers that have been appointed as sub-advisors or managers of investment funds. K2 may determine in its sole discretion to not allocate to one or more of the managers and/or to add new managers. Accordingly, the allocation is presented for illustrative purposes only, and should not be viewed as predictive of the ongoing composition of the Fund's portfolio (and its managers), which may change at any time. Information is historical and may not reflect current or future portfolio characteristics. All holdings are subject to change.

7. Source: HedgeMark. Figures reflect certain derivatives held in the portfolio (or their underlying reference assets) and may not total 100% or may be negative due to rounding, use of derivatives, unsettled trades or other factors. Information is historical and may not reflect current or future portfolio characteristics. All holdings are subject to change.

Portfolio Diversification

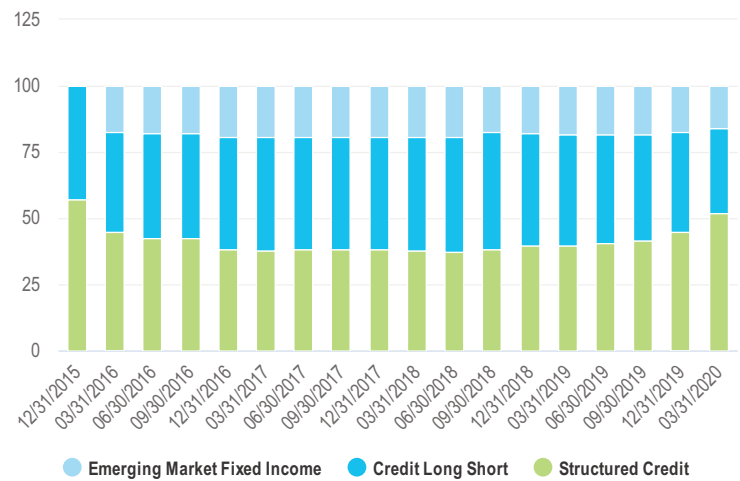
Strategy Allocation⁸

Percent of Invested Capital

	Target (%)	%
Structured Credit	20 - 60	51.70
Credit Long Short	30 - 70	32.08
Emerging Market Fixed Income	0 - 30	16.22

Historical Strategy Allocation⁹

Percent of Invested Capital

Security Type Exposure (Gross)¹⁰

Percent of Total

	%
Direct Securities	61.64
Index/Multi-Security Derivatives	32.32
Single Security Derivatives	12.02

Security Type Exposure (Net)¹¹

Percent of Total

	%
Single Security Derivatives ¹²	-5.19
Direct Securities	41.32
Index/Multi-Security Derivatives	31.45

8. Source: HedgeMark. Actual Allocation is a percentage of invested capital into fund managers (sub-advisors or co-advisors) as of the end of the period. Percentage may not equal 100% due to rounding. Target Allocations are as of the end of the period. The Fund may shift allocations among strategies at any time. K2 may determine in its sole discretion to not allocate to one or more of the strategies and/or to add new strategies. Accordingly, the Target Allocations are presented for illustrative purposes only, and should not be viewed as predictive of the ongoing composition of the Fund's portfolio (and its managers), which may change at any time. Information is historical and may not reflect current or future portfolio characteristics. All holdings are subject to change.

9. Source: HedgeMark. Weightings as percent of invested capital into fund managers (sub-advisors or co-managers). Percentage may not equal 100% due to rounding. The Fund may shift allocations among strategies at any time. Further, K2 may determine in its sole discretion to not allocate to one or more of the strategies and/or to add new strategies. Accordingly the above target allocations are presented for illustrative purposes only, and should not be viewed as predictive of the ongoing composition of the fund's portfolio (and its managers), which may change at any time.

10,11. Source: HedgeMark. Figures reflect certain derivatives held in the portfolio (or their underlying reference assets) and may not total 100% or may be negative due to rounding, use of derivatives, unsettled trades or other factors. Information is historical and may not reflect current or future portfolio characteristics. All holdings are subject to change.

12. The negative cash position reflects a temporary position that is a result of a delay in securities settlement transactions.

Sector Exposure¹³

Percent of Total

	Net Exposure	Long Exposure	Short Exposure
Asia Pacific	-0.51	-	-0.51
Currencies	-0.11	-	-0.11
Credit Default Swaps / Credit Default Swap Index	-0.15	-	-0.15
High Yield Corporates	-0.25	-	-0.25
Europe	1.65	5.10	-3.45
Credit Default Swaps / Credit Default Swap Index	-0.10	0.02	-0.12
Investment Grade Corporates	-	0.35	-0.35
Bank Loans	0.41	0.41	-
Currencies	-1.93	-	-1.93
Government	-0.04	0.37	-0.41
High Yield Corporates	3.15	3.78	-0.63
Equity	0.17	0.17	-
Global and Emerging Markets	3.70	6.51	-2.81
Currencies	-2.43	-	-2.43
Government	1.62	1.62	-
Equity	0.01	0.01	-
Emerging Market Corporates	1.83	1.90	-0.07
Credit Default Swaps / Credit Default Swap Index	0.01	0.32	-0.31
Emerging Market Sovereign	2.67	2.67	-
North America	62.73	75.16	-12.43
Commercial Mortgage Backed Securities	4.38	4.38	-
Equity	1.90	3.99	-2.10
High Yield Corporates	11.75	14.23	-2.48
Bank Loans	3.90	3.90	-
Asset-Backed Securities	5.61	5.61	-
Residential Mortgage Backed Securities	21.89	21.89	-
Government	-4.12	2.39	-6.51
Investment Grade Corporates	18.12	18.28	-0.16
Emerging Market Corporates	0.13	0.13	-
Credit Default Swaps / Credit Default Swap Index	-0.83	0.36	-1.18

Supplemental Performance Statistics**Supplemental Risk Statistics vs. Bloomberg Barclays Global Aggregate Index¹⁴**

Class A

	3 Yrs
Standard Deviation	6.25
Alpha	-2.63
Beta	0.64
Correlation	0.40
R-Squared	0.16
Sharpe Ratio	-0.27
Upside Capture Ratio (%)	30.20
Downside Capture Ratio (%)	-40.07
% of Positive Months	80.56
% of Negative Months	19.44
% Maximum Drawdown (Peak-to-Trough)	-1.21
Drawdown Period	12/15-01/16

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13. Source: HedgeMark. Figures reflect certain derivatives held in the portfolio (or their underlying reference assets) and may not total 100% or may be negative due to rounding, use of derivatives, unsettled trades or other factors. Information is historical and may not reflect current or future portfolio characteristics. All holdings are subject to change.

14. Alpha, Beta, Correlation, R-Squared, Upside and Downside Capture Ratios information are displayed for the product versus the Bloomberg Barclays Global Aggregate Index.

Investment Philosophy

Our investment philosophy is to work to grow capital by seeking to produce attractive risk-adjusted returns with lower correlation to traditional asset classes and reduced volatility. We believe that comprehensive risk management, rigorous manager research and active strategy allocation are key to a successful single-strategy, multi-manager alternatives fund.

Investment Process

K2 Advisors (K2) combines manager research with strategy allocation analysis to construct a dynamic single-strategy, multi-manager fund investing across alternative fixed income and credit strategies that go beyond long-only mandates, targeting opportunities in an attempt to generate returns while preserving capital in market downturns.

- Dynamic and diversified alternative strategy allocation analysis is performed from a top-down perspective. Through this analysis, K2 seeks to identify factors influencing returns and risks across market cycles.
- Utilizing holdings-based transparency, K2 seeks to identify alpha-generating managers through manager research and monitoring. On an ongoing basis, K2 then monitors each manager's market exposures as well as operational and headline risks.
- K2's portfolio construction process aims to manage overall portfolio exposures and risks through extensive modeling and scenario analysis.

An Alternative Solution to Better Diversify Fixed Income Portfolios



Investment Team

Portfolio Manager	Years with Firm	Years Experience
Robert Christian	9	30
Brooks Ritchey	14	36
Art Vinokur	15	15

Gross Exposure: Gross exposure is the sum of the absolute value of all exposures, directly or through derivatives, as a percentage of total assets. The sum of the percentage of long positions and short (in absolute terms) positions.

Long Exposure: Sum of the long exposures, directly or through derivatives, as a percentage of total assets.

Net Exposure: Net exposure is the sum of the total value of all exposures, directly or through derivatives, as a percentage of total assets. The percentage value of the long positions less the percentage value of the short positions.

Short Exposure: Sum of the short exposures, directly or through derivatives, as a percentage of total assets.

Standard Deviation: Standard deviation is a statistical measurement of the dispersion of historical returns. A higher standard deviation means greater volatility. Calculated by annualizing the standard deviation of the fund's daily returns over the 1-year period ended as of the date of the calculation.

What Are The Risks?

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 sub-advisors. The fund is actively managed and could experience losses if the manager's and sub-advisors' judgment about particular fund portfolio investments prove to be incorrect. Some sub-advisors 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. Please see the prospectus and summary prospectus for information on these as well as other risk considerations, including the risks of foreign investments.

Important Legal Information

Investors should carefully consider a fund's investment goals, risks, charges and expenses before investing. To obtain a summary prospectus and/or prospectus, which contains this and other information, talk to your financial advisor, call us at (800) DIAL BEN/342-5236 or visit franklintempleton.com. Please carefully read a prospectus before you invest or send money.

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