

SEMIANNUAL REPORT AND SHAREHOLDER LETTER

FRANKLIN K2 LONG SHORT CREDIT FUND

A Series of Franklin Alternative Strategies Funds

November 30, 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 six months ended November 30, 2019, global markets benefited from upbeat economic data in certain regions, encouraging corporate earnings reports, generally accommodative monetary policies by major central banks and periods of optimism about a potential U.S.-China trade agreement. However, global markets also reflected investor concerns about ongoing U.S. trade disputes with China and other trading partners, 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 +13.21% total return for the period.¹ Global emerging market stocks, as measured by the MSCI Emerging Markets Index, posted a +6.13% total return.¹ Global government bonds, as measured by the FTSE World Government Bond Index, posted a +2.55% total return.¹

We are committed to our long-term perspective and disciplined investment approach as we conduct a rigorous analysis of Fund subadvisors and markets with a strong 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 six 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 future.

Sincerely,



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

This letter reflects our analysis and opinions as of November 30, 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 for additional data provider information.

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

SEMIANNUAL REPORT

Franklin K2 Long Short Credit Fund

This semiannual report for Franklin K2 Long Short Credit Fund covers the period ended November 30, 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.

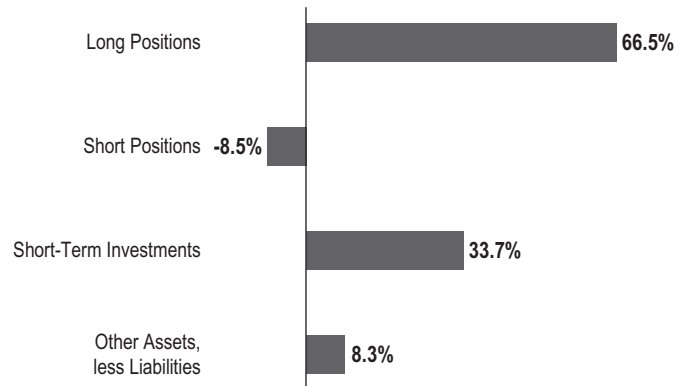
Under normal market conditions, the Fund invests at least 80% of its net assets, plus the amount of any borrowings for investment purposes, in credit-related investments. The Fund invests in a wide range of securities and other investments including, but not limited to: corporate bonds, mortgage-backed 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 +1.34% cumulative total return for the six 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 +2.92% total return for the same period.¹ The Fund's strategy, which results in a relatively low risk profile, differs from that of the credit index, which has a generally higher risk profile in a rising market environment. This difference may occasionally lead to wide performance discrepancies, especially in periods when investors focus on

Portfolio Composition*

Based on Total Net Assets as of 11/30/19



*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.

risk assets with higher return potential or, conversely, when investors focus on less risky assets to potentially avoid volatile returns. 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 months, posted a +1.10% total return.² 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 or call (800) 342-5236.

Economic and Market Overview

The global economy expanded during the six months ended November 30, 2019, despite weakness in Europe and Asia. Global stocks were aided by upbeat economic data in some regions, encouraging corporate earnings reports, periods of optimism about a potential U.S.-China trade deal and monetary policy easing by major central banks.

1. Source: FactSet. Hedge Fund Research, Inc. – 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 15.

However, markets also reflected concerns about political uncertainties in the U.S. (including the impeachment inquiry into President Donald Trump), geopolitical tensions in certain regions, and the impact of U.S. trade disputes with China and other trading partners on global growth and corporate earnings. Overall, global developed and emerging market stocks, as measured by the MSCI All Country World Index, posted a +12.37% total return, slightly lower than the +13.21% total return for global developed market stocks, as measured by the MSCI World Index, for the six months under review.²

The U.S. economy expanded during the six months ended November 30, 2019. After moderating in 2019's second quarter, the economy grew faster in the third quarter, aided by consumer spending, housing investment, government spending and exports. The manufacturing sector expanded at the start of the period, but contracted during the last four months, while the services sector expanded throughout the period. The unemployment rate decreased slightly from 3.6% in May 2019 to 3.5% at period-end.³ The annual inflation rate, as measured by the Consumer Price Index, increased from 1.8% in May 2019 to 2.1% at period-end.³

At its July 2019 meeting, the U.S. Federal Reserve (Fed) lowered its target range for the federal funds rate for the first time since December 2008, to 2.00%–2.25%, citing muted inflation pressures and the potential effects of global trade tensions on economic growth. Furthermore, the Fed ended its balance sheet normalization program earlier than previously indicated. The Fed further lowered the federal funds target rate range by 0.25% at its September and October meetings, to 1.50%–1.75%, reiterating the rationale cited at the July meeting.

In Europe, the U.K.'s quarter-on-quarter gross domestic product (GDP) growth contracted in 2019's second quarter but recovered in the third quarter. The Bank of England kept its key policy rate unchanged during the six-month period and lowered its GDP forecasts for 2019 and 2020, amid Brexit uncertainties. The eurozone's quarter-on-quarter GDP growth moderated in 2019's second quarter and remained stable in the third quarter. The bloc's annual inflation rate ended the period lower. The European Central Bank (ECB) kept its benchmark interest rate unchanged during the period. In November, the ECB resumed its asset purchase program in an effort to boost the economy.

In developed Asia, Japan's quarter-on-quarter GDP growth moderated in 2019's second and third quarters. The Bank of Japan left its benchmark interest rate unchanged and continued its stimulus measures during the review period.

In larger emerging markets, Brazil's quarter-on-quarter GDP growth accelerated in 2019's second and third quarters. The Central Bank of Brazil lowered its benchmark interest rate three times during the period. Russia's annual GDP growth accelerated in 2019's second and third quarters. The Bank of Russia cut its key interest rate four times during the period. China's annual GDP growth moderated in 2019's second and third quarters. The People's Bank of China implemented an interest-rate reform in August, designating the loan prime rate as the new benchmark for household and business loans, effectively lowering interest rates several times during the period. Overall, global emerging market stocks, as measured by the MSCI Emerging Markets Index, posted a +6.13% total return for the six months under review.²

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 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.

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

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

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.

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.

Subadvisors

11/30/19

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

Manager's Discussion

The Fund's subadvisors for the six 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. Four of the five subadvisors posted gains for the six-month period—Apollo, Medalist, Ellington and Emso. In contrast, Chatham experienced a slight loss.

All three strategies strengthened Fund performance for the six-month period: credit long short, structured credit and emerging markets fixed income. By asset class, the top contributors to the Fund's aggregate returns were credit and equity. Conversely, currency exposures and interest-rate derivatives detracted from performance.

In terms of aggregate sector exposures, the top performance drivers for the Fund were mortgage-backed securities (MBS), consumer discretionary and consumer staples. In contrast, equity index hedges and health care hindered returns.

The credit long short strategy benefited from long positions in the consumer discretionary and utilities sectors. In addition, long and then short positions in consumer staples positively contributed to strategy performance. Conversely, health care long positions and equity index hedges were net detractors from strategy results.

In the structured credit strategy, MBS led contributors, with collateralized loan obligations and other asset-backed securities also supporting performance. In contrast, credit index hedges against high-yield bonds detracted from strategy performance.

In the emerging markets fixed income strategy, the draw-down from long positions in U.S. dollar-denominated Argentine sovereign bonds more than offset gains from long positioning in Russian sovereign bonds. Outside of emerging markets, long positions in Puerto Rico general obligation bonds supported strategy performance.

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 'Robert Christian'.

Robert Christian
Co-Lead Portfolio Manager



A handwritten signature in black ink, appearing to read 'Brooks Ritchey'.

Brooks Ritchey
Co-Lead Portfolio Manager



A handwritten signature in black ink, appearing to read 'Art Vinokur'.

Art Vinokur
Portfolio Manager

The foregoing information reflects our analysis, opinions and portfolio holdings as of November 30, 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 November 30, 2019

The performance table does not reflect any taxes that a shareholder would pay on Fund dividends, capital gain distributions, if any, or any realized gains on the sale of Fund shares. Total return reflects reinvestment of the Fund's dividends and capital gain distributions, if any, and any unrealized gains or losses. 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 11/30/19¹

*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.*

Share Class	Cumulative Total Return ²	Average Annual Total Return ³
A⁴		
6-Month	+1.34%	-4.25%
1-Year	+3.91%	-1.83%
3-Year	+11.89%	+1.87%
Since Inception (9/8/15)	+20.34%	+3.09%
Advisor		
6-Month	+1.43%	+1.43%
1-Year	+4.09%	+4.09%
3-Year	+12.33%	+3.95%
Since Inception (9/8/15)	+20.93%	+4.60%

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

See page 8 for Performance Summary footnotes.

Total Annual Operating Expenses⁵

Share Class	With Fee Waiver	Without Fee Waiver
A	2.84%	3.30%
Advisor	2.59%	3.05%

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 9/30/20. 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. 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.

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 6/1/19	Actual (actual return after expenses)		Hypothetical (5% annual return before expenses)		Net Annualized Expense Ratio ²
		Ending Account Value 11/30/19	Expenses Paid During Period 6/1/19–11/30/19 ^{1,2}	Ending Account Value 11/30/19	Expenses Paid During Period 6/1/19–11/30/19 ^{1,2}	
A	\$1,000	\$1,013.40	\$13.93	\$1,011.16	\$13.92	2.77%
C	\$1,000	\$1,008.80	\$17.71	\$1,007.37	\$17.69	3.53%
R	\$1,000	\$1,011.60	\$15.23	\$1,009.86	\$15.21	3.03%
R6	\$1,000	\$1,015.30	\$12.59	\$1,012.51	\$12.57	2.50%
Advisor	\$1,000	\$1,014.40	\$12.73	\$1,012.36	\$12.72	2.53%

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 183/366 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

	Six Months Ended November 30, 2019 (unaudited)	Year Ended May 31,			
		2019	2018	2017	2016 ^a
Class A					
Per share operating performance (for a share outstanding throughout the period)					
Net asset value, beginning of period	\$10.45	\$10.50	\$10.49	\$10.15	\$10.00
Income from investment operations ^b :					
Net investment income ^c	0.13	0.37	0.29	0.23	0.21
Net realized and unrealized gains (losses)	0.01	(0.02)	0.08	0.53	0.08
Total from investment operations	0.14	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 period	\$10.59	\$10.45	\$10.50	\$10.49	\$10.15
Total return ^d	1.34%	3.42%	3.63%	7.58%	2.99%
Ratios to average net assets^e					
Expenses before waiver, payments by affiliates and expense reduction ^f	3.18%	3.15%	3.51%	3.50%	3.37%
Expenses net of waiver, payments by affiliates and expense reduction ^f	2.77%	2.69%	2.98% ^g	2.75%	2.30% ^g
Expenses incurred in connection with securities sold short	0.58%	0.62%	0.89%	0.76%	0.40%
Net investment income	2.47%	3.49%	2.71%	2.24%	2.85%
Supplemental data					
Net assets, end of period (000's)	\$30,651	\$27,870	\$45,088	\$41,001	\$28,198
Portfolio turnover rate	75.16%	158.66%	251.81%	317.70%	511.62%

^aFor the period September 8, 2015 (commencement of operations) to May 31, 2016.

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

^cBased on average daily shares outstanding.

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

^eRatios are annualized for periods less than one year, except for non-recurring expenses, if any.

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

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

Franklin K2 Long Short Credit Fund (continued)

	Six Months Ended November 30, 2019 (unaudited)	Year Ended May 31,			
		2019	2018	2017	2016 ^a
Class C					
Per share operating performance (for a share outstanding throughout the period)					
Net asset value, beginning of period	\$10.26	\$10.34	\$10.35	\$10.07	\$10.00
Income from investment operations ^b :					
Net investment income ^c	0.09	0.27	0.19	0.14	0.09
Net realized and unrealized gains (losses)	0.01	(0.01)	0.07	0.52	0.12
Total from investment operations	0.10	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 period	\$10.36	\$10.26	\$10.34	\$10.35	\$10.07
Total return ^d	0.97%	2.61%	2.70%	6.56%	2.20%
Ratios to average net assets^e					
Expenses before waiver, payments by affiliates and expense reduction ^f	3.94%	4.03%	4.37%	4.44%	3.62%
Expenses net of waiver, payments by affiliates and expense reduction ^f	3.53%	3.57%	3.84% ^g	3.69%	2.55% ^g
Expenses incurred in connection with securities sold short	0.58%	0.62%	0.89%	0.76%	0.40%
Net investment income	1.71%	2.61%	1.85%	1.30%	2.60%
Supplemental data					
Net assets, end of period (000's)	\$2,776	\$2,893	\$2,503	\$1,507	\$270
Portfolio turnover rate	75.16%	158.66%	251.81%	317.70%	511.62%

^aFor the period September 8, 2015 (commencement of operations) to May 31, 2016.

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

^cBased on average daily shares outstanding.

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

^eRatios are annualized for periods less than one year.

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

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

Franklin K2 Long Short Credit Fund (continued)

	Six Months Ended November 30, 2019 (unaudited)	Year Ended May 31,			
		2019	2018	2017	2016 ^a
Class R					
Per share operating performance (for a share outstanding throughout the period)					
Net asset value, beginning of period	\$10.36	\$10.41	\$10.41	\$10.10	\$10.00
Income from investment operations ^b :					
Net investment income ^c	0.12	0.33	0.25	0.20	0.08
Net realized and unrealized gains (losses)	(0.01)	(0.01)	0.09	0.53	0.16
Total from investment operations	0.11	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 period	\$10.47	\$10.36	\$10.41	\$10.41	\$10.10
Total return ^d	1.06%	3.12%	3.29%	7.29%	2.48%
Ratios to average net assets^e					
Expenses before waiver, payments by affiliates and expense reduction ^f	3.44%	3.50%	3.82%	3.83%	3.37%
Expenses net of waiver, payments by affiliates and expense reduction ^f	3.03%	3.04%	3.29% ^g	3.08%	2.30% ^g
Expenses incurred in connection with securities sold short	0.58%	0.62%	0.89%	0.76%	0.40%
Net investment income	2.21%	3.14%	2.40%	1.91%	2.85%
Supplemental data					
Net assets, end of period (000's)	\$216	\$166	\$162	\$127	\$12
Portfolio turnover rate	75.16%	158.66%	251.81%	317.70%	511.62%

^aFor the period September 8, 2015 (commencement of operations) to May 31, 2016.

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

^cBased on average daily shares outstanding.

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

^eRatios are annualized for periods less than one year.

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

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

Franklin K2 Long Short Credit Fund (continued)

	Six Months Ended November 30, 2019 (unaudited)	Year Ended May 31,			
		2019	2018	2017	2016 ^a
Class R6					
Per share operating performance (for a share outstanding throughout the period)					
Net asset value, beginning of period	\$10.45	\$10.51	\$10.50	\$10.15	\$10.00
Income from investment operations ^b :					
Net investment income ^c	0.14	0.36	0.31	0.24	0.23
Net realized and unrealized gains (losses)	0.01	— ^g	0.08	0.53	0.06
Total from investment operations	0.15	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 period	\$10.60	\$10.45	\$10.51	\$10.50	\$10.15
Total return ^d	1.44%	3.53%	3.76%	7.71%	3.01%
Ratios to average net assets^e					
Expenses before waiver, payments by affiliates and expense reduction ^f	3.00%	3.10%	3.35%	3.43%	3.35%
Expenses net of waiver, payments by affiliates and expense reduction ^f	2.50%	2.55%	2.83% ^h	2.68%	2.28% ^h
Expenses incurred in connection with securities sold short	0.58%	0.62%	0.89%	0.76%	0.40%
Net investment income	2.74%	3.63%	2.86%	2.31%	2.87%
Supplemental data					
Net assets, end of period (000's)	\$469	\$233	\$13	\$13,052	\$12,384
Portfolio turnover rate	75.16%	158.66%	251.81%	317.70%	511.62%

^aFor the period September 8, 2015 (commencement of operations) to May 31, 2016.

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

^cBased on average daily shares outstanding.

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

^eRatios are annualized for periods less than one year.

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

^gAmount rounds to less than \$0.01 per share.

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

Franklin K2 Long Short Credit Fund (continued)

	Six Months Ended November 30, 2019 (unaudited)	Year Ended May 31,			
		2019	2018	2017	2016 ^a
Advisor Class					
Per share operating performance (for a share outstanding throughout the period)					
Net asset value, beginning of period	\$10.46	\$10.51	\$10.50	\$10.15	\$10.00
Income from investment operations ^b :					
Net investment income ^c	0.14	0.38	0.30	0.24	0.20
Net realized and unrealized gains (losses)	0.01	(0.01)	0.09	0.53	0.09
Total from investment operations	0.15	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 period	\$10.61	\$10.46	\$10.51	\$10.50	\$10.15
Total return ^d	1.43%	3.60%	3.75%	7.70%	2.99%
Ratios to average net assets^e					
Expenses before waiver, payments by affiliates and expense reduction ^f	2.94%	3.03%	3.37%	3.44%	3.36%
Expenses net of waiver, payments by affiliates and expense reduction ^f	2.53%	2.57%	2.84% ^g	2.69%	2.29% ^g
Expenses incurred in connection with securities sold short	0.58%	0.62%	0.89%	0.76%	0.40%
Net investment income	2.71%	3.61%	2.85%	2.30%	2.86%
Supplemental data					
Net assets, end of period (000's)	\$92,441	\$86,868	\$45,514	\$25,125	\$23,058
Portfolio turnover rate	75.16%	158.66%	251.81%	317.70%	511.62%

^aFor the period September 8, 2015 (commencement of operations) to May 31, 2016.

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

^cBased on average daily shares outstanding.

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

^eRatios are annualized for periods less than one year.

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

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

Statement of Investments, November 30, 2019 (unaudited)

Franklin K2 Long Short Credit Fund

	Country	Shares/ Rights	Value
Common Stocks and Other Equity Interests 1.7%			
Diversified Financial Services 0.1%			
^{a,b,u} One Call Corp.	United States	947	\$ 113,545
Diversified Telecommunication Services 0.1%			
^b Telecom Italia SpA	Italy	92,213	57,729
Energy Equipment & Services 0.0%†			
^b Weatherford International PLC	United States	534,155	12,125
Equity Real Estate Investment Trusts (REITs) 0.6%			
^c Vici Properties Inc.	United States	31,543	780,058
Food Products 0.0%†			
^b Dean Foods Co.	United States	46,977	4,872
Independent Power & Renewable Electricity Producers 0.7%			
^c Clearway Energy Inc., A	United States	31,181	591,815
Clearway Energy Inc., C	United States	11,144	220,986
			812,801
Media 0.1%			
^b Liberty Global PLC, C	United Kingdom	3,816	82,044
^b Postmedia Network Canada Corp., B	Canada	56,068	65,426
			147,470
Metals & Mining 0.0%†			
Vedanta Ltd., ADR	India	3,457	27,829
Multiline Retail 0.1%			
^c Nordstrom Inc.	United States	3,640	138,939
Pharmaceuticals 0.0%†			
^b Sanofi, Contingent Value, rts., 12/31/20	France	27,126	23,328
Total Common Stocks and Other Equity Interests			
(Cost \$1,677,905)			2,118,696
Convertible Preferred Stocks (Cost \$179,099) 0.4%			
Diversified Financial Services 0.4%			
^{a,b,u} One Call Corp., cvt. pfd.	United States	3,821	458,341
Preferred Stocks 0.2%			
Electric Utilities 0.2%			
SCE Trust II, 5.10%, pfd.	United States	2,616	63,647
SCE Trust III, 5.75%, pfd., H	United States	1,468	35,511
SCE Trust IV, 5.375%, pfd., J	United States	4,659	111,630
SCE Trust V, 5.45%, pfd., K	United States	1,849	44,894
SCE Trust VI, 5.00%, pfd.	United States	3,162	73,358
Total Preferred Stocks (Cost \$284,707)			329,040
			<u>Principal Amount*</u>
Convertible Bonds 1.2%			
Independent Power & Renewable Electricity Producers 0.4%			
^c Pattern Energy Group Inc., senior note, 4.00%, 7/15/20	United States	540,000	551,717
Internet & Direct Marketing Retail 0.1%			
Wayfair Inc., senior note, 0.375%, 9/01/22	United States	144,000	151,830
Media 0.6%			
^c Gannett Co. Inc., senior note, 4.75%, 4/15/24	United States	746,000	749,208

Franklin K2 Long Short Credit Fund (continued)

	Country	Principal Amount*	Value
Convertible Bonds (continued)			
Pharmaceuticals 0.1%			
Teva Pharmaceutical Finance Co. LLC, C, senior bond, 0.25%, 2/01/26 . . .	Israel	78,000	\$ 74,716
Total Convertible Bonds (Cost \$1,500,319)			1,527,471
Corporate Bonds and Notes 14.5%			
Aerospace & Defense 0.3%			
Triumph Group Inc., senior note, 5.25%, 6/01/22	United States	357,000	358,004
Automobiles 0.7%			
^{c,d} Tesla Inc., senior note, 144A, 5.30%, 8/15/25	United States	931,000	894,914
Capital Markets 0.7%			
^d eG Global Finance PLC, senior secured note, 144A, 4.375%, 2/07/25	United Kingdom	192,000	EUR 210,222
6.75%, 2/07/25	United Kingdom	139,000	137,610
6.25%, 10/30/25	United Kingdom	261,000	EUR 302,436
8.50%, 10/30/25	United Kingdom	263,000	276,150
			926,418
Chemicals 0.2%			
^d TPC Group Inc., senior secured note, 144A, 10.50%, 8/01/24	United States	252,000	253,887
Commercial Services & Supplies 2.6%			
^d Harland Clarke Holdings Corp., 144A, senior note, 9.25%, 3/01/21	United States	2,349,500	2,185,975
senior secured note, 8.375%, 8/15/22	United States	533,000	401,249
R.R. Donnelley & Sons Co., senior bond, 6.50%, 11/15/23	United States	263,000	271,657
6.00%, 4/01/24	United States	447,000	462,459
			3,321,340
Communications Equipment 0.1%			
^d Riverbed Technology Inc., senior note, 144A, 8.875%, 3/01/23	United States	298,000	137,080
Containers & Packaging 0.1%			
^e Lecta SA, senior secured note, Reg S, ^f FRN, 6.375%, (3-Month EURIBOR + 6.38%), 8/01/22	Spain	100,000	EUR 53,316
6.50%, 8/01/23	Spain	100,000	EUR 52,953
			106,269
Distributors 0.2%			
^{d,g} American News Co. LLC, senior note, 144A, PIK, 8.50%, 9/01/26	United States	248,771	264,287
Diversified Financial Services 0.4%			
^d One Call Corp., senior secured note, first lien, 144A, 7.50%, 7/01/24	United States	469,056	462,020
Diversified Telecommunication Services 2.6%			
^d Altice France SA, senior secured note, 144A, 3.375%, 1/15/28	France	158,000	EUR 177,768
^d Cincinnati Bell Inc., senior note, 144A, 7.00%, 7/15/24	United States	163,000	153,015
8.00%, 10/15/25	United States	353,000	323,142
^d Digicel International Finance Ltd. / Digicel Holdings Bermuda Ltd., senior secured note, 144A, 8.75%, 5/25/24	Saint Lucia	37,000	35,412
Frontier Communications Corp., senior bond, 7.125%, 1/15/23	United States	125,000	57,656
senior bond, 7.625%, 4/15/24	United States	79,000	37,130
senior bond, 6.875%, 1/15/25	United States	32,000	14,653
senior bond, 9.00%, 8/15/31	United States	245,000	112,096
^{c,d} senior secured note, 144A, 8.00%, 4/01/27	United States	920,000	952,037
Hughes Satellite Systems Corp., senior secured note, 5.25%, 8/01/26	United States	183,000	199,076
^d Intelsat Jackson Holdings SA, senior secured note, 144A, ^c 9.50%, 9/30/22	Luxembourg	884,000	990,356
8.00%, 2/15/24	Luxembourg	172,000	175,868
			3,228,209

Franklin K2 Long Short Credit Fund (continued)

	Country	Principal Amount*	Value
Corporate Bonds and Notes (continued)			
Electric Utilities 0.3%			
^e Eskom Holdings SOC Ltd., senior bond, Reg S, 8.45%, 8/10/28	South Africa	200,000	\$ 213,298
^d Swissport Financing SARL, senior note, 144A, 9.00%, 2/15/25	Luxembourg	100,000	115,093
			<u>328,391</u>
Energy Equipment & Services 0.7%			
^d KCA Deutag UK Finance PLC, senior secured note, 144A, 9.625%, 4/01/23	United Kingdom	100,000	66,781
^{c,d} Transocean Inc., senior note, 144A, 7.50%, 1/15/26	United States	677,000	609,420
^d Vantage Drilling International, senior secured note, 144A, 9.25%, 11/15/23	United States	260,000	244,292
			<u>920,493</u>
Equity Real Estate Investment Trusts (REITs) 0.1%			
^d VICI Properties LP / VICI Note Co. Inc., senior bond, 144A, 4.625%, 12/01/29	United States	68,000	70,288
Food & Staples Retailing 0.2%			
^e Casino Guichard Perrachon SA, Reg S, ^{f,h} junior sub. bond, E, FRN, 3.992%, (EUR 5 Year Swap + 3.82%), Perpetual	France	300,000 EUR	197,908
senior bond, E, 4.048%, 8/05/26	France	100,000 EUR	93,659
			<u>291,567</u>
Food Products 0.1%			
^d JBS USA LUX SA / JBS USA Food Co. / JBS USA Finance Inc., senior bond, 144A, 5.50%, 1/15/30	United States	118,000	126,154
Gas Utilities 0.0%†			
Clearway Energy Operating LLC, senior note, 5.375%, 8/15/24	United States	45,000	46,238
Health Care Providers & Services 0.6%			
^{d,i} Aveanna Healthcare LLC, senior secured note, 144A, 9.75%, 12/15/26	United States	381,000	398,145
^{d,i} Centene Corp., senior bond, 144A, 4.625%, 12/15/29	United States	78,000	81,998
^d Envision Healthcare Corp., senior note, 144A, 8.75%, 10/15/26	United States	306,000	125,566
^d Mallinckrodt International Finance SA / Mallinckrodt CB LLC, senior note, 144A, 5.75%, 8/01/22	United States	290,000	101,319
			<u>707,028</u>
Hotels, Restaurants & Leisure 1.1%			
^{c,d} Mohegan Gaming & Entertainment, senior note, 144A, 7.875%, 10/15/24	United States	1,428,000	1,389,323
Household Durables 0.2%			
^d K Hovnanian Enterprises Inc., secured note, 144A, 10.50%, 7/15/24	United States	285,000	200,212
Insurance 0.0%†			
^d Ambac Assurance Corp., sub. bond, 144A, 5.10%, 6/07/20	United States	2	4
^{d,f} Ambac LSNI LLC, senior secured note, 144A, FRN, 7.104%, (3-Month USD LIBOR + 5.00%), 2/12/23	Cayman Islands	8	8
			<u>12</u>
Media 0.7%			
The McClatchy Co., ^d senior secured bond, 144A, 6.875%, 7/15/31	United States	566,000	454,215
senior secured note, 9.00%, 7/15/26	United States	254,000	228,567
^d Univision Communications Inc., senior secured note, 144A, 5.125%, 2/15/25	United States	227,000	219,339
			<u>902,121</u>
Multiline Retail 0.0%†			
Nordstrom Inc., senior bond, 5.00%, 1/15/44	United States	46,000	44,947

Franklin K2 Long Short Credit Fund (continued)

	Country	Principal Amount*	Value
Corporate Bonds and Notes (continued)			
Oil, Gas & Consumable Fuels 1.1%			
^{c,d} American Energy- Permian Basin LLC, senior secured note, 144A, 12.00%, 10/01/24	United States	962,000	\$ 601,250
^d Moss Creek Resources Holdings Inc., senior note, 144A, 7.50%, 1/15/26	United States	20,000	13,357
10.50%, 5/15/27	United States	472,000	348,264
Petrobras Global Finance BV, senior bond, 6.90%, 3/19/49	Brazil	117,000	134,047
senior note, 8.75%, 5/23/26	Brazil	109,000	138,833
Southwestern Energy Co., senior bond, 6.20%, 1/23/25	United States	158,000	137,857
			1,373,608
Pharmaceuticals 0.1%			
Teva Pharmaceutical Finance Netherlands III BV, senior note, 2.20%, 7/21/21	Israel	130,000	125,970
Specialty Retail 1.0%			
Bed Bath & Beyond Inc., senior bond, 5.165%, 8/01/44	United States	361,000	246,606
^{c,d} Carvana Co., senior note, 144A, 8.875%, 10/01/23	United States	693,000	719,847
^{c,d} Staples Inc., senior secured note, 144A, 7.50%, 4/15/26	United States	329,000	344,833
			1,311,286
Wireless Telecommunication Services 0.4%			
^{d,i} SSL Robotics LLC, senior secured note, 144A, 9.75%, 12/31/23	United States	485,000	505,613
			18,295,679
Total Corporate Bonds and Notes (Cost \$18,669,132)			
Corporate Bonds and Notes in Reorganization 1.8%			
Electric Utilities 1.8%			
ⁱ Pacific Gas & Electric Co., senior bond, 3.85%, 11/15/23	United States	11,000	10,840
senior bond, 3.50%, 6/15/25	United States	119,000	116,321
senior bond, 2.95%, 3/01/26	United States	197,000	192,050
senior bond, 3.30%, 3/15/27	United States	186,000	181,355
senior bond, 6.05%, 3/01/34	United States	107,000	113,155
senior bond, 5.80%, 3/01/37	United States	458,000	477,511
senior bond, 4.45%, 4/15/42	United States	55,000	54,639
senior bond, 3.75%, 8/15/42	United States	28,000	27,186
senior bond, 4.60%, 6/15/43	United States	83,000	82,663
senior bond, 4.75%, 2/15/44	United States	329,000	332,323
senior bond, 4.30%, 3/15/45	United States	44,000	43,381
senior bond, 4.25%, 3/15/46	United States	24,000	23,662
senior note, 3.75%, 2/15/24	United States	194,000	192,625
senior note, 3.30%, 12/01/27	United States	226,000	219,791
^d senior note, 144A, 4.25%, 8/01/23	United States	39,000	38,919
^d senior note, 144A, 4.65%, 8/01/28	United States	145,000	146,500
			2,252,921
Oil, Gas & Consumable Fuels 0.0%†			
^{e,i} Petroleos de Venezuela SA, senior note, Reg S, 6.00%, 10/28/22	Venezuela	98,020	5,881
			2,258,802
Total Corporate Bonds and Notes in Reorganization (Cost \$2,191,926)			
Senior Floating Rate Interests 3.3%			
Communications Equipment 0.3%			
^l Riverbed Technology Inc., Term Loan B, 4.96%, (1-Month USD LIBOR + 3.25%), 4/24/22	United States	486,895	390,472
Containers & Packaging 0.1%			
Flex Acquisition Co. Inc., Term Loan B, 5.349%, (1-Month USD LIBOR + 3.25%), 6/29/25	United States	193,721	188,515

Franklin K2 Long Short Credit Fund (continued)

	Country	Principal Amount*	Value
^{f,k} Senior Floating Rate Interests (continued)			
Diversified Consumer Services 0.4%			
^l Advantage Sales & Marketing Inc.,			
Term Loan 1L, 4.952%, (1-Month USD LIBOR + 3.25%), 7/23/21	United States	302,406	\$ 284,963
Term Loan B2, 4.952%, (1-Month USD LIBOR + 3.25%), 7/23/21	United States	244,870	230,747
			515,710
Diversified Telecommunication Services 0.9%			
CenturyLink Inc., Term Loan B, 4.452%, (3-Month USD LIBOR + 2.75%), 1/31/25	United States	572,822	573,359
Digicel International Finance Ltd., Term Loan B, 5.34%, (1-Month USD LIBOR + 3.25%), 5/27/24	Saint Lucia	283,049	238,646
Intelsat Jackson Holdings SA, Term Loan B5, 6.625%, 1/02/24	Luxembourg	329,824	327,969
			1,139,974
Electronic Equipment, Instruments & Components 0.3%			
Veritas U.S. Inc., Term Loan B1,			
6.202%, (1-Month USD LIBOR + 4.50%), 1/27/23	United States	254,064	238,079
6.604%, (1-Month USD LIBOR + 4.50%), 1/27/23	United States	90,744	85,034
			323,113
Multiline Retail 0.2%			
^l The Neiman Marcus Group LLC, Term Loan, 7.771%, (1-Month USD LIBOR + 3.25%), 10/25/23	United States	307,452	225,593
Professional Services 0.0%[†]			
Acosta Inc., Term Loan B1, 7.00%, (PRIME + 2.25%), 9/26/21	United States	185,429	34,652
Specialty Retail 1.1%			
^l PETCO Animal Supplies Inc., Term Loan B1, 5.177%, (3-Month USD LIBOR + 3.25%), 1/26/23	United States	311,563	247,381
PetSmart Inc., Term Loan B2, 5.77%, (1-Month USD LIBOR + 4.00%), 3/11/22	United States	802,366	781,805
Staples Inc., Term Loan B, 6.781%, (1-Month USD LIBOR + 5.00%), 4/16/26	United States	379,231	374,998
			1,404,184
Total Senior Floating Rate Interests (Cost \$4,211,337)			4,222,213
^m Credit-Linked Notes 0.5%			
^{a,d} ICBC Standard Bank PLC, (Ukraine), 144A, 15.36%, 10/01/21	Ukraine	5,336,000 UAH	234,579
^d JPMorgan Chase Bank NA, senior note, (Egypt Treasury Bill), 144A, 16.00%, 6/13/22	Egypt	2,500,000 EGP	160,636
^d JPMorgan Chase Bank NA, senior note, (Egypt Treasury Bill), 144A, 14.35%, 9/12/24	Egypt	3,471,000 EGP	215,927
			611,142
Foreign Government and Agency Securities 3.4%			
Government of Argentina, senior bond, 3.38%, 12/31/38	Argentina	36,899 EUR	15,652
^e Government of Bahrain, senior bond, Reg S, 7.00%, 1/26/26	Bahrain	200,000	231,144
Government of Brazil, senior bond, 4.75%, 1/14/50	Brazil	200,000	193,458
^e Government of Ecuador, senior note, Reg S, 10.75%, 3/28/22	Ecuador	200,000	176,562
Government of Italy, senior note, 2.375%, 10/17/24	Italy	373,000	365,657
^e Government of Paraguay, senior bond, Reg S, 4.625%, 1/25/23	Paraguay	200,000	211,283
Government of Poland, senior bond, 2.75%, 10/25/29	Poland	687,000 PLN	187,265
Government of Russia, senior bond, 7.25%, 5/10/34	Russia	88,432,000 RUB	1,461,914
senior note, 7.40%, 7/17/24	Russia	24,043,000 RUB	392,833
Government of South Africa, R186, senior bond, 10.50%, 12/21/26	South Africa	8,549,107 ZAR	646,209

Franklin K2 Long Short Credit Fund (continued)

	Country	Principal Amount*	Value
Foreign Government and Agency Securities (continued)			
Government of Turkey, senior bond, 5.75%, 5/11/47	Turkey	200,000	\$ 171,569
senior note, 6.35%, 8/10/24	Turkey	200,000	207,665
Total Foreign Government and Agency Securities (Cost \$4,091,420)			4,261,211
U.S. Government and Agency Securities 0.6%			
U.S. Treasury Bond, 3.00%, 2/15/48	United States	291,000	339,345
U.S. Treasury Note, 1.50%, 9/30/24	United States	56,900	56,538
1.50%, 10/31/24	United States	216,000	214,591
1.625%, 8/15/29	United States	100,000	98,537
1.75%, 11/15/29	United States	13,000	12,968
Total U.S. Government and Agency Securities (Cost \$673,372)			721,979
Asset-Backed Securities and Commercial Mortgage- Backed Securities 38.1%			
Diversified Financial Services 19.7%			
ⁿ Adjustable Rate Mortgage Trust, 2005-4, 3A1, FRN, 4.935%, 8/25/35	United States	70,499	70,760
Alternative Loan Trust, 2005-J10, 2A4, 6.00%, 10/25/35	United States	439,235	327,151
^d AMSR Trust, 144A, 2019-SFR1, H, 6.04%, 1/17/27	United States	750,000	749,961
2019-SFR1, I, 8.976%, 1/17/27	United States	750,000	749,968
^{d,o} Ashford Hospitality Trust, 2018-ASHF, E, 144A, FRN, 4.865%, (1-Month USD LIBOR + 3.10%), 4/15/35	United States	1,250,000	1,254,162
^d BANK, 2017-BNK9, D, 144A, 2.80%, 11/15/54	United States	1,100,000	969,565
Bear Stearns ALT-A Trust, FRN, ⁿ 2004-12, 2A4, 3.833%, 1/25/35	United States	320,625	316,902
^o 2004-6, B1, 4.558%, (1-Month USD LIBOR + 2.85%), 7/25/34	United States	346,495	377,332
^{d,o} Carlyle Global Market Strategies CLO Ltd., 2018-1A, CR, 144A, FRN, 4.716%, (3-Month USD LIBOR + 2.75%), 4/20/27	United States	2,500,000	2,376,898
^d Castlake Aircraft Securitization Trust, 2018-1, A, 144A, 4.125%, 6/15/43	United States	593,568	605,420
Chaseflex Trust, 2005-2, 1A1, 6.00%, 6/25/35	United States	504,288	487,196
Citimortgage Alternative Loan Trust, 2007-A1, 2A1, 5.50%, 1/25/22	United States	38,278	38,560
^{d,o} CVP Cascade Ltd., 2014-2A, C, 144A, FRN, 5.803%, (3-Month USD LIBOR + 3.80%), 7/18/26	United States	700,000	693,642
Delta Funding Home Equity Loan Trust, 2000-2, M2, 8.86%, 8/15/30	United States	323,921	286,195
^{o,p} FNMA, 2011-11, SA, IO, FRN, 4.742%, (6.45% - 1-Month USD LIBOR), 11/25/41	United States	2,335,598	482,590
^{d,o} Goldentree Loan Management US CLO 1 Ltd., 2017-1A, D, 144A, FRN, 5.316%, (3-Month USD LIBOR + 3.35%), 4/20/29	United States	1,000,000	1,001,269
^{d,i,o} Goldentree Loan Management US CLO 6 Ltd., 2019-6A, C, 144A, FRN, (3-Month USD LIBOR + 2.60%) 1/20/33	United States	1,000,000	1,000,000
^{d,o} GPMT Ltd., 2019-FL2, D, 144A, FRN, 4.715%, (1-Month USD LIBOR + 2.95%), 2/22/36	United States	1,000,000	1,000,500
^{d,o} Grippen Park CLO Ltd., 2017-1A, D, 144A, FRN, 5.266%, (3-Month USD LIBOR + 3.30%), 1/20/30	United States	500,000	490,906
^d GSMSC Pass-Through Trust, 144A, FRN, ^o 2009-4R, 2A3, 2.273%, (1-Month USD LIBOR + 0.45%), 12/26/36	United States	818,558	470,447
ⁿ 2009-5R, 3A2, 5.50%, 10/26/35	United States	231,855	226,207
^{d,o} Home Partners of America Trust, 144A, FRN, 2017-1, F, 5.302%, (1-Month USD LIBOR + 3.54%), 7/17/34	United States	500,000	501,927
2018-1, E, 3.613%, (1-Month USD LIBOR + 1.85%), 7/17/37	United States	1,200,000	1,201,974
JPMorgan Mortgage Acquisition Trust, 2007-CH2, AF2, 4.608%, 1/25/37	United States	180,859	135,397

Franklin K2 Long Short Credit Fund (continued)

	Country	Principal Amount*	Value
Asset-Backed Securities and Commercial Mortgage-Backed Securities (continued)			
Diversified Financial Services (continued)			
d,n,p JPMorgan Mortgage Trust, IO, 144A, FRN, 2019-8, B1X, 1.25%, 3/25/50	United States	829,700	\$ 55,922
2019-8, B2X, 1.00%, 3/25/50	United States	1,242,669	67,104
2019-8, B3X, 0.75%, 3/25/50	United States	796,462	32,416
d,o KREF Ltd., 2018-FL1, D, 144A, FRN, 4.313%, (1-Month USD LIBOR + 2.55%), 6/15/36	United States	300,000	301,290
d,o Madison Park Funding XXIII Ltd., 2017-23A, C, 144A, FRN, 4.286%, (3-Month USD LIBOR + 2.35%), 7/27/30	United States	700,000	690,404
o Morgan Stanley ABS Capital I Inc. Trust, 2004-NC6, M3, FRN, 3.883%, (1-Month USD LIBOR + 2.18%), 7/25/34	United States	40,985	41,378
d,o Morgan Stanley RE-REMIC Trust, 2013-R8, 2B2, 144A, FRN, 2.663%, (1-Month USD LIBOR + 0.42%), 9/26/36	United States	995,050	708,393
o National Collegiate Student Loan Trust, 2006-1, A5, FRN, 2.058%, (1-Month USD LIBOR + 0.35%), 3/25/33	United States	150,417	141,685
d Sapphire Aviation Finance I Ltd., 2018-1A, B, 144A, 5.926%, 3/15/40	United States	794,219	820,705
n Seasoned Credit Risk Transfer Trust, FRN, d 2016-1, M2, 144A, 3.75%, 9/25/55	United States	500,000	480,883
2017-3, M1, 4.00%, 7/25/56	United States	40,000	40,370
d S-Jets Ltd., 2017-1, A, 144A, 3.967%, 8/15/42	Bermuda	817,189	824,903
d,o STACR Trust, 144A, FRN, 2018-HRP1, B1, 5.458%, (1-Month USD LIBOR + 3.75%), 4/25/43	United States	800,000	837,439
2018-HRP1, B2, 13.458%, (1-Month USD LIBOR + 11.75%), 4/25/43	United States	1,235,179	1,499,134
n STARM Mortgage Loan Trust, 2007-2, 4A1, FRN, 4.831%, 4/25/37	United States	88,078	69,694
o Suntrust Alternative Loan Trust, 2005-1F, 1A1, FRN, 2.358%, (1-Month USD LIBOR + 0.65%), 12/25/35	United States	240,768	204,291
o Terwin Mortgage Trust, 2003-6HE, M2, FRN, 4.333%, (1-Month USD LIBOR + 2.63%), 11/25/33	United States	153,949	145,998
d,o TPG Real Estate Finance Issuer Ltd., 2018-FL2, D, 144A, FRN, 4.463%, (1-Month USD LIBOR + 2.70%), 11/15/37	United States	300,000	301,327
Wells Fargo Alternative Loan Trust, 2007-PA3, 2A2, 6.00%, 7/25/37	United States	187,836	187,939
d Wendys Funding LLC, 2018-1A, A2I, 144A, 3.573%, 3/15/48	United States	491,250	497,179
d,o Westchester CLO Ltd., 2007-1A, E, 144A, FRN, 6.209%, (3-Month USD LIBOR + 4.30%), 8/01/22	United States	683,547	685,991
d,o Zais CLO 1 Ltd., 2018-1A, CR, 144A, FRN, 5.411%, (3-Month USD LIBOR + 3.41%), 4/15/28	United States	500,000	477,513
			24,926,887
Mortgage Real Estate Investment Trusts (REITs) 18.4%			
n American Home Mortgage Assets Trust, 2005-1, 1A1, FRN, 3.957%, 11/25/35	United States	147,832	132,156
n Banc of America Mortgage Trust, FRN, 2005-K, 2A1, 3.978%, 12/25/35	United States	224,907	223,673
2005-L, 1A1, 4.129%, 1/25/36	United States	148,926	138,280
2005-L, 3A1, 4.645%, 1/25/36	United States	314,999	306,831
d,n BCAP LLC Trust, 2010-RR1, 1A4, 144A, FRN, 4.11%, 3/26/37	United States	333,820	298,213
n Bear Stearns ARM Trust, FRN, 2002-11, 1A2, 4.431%, 2/25/33	United States	4,745	4,530
2006-2, 4A1, 4.13%, 7/25/36	United States	56,897	53,124
d,o BX Trust, 144A, FRN, 2017-APPL, E, 4.915%, (1-Month USD LIBOR + 3.15%), 7/15/34	United States	1,530,000	1,535,639
2017-SLCT, E, 4.915%, (1-Month USD LIBOR + 3.15%), 7/15/34	United States	637,500	639,849
Citigroup Mortgage Loan Trust, o 2004-OPT1, M4, FRN, 2.713%, (1-Month USD LIBOR + 1.01%), 10/25/34	United States	588,602	566,679
2006-WF1, A2E, 4.866%, 3/25/36	United States	465,091	323,744
n 2007-AR5, 2A1A, FRN, 4.566%, 4/25/37	United States	135,209	132,151
d,o 2008-RR1, A1A1, 144A, FRN, 1.778%, (1-Month USD LIBOR + 0.07%), 1/25/37	United States	722,344	671,796

Franklin K2 Long Short Credit Fund (continued)

	Country	Principal Amount*	Value
Asset-Backed Securities and Commercial Mortgage-Backed Securities (continued)			
Mortgage Real Estate Investment Trusts (REITs) (continued)			
Countrywide Alternative Loan Trust,			
2005-73CB, 1A2, 6.25%, 1/25/36	United States	192,641	\$ 201,165
°2005-IM1, A1, FRN, 2.308%, (1-Month USD LIBOR + 0.60%), 1/25/36	United States	165,737	163,207
2006-4CB, 2A3, 5.50%, 4/25/36	United States	83,584	81,979
CS First Boston Mortgage Securities Corp.,			
2002-9, 1A2, 7.50%, 3/25/32	United States	497,114	526,622
°2004-AR3, CB2, FRN, 4.479%, 4/25/34	United States	144,447	138,599
°°2004-CF2, 2M2, 144A, FRN, 3.108%, (1-Month USD LIBOR + 1.40%), 5/25/44	United States	286,604	283,349
CSMC Mortgage-Backed Trust, 2006-4, 9A1, 6.50%, 5/25/36	United States	819,676	467,301
° FHLMC, 144A, FRN,			
°2018-SPI3, B, 4.156%, 8/25/48	United States	250,000	184,172
°2019-FTR1, B2, 10.058%, (1-Month USD LIBOR + 8.35%), 1/25/48	United States	350,000	411,694
°° FHLMC Seasoned Credit Risk Transfer Trust, 2017-2, M1, 144A, FRN, 4.00%, 8/25/56	United States	2,170,000	2,198,275
°° FHLMC Structured Agency Credit Risk Debt Notes, 144A, FRN,			
2017-SPI1, M2, 3.98%, 9/25/47	United States	150,000	148,673
2018-SPI1, M2, 3.739%, 2/25/48	United States	693,000	666,793
2018-SPI2, M2, 3.814%, 5/25/48	United States	350,000	340,017
2018-SPI3, M2, 4.156%, 8/25/48	United States	400,000	402,368
° First Horizon Alternative Mortgage Securities Trust, 2004-AA2, 2A1, FRN, 4.43%, 8/25/34	United States	264,707	267,690
GSR Mortgage Loan Trust,			
2004-6F, 2A4, 5.50%, 5/25/34	United States	214,539	222,861
°2004-9, B1, FRN, 4.395%, 8/25/34	United States	166,950	163,157
°2005-AR6, B1, FRN, 4.671%, 9/25/35	United States	631,281	586,532
2007-1F, 1A1, 5.00%, 12/25/35	United States	226,121	252,283
Home Equity Mortgage Trust, 2004-6, M2, 5.821%, 4/25/35	United States	1,562	1,562
Impac CMB Trust,			
2004-4, 2A2, 4.84%, 9/25/34	United States	174,682	187,803
°2004-8, 3B, FRN, 4.333%, (1-Month USD LIBOR + 2.63%), 8/25/34	United States	139,110	138,882
°2005-2, 2B, FRN, 4.183%, (1-Month USD LIBOR + 2.48%), 4/25/35	United States	120,874	118,255
°2005-4, 2B1, FRN, 4.183%, (1-Month USD LIBOR + 2.48%), 5/25/35	United States	147,439	145,871
°2005-4, 2M1, FRN, 2.458%, (1-Month USD LIBOR + 0.75%), 5/25/35	United States	172,012	162,617
°2005-8, 2B, FRN, 3.958%, (1-Month USD LIBOR + 2.25%), 2/25/36	United States	145,931	144,437
IndyMac INDX Mortgage Loan Trust, FRN,			
°2004-AR14, 2A1A, 2.428%, (1-Month USD LIBOR + 0.72%), 1/25/35	United States	636,585	548,886
°2005-AR21, 4A1, 3.899%, 10/25/35	United States	393,237	377,684
°2006-AR12, A1, 1.898%, (1-Month USD LIBOR + 0.19%), 9/25/46	United States	125,042	120,399
°2006-AR29, A2, 1.788%, (1-Month USD LIBOR + 0.08%), 11/25/36	United States	164,297	159,322
° J.P. Morgan Mortgage Trust, FRN,			
2006-A5, 6A1, 3.929%, 8/25/36	United States	339,778	314,724
2006-A7, 2A3, 3.873%, 1/25/37	United States	147,729	144,467
2007-A2, 2A1, 4.345%, 4/25/37	United States	210,303	198,118
°2019-2, B4, 144A, 4.668%, 8/25/49	United States	592,730	598,162
°° JPMorgan Chase Commercial Mortgage Securities Trust, 2018-ASH8, F,			
144A, FRN, 5.765%, (1-Month USD LIBOR + 4.00%), 2/15/35	United States	1,000,000	1,007,597
Lehman Mortgage Trust, 2005-3, 2A3, 5.50%, 1/25/36	United States	91,030	94,430
MASTR Adjustable Rate Mortgages Trust, FRN,			
°2004-10, B1, 4.151%, 10/25/34	United States	551,348	347,360
°2006-OA1, 1A1, 1.918%, (1-Month USD LIBOR + 0.21%), 4/25/46	United States	374,108	344,609
° MASTR Seasoned Securitization Trust, 2004-1, 4A1, FRN, 4.466%, 10/25/32	United States	63,194	65,611
°° Motel 6 Trust, 2017-MTL6, F, 144A, FRN, 6.015%, (1-Month USD LIBOR + 4.25%), 8/15/34	United States	583,715	588,972

Franklin K2 Long Short Credit Fund (continued)

	Country	Principal Amount*	Value
Asset-Backed Securities and Commercial Mortgage-Backed Securities (continued)			
Mortgage Real Estate Investment Trusts (REITs) (continued)			
o New Century Home Equity Loan Trust, 2003-4, M1, FRN, 2.833%, (1-Month USD LIBOR + 1.13%), 10/25/33	United States	568,296	\$ 572,269
n Provident Funding Mortgage Loan Trust, FRN, 2003-1, B1, 4.875%, 8/25/33	United States	64,886	63,224
2004-1, B1, 4.824%, 4/25/34	United States	33,417	32,227
n RALI Trust, FRN, 2005-QA2, NB1, 4.212%, 2/25/35	United States	5,416	5,022
2005-QA8, NB2, 3.696%, 7/25/35	United States	79,183	70,405
2005-QA8, NB3, 3.585%, 7/25/35	United States	9,193	7,361
Residential Asset Securitization Trust, 2006-A1, 1A1, 6.00%, 4/25/36	United States	428,650	311,117
n RFMSI Trust, 2007-SA2, 3A, FRN, 4.272%, 4/25/37	United States	1,249,385	584,905
o Seasoned Credit Risk Transfer Trust Series, 2017-2, M2, 144A, FRN, 4.00%, 8/25/56	United States	230,000	229,383
o Securitized Asset Backed Receivables LLC Trust, 2004-OP2, A2, FRN, 2.408%, (1-Month USD LIBOR + 0.70%), 8/25/34	United States	199,024	194,416
n Structured ARM Loan Trust, FRN, 2004-2, 1A1, 4.727%, 3/25/34	United States	133,944	136,240
2004-4, B1, 4.327%, 4/25/34	United States	450,412	425,234
n Wachovia Mortgage Loan Trust LLC, 2005-B, 1A1, FRN, 4.253%, 10/20/35	United States	545,513	542,294
o WaMu Mortgage Pass-Through Certificates Trust, 2007-OA3, 2A1A, FRN, 3.086%, (1 Year CMT + 0.76%), 4/25/47	United States	65,185	65,786
o Washington Mutual Mortgage Pass-Through Certificates, 2006-4, 3A2B, FRN, 1.788%, (1-Month USD LIBOR + 0.08%), 5/25/36	United States	316,661	249,897
n Washington Mutual MSC Mortgage Pass-Through Certificates Series Trust, FRN, 2003-AR2, M, 3.516%, 5/25/33	United States	995,567	969,164
2003-AR3, B1, 3.959%, 6/25/33	United States	270,801	253,638
			23,255,752
Total Asset-Backed Securities and Commercial Mortgage-Backed Securities (Cost \$46,913,047)			48,182,639
Municipal Bonds in Reorganization 0.8%			
Puerto Rico 0.8%			
i Puerto Rico Commonwealth GO, Public Improvement, Refunding, Series A, 5.50%, 7/01/39	United States	155,000	104,237
5.00%, 7/01/41	United States	225,000	144,000
i Puerto Rico Commonwealth GO, Refunding, Series A, 8.00%, 7/01/35	United States	1,330,000	824,600
Total Municipal Bonds in Reorganization (Cost \$873,250)			1,072,837
	Number of Contracts	Notional Amount#	
Options Purchased 0.0%†			
Calls – Exchange-Traded 0.0%†			
At Home Group Inc., December Strike Price \$10.00, Expires 12/20/19	59	5,900	1,770
Clearway Energy Inc., C, February Strike Price \$20.00, Expires 2/21/20	28	2,800	2,520
Energy Transfer LP, January Strike Price \$14.00, Expires 1/17/20	90	9,000	630
Energy Transfer LP, January Strike Price \$15.00, Expires 1/17/20	45	4,500	135
Tenneco Inc., A, January Strike Price \$13.00, Expires 1/17/20	141	14,100	13,042
			18,097

Franklin K2 Long Short Credit Fund (continued)

	Number of Contracts	Notional Amount [#]	Value
Options Purchased[†] (continued)			
Puts – Over-the-Counter 0.0%[†]			
Softbank Group Corp., January Strike Price 4,350.00 JPY, Counterparty GSCO, Expires 1/09/20	3,000	3,000	\$ 14,226
Interest Rate Swaptions – Puts – Over-the-Counter 0.0%[†]			
Pay fixed 2.24%, receive 3-Month USD LIBOR, Counterparty JPHQ, Expires 4/30/20	1	806,000	1,720
Total Options Purchased (Cost \$51,509)			34,043
Total Investments before Short Term Investments (Cost \$81,911,109)			84,094,093
	Country	Principal Amount[*]	
Short Term Investments 33.7%			
Convertible Bonds (Cost \$66,834) 0.0%[†]			
Independent Power & Renewable Electricity Producers 0.0%[†]			
^d Clearway Energy Inc., senior note, 144A, 3.25%, 6/01/20	United States	68,000	66,855
^mCredit-Linked Notes 1.2%			
^{a,d} Citigroup Global Markets Holdings Inc., senior note, 144A, (Arab Republic of Egypt), zero cpn., 1/09/20	Egypt	5,000,000	EGP 304,901
(Arab Republic of Egypt), zero cpn., 3/19/20	Egypt	3,848,385	EGP 228,052
(Ukraine), 15.70%, 1/10/20	Ukraine	5,349,761	UAH 209,671
(Ukraine), 15.74%, 1/17/20	Ukraine	5,133,254	UAH 223,314
^d HSBC Bank PLC, senior note, (Arab Republic of Egypt), 144A 5/07/20	Egypt	4,750,000	EGP 277,928
JPMorgan Chase Bank NA, senior note, (The Federal Republic of Nigeria), 1/13/20	Nigeria	81,000,000	NGN 220,176
^d (Egypt Treasury Bill), 144A, zero cpn., 7/09/20	Egypt	1,500,000	EGP 85,460
Total Credit-Linked Notes (Cost \$1,523,942)			1,549,502
		Shares	
Money Market Funds (Cost \$34,107,020) 27.0%			
^q Fidelity Investments Money Market Government Portfolio, Institutional, 1.53%	United States	34,107,020	34,107,020
		Principal Amount[*]	
Repurchase Agreements (Cost \$6,982,216) 5.5%			
^r Joint Repurchase Agreement, 1.618%, 12/02/19 (Maturity Value \$6,983,158)	United States	6,982,216	6,982,216
BNP Paribas Securities Corp. (Maturity Value \$4,513,913) Deutsche Bank Securities Inc. (Maturity Value \$1,179,525) HSBC Securities (USA) Inc. (Maturity Value \$1,289,720) Collateralized by U.S. Government Agency Securities, 4.50%, 1/20/49; ^s U.S. Treasury Bills, 5/14/20 – 8/13/20; U.S. Treasury Bonds, 7.875% – 8.75%, 5/15/20 – 2/15/21; and U.S. Treasury Notes, 1.625% – 2.875%, 6/30/20 – 11/15/21 (valued at \$7,120,864)			
Total Investments (Cost \$124,591,121) 100.2%			126,799,686
Securities Sold Short (8.5)%			(10,748,382)
Other Assets, less Liabilities 8.3%			10,502,604
Net Assets 100.0%			\$126,553,908

Franklin K2 Long Short Credit Fund (continued)

	Country	Shares	Value
†Securities Sold Short (8.5)%			
Common Stocks (0.3)%			
Equity Real Estate Investment Trusts (REITs) (0.2)%			
Seritage Growth Properties, A	United States	4,907	\$ (207,468)
Simon Property Group Inc.	United States	759	(114,768)
			<u>(322,236)</u>
Food Products (0.0)%†			
Dean Foods Co.	United States	46,977	<u>(4,872)</u>
Internet & Direct Marketing Retail (0.1)%			
Wayfair Inc., A	United States	847	<u>(71,927)</u>
Total Common Stocks (Proceeds \$480,520)			<u>(399,035)</u>
		Principal Amount*	
Corporate Bonds and Notes (7.4)%			
Auto Components (0.1)%			
^e Garrett LX I Sarl / Garrett Borrowing LLC, senior note, Reg S, 5.125%, 10/15/26	Switzerland	100,000	EUR (109,105)
Automobiles (0.1)%			
^e Jaguar Land Rover Automotive PLC, Reg S, 5.625%, 2/01/23	United Kingdom	107,000	<u>(107,801)</u>
Banks (0.1)%			
^{e,f,h} China Zheshang Bank Co. Ltd., junior sub. bond, FRN, Reg S, 5.45%, (US 5 Year CMT T-Note + 3.52%), Perpetual	China	72,000	<u>(71,640)</u>
Building Products (0.3)%			
^d Resideo Funding Inc., senior note, 144A, 6.125%, 11/01/26	United States	342,000	<u>(329,184)</u>
Chemicals (0.2)%			
^d Hexion Inc., senior note, 144A, 7.875%, 7/15/27	United States	201,000	<u>(203,015)</u>
Commercial Services & Supplies (0.5)%			
APX Group Inc., senior note, 7.625%, 9/01/23	United States	29,000	(25,387)
^e Intrum AB, senior note, Reg S, 3.125%, 7/15/24	Sweden	251,000	EUR (280,721)
^d KAR Auction Services Inc., senior note, 144A, 5.125%, 6/01/25	United States	289,000	(294,416)
			<u>(600,524)</u>
Communications Equipment (0.2)%			
^d Entercom Media Corp., 144A, secured note, 6.50%, 5/01/27	United States	114,000	(120,595)
senior note, 7.25%, 11/01/24	United States	124,000	(131,181)
			<u>(251,776)</u>
Construction & Engineering (0.3)%			
Fluor Corp., senior bond, 3.50%, 12/15/24	United States	281,000	(279,175)
4.25%, 9/15/28	United States	139,000	(137,212)
			<u>(416,387)</u>
Containers & Packaging (0.0)%†			
^d Flex Acquisition Co. Inc., senior note, 144A, 7.875%, 7/15/26	United States	22,000	<u>(21,061)</u>
Diversified Telecommunication Services (0.3)%			
Hughes Satellite Systems Corp., senior note, 6.625%, 8/01/26	United States	183,000	(201,364)
Sprint Capital Corp., senior bond, 6.875%, 11/15/28	United States	170,000	(181,695)
			<u>(383,059)</u>
Equity Real Estate Investment Trusts (REITs) (0.6)%			
Intu Metrocentre Finance PLC, senior secured bond, 4.125%, 12/06/28 ...	United Kingdom	696,000	GBP (829,769)

Franklin K2 Long Short Credit Fund (continued)

	Country	Principal Amount*	Value
† Securities Sold Short (continued)			
Corporate Bonds and Notes (continued)			
Food Products (0.2)%			
B&G Foods Inc., senior note,			
5.25%, 4/01/25	United States	116,000	\$ (117,450)
5.25%, 9/15/27	United States	174,000	(170,302)
			(287,752)
Health Care Providers & Services (0.1)%			
‡Mallinckrodt International Finance SA / Mallinckrodt CB LLC, senior note,			
144A, 5.625%, 10/15/23	United States	290,000	(82,045)
Independent Power & Renewable Electricity Producers (0.8)%			
NRG Energy Inc.,			
‡senior bond, 144A, 5.25%, 6/15/29	United States	978,000	(1,050,492)
senior note, 5.75%, 1/15/28	United States	17,000	(18,403)
			(1,068,895)
Machinery (0.4)%			
‡Ansaldo Energia SpA, senior note, Reg S, 2.75%, 5/31/24	Italy	100,000 EUR	(110,082)
‡Tereos Finance Groupe I SA, senior note, Reg S,			
4.25%, 3/04/20	France	250,000 EUR	(268,268)
4.125%, 6/16/23	France	100,000 EUR	(83,259)
			(461,609)
Marine (0.2)%			
‡CMA CGM SA, senior note, Reg S, 6.50%, 7/15/22	France	300,000 EUR	(292,871)
Media (1.8)%			
Altice Luxembourg SA, senior bond,			
‡144A, 7.625%, 2/15/25	Luxembourg	358,000	(373,662)
‡Reg S, 6.25%, 2/15/25	Luxembourg	525,000 EUR	(599,555)
‡Diamond Sports Group LLC / Diamond Sports Finance Co., senior note,			
144A, 6.625%, 8/15/27	United States	1,062,000	(1,037,824)
‡Virgin Media Finance PLC, senior note, Reg S, 4.50%, 1/15/25	United Kingdom	255,000 EUR	(288,447)
			(2,299,488)
Oil, Gas & Consumable Fuels (0.4)%			
Southwestern Energy Co., senior bond, 7.75%, 10/01/27	United States	526,000	(458,291)
Pharmaceuticals (0.2)%			
Teva Pharmaceutical Finance Netherlands III BV, senior note,			
6.75%, 3/01/28	Israel	278,000	(273,754)
Professional Services (0.1)%			
‡The House of Finance NV, senior secured note, Reg S,			
4.375%, 7/15/26	Belgium	100,000 EUR	(110,746)
Software (0.1)%			
‡Veritas U.S. Inc. / Veritas Bermuda Ltd., senior note, 144A,			
10.50%, 2/01/24	United States	204,000	(188,275)
Specialty Retail (0.1)%			
Bed Bath & Beyond Inc., senior bond,			
3.749%, 8/01/24	United States	132,000	(130,020)
4.915%, 8/01/34	United States	15,000	(10,661)
			(140,681)
Wireless Telecommunication Services (0.3)%			
‡Softbank Group Corp., senior bond, Reg S, 5.125%, 9/19/27	Japan	300,000	(304,515)
Sprint Corp., senior note, 7.625%, 3/01/26	United States	113,000	(123,591)
			(428,106)
Total Corporate Bonds and Notes			
(Proceeds \$9,446,551)			(9,415,834)

Franklin K2 Long Short Credit Fund (continued)

	Country	Principal Amount*	Value
†Securities Sold Short (continued)			
Foreign Government and Agency Securities			
(Proceeds \$689,886) (0.6)%			
Government of Italy, senior bond, 5.25%, 11/01/29	Italy	455,000 EUR	\$ (686,192)
U.S. Government and Agency Securities (0.2)%			
U.S. Treasury Note,			
2.00%, 5/31/24	United States	101,000	(102,616)
2.875%, 5/15/28	United States	133,000	(144,705)
Total U.S. Government and Agency Securities			(247,321)
(Proceeds \$235,501)			
Total Securities Sold Short (Proceeds \$10,852,458)			<u>\$ (10,748,382)</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.

ªFair valued using significant unobservable inputs. See Note 12 regarding fair value measurements.

ºNon-income producing.

ºA portion or all of the security has been segregated as collateral for securities sold short, open swap contracts, open forward exchange contracts and/or open futures contracts. At November 30, 2019, the aggregate value of these securities and/or cash pledged amounted to \$9,853,120, representing 7.8% of net assets.

ºSecurity 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. At November 30, 2019, the net value of these securities was \$45,208,142, representing 35.7% of net assets.

ºSecurity 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. At November 30, 2019, the net value of these securities was \$(1,391,006), representing (1.1)% of net assets.

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

ºIncome may be received in additional securities and/or cash.

ºPerpetual security with no stated maturity date.

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

ºSee Note 7 regarding defaulted securities.

ºSee Note 1(i) regarding senior floating rate interests.

ºSee Note 9 regarding unfunded loan commitments.

ºSee Note 1(g) regarding credit-linked notes.

ºAdjustable 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.

ºThe coupon rate shown represents the rate inclusive of any caps or floors, if applicable, in effect at period end.

ºInvestment 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.

ºThe rate shown is the annualized seven-day effective yield at period end.

ºSee Note 1(c) regarding joint repurchase agreement.

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

ºSee Note 1(h) regarding securities sold short.

ºSee Note 8 regarding restricted securities.

At November 30, 2019, the Fund had the following futures contracts outstanding. See Note 1(e).

Futures Contracts

Description	Type	Number of Contracts	Notional Amount*	Expiration Date	Value/Unrealized Appreciation (Depreciation)
Equity Contracts					
S&P 500 E-Mini Index	Short	2	\$314,370	12/20/19	\$ (13,528)
Interest Rate Contracts					
U.S. Treasury Long Bond	Long	1	158,969	3/20/20	162
Total Futures Contracts					<u>\$ (13,366)</u>

*As of period end.

Franklin K2 Long Short Credit Fund (continued)

At November 30, 2019, the Fund had the following forward exchange contracts outstanding. See Note 1(e).

Forward Exchange Contracts

Currency	Counterparty ^a	Type	Quantity	Contract Amount	Settlement Date	Unrealized Appreciation	Unrealized Depreciation
OTC Forward Exchange Contracts							
Brazilian Real	JPHQ	Buy	5,180,134	\$1,259,774	12/03/19	\$ —	\$ (36,422)
Brazilian Real	JPHQ	Sell	5,180,134	1,224,044	12/03/19	1,503	(811)
Chilean Peso	JPHQ	Buy	327,812,171	452,026	12/18/19	—	(43,700)
Chilean Peso	JPHQ	Sell	327,812,170	432,947	12/18/19	24,620	—
Chinese Yuan	JPHQ	Buy	3,591,823	507,642	12/18/19	2,972	—
Euro	JPHQ	Buy	208,093	230,446	12/18/19	47	(870)
Euro	JPHQ	Sell	413,651	458,994	12/18/19	2,546	—
Indonesian Rupiah	JPHQ	Buy	2,997,688,158	210,534	12/18/19	1,618	—
Indonesian Rupiah	JPHQ	Sell	14,319,101,885	1,005,661	12/18/19	—	(7,730)
Mexican Peso	JPHQ	Buy	4,278,916	219,089	12/18/19	—	(1,008)
Polish Zloty	JPHQ	Buy	1,279,683	330,230	12/18/19	4	(3,421)
Polish Zloty	JPHQ	Sell	2,024,076	516,730	12/18/19	—	(190)
Russian Ruble	JPHQ	Buy	45,307,608	703,696	12/18/19	699	(1,959)
Russian Ruble	JPHQ	Sell	137,078,715	2,068,537	12/18/19	—	(56,689)
South African Rand	JPHQ	Buy	3,038,931	205,321	12/18/19	1,559	—
South African Rand	JPHQ	Sell	16,311,880	1,089,914	12/18/19	—	(20,543)
Turkish Lira	JPHQ	Buy	1,195,530	201,505	12/18/19	5,415	—
Brazilian Real	JPHQ	Buy	2,590,067	609,872	1/03/20	817	—
British Pound	JPHQ	Sell	50,000	62,749	1/31/20	—	(2,068)
Euro	JPHQ	Sell	1,520,000	1,692,429	1/31/20	12,061	(2,051)
Japanese Yen	JPHQ	Sell	12,670,000	118,325	1/31/20	2,007	—
Total Forward Exchange Contracts						\$55,868	\$(177,462)
Net unrealized appreciation (depreciation)							\$(121,594)

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

At November 30, 2019, the Fund had the following credit default swap contracts outstanding. See Note 1(e).

Credit Default Swap Contracts

Description	Periodic Payment Rate	Received (Paid)	Payment Frequency	Maturity Date	Notional Amount ^a	Unamortized		Unrealized Appreciation (Depreciation)	Rating ^b
						Value	Upfront Payments (Receipts)		
Centrally Cleared Swap Contracts									
Contracts to Buy Protection^c									
Single Name									
Government of Mexico	(1.00)%		Quarterly	6/20/23	449,000	\$ (5,987)	\$ (63)	\$ (5,924)	
Government of Mexico	(1.00)%		Quarterly	12/20/23	417,000	(5,118)	4,899	(10,017)	
Government of South Africa	(1.00)%		Quarterly	6/20/22	376,000	2,002	19,788	(17,786)	
Government of South Africa	(1.00)%		Quarterly	6/20/24	900,000	28,538	39,510	(10,972)	
Government of South Korea	(1.00)%		Quarterly	6/20/24	405,474	(13,571)	(13,756)	185	
Government of Turkey	(1.00)%		Quarterly	6/20/22	6,000	204	316	(112)	
Government of Turkey	(1.00)%		Quarterly	6/20/24	462,000	39,148	46,375	(7,227)	
Traded Index									
CDX.NA.HY.25	(5.00)%		Quarterly	12/20/20	1,357,800	(28,033)	13,578	(41,611)	
CDX.NA.HY.32	(5.00)%		Quarterly	6/20/24	1,762,200	(142,185)	(104,621)	(37,564)	

Franklin K2 Long Short Credit Fund (continued)

Credit Default Swap Contracts (continued)

Description	Periodic Payment Rate		Maturity Date	Notional Amount ^a	Value	Unamortized Upfront Payments (Receipts)	Unrealized Appreciation (Depreciation)	Rating ^b
	Received (Paid)	Payment Frequency						
Centrally Cleared Swap Contracts (continued)								
Contracts to Sell Protection^{c,d}								
Single Name								
Government of South Africa	1.00%	Quarterly	12/20/22	184,000	\$ (1,705)	\$ (3,412)	\$ 1,707	BB
Government of Turkey	1.00%	Quarterly	12/20/22	136,000	(6,194)	(6,150)	(44)	B+
Total Centrally Cleared Swap Contracts					\$ (132,901)	\$ (3,536)	\$ (129,365)	

OTC Swap Contracts

Contracts to Buy Protection^c

Single Name			Counterparty					
Altice Luxembourg S.A.	(5.00)%	Quarterly	BZWS 12/20/22	18,000 EUR	(2,296)	218	(2,514)	
Altice Luxembourg S.A.	(5.00)%	Quarterly	BZWS 12/20/22	74,000 EUR	(9,441)	677	(10,118)	
Altice Luxembourg S.A.	(5.00)%	Quarterly	GSCO 12/20/24	132,000 EUR	(17,278)	(12,165)	(5,113)	
Altice Luxembourg S.A.	(5.00)%	Quarterly	JPHQ 12/20/22	94,000 EUR	(11,992)	1,417	(13,409)	
CenturyLink Inc.	(1.00)%	Quarterly	BZWS 12/20/23	63,000	1,429	5,611	(4,182)	
CenturyLink Inc.	(1.00)%	Quarterly	BZWS 12/20/23	63,000	1,429	5,665	(4,236)	
CenturyLink Inc.	(1.00)%	Quarterly	CITI 12/20/23	38,000	862	3,325	(2,463)	
CenturyLink Inc.	(1.00)%	Quarterly	CITI 12/20/23	63,000	1,429	5,707	(4,278)	
CenturyLink Inc.	(1.00)%	Quarterly	GSCO 12/20/23	63,000	1,429	5,555	(4,126)	
CenturyLink Inc.	(1.00)%	Quarterly	JPHQ 12/20/23	89,000	2,019	7,955	(5,936)	
Dish DBS Corp.	(5.00)%	Quarterly	CITI 12/20/24	365,000	(22,703)	(2,037)	(20,666)	
Government of Italy	(1.00)%	Quarterly	BOFA 6/20/24	233,000	2,394	2,226	168	
Government of Mexico	(1.00)%	Quarterly	CITI 6/20/24	301,000	(3,040)	1,504	(4,544)	
Groupe Casino	(5.00)%	Quarterly	BZWS 12/20/24	40,000 EUR	3,085	3,631	(546)	
Groupe Casino	(5.00)%	Quarterly	BZWS 12/20/24	60,000 EUR	4,628	5,777	(1,149)	
Groupe Casino	(5.00)%	Quarterly	JPHQ 12/20/24	55,000 EUR	4,243	5,452	(1,209)	
Hertz Corp. (The)	(5.00)%	Quarterly	BZWS 6/20/20	62,000	(2,241)	(87)	(2,154)	
Hertz Corp. (The)	(5.00)%	Quarterly	BZWS 12/20/21	27,000	(2,615)	97	(2,712)	
Hertz Corp. (The)	(5.00)%	Quarterly	BZWS 12/20/21	68,000	(6,587)	609	(7,196)	
Hertz Corp. (The)	(5.00)%	Quarterly	GSCO 6/20/20	59,000	(2,133)	—	(2,133)	
Hertz Corp. (The)	(5.00)%	Quarterly	GSCO 12/20/21	68,000	(6,587)	(989)	(5,598)	
Hertz Corp. (The)	(5.00)%	Quarterly	GSCO 12/20/21	68,000	(6,587)	968	(7,555)	
Hertz Corp. (The)	(5.00)%	Quarterly	GSCO 12/20/21	68,000	(6,587)	1,087	(7,674)	
Hertz Corp. (The)	(5.00)%	Quarterly	GSCO 12/20/21	136,000	(13,174)	1,215	(14,389)	
Hertz Corp. (The)	(5.00)%	Quarterly	GSCO 12/20/24	280,000	(33,305)	(25,637)	(7,668)	
Hertz Corp. (The)	(5.00)%	Quarterly	GSCO 12/20/24	303,000	(31,109)	(17,832)	(13,277)	
Intrum AB	(5.00)%	Quarterly	GSCO 12/20/24	169,000 EUR	(21,387)	(16,971)	(4,416)	
Itochu Corp.	(1.00)%	Quarterly	GSCO 6/20/22	17,300,000 JPY	(3,822)	(2,642)	(1,180)	
Itochu Corp.	(1.00)%	Quarterly	JPHQ 6/20/22	4,307,000 JPY	(952)	(679)	(273)	
Jaguar Land Rover Automotive PLC	(5.00)%	Quarterly	GSCO 12/20/24	18,000 EUR	(266)	166	(432)	
Jaguar Land Rover Automotive PLC	(5.00)%	Quarterly	GSCO 12/20/24	26,000 EUR	(385)	240	(625)	
JFE Holdings Inc.	(1.00)%	Quarterly	GSCO 6/20/22	5,746,000 JPY	(1,194)	(905)	(289)	
JFE Holdings Inc.	(1.00)%	Quarterly	JPHQ 6/20/22	3,802,000 JPY	(790)	(608)	(182)	
K. Hovnanian Enterprises Inc.	(5.00)%	Quarterly	BZWS 6/20/24	38,000	9,542	14,696	(5,154)	
K. Hovnanian Enterprises Inc.	(5.00)%	Quarterly	BZWS 12/20/24	113,000	30,792	37,830	(7,038)	
K. Hovnanian Enterprises Inc.	(5.00)%	Quarterly	GSCO 9/20/24	68,000	17,834	24,417	(6,583)	
K. Hovnanian Enterprises Inc.	(5.00)%	Quarterly	GSCO 12/20/24	57,000	15,532	19,082	(3,550)	
K. Hovnanian Enterprises Inc.	(5.00)%	Quarterly	MSCO 12/20/24	34,000	9,265	12,553	(3,288)	

Franklin K2 Long Short Credit Fund (continued)

Credit Default Swap Contracts (continued)

Description	Periodic Payment Rate		Counterparty	Maturity Date	Notional Amount ^a	Value	Unamortized Upfront Payments (Receipts)	Unrealized Appreciation (Depreciation)	Rating ^b
	Received (Paid)	Payment Frequency							
OTC Swap Contracts (continued)									
Contracts to Buy Protection^c (continued)									
Single Name (continued)									
K. Hovnanian Enterprises									
Inc.	(5.00)%	Quarterly	MSCS	12/20/23	21,000	\$ 4,749	\$ 5,393	\$ (644)	
Kimco Realty Corp.	(1.00)%	Quarterly	JPHQ	6/20/24	121,000	(877)	252	(1,129)	
Kohl's Corp.	(1.00)%	Quarterly	BOFA	6/20/24	24,000	149	697	(548)	
Kohl's Corp.	(1.00)%	Quarterly	CITI	6/20/24	24,000	149	716	(567)	
Kohl's Corp.	(1.00)%	Quarterly	GSCO	6/20/24	913,000	5,662	9,446	(3,784)	
Kohl's Corp.	(1.00)%	Quarterly	JPHQ	6/20/24	24,000	149	794	(645)	
Kohl's Corp.	(1.00)%	Quarterly	MSCS	12/20/24	24,000	149	827	(678)	
Lloyds Bank PLC	(1.00)%	Quarterly	BOFA	12/20/22	196,000 EUR	(4,079)	(1,496)	(2,583)	
Lloyds Bank PLC	(1.00)%	Quarterly	GSCO	12/20/23	210,000 EUR	(4,328)	289	(4,617)	
Lloyds Bank PLC	(1.00)%	Quarterly	GSCO	6/20/24	127,000 EUR	(4,655)	902	(5,557)	
Lloyds Bank PLC	(1.00)%	Quarterly	JPHQ	12/20/22	196,000 EUR	(4,079)	(1,628)	(2,451)	
Lloyds Bank PLC	(1.00)%	Quarterly	JPHQ	12/20/23	67,000 EUR	(1,381)	898	(2,279)	
Lloyds Bank PLC	(1.00)%	Quarterly	JPHQ	12/20/24	121,000 EUR	(126)	3,677	(3,803)	
Marubeni Corp.	(1.00)%	Quarterly	GSCO	6/20/22	27,269,000 JPY	(5,603)	(3,446)	(2,157)	
Marubeni Corp.	(1.00)%	Quarterly	JPHQ	6/20/22	6,291,000 JPY	(1,293)	(840)	(453)	
MBIA Inc.	(5.00)%	Quarterly	JPHQ	6/20/21	269,000	(22,008)	(13,290)	(8,718)	
MBIA Inc.	(5.00)%	Quarterly	JPHQ	12/20/24	174,000	(33,284)	(24,806)	(8,478)	
Mitsui O.S.K. Lines Ltd.	(1.00)%	Quarterly	JPHQ	6/20/22	9,678,000 JPY	(1,543)	(380)	(1,163)	
Mitsui O.S.K. Lines Ltd.	(1.00)%	Quarterly	JPHQ	6/20/22	3,618,000 JPY	(577)	(142)	(435)	
Nordstrom Inc.	(1.00)%	Quarterly	GSCO	6/20/24	4,000	24	191	(167)	
Nordstrom Inc.	(1.00)%	Quarterly	GSCO	6/20/24	22,000	130	1,050	(920)	
Nordstrom Inc.	(1.00)%	Quarterly	GSCO	6/20/24	60,800	360	3,098	(2,738)	
NRG Energy Inc.	(5.00)%	Quarterly	GSCO	6/20/24	24,000	(4,754)	(3,810)	(944)	
Simon Property Group LP ..	(1.00)%	Quarterly	JPHQ	12/20/24	542,000	(16,066)	(13,019)	(3,047)	
Softbank Group Corp.	(1.00)%	Quarterly	BZWS	12/20/23	12,747,000 JPY	3,487	4,547	(1,060)	
Softbank Group Corp.	(1.00)%	Quarterly	BZWS	6/20/24	6,374,000 JPY	2,516	1,854	662	
Softbank Group Corp.	(1.00)%	Quarterly	BZWS	6/20/24	12,747,000 JPY	5,032	4,531	501	
Softbank Group Corp.	(1.00)%	Quarterly	BZWS	6/20/24	25,494,000 JPY	10,065	7,450	2,615	
Softbank Group Corp.	(1.00)%	Quarterly	CITI	6/20/24	12,746,000 JPY	5,032	3,978	1,054	
Softbank Group Corp.	(1.00)%	Quarterly	GSCO	12/20/23	12,747,000 JPY	3,487	4,279	(792)	
Softbank Group Corp.	(1.00)%	Quarterly	GSCO	12/20/23	12,747,000 JPY	3,487	4,459	(972)	
Staples Inc.	(5.00)%	Quarterly	GSCO	6/20/25	361,000	(5,296)	9,847	(15,143)	
Telecom Italia SpA	(1.00)%	Quarterly	BZWS	12/20/24	116,000 EUR	2,378	4,899	(2,521)	
Transocean Inc.	(5.00)%	Quarterly	BZWS	6/20/22	2,000	48	40	8	
Transocean Inc.	(5.00)%	Quarterly	GSCO	6/20/22	33,000	784	826	(42)	
Transocean Inc.	(5.00)%	Quarterly	GSCO	6/20/23	98,000	7,078	(2,328)	9,406	
Transocean Inc.	(5.00)%	Quarterly	GSCO	6/20/23	109,000	7,873	(1,844)	9,717	
Transocean Inc.	(5.00)%	Quarterly	GSCO	6/20/23	34,000	2,456	(1,583)	4,039	
Transocean Inc.	(5.00)%	Quarterly	GSCO	12/20/24	239,000	32,354	20,670	11,684	
Transocean Inc.	(5.00)%	Quarterly	JPHQ	12/20/24	4,000	541	677	(136)	
Transocean Inc.	(5.00)%	Quarterly	JPHQ	12/20/24	138,000	18,681	23,397	(4,716)	
Transocean Inc.	(5.00)%	Quarterly	MSCO	12/20/24	20,000	2,707	3,195	(488)	
Contracts to Sell Protection^{c,d}									
Single Name									
CMA CGM S.A.	5.00%	Quarterly	BZWS	6/20/20	58,000 EUR	(1,088)	(4,063)	2,975	B+
CMA CGM S.A.	5.00%	Quarterly	GSCO	6/20/20	50,000 EUR	(938)	(2,684)	1,746	B+
K. Hovnanian Enterprises									
Inc.	5.00%	Quarterly	BZWS	12/20/23	9,000	(2,035)	(3,795)	1,760	CC

Franklin K2 Long Short Credit Fund (continued)

Credit Default Swap Contracts (continued)

Description	Periodic Payment Rate	Payment Frequency	Counterparty	Maturity Date	Notional Amount ^a	Value	Unamortized Upfront Payments (Receipts)	Unrealized Appreciation (Depreciation)	Rating ^b
OTC Swap Contracts (continued)									
Contracts to Sell Protection^{c,d} (continued)									
Single Name (continued)									
K. Hovnanian Enterprises Inc.	5.00%	Quarterly	GSCO	12/20/23	12,000	\$ (2,714)	\$ (4,261)	\$ 1,547	CC
Total OTC Swap Contracts						\$ (97,756)	\$126,592	\$(224,348)	
Total Credit Default Swap Contracts						\$(230,657)	\$123,056	\$(353,713)	

^aIn 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.

^bBased on Standard and Poor's (S&P) Rating for single name swaps.

^cPerformance 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.

^dThe Fund enters contracts to sell protection to create a long credit position.

At November 30, 2019, the Fund had the following interest rate swap contracts outstanding. See Note 1(e).

Interest Rate Swap Contracts

Description	Payment Frequency	Maturity Date	Notional Amount*	Value/Unrealized Appreciation (Depreciation)
Centrally Cleared Swap Contracts				
Receive Floating rate 3 Month USD-LIBOR Pay Fixed rate 1.75%	Semi-Annually	3/21/20	1,012,000	\$ (6,027)
Receive Floating rate 3 Month USD-LIBOR Pay Fixed rate 1.75%	Semi-Annually	6/20/20	1,500,000	(30,668)
Receive Floating rate 3 Month USD-LIBOR Pay Fixed rate 1.75%	Semi-Annually	9/18/21	1,500,000	(56)
Receive Fixed 5.88% Pay Floating BZDIOVRA Index	Annually	1/02/23	3,144,633 BRL	2,502
Receive Fixed 2.81% Pay Floating CFETS China Fixing Repo 7 Day rate	Quarterly	12/18/24	3,332,157 CNY	(2,425)
Receive Fixed 2.90% Pay Floating CFETS China Fixing Repo 7 Day rate	Quarterly	12/18/24	2,247,088 CNY	(358)
Receive Fixed 2.90% Pay Floating CFETS China Fixing Repo 7 Day rate	Quarterly	12/18/24	2,248,189 CNY	(395)
Receive Floating rate 3 Month USD-LIBOR Pay Fixed rate 2.25%	Semi-Annually	6/20/28	1,100,000	(127,203)
Receive Floating rate 3 Month USD-LIBOR Pay Fixed rate 1.68%	Semi-Annually	10/22/29	800,000	1,414
Receive Floating rate 6 Month GBP-LIBOR Pay Fixed rate 0.86%	Semi-Annually	3/18/70	361,637 GBP	22,101
Total Interest Rate Swap Contracts				\$(141,115)

*In U.S. dollars unless otherwise indicated.

Franklin K2 Long Short Credit Fund (continued)

At November 30, 2019, the Fund had the following total return swap contracts outstanding. See Note 1(e).

Total Return Swap Contracts

Underlying Instrument	Financing Rate	Payment Frequency	Counterparty	Maturity Date	Notional Value	Value/Unrealized Appreciation (Depreciation)
OTC Swap Contracts						
Equity Contracts – Long^a						
Clearway Energy Inc.	1-Month LIBOR + 0.40%	Monthly	GSCO	10/07/20	\$ 6,290	\$ 305
Clearway Energy Inc.	1-Month LIBOR + 0.40%	Monthly	GSCO	10/09/20	809	33
Clearway Energy Inc.	1-Month LIBOR + 0.40%	Monthly	GSCO	10/14/20	2,422	121
Clearway Energy Inc.	1-Month LIBOR + 0.40%	Monthly	GSCO	10/15/20	1,766	90
Clearway Energy Inc.	1-Month LIBOR + 0.40%	Monthly	GSCO	10/15/20	347	16
Clearway Energy Inc.	1-Month LIBOR + 0.40%	Monthly	GSCO	10/19/20	1,424	68
Clearway Energy Inc.	1-Month LIBOR + 0.40%	Monthly	GSCO	10/20/20	13,238	529
Clearway Energy Inc.	1-Month LIBOR + 0.40%	Monthly	GSCO	10/21/20	1,301	19
Clearway Energy Inc.	1-Month LIBOR + 0.40%	Monthly	GSCO	10/21/20	2,199	77
Clearway Energy Inc.	1-Month LIBOR + 0.40%	Monthly	GSCO	10/23/20	988	6
Clearway Energy Inc.	1-Month LIBOR + 0.40%	Monthly	GSCO	10/26/20	365	(2)
Clearway Energy Inc.	1-Month LIBOR + 0.40%	Monthly	GSCO	10/27/20	1,540	(10)
Clearway Energy Inc.	1-Month LIBOR + 0.40%	Monthly	GSCO	10/28/20	1,881	(5)
Clearway Energy Inc.	1-Month LIBOR + 0.40%	Monthly	GSCO	11/03/20	18,876	1,939
Energy Transfer Equity LP	1-Month LIBOR + 0.65%	Monthly	CITI	6/22/20	396,589	(71,706)
Energy Transfer Equity LP	1-Month LIBOR + 0.80%	Monthly	GSCO	11/17/20	99,000	4,813
Energy Transfer Equity LP	1-Month LIBOR + 0.50%	Monthly	BOFA	12/31/20	344,263	(8,960)
						(72,667)
Interest Rate Contracts – Long^a						
Egyptian Treasury Bill	3-Month LIBOR + 0.40%	Monthly	DBAB	5/12/20	126,359	1,540
Egyptian Treasury Bill	3-Month LIBOR + 0.40%	Monthly	GSCO	5/12/20	123,493	1,499
Government of Indonesia	3-Month LIBOR + 0.60%	Monthly	BOFA	4/15/20	437,914	2,654
Government of Indonesia	3-Month LIBOR + 0.60%	Quarterly	BOFA	6/22/20	54,205	2,415
Government of Indonesia	3-Month LIBOR + 0.60%	Quarterly	DBAB	5/15/24	73,343	3,248
Government of Indonesia	3-Month LIBOR + 0.60%	Monthly	DBAB	6/15/32	450,326	7,641
Government of Indonesia	3-Month LIBOR + 0.60%	Monthly	DBAB	5/15/48	218,570	(1,215)
						17,782
Total Total Return Swap Contracts						<u>\$(54,885)</u>

^aThe Fund receives the total return on the underlying instrument and pays a variable financing rate.

Statement of Assets and Liabilities

November 30, 2019 (unaudited)

Franklin K2 Long Short Credit Fund

Assets:

Investments in securities:	
Cost – Unaffiliated issuers	\$117,608,905
Cost – Unaffiliated repurchase agreements	6,982,216
Value – Unaffiliated issuers	\$119,817,470
Value – Unaffiliated repurchase agreements	6,982,216
Cash	686,388
Restricted cash for OTC derivatives (Note 1f)	50,000
Foreign currency, at value (cost \$366,520)	450,282
Receivables:	
Investment securities sold	2,549,575
Capital shares sold	182,603
Dividends and interest	504,666
Affiliates	10,430
Deposits with brokers for:	
Securities sold short	10,609,124
OTC derivative contracts	853,413
Futures contracts	15,300
Centrally cleared swap contracts	403,430
Due from brokers	400,800
Variation margin on futures contracts	666
Variation margin on centrally cleared swap contracts	5,611
OTC swap contracts (upfront payments \$312,527)	290,559
Unrealized appreciation on OTC forward exchange contracts	55,868
Unrealized appreciation on OTC swap contracts	74,895
Unrealized appreciation on unfunded loan commitments (Note 8)	29,161
Other assets	24
Total assets	143,972,481
Liabilities:	
Payables:	
Investment securities purchased	5,460,073
Capital shares redeemed	23,008
Management fees	147,163
Distribution fees	21,139
Deposits from brokers for:	
OTC derivative contracts	50,000
Due to brokers	156,846
OTC swap contracts (upfront receipts \$192,257)	163,967
Securities sold short, at value (proceeds \$10,852,458)	10,748,382
Unrealized depreciation on OTC forward exchange contracts	177,462
Unrealized depreciation on OTC swap contracts	354,128
Accrued expenses and other liabilities	116,405
Total liabilities	17,418,573
Net assets, at value	\$126,553,908
Net assets consist of:	
Paid-in capital	\$122,010,040
Total distributable earnings (loss)	4,543,868
Net assets, at value	\$126,553,908

Statement of Assets and Liabilities (continued)
November 30, 2019 (unaudited)

Franklin K2 Long Short Credit Fund

Class A:

Net assets, at value	\$30,651,297
Shares outstanding	2,895,637
Net asset value per share ^a	\$10.59
Maximum offering price per share (net asset value per share ÷ 94.50%)	\$11.20

Class C:

Net assets, at value	\$2,776,324
Shares outstanding	268,086
Net asset value and maximum offering price per share ^a	\$10.36

Class R:

Net assets, at value	\$216,115
Shares outstanding	20,634
Net asset value and maximum offering price per share	\$10.47

Class R6:

Net assets, at value	\$469,331
Shares outstanding	44,275
Net asset value and maximum offering price per share	\$10.60

Advisor Class:

Net assets, at value	\$92,440,841
Shares outstanding	8,716,400
Net asset value and maximum offering price per share	\$10.61

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

Statement of Operations

for the six months ended November 30, 2019 (unaudited)

Franklin K2 Long Short Credit Fund

Investment income:

Dividends:	
Unaffiliated issuers	\$ 300,347
Interest:	
Unaffiliated issuers	2,908,601
Total investment income	<u>3,208,948</u>

Expenses:

Management fees (Note 3a)	1,162,483
Distribution fees: (Note 3c)	
Class A	42,858
Class C	14,363
Class R	484
Transfer agent fees: (Note 3e)	
Class A	12,718
Class C	1,239
Class R	84
Class R6	260
Advisor Class	38,737
Custodian fees (Note 4)	36,892
Reports to shareholders	19,161
Registration and filing fees	43,221
Professional fees	79,025
Trustees' fees and expenses	14,979
Dividends and interest on securities sold short	308,590
Security borrowing fees	47,377
Other	34,008
Total expenses	<u>1,856,479</u>
Expense reductions (Note 4)	(21,111)
Expenses waived/paid by affiliates (Note 3f)	(228,686)
Net expenses	<u>1,606,682</u>
Net investment income	<u>1,602,266</u>

Realized and unrealized gains (losses):

Net realized gain (loss) from:	
Investments:	
Unaffiliated issuers	(23,500)
Written options	(44,499)
Foreign currency transactions	(44,361)
Forward exchange contracts	50,064
Futures contracts	(62,683)
Securities sold short	949,376
Swap contracts	(25,811)
Net realized gain (loss)	<u>798,586</u>

Net change in unrealized appreciation (depreciation) on:

Investments:	
Unaffiliated issuers	(55,996)
Translation of other assets and liabilities denominated in foreign currencies	(67,856)
Forward exchange contracts	(105,712)
Written options	7,025
Futures contracts	(711)
Securities sold short	(246,771)
Swap contracts	(302,865)
Net change in unrealized appreciation (depreciation)	<u>(772,886)</u>

Net realized and unrealized gain (loss)

25,700

Net increase (decrease) in net assets resulting from operations

\$1,627,966

Statements of Changes in Net Assets

Franklin K2 Long Short Credit Fund

	Six Months Ended November 30, 2019 (unaudited)	Year Ended May 31, 2019
Increase (decrease) in net assets:		
Operations:		
Net investment income	\$ 1,602,266	\$ 3,762,777
Net realized gain (loss)	798,586	306,833
Net change in unrealized appreciation (depreciation)	(772,886)	(199,299)
Net increase (decrease) in net assets resulting from operations	1,627,966	3,870,311
Distributions to shareholders:		
Class A	—	(1,424,776)
Class C	—	(100,011)
Class R	—	(5,804)
Class R6	—	(7,008)
Advisor Class	—	(2,656,330)
Total distributions to shareholders	—	(4,193,929)
Capital share transactions: (Note 2)		
Class A	2,428,906	(17,059,204)
Class C	(142,238)	409,512
Class R	47,679	5,307
Class R6	231,608	221,435
Advisor Class	4,328,957	41,498,540
Total capital share transactions	6,894,912	25,075,590
Net increase (decrease) in net assets	8,522,878	24,751,972
Net assets:		
Beginning of period	118,031,030	93,279,058
End of period	\$126,553,908	\$118,031,030

Notes to Financial Statements (unaudited)

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 two 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. Class C shares automatically convert to Class A shares after they have been held for 10 years. Each class of shares may differ by its initial sales load, contingent deferred sales charges, voting rights on matters affecting a single class, its exchange privilege and fees due to differing arrangements for distribution and transfer agent fees.

The following summarizes the Fund's significant accounting policies.

a. Financial Instrument Valuation

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

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

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

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

Franklin K2 Long Short Credit Fund (continued)

1. Organization and Significant Accounting

Policies (continued)

a. Financial Instrument Valuation (continued)

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

Franklin K2 Long Short Credit Fund (continued)

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 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 November 29, 2019.

d. Securities Purchased on a Delayed Delivery Basis

The Fund purchases securities on a delayed delivery basis, with payment and delivery scheduled for a future date. These transactions are subject to market fluctuations and are subject to the risk that the value at delivery may be more or less than the trade date purchase price. Although the Fund will generally purchase these securities with the intention of holding the securities, it may sell the securities before the settlement date. Sufficient assets have been segregated for these securities.

e. 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.

Franklin K2 Long Short Credit Fund (continued)

1. Organization and Significant Accounting

Policies (continued)

e. Derivative Financial Instruments (continued)

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 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 interest rate and 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 10 regarding other derivative information.

Franklin K2 Long Short Credit Fund (continued)**f. Restricted Cash**

At November 30, 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.

g. 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.

h. 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.

i. 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. On July 27, 2017, the United Kingdom's Financial Conduct Authority announced its intention to cease sustaining LIBOR after 2021. There remains uncertainty regarding the future utilization of LIBOR and the nature of any replacement rate. As such, the potential effect of a transition away from LIBOR on the Fund or the Fund's investments that use or may use a floating rate based on LIBOR cannot yet be determined.

j. 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 November 30, 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.

Franklin K2 Long Short Credit Fund (continued)

1. Organization and Significant Accounting Policies (continued)

k. 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.

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.

l. Accounting Estimates

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

m. Guarantees and Indemnifications

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

2. Shares of Beneficial Interest

At November 30, 2019, there were an unlimited number of shares authorized (without par value). Transactions in the Fund's shares were as follows:

	Six Months Ended November 30, 2019		Year Ended May 31, 2019	
	Shares	Amount	Shares	Amount
Class A Shares:				
Shares sold ^a	318,112	\$3,357,767	518,127	\$ 5,443,153
Shares issued in reinvestment of distributions	—	—	49,211	498,509
Shares redeemed	(88,301)	(928,861)	(2,195,001)	(23,000,866)
Net increase (decrease)	229,811	\$2,428,906	(1,627,663)	\$(17,059,204)

Franklin K2 Long Short Credit Fund (continued)

	Six Months Ended November 30, 2019		Year Ended May 31, 2019	
	Shares	Amount	Shares	Amount
Class C Shares:				
Shares sold	24,437	\$ 252,709	176,881	\$ 1,824,644
Shares issued in reinvestment of distributions	—	—	10,021	100,011
Shares redeemed ^a	(38,210)	(394,947)	(147,058)	(1,515,143)
Net increase (decrease)	(13,773)	\$ (142,238)	39,844	\$ 409,512
Class R Shares:				
Shares sold	5,832	\$ 60,910	1,059	\$ 10,958
Shares issued in reinvestment of distributions	—	—	533	5,358
Shares redeemed	(1,273)	(13,231)	(1,066)	(11,009)
Net increase (decrease)	4,559	\$ 47,679	526	\$ 5,307
Class R6 Shares:				
Shares sold	21,947	\$ 231,608	22,273	\$ 233,301
Shares issued in reinvestment of distributions	—	—	642	6,497
Shares redeemed	—	—	(1,782)	(18,363)
Net increase (decrease)	21,947	\$ 231,608	21,133	\$ 221,435
Advisor Class Shares:				
Shares sold	1,747,757	\$ 18,435,082	5,072,991	\$ 52,995,139
Shares issued in reinvestment of distributions	—	—	166,635	1,688,016
Shares redeemed	(1,336,710)	(14,106,125)	(1,263,815)	(13,184,615)
Net increase (decrease)	411,047	\$ 4,328,957	3,975,811	\$ 41,498,540

^aMay include a portion of Class C shares that were automatically converted to Class A.

3. Transactions with Affiliates

Franklin Resources, Inc. is the holding company for various subsidiaries that together are referred to as Franklin Templeton. Certain officers and trustees of the 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.

Franklin K2 Long Short Credit Fund (continued)

3. Transactions with Affiliates (continued)

a. Management Fees (continued)

Subadvisors

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

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 period:

Sales charges retained net of commissions paid to unaffiliated brokers/dealers . . .	\$505
CDSC retained	\$842

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.

Franklin K2 Long Short Credit Fund (continued)

For the period ended November 30, 2019, the Fund paid transfer agent fees of \$53,038 of which \$21,112 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 relating to litigation, indemnification, reorganizations, and liquidations) for Class A, Class C, Class R and Advisor Class of the Fund does not exceed 1.95%, and Class R6 does not exceed 1.89% based on the average net assets of each class until September 30, 2020. Total expenses waived or paid are not subject to recapture subsequent to the Fund's fiscal year end.

Prior to October 1, 2019, expenses (excluding certain fees and expenses as previously disclosed) for Class R6 were limited to 1.93% based on the average net assets of the class.

g. Other Affiliated Transactions

At November 30, 2019, Franklin Resources, Inc. owned 29.5% of the Fund's outstanding shares.

4. Expense Offset Arrangement

The Fund has entered into an arrangement with its custodian whereby credits realized as a result of uninvested cash balances are used to reduce a portion of the Fund's custodian expenses. During the period ended November 30, 2019, the custodian fees were reduced as noted in the Statement of Operations.

5. Income Taxes

At November 30, 2019, the cost of investments and net unrealized appreciation (depreciation) were as follows:

Cost of investments	\$114,149,495
Unrealized appreciation	\$ 3,796,419
Unrealized depreciation	(2,456,221)
Net unrealized appreciation (depreciation)	<u>\$ 1,340,198</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.

6. Investment Transactions

Purchases and sales of investments and securities sold short (excluding short term securities) for the period ended November 30, 2019, aggregated \$73,689,367 and \$79,084,657, respectively.

7. Credit Risk and Defaulted Securities

At November 30, 2019, the Fund had 17.8% 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

Franklin K2 Long Short Credit Fund (continued)

7. Credit Risk and Defaulted Securities (continued)

becomes probable that the income on debt securities, including those of distressed companies, will not be collected, the Fund discontinues accruing income and recognizes an adjustment for uncollectible interest.

At November 30, 2019, the aggregate long value of distressed company securities for which interest recognition has been discontinued was \$3,331,639, representing 2.6% of the Fund's net assets. For information as to specific securities, see the accompanying Statement of Investments.

8. Restricted Securities

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

At November 30, 2019, investments in restricted securities, excluding securities exempt from registration under the 1933 Act, were as follows:

Shares	Issuer	Acquisition Date	Cost	Value
947	^a One Call Corp.	10/28/19	\$ 44,369	\$113,545
3,821	^a One Call Corp., cvt. pfd.	10/28/19	179,099	458,341
Total Restricted Securities (Value is 0.5% of Net Assets)			\$223,468	\$571,886

^aThe Fund also invests in unrestricted securities of this issuer, valued at \$462,020 as of November 30, 2019.

9. 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 November 30, 2019, unfunded commitments were as follows:

Borrower	Unfunded Commitment
Advantage Sales & Marketing Inc., Term Loan 1L	\$ 69,996
Advantage Sales & Marketing Inc., Term Loan B2	32,922
Frontier Communications Corp., Term Loan B	221,402
Groupe Casino, Term Loan B	114,184
Intelsat Jackson Holdings SA, Term Loan	231,011
Macdonald Dett, Term Loan B	199,714
Mallinckrodt International Finance SA, Term Loan B	226,861
The Neiman Marcus Group LLC, Term Loan	14,208
Party City HoldCo., Term Loan	247,073
PETCO Animal Supplies Inc., Term Loan	195,915
Riverbed Technology Inc., Term Loan B	26,328
	\$1,579,614

Franklin K2 Long Short Credit Fund (continued)

10. Other Derivative Information

At November 30, 2019, the investments in derivative contracts are reflected in the Statement of Assets and Liabilities as follows:

Derivative Contracts Not Accounted for as Hedging Instruments	Asset Derivatives		Liability Derivatives	
	Statement of Assets and Liabilities Location	Fair Value	Statement of Assets and Liabilities Location	Fair Value
Interest rate contracts	Investments in securities, at value	\$ 1,720 ^a		
	Variation margin on futures contracts	162 ^b		
	Variation margin on centrally cleared swap contracts	26,017 ^b	Variation margin on centrally cleared swap contracts	\$ 167,132 ^b
	Unrealized appreciation on OTC swap contracts	18,997	Unrealized depreciation on OTC swap contracts	1,215
Foreign exchange contracts	Unrealized appreciation on OTC forward exchange contracts	55,868	Unrealized depreciation on OTC forward exchange contracts	177,462
Credit contracts	Variation margin centrally cleared swap contracts	1,892 ^b	Variation margin centrally cleared swap contracts	131,257 ^b
	OTC swap contracts (upfront payments)	290,559	OTC swap contracts (upfront receipts)	163,967
	Unrealized appreciation on OTC swap contracts	47,882	Unrealized depreciation on OTC swap contracts	272,230
Equity contracts	Investments in securities, at value	32,323 ^a		
	Unrealized appreciation on OTC swap contracts	8,016	Unrealized depreciation on OTC swap contracts	80,683
			Variation margin on futures contracts	13,528 ^b
Totals		<u>\$483,436</u>		<u>\$1,007,474</u>

^aPurchased option contracts are included in investments in securities, at value in the Statement of Assets and Liabilities.

^bThis 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.

For the period ended November 30, 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 Period	Statement of Operations Location	Net Change in Unrealized Appreciation (Depreciation) for the Period
	Net realized gain (loss) from:		Net change in unrealized appreciation (depreciation) on:	
Interest rate contracts	Futures contracts	\$ (37,938)	Investments	\$ (6,300) ^a
	Swap contracts	18,326	Futures contracts	13,053
Foreign exchange contracts	Forward exchange contracts	50,064	Swap contracts	(9,367)
			Forward exchange contracts	(105,712)
Credit contracts	Swap contracts	(38,132)	Swap contracts	(261,690)
Equity contracts	Investments	(173,439) ^a	Investments	(60,769) ^a
	Written options	(44,499)	Written options	7,025
	Futures contracts	(24,745)	Futures contracts	(13,764)
	Swap contracts	(6,005)	Swap contracts	(31,808)
Totals		<u>\$(256,368)</u>		<u>\$(469,332)</u>

^a 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.

Franklin K2 Long Short Credit Fund (continued)

10. Other Derivative Information (continued)

For the period ended November 30, 2019, the average month end notional amount of futures contracts, options and swap contracts represented \$578,100, 749,967 shares and \$27,863,502, respectively. The average month end contract value of forward exchange contracts was \$9,980,154.

At November 30, 2019, OTC derivative assets and liabilities are as follows:

	Gross Amounts of Assets and Liabilities Presented in the Statement of Assets and Liabilities	
	Assets^a	Liabilities^a
Derivatives		
Forward Exchange Contracts	\$ 55,868	\$177,462
Options Purchased	15,946	—
Swap Contracts	365,454	518,095
Total	<u>\$437,268</u>	<u>\$695,557</u>

^aAbsent 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.

At November 30, 2019, OTC derivative assets, which may be offset against OTC derivative liabilities, and collateral received from the counterparty, are as follows:

	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	Cash Collateral Received^a	
Counterparty					
BOFA	\$ 8,160	\$ (8,160)	\$ —	\$ —	\$ —
BZWS	106,653	(58,525)	—	—	48,128
CITI	16,284	(16,284)	—	—	—
DBAB	12,429	(1,215)	—	(11,214)	—
GSCO	169,667	(169,667)	—	—	—
JPHQ	15,788	(4,119)	—	—	11,669
JPHQ ^c	86,319	—	—	—	86,319
MSCO	15,748	(3,776)	—	—	11,972
MSCS	6,220	(1,322)	—	—	4,898
Total	<u>\$437,268</u>	<u>\$(263,068)</u>	<u>\$ —</u>	<u>\$(11,214)</u>	<u>\$162,986</u>

Franklin K2 Long Short Credit Fund (continued)

At November 30, 2019, OTC derivative liabilities, which may be offset against OTC derivative assets, and collateral pledged to the counterparty, are as follows:

	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 ^b	Cash Collateral Pledged ^a	
Counterparty					
BOFA	\$ 13,587	\$ (8,160)	\$ —	\$ (5,427)	\$ —
BZWS	58,525	(58,525)	—	—	—
CITI	106,261	(16,284)	—	—	89,977
DBAB	1,215	(1,215)	—	—	—
GSCO	219,555	(169,667)	—	(49,888)	—
JPHQ	4,119	(4,119)	—	—	—
JPHQ ^c	287,197	—	—	—	287,197
MSCO	3,776	(3,776)	—	—	—
MSCS	1,322	(1,322)	—	—	—
Total	\$695,557	\$(263,068)	\$ —	\$(55,315)	\$377,174

^aIn 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.

^bSee the accompanying Statement of Investments for securities pledged as collateral for derivatives.

^cRepresents derivatives not subject to an ISDA master agreement.

See Note 1(e) regarding derivative financial instruments.

See Abbreviations on page 51.

11. 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.

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 period ended November 30, 2019, the Fund did not use the Global Credit Facility.

12. 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.)

Franklin K2 Long Short Credit Fund (continued)

12. Fair Value Measurements (continued)

- 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 November 30, 2019, in valuing the Fund’s assets and liabilities carried at fair value, is as follows:

	Level 1	Level 2	Level 3	Total
Assets:				
Investments in Securities: ^a				
Equity Investments ^b	\$ 2,334,191	\$ —	\$ 571,886	\$ 2,906,077
Convertible Bonds	—	1,527,471	—	1,527,471
Corporate Bonds and Notes	—	18,295,679	—	18,295,679
Corporate Bonds and Notes in Reorganization	—	2,258,802	—	2,258,802
Senior Floating Rate Interests	—	4,222,213	—	4,222,213
Credit-Linked Notes	—	376,563	234,579	611,142
Foreign Government and Agency Securities	—	4,261,211	—	4,261,211
U.S. Government and Agency Securities	—	721,979	—	721,979
Asset-Backed Securities and Commercial Mortgage- Backed Securities	—	48,182,639	—	48,182,639
Municipal Bonds in Reorganization	—	1,072,837	—	1,072,837
Options Purchased	18,097	15,946	—	34,043
Short Term Investments	34,107,020	7,632,635	965,938	42,705,593
Total Investments in Securities	\$36,459,308	\$88,567,975	\$1,772,403	\$126,799,686
Other Financial Instruments:				
Futures Contracts	\$ 162	\$ —	\$ —	\$ 162
Forward Exchange Contracts	—	55,868	—	55,868
Swap Contracts	—	102,804	—	102,804
Unfunded Loan Commitments	—	29,161	—	29,161
Total Other Financial Instruments	\$ 162	\$ 187,833	\$ —	\$ 187,995
Liabilities:				
Other Financial Instruments:				
Securities Sold Short ^a	\$ 399,035	\$10,349,347	\$ —	\$ 10,748,382
Futures Contracts	13,528	—	—	13,528
Forward Exchange Contracts	—	177,462	—	177,462
Swap Contracts	—	652,517	—	652,517
Total Other Financial Instruments	\$ 412,563	\$11,179,326	\$ —	\$ 11,591,889

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

^bIncludes common, preferred and convertible 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 period. At November 30, 2019, the reconciliation of assets, is as follows:

	Balance at Beginning of Period	Purchases	Sales	Transfer Into (Out of) Level 3 ^a	Cost Basis Adjustments	Net Realized Gain (Loss)	Net Unrealized Appreciation (Depreciation)	Balance at End of Period	Net Change in Unrealized Appreciation (Depreciation) on Assets Held at Period End
Assets:									
Investments in Securities:									
Equity Investments ^b	\$ —	\$ —	\$ —	\$571,886	\$ —	\$ —	\$ —	\$ 571,886	\$ —
Credit-Linked Notes	—	220,265	—	—	—	—	14,314	234,579	14,314
Short Term Investments	—	924,182	—	—	—	—	41,756	965,938	41,756
Total Investments in Securities	\$ —	\$1,144,447	\$ —	\$571,886	\$ —	\$ —	\$56,070	\$1,772,403	\$56,070

^aThe investments were transferred into Level 3 as a result of the unavailability of other significant observable valuation inputs. May include amounts related to a corporate action.

^bIncludes common and preferred stocks.

Level 3 investments in securities include financial instruments with values derived using private transaction prices or non-public third party pricing information which is unobservable. They may also include fair value of immaterial financial instruments and/or other assets developed using various valuation techniques and unobservable inputs.

13. 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
BOFA Bank of America Corp.	BRL Brazilian Real	ADR American Depositary Receipt	CDX.NA.HY CDX North America
BZWS Barclays Bank PLC	CNY Chinese Yuan	ARM Adjustable Rate Mortgage	
CITI Citigroup, Inc.	EGP Egyptian Pound	BZDIOVRA Brazil Interbank Deposit Rate	High Yield
DBAB Deutsche Bank AG	EUR Euro	CFETS China Foreign Exchange Trade System	Index
GSCO The Goldman Sachs Group, Inc.	GBP British Pound	CLO Collateralized Loan Obligation	
JPHQ JP Morgan Chase & Co.	JPY Japanese Yen	CMT Constant Maturity Treasury Index	
MSCO Morgan Stanley	NGN Nigerian Naira	EURIBOR Euro Interbank Offered Rate	
MSCS Morgan Stanley Capital Services LLC	PLN Polish Zloty	FHLMC Federal Home Loan Mortgage Corp.	
	RUB Russian Ruble	FNMA Federal National Mortgage Association	
	UAH Ukraine Hryvnia	FRN Floating Rate Note	
	USD United States Dollar	GO General Obligation	
	ZAR South African Rand	IO Interest-Only	
		LIBOR London InterBank Offered Rate	
		PIK Payment-In-Kind	
		PRIME United States Prime Rate	
		REIT Real Estate Investment Trust	

Shareholder Information

Proxy Voting Policies and Procedures

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

Quarterly Statement of Investments

The Trust, on behalf of the Fund, files a complete statement of investments with the U.S. Securities and Exchange Commission for the first and third quarters for each fiscal year 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. 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.

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.



Semiannual Report and Shareholder Letter
Franklin K2 Long Short Credit Fund

Investment Manager

K2/D&S Management Co., L.L.C.

Distributor

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Shareholder Services

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