



**Annual Report  
and Shareholder Letter**

April 30, 2019

# Franklin Flexible Alpha Bond Fund

A SERIES OF FRANKLIN STRATEGIC SERIES



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# Franklin Templeton

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

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

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Dear Shareholder:

During the 12 months ended April 30, 2019, the U.S. economy grew, while annual inflation decreased, prompting the U.S. Federal Reserve (Fed) to raise its target range for the federal funds rate 0.25% at its June, September and December 2018 meetings. The 10-year Treasury yield, which moves inversely to price, decreased by period-end but rose to multi-year highs in 2018 amid a healthy U.S. economy and investor concerns about inflation, Fed actions and potentially decreased monetary stimulus by major central banks. However, the yield declined at times during the period and overall due to worries about slower global economic growth and political uncertainties, including turmoil in Italy and U.S.-China trade tensions. The U.S. dollar rose against its major trading partners during the period. In this environment, global government bonds, as measured by the FTSE World Government Bond Index, had slight losses in U.S. dollar terms.

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

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

In addition, Franklin Flexible Alpha Bond Fund's annual report includes more detail about prevailing conditions and a discussion about investment decisions during the period. 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 serving your investment needs in the years ahead.

Sincerely,



Edward Perks, CFA  
President and Chief Executive Officer –  
Investment Management  
Franklin Strategic Series

*This letter reflects our analysis and opinions as of April 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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to access your account, or to find helpful  
financial planning tools.

# Annual Report

## Franklin Flexible Alpha Bond Fund

This annual report for Franklin Flexible Alpha Bond Fund covers the fiscal year ended April 30, 2019.

### Your Fund's Goal and Main Investments

The Fund seeks to provide total return through a combination of current income and capital appreciation by investing at least 80% of its net assets in bonds and investments that provide exposure to bonds, including debt obligations of any credit quality, maturity or duration, all varieties of fixed income, variable rate and floating-rate debt securities and investments, money market instruments and derivatives. The Fund aims to provide attractive risk-adjusted total returns over a full market cycle. A full market cycle is a period of time that spans a full business and economic cycle, which may include periods of rising and declining interest rates.

#### What is duration?

Duration is a measure of a bond's price sensitivity to interest-rate changes. In general, a portfolio of securities with a lower duration can be expected to be less sensitive to interest-rate changes than a portfolio with a higher duration.

### Performance Overview

For the 12 months under review, the Fund's Class A shares posted a +2.18% cumulative total return. In comparison, the LIBOR USD 3-Month Rate Index posted a +2.53% total return.<sup>1</sup> The index tracks the interest rate at which banks offer to lend to one another in the wholesale money markets in London and is used to set the cost of various variable-rate loans. You can find more of the Fund's performance data in the Performance Summary beginning on page 7.

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

1. Source: Bloomberg LP.

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

2. Source: Bureau of Labor Statistics.

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

The dollar value, number of shares or principal amount, and names of all portfolio holdings are listed in the Fund's Statement of Investments (SOI). The SOI begins on page 16.

### Sector Exposure\*

4/30/19

|   | % of Total<br>Net Assets |
|---|--------------------------|
| Collateralized Loan Obligations         | 32.0%                    |
| Residential Mortgage-Backed Securities  | 24.8%                    |
| International Bonds                     | 8.8%                     |
| Floating-Rate Loans                     | 7.7%                     |
| Investment-Grade Corporates             | 4.2%                     |
| Commercial Mortgage-Backed Securities   | 4.1%                     |
| Covered Bonds                           | 3.2%                     |
| Treasury Inflation-Protected Securities | 3.0%                     |
| Municipal Bonds                         | 2.9%                     |
| High-Yield Corporates Securities        | 2.3%                     |
| Other                                   | 0.3%                     |
| Interest-Rate Derivatives               | -21.4%                   |
| Cash & Cash Equivalents                 | 17.7%                    |

\*Sector Exposure is intended to estimate the portfolio's exposure to various sectors, including any hedged or increased exposure through certain derivatives held in the portfolio (or their underlying reference assets) and may not total 100% or may be negative due to rounding, use of any derivatives, unsettled trades or other factors. Interest-Rate Derivatives sector consists of Treasury, interest rate and other derivatives that are primarily used for duration management; a negative number indicates that the Fund is seeking to hedge interest-rate risk.

### Economic and Market Overview

The U.S. economy grew during the 12-month period. The economy expanded at a faster rate in 2019's first quarter after moderating in the previous two quarters. Growth in consumer spending, inventory investment, exports, state and local government spending and business investment was partly offset by declines in housing investment and federal government spending. The manufacturing and services sectors expanded during the period. The unemployment rate decreased from 3.9% in April 2018 to 3.6% at period-end.<sup>2</sup> The annual inflation rate, as measured by the Consumer Price Index, decreased from 2.5% in April 2018 to 2.0% at period-end.<sup>2</sup>

**Dividend Distributions\***

5/1/18–4/30/19

| Month        | Dividend per Share (cents) |                |                |                | Advisor Class  |
|--------------|----------------------------|----------------|----------------|----------------|----------------|
|              | Class A                    | Class C        | Class R        | Class R6       |                |
| May          | 1.2601                     | 1.1178         | 1.4491         | 1.8198         | 1.9819         |
| June         | 1.3402                     | 1.2697         | 1.1372         | 1.4877         | 1.3418         |
| July         | 1.5761                     | 1.4688         | 1.5959         | 2.2257         | 1.9702         |
| August       | 1.7712                     | 1.4283         | 1.5541         | 2.1787         | 1.9776         |
| September    | 1.3435                     | 1.0819         | 1.1739         | 1.6741         | 1.5259         |
| October      | 2.4119                     | 2.3123         | 2.3735         | 2.1809         | 2.8921         |
| November     | 1.6017                     | 1.5295         | 1.5735         | 2.0028         | 1.9455         |
| December**   | 4.2708                     | 3.9167         | 4.0767         | 4.5955         | 4.4699         |
| January      | 2.0163                     | 1.7095         | 1.8316         | 2.3030         | 2.2009         |
| February     | 2.0238                     | 1.7256         | 1.8438         | 2.3209         | 2.2181         |
| March        | 1.8829                     | 1.5592         | 1.6940         | 2.1975         | 2.0406         |
| April        | 3.1506                     | 2.6354         | 2.8092         | 2.7517         | 3.2235         |
| <b>Total</b> | <b>24.6491</b>             | <b>21.7547</b> | <b>23.1125</b> | <b>27.7383</b> | <b>27.7880</b> |

\*The distribution amount is the sum of all net investment income distributions for the period shown. Assumes shares were purchased and held for the entire accrual period. Since dividends accrue daily, your actual distributions will vary depending on the date you purchased your shares and any account activity. All Fund distributions will vary depending upon current market conditions, and past distributions are not indicative of future trends.

\*\*Includes an additional 2.11 cent per share distribution to meet excise tax requirements.

The U.S. Federal Reserve (Fed) raised its target range for the federal funds rate by 0.25% three times during the period, to 2.25%–2.50%, and continued reducing its balance sheet as part of its plan to normalize monetary policy. At its March 2019 meeting, the Fed held its target range for the federal funds rate unchanged and signaled no rate hike in 2019. The Fed also lowered its forecasts for economic growth in 2019 and 2020. Furthermore, the Fed mentioned it would end its balance sheet normalization by the end of September 2019.

The 10-year Treasury yield, which moves inversely to its price, decreased during the period. The yield rose to multi-year highs several times in 2018 amid investor concerns about higher inflation and the Fed's interest-rate path. Concerns that other central banks might scale back monetary stimulus, several better-than-expected U.S. economic reports and optimism surrounding trade talks between the U.S. and China also pushed the yield higher. However, some factors weighed on the Treasury yield at certain points during the period, including concerns about political turmoil in Italy, political uncertainties in the U.S., tensions between the U.S. and North Korea, U.S. trade disputes with China and other trading partners, slower domestic and global economic growth, and the Fed's indications of a patient approach to its monetary policy

decisions. Overall, the 10-year Treasury yield declined from 2.95% at the beginning of the period to 2.51% at period-end.

**Currency Composition\***

4/30/19

|                                      | % of Total Net Assets |
|--------------------------------------|-----------------------|
| <b>North America</b>                 | <b>100.0%</b>         |
| U.S. Dollar                          | 100.4%                |
| Mexican Peso                         | 0.3%                  |
| Canadian Dollar                      | -0.7%                 |
| <b>Asia</b>                          | <b>0.4%</b>           |
| Japanese Yen                         | 0.6%                  |
| Indonesian Rupiah                    | 0.3%                  |
| South Korean Won                     | -0.2%                 |
| Chinese Renminbi                     | -0.3%                 |
| <b>Latin America &amp; Caribbean</b> | <b>0.3%</b>           |
| Columbian Peso                       | 0.2%                  |
| Uruguayan Peso                       | 0.1%                  |
| <b>Middle East &amp; Africa</b>      | <b>0.1%</b>           |
| South African Rand                   | 0.1%                  |
| <b>Europe</b>                        | <b>0.0%**</b>         |
| Turkish Lira                         | 0.1%                  |
| British Pound                        | 0.0%**                |
| Euro                                 | -0.1%                 |
| <b>Australia &amp; New Zealand</b>   | <b>-0.9%</b>          |
| Australian Dollar                    | -0.9%                 |

\*Currency Composition is intended to estimate the portfolio's exposure to various currencies, including any hedged or increased exposure through certain derivatives held in the portfolio (or their underlying reference assets) and may not total 100% or may be negative due to rounding, use of any derivatives, unsettled trades or other factors.

\*\*Rounds to less than 0.1%.

**Investment Strategy**

The Fund seeks to generate returns from various sources, other than solely from interest income, by allocating its portfolio across various risks (such as credit, currency and duration risks). In employing this strategy, the Fund has the flexibility to invest across all debt asset classes without regard to country, sector, quality, maturity or duration and without reference to a benchmark index.

The Fund may engage in active and frequent trading as part of its investment strategies and, at any given time, may have a substantial amount of its assets invested in any class of debt

securities, including, but not limited to: U.S. government and agency securities; foreign government and supranational debt securities; corporate bonds; corporate loans (and loan participations); collateralized debt and loan obligations; preferred securities; various types of mortgage-backed securities and other asset-backed securities (including covered bonds); municipal securities; and derivatives and other instruments with similar economic characteristics, or that provide exposure, to such debt securities.

## Manager's Discussion

Over the 12-month period, the Fund posted a positive total return and outperformed its benchmark on a gross basis. The Fund's yield curve and duration positioning was the primary source of positive alpha, driven primarily by duration exposure in the U.S. The Fund's spread-sector exposure also enhanced results, driven primarily by the Fund's exposure to floating-rate bank loans, sovereign emerging market bonds, residential mortgage-backed securities (RMBS) and basis trade positions (taking opposing long and short positions in two securities to profit from the convergence of their values). Additionally, the Fund's active currency positioning also contributed to returns, driven primarily by our Mexican peso, Australian dollar and Canadian dollar positions. In contrast, the Fund's exposure to collateralized loan obligations (CLOs) and covered bonds were the primary detractors from performance. Duration exposure in Europe also hurt returns over the period.

### What is the yield curve?

A yield curve is a line that plots the yield to maturity of bonds having equal credit quality against their maturity dates.

At period-end, we continued to invest in a broad set of global fixed income sectors, with a goal of achieving more consistent positive alpha with a risk-diversified portfolio. Additionally, we maintained the Fund's risk profile at a conservative level. We remained overweighted in CLOs as well as RMBS. In contrast, we sought to reduce the amount of risk in our portfolio over the period by reducing our exposure to investment-grade corporate securities. We continued to find what we considered value in credit-hedged corporate positions. We sought to hedge all of the high-yield corporate beta (or risk) in the Fund, although we retained exposure to select corporate loans and CLOs. We also retained positions in Treasury Inflation-Protected Securities as well as covered bonds. Overall, portfolio duration remained relatively neutral toward U.S. interest-rate and non-U.S. duration positions. The portfolio held an overweight exposure to the U.S. dollar versus a basket of developed market and commodity-related

currencies for most of the period. Overall currency allocation did not represent a significant portion of the Fund's risk allocation.

The Fund utilized derivatives, including credit default and currency swaps, currency forwards, futures, interest rate swaps, total return swaps and inflation index swaps, principally as a tool for efficient portfolio management and to manage overall portfolio risk. These derivative transactions may provide the same, or similar, net long or short exposure to select currencies, interest rates, countries, duration or credit risks in a less expensive way than by directly purchasing securities. In those markets where portfolio securities are readily available, the cost difference in normal market conditions may be small. Overall the portfolio continued to meet its risk-adjusted return target and remained in the lower end of our explicitly targeted risk range. Much of the Fund's derivatives positioning was to hedge various risks in the portfolio and achieve the goal of a stable return profile.

### 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.

### 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.

Thank you for your continued participation in Franklin Flexible Alpha Bond Fund. We look forward to serving your future investment needs.



A handwritten signature in black ink, appearing to read 'D. Yuen'.

David Yuen, CFA, FRM  
Co-Lead Portfolio Manager



A handwritten signature in black ink, appearing to read 'M. Materasso'.

Michael J. Materasso  
Co-Lead Portfolio Manager

Sonal Desai, Ph.D.

Portfolio Management Team

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

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

### Performance as of 4/30/19<sup>1</sup>

*Cumulative total return excludes sales charges. Average annual total return includes maximum sales charges. Sales charges will vary depending on the size of the investment and the class of share purchased. The maximum is 3.75% and the minimum is 0%. **Class A:** 3.75% maximum initial sales charge; **Advisor Class:** no sales charges. For other share classes, visit [franklintempleton.com](http://franklintempleton.com).*

| Share Class              | Cumulative Total Return <sup>2</sup> | Average Annual Total Return <sup>3</sup> |
|--------------------------|--------------------------------------|--|
| <b>A<sup>4</sup></b>     |                                      |  |
| 1-Year                   | +2.18% <sup>5</sup>                  | -1.64%                                   |
| 3-Year                   | +5.19%                               | +0.43%                                   |
| Since Inception (8/3/15) | +4.83%                               | +0.24%                                   |
| <b>Advisor</b>           |                                      |  |
| 1-Year                   | +2.20%                               | +2.20%                                   |
| 3-Year                   | +5.57%                               | +1.82%                                   |
| Since Inception (8/3/15) | +5.24%                               | +1.37%                                   |

| Share Class | Distribution Rate <sup>6</sup> | 30-Day Standardized Yield <sup>7</sup> |                      |
|-------------|--------------------------------|--|----------------------|
|             |                                | (with fee waiver)                      | (without fee waiver) |
| A           | 3.59%                          | 2.82%                                  | 2.47%                |
| Advisor     | 3.87%                          | 3.18%                                  | 2.81%                |

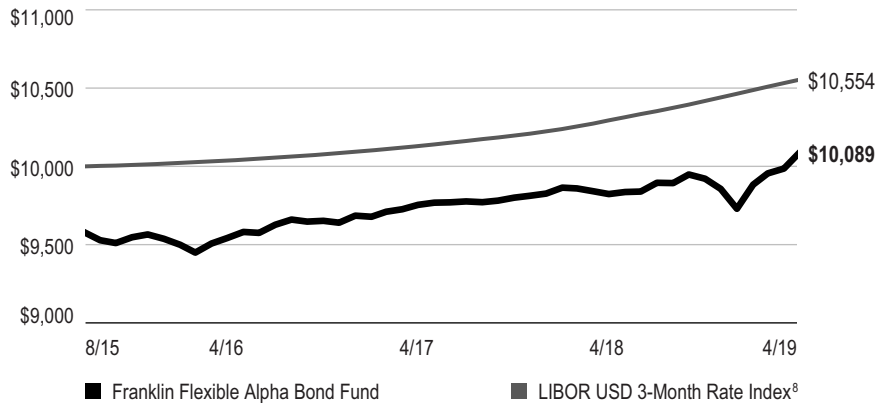
*Performance data represent past performance, which does not guarantee future results. Investment return and principal value will fluctuate, and you may have a gain or loss when you sell your shares. Current performance may differ from figures shown. For most recent month-end performance, go to [franklintempleton.com](http://franklintempleton.com)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

See page 9 for Performance Summary footnotes.

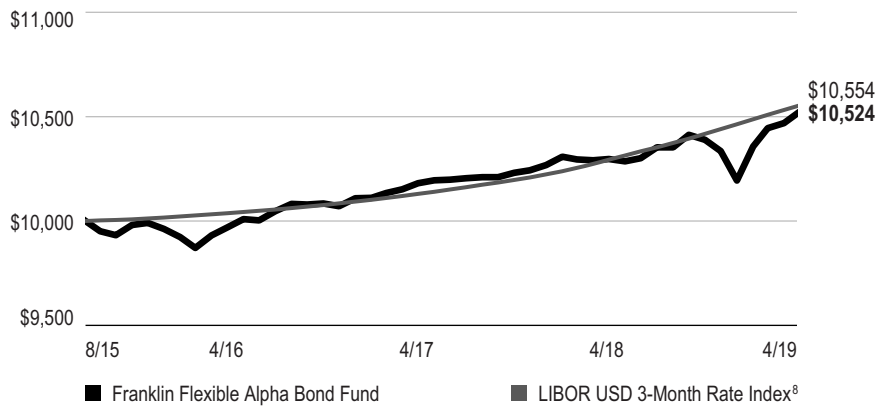
### Total Return Index Comparison for a Hypothetical \$10,000 Investment<sup>1</sup>

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

#### Class A (8/3/15–4/30/19)



#### Advisor Class (8/3/15–4/30/19)



See page 9 for Performance Summary footnotes.

## Distributions (5/1/18–4/30/19)

| Share Class | Net Investment Income | Short-Term Capital Gain | Long-Term Capital Gain | Total      |
|-------------|-----------------------|-------------------------|------------------------|------------|
| A           | \$0.246491            | \$0.0022                | \$0.0105               | \$0.259191 |
| C           | \$0.217547            | \$0.0022                | \$0.0105               | \$0.230247 |
| R           | \$0.231125            | \$0.0022                | \$0.0105               | \$0.243825 |
| R6          | \$0.277383            | \$0.0022                | \$0.0105               | \$0.290083 |
| Advisor     | \$0.277880            | \$0.0022                | \$0.0105               | \$0.290580 |

## Total Annual Operating Expenses<sup>9</sup>

| Share Class | With Fee Waiver | Without Fee Waiver |
|-------------|-----------------|--------------------|
| A           | 1.19%           | 1.24%              |
| Advisor     | 0.94%           | 0.99%              |

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. Changes in the financial strength of a bond issuer or in a bond's credit rating may affect its value. Interest rate movements and mortgage prepayments will affect the Fund's share price and yield. During periods of declining interest rates, principal prepayments tend to increase as borrowers refinance their mortgages at lower rates; therefore the Fund may be forced to reinvest returned principal at lower interest rates, reducing income. Bond prices generally move in the opposite direction of interest rates. Thus, as the prices of bonds in the Fund adjust to a rise in interest rates, the Fund's share price may decline. The Fund may be affected by issuers that fail to make interest payments and repay principal when due. The risks associated with higher-yielding, lower-rated securities (commonly called junk bonds) include higher risk of default and loss of principal. Derivatives, including currency management strategies, involve costs and can create economic leverage in the portfolio, which may result in significant volatility and cause the Fund to participate in losses (as well as enable gains) in an amount that exceeds the Fund's initial investment. The Fund may not achieve the anticipated benefits, and may realize losses when a counterparty fails to perform as intended. The Fund is actively managed but there is no guarantee that the manager's investment decisions will produce the desired results. The Fund's prospectus also includes a description of the main investment risks.

1. The Fund has an expense reduction and a fee waiver associated with any investments it makes in a Franklin Templeton money fund and/or other Franklin Templeton fund, contractually guaranteed through 8/31/19. Fund investment results reflect the expense reduction and fee waiver; without these reductions, 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 3/1/19, these shares were offered at a higher initial sales charge of 4.25%, thus actual returns would have differed. Total returns with sales charges have been restated to reflect the current maximum initial sales charge of 3.75%.
5. Total return information is based on net asset values calculated for shareholder transactions. Certain adjustments were made to the net assets of the Fund at 4/30/18 for financial reporting purposes, and as a result, the total returns based on those net asset values differ from the adjusted total returns reported in the Financial Highlights.
6. Distribution rate is based on an annualization of the sum of the respective class's past 30 days' daily distributions and the maximum offering price (NAV for Advisor Class) per share on 4/30/19.
7. The Fund's 30-day standardized yield is calculated over a trailing 30-day period using the yield to maturity on bonds and/or the dividends accrued on stocks. It may not equal the Fund's actual income distribution rate, which reflects the Fund's past dividends paid to shareholders.
8. Source: Bloomberg LP. The LIBOR USD 3-Month Rate Index tracks the interest rate at which banks offer to lend to one another in the wholesale money markets in London and is used to set the cost of various variable-rate loans.
9. Figures are as stated in the Fund's current prospectus and may differ from the expense ratios disclosed in the Your Fund's Expenses and Financial Highlights sections in this report. In periods of market volatility, assets may decline significantly, causing total annual Fund operating expenses to become higher than the figures shown. See [www.franklintempletondatasources.com](http://www.franklintempletondatasources.com) for additional data provider information.

## Your Fund's Expenses

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

### Actual Fund Expenses

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

### Hypothetical Example for Comparison with Other Funds

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

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

| Share Class | Beginning Account Value 11/1/18 | Actual<br>(actual return after expenses) |  | Hypothetical<br>(5% annual return before expenses) |  | Net Annualized Expense Ratio <sup>2</sup> |
|-------------|---------------------------------|--|--|--|--|---|
|             |                                 | Ending Account Value 4/30/19             | Expenses Paid During Period 11/1/18–4/30/19 <sup>1,2</sup> | Ending Account Value 4/30/19                       | Expenses Paid During Period 11/1/18–4/30/19 <sup>1,2</sup> |   |
| A           | \$1,000                         | \$1,011.70                               | \$5.59   | \$1,019.24   | \$5.61   | 1.12%                                     |
| C           | \$1,000                         | \$1,009.90                               | \$7.57   | \$1,017.26   | \$7.60   | 1.52%                                     |
| R           | \$1,000                         | \$1,010.60                               | \$6.83   | \$1,018.00   | \$6.85   | 1.37%                                     |
| R6          | \$1,000                         | \$1,014.10                               | \$3.00   | \$1,021.82   | \$3.01   | 0.60%                                     |
| Advisor     | \$1,000                         | \$1,013.00                               | \$4.34   | \$1,020.48   | \$4.36   | 0.87%                                     |

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 181/365 to reflect the one-half year period.

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

## Financial Highlights

### Franklin Flexible Alpha Bond Fund

|  | Year Ended April 30, |                    |          |                   |
|--|----------------------|--------------------|----------|-------------------|
|  | 2019                 | 2018               | 2017     | 2016 <sup>a</sup> |
| <b>Class A</b>   |                      |                    |          |                   |
| <b>Per share operating performance</b>   |                      |                    |          |                   |
| (for a share outstanding throughout the year)                                  |                      |                    |          |                   |
| Net asset value, beginning of year . . . . .                                   | \$ 9.79              | \$ 9.86            | \$ 9.88  | \$ 10.00          |
| Income from investment operations <sup>b</sup> :                               |                      |                    |          |                   |
| Net investment income . . . . .  | 0.249 <sup>c</sup>   | 0.166 <sup>c</sup> | 0.180    | 0.099             |
| Net realized and unrealized gains (losses) . . . . .                           | (0.080)              | (0.066)            | 0.017    | (0.123)           |
| Total from investment operations . . . . .                                     | 0.169                | 0.100              | 0.197    | (0.024)           |
| Less distributions from:   |                      |                    |          |                   |
| Net investment income . . . . .  | (0.246)              | (0.160)            | (0.217)  | (0.096)           |
| Net realized gains . . . . .   | (0.013)              | (0.010)            | —        | —                 |
| Total distributions . . . . .  | (0.259)              | (0.170)            | (0.217)  | (0.096)           |
| Net asset value, end of year . . . . .   | \$ 9.70              | \$ 9.79            | \$ 9.86  | \$ 9.88           |
| <br>   |                      |                    |          |                   |
| Total return <sup>d</sup> . . . . .  | 1.76%                | 1.02%              | 2.22%    | (0.34)%           |
| <b>Ratios to average net assets<sup>e</sup></b>                                |                      |                    |          |                   |
| Expenses before waiver and payments by affiliates . . . . .                    | 1.19%                | 0.97%              | 3.17%    | 3.47%             |
| Expenses net of waiver and payments by affiliates <sup>f</sup> . . . . .       | 1.04%                | 0.79%              | 0.67%    | 0.84%             |
| Net investment income . . . . .  | 2.60%                | 1.80%              | 1.83%    | 1.37%             |
| <b>Supplemental data</b>   |                      |                    |          |                   |
| Net assets, end of year (000's) . . . . .                                      | \$1,458              | \$1,132            | \$10,443 | \$10,200          |
| Portfolio turnover rate . . . . .  | 24.74%               | 48.04%             | 90.37%   | 40.12%            |
| Portfolio turnover rate excluding mortgage dollar rolls <sup>g</sup> . . . . . | 24.00%               | 19.40%             | 57.79%   | 30.05%            |

<sup>a</sup>For the period August 3, 2015 (commencement of operations) to April 30, 2016.

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

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

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

<sup>e</sup>Ratios are annualized for periods less than one year, except for non-recurring expenses, if any.

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

<sup>g</sup>See Note 1(f) regarding mortgage dollar rolls.

**Franklin Flexible Alpha Bond Fund** (continued)

|  | Year Ended April 30, |         |         |                   |
|--|----------------------|---------|---------|-------------------|
|  | 2019                 | 2018    | 2017    | 2016 <sup>a</sup> |
| <b>Class C</b>   |                      |         |         |                   |
| <b>Per share operating performance</b>   |                      |         |         |                   |
| (for a share outstanding throughout the year)                                  |                      |         |         |                   |
| Net asset value, beginning of year . . . . .                                   | \$ 9.73              | \$ 9.80 | \$ 9.86 | \$ 10.00          |
| Income from investment operations <sup>b</sup> :                               |                      |         |         |                   |
| Net investment income . . . . .  | 0.212 <sup>c</sup>   | 0.120   | 0.130   | 0.072             |
| Net realized and unrealized gains (losses) . . . . .                           | (0.071)              | (0.062) | (0.006) | (0.131)           |
| Total from investment operations . . . . .                                     | 0.141                | 0.058   | 0.124   | (0.059)           |
| Less distributions from:   |                      |         |         |                   |
| Net investment income . . . . .  | (0.218)              | (0.118) | (0.184) | (0.081)           |
| Net realized gains . . . . .   | (0.013)              | (0.010) | —       | —                 |
| Total distributions . . . . .  | (0.231)              | (0.128) | (0.184) | (0.081)           |
| Net asset value, end of year . . . . .   | \$ 9.64              | \$ 9.73 | \$ 9.80 | \$ 9.86           |
| <br>   |                      |         |         |                   |
| Total return <sup>d</sup> . . . . .  | 1.58%                | 0.49%   | 1.47%   | (0.69)%           |
| <br>   |                      |         |         |                   |
| <b>Ratios to average net assets<sup>e</sup></b>                                |                      |         |         |                   |
| Expenses before waiver and payments by affiliates . . . . .                    | 1.55%                | 1.58%   | 3.88%   | 3.98%             |
| Expenses net of waiver and payments by affiliates <sup>f</sup> . . . . .       | 1.40%                | 1.40%   | 1.38%   | 1.34%             |
| Net investment income . . . . .  | 2.24%                | 1.19%   | 1.12%   | 0.87%             |
| <br>   |                      |         |         |                   |
| <b>Supplemental data</b>   |                      |         |         |                   |
| Net assets, end of year (000's) . . . . .                                      | \$368                | \$279   | \$245   | \$204             |
| Portfolio turnover rate . . . . .  | 24.74%               | 48.04%  | 90.37%  | 40.12%            |
| Portfolio turnover rate excluding mortgage dollar rolls <sup>g</sup> . . . . . | 24.00%               | 19.40%  | 57.79%  | 30.05%            |

<sup>a</sup>For the period August 3, 2015 (commencement of operations) to April 30, 2016.

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

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

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

<sup>e</sup>Ratios are annualized for periods less than one year, except for non-recurring expenses, if any.

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

<sup>g</sup>See Note 1(f) regarding mortgage dollar rolls.

**Franklin Flexible Alpha Bond Fund** (continued)

|  | Year Ended April 30, |         |         |                   |
|--|----------------------|---------|---------|-------------------|
|  | 2019                 | 2018    | 2017    | 2016 <sup>a</sup> |
| <b>Class R</b>   |                      |         |         |                   |
| <b>Per share operating performance</b>   |                      |         |         |                   |
| (for a share outstanding throughout the year)                                  |                      |         |         |                   |
| Net asset value, beginning of year . . . . .                                   | \$ 9.78              | \$ 9.86 | \$ 9.86 | \$ 10.00          |
| Income from investment operations <sup>b</sup> :                               |                      |         |         |                   |
| Net investment income . . . . .  | 0.230 <sup>c</sup>   | 0.112   | 0.112   | 0.072             |
| Net realized and unrealized gains (losses) . . . . .                           | (0.076)              | (0.058) | 0.095   | (0.127)           |
| Total from investment operations . . . . .                                     | 0.154                | 0.054   | 0.207   | (0.055)           |
| Less distributions from:   |                      |         |         |                   |
| Net investment income . . . . .  | (0.231)              | (0.124) | (0.207) | (0.085)           |
| Net realized gains . . . . .   | (0.013)              | (0.010) | —       | —                 |
| Total distributions . . . . .  | (0.244)              | (0.134) | (0.207) | (0.085)           |
| Net asset value, end of year . . . . .   | \$ 9.69              | \$ 9.78 | \$ 9.86 | \$ 9.86           |
| <br>   |                      |         |         |                   |
| Total return <sup>d</sup> . . . . .  | 1.71%                | 0.54%   | 2.21%   | (0.65)%           |
| <b>Ratios to average net assets<sup>e</sup></b>                                |                      |         |         |                   |
| Expenses before waiver and payments by affiliates . . . . .                    | 1.41%                | 1.47%   | 3.36%   | 3.84%             |
| Expenses net of waiver and payments by affiliates <sup>f</sup> . . . . .       | 1.26%                | 1.29%   | 0.86%   | 1.22%             |
| Net investment income . . . . .  | 2.38%                | 1.30%   | 1.64%   | 0.99%             |
| <b>Supplemental data</b>   |                      |         |         |                   |
| Net assets, end of year (000's) . . . . .                                      | \$83                 | \$51    | \$60    | \$10              |
| Portfolio turnover rate . . . . .  | 24.74%               | 48.04%  | 90.37%  | 40.12%            |
| Portfolio turnover rate excluding mortgage dollar rolls <sup>g</sup> . . . . . | 24.00%               | 19.40%  | 57.79%  | 30.05%            |

<sup>a</sup>For the period August 3, 2015 (commencement of operations) to April 30, 2016.

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

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

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

<sup>e</sup>Ratios are annualized for periods less than one year, except for non-recurring expenses, if any.

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

<sup>g</sup>See Note 1(f) regarding mortgage dollar rolls.

**Franklin Flexible Alpha Bond Fund** (continued)

|  | Year Ended April 30, |           |         |                   |
|--|----------------------|-----------|---------|-------------------|
|  | 2019                 | 2018      | 2017    | 2016 <sup>a</sup> |
| <b>Class R6</b>  |                      |           |         |                   |
| <b>Per share operating performance</b>   |                      |           |         |                   |
| (for a share outstanding throughout the year)                                  |                      |           |         |                   |
| Net asset value, beginning of year . . . . .                                   | \$ 9.79              | \$ 9.86   | \$ 9.88 | \$ 10.00          |
| Income from investment operations <sup>b</sup> :                               |                      |           |         |                   |
| Net investment income . . . . .  | 0.296 <sup>c</sup>   | 0.204     | 0.177   | 0.108             |
| Net realized and unrealized gains (losses) . . . . .                           | (0.086)              | (0.088)   | 0.022   | (0.124)           |
| Total from investment operations . . . . .                                     | 0.210                | 0.116     | 0.199   | (0.016)           |
| Less distributions from:   |                      |           |         |                   |
| Net investment income . . . . .  | (0.277)              | (0.176)   | (0.219) | (0.104)           |
| Net realized gains . . . . .   | (0.013)              | (0.010)   | —       | —                 |
| Total distributions . . . . .  | (0.290)              | (0.186)   | (0.219) | (0.104)           |
| Net asset value, end of year . . . . .   | \$ 9.71              | \$ 9.79   | \$ 9.86 | \$ 9.88           |
| <br>   |                      |           |         |                   |
| Total return <sup>d</sup> . . . . .  | 2.30%                | 1.18%     | 2.03%   | (0.15)%           |
| <br>   |                      |           |         |                   |
| <b>Ratios to average net assets<sup>e</sup></b>                                |                      |           |         |                   |
| Expenses before waiver and payments by affiliates . . . . .                    | 0.65%                | 0.86%     | 5.23%   | 3.72%             |
| Expenses net of waiver and payments by affiliates <sup>f</sup> . . . . .       | 0.59%                | 0.71%     | 0.71%   | 0.71%             |
| Net investment income . . . . .  | 3.05%                | 1.88%     | 1.79%   | 1.50%             |
| <br>   |                      |           |         |                   |
| <b>Supplemental data</b>   |                      |           |         |                   |
| Net assets, end of year (000's) . . . . .                                      | \$504,875            | \$210,808 | \$10    | \$10              |
| Portfolio turnover rate . . . . .  | 24.74%               | 48.04%    | 90.37%  | 40.12%            |
| Portfolio turnover rate excluding mortgage dollar rolls <sup>g</sup> . . . . . | 24.00%               | 19.40%    | 57.79%  | 30.05%            |

<sup>a</sup>For the period August 3, 2015 (commencement of operations) to April 30, 2016.

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

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

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

<sup>e</sup>Ratios are annualized for periods less than one year, except for non-recurring expenses, if any.

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

<sup>g</sup>See Note 1(f) regarding mortgage dollar rolls.



**Franklin Flexible Alpha Bond Fund** (continued)

|  | Year Ended April 30, |         |         |                   |
|--|----------------------|---------|---------|-------------------|
|  | 2019                 | 2018    | 2017    | 2016 <sup>a</sup> |
| <b>Advisor Class</b>   |                      |         |         |                   |
| <b>Per share operating performance</b>   |                      |         |         |                   |
| (for a share outstanding throughout the year)                                  |                      |         |         |                   |
| Net asset value, beginning of year . . . . .                                   | \$ 9.79              | \$ 9.85 | \$ 9.88 | \$ 10.00          |
| Income from investment operations <sup>b</sup> :                               |                      |         |         |                   |
| Net investment income . . . . .  | 0.275 <sup>c</sup>   | 0.194   | 0.166   | 0.107             |
| Net realized and unrealized gains (losses) . . . . .                           | (0.074)              | (0.072) | 0.023   | (0.129)           |
| Total from investment operations . . . . .                                     | 0.201                | 0.122   | 0.189   | (0.022)           |
| Less distributions from:   |                      |         |         |                   |
| Net investment income . . . . .  | (0.278)              | (0.172) | (0.219) | (0.098)           |
| Net realized gains . . . . .   | (0.013)              | (0.010) | —       | —                 |
| Total distributions . . . . .  | (0.291)              | (0.182) | (0.219) | (0.098)           |
| Net asset value, end of year . . . . .   | \$ 9.70              | \$ 9.79 | \$ 9.85 | \$ 9.88           |
| <br>   |                      |         |         |                   |
| Total return <sup>d</sup> . . . . .  | 2.20%                | 1.14%   | 2.13%   | (0.31)%           |
| <b>Ratios to average net assets<sup>e</sup></b>                                |                      |         |         |                   |
| Expenses before waiver and payments by affiliates . . . . .                    | 0.90%                | 0.93%   | 3.22%   | 3.34%             |
| Expenses net of waiver and payments by affiliates <sup>f</sup> . . . . .       | 0.75%                | 0.75%   | 0.72%   | 0.71%             |
| Net investment income . . . . .  | 2.89%                | 1.84%   | 1.78%   | 1.50%             |
| <b>Supplemental data</b>   |                      |         |         |                   |
| Net assets, end of year (000's) . . . . .                                      | \$433                | \$425   | \$232   | \$344             |
| Portfolio turnover rate . . . . .  | 24.74%               | 48.04%  | 90.37%  | 40.12%            |
| Portfolio turnover rate excluding mortgage dollar rolls <sup>g</sup> . . . . . | 24.00%               | 19.40%  | 57.79%  | 30.05%            |

<sup>a</sup>For the period August 3, 2015 (commencement of operations) to April 30, 2016.

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

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

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

<sup>e</sup>Ratios are annualized for periods less than one year, except for non-recurring expenses, if any.

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

<sup>g</sup>See Note 1(f) regarding mortgage dollar rolls.

## Statement of Investments, April 30, 2019

### Franklin Flexible Alpha Bond Fund

|  | Country        | Shares                   | Value         |
|--|----------------|--------------------------|---------------|
| <b>Management Investment Companies (Cost \$4,549,803)</b>  |                |                          |               |
| <b>0.9%</b>  |                |                          |               |
| <b>Diversified Financials 0.9%</b>   |                |                          |               |
| Invesco Senior Loan ETF . . . . .  | United States  | 196,765                  | \$ 4,519,692  |
|  |                | <b>Principal Amount*</b> |               |
| <b>Corporate Bonds 18.7%</b>   |                |                          |               |
| <b>Automobiles &amp; Components 0.2%</b>   |                |                          |               |
| Aptiv Corp., senior bond, 4.15%, 3/15/24 . . . . .   | United States  | 900,000                  | 929,539       |
| <b>Banks 5.2%</b>  |                |                          |               |
| <sup>a</sup> Banca Monte dei Paschi di Siena SpA,<br>secured note, Reg S, 2.875%, 7/16/62 . . . . .          | Italy          | 1,500,000                | EUR 1,792,908 |
| secured note, Reg S, 2.125%, 11/26/63 . . . . .  | Italy          | 2,000,000                | EUR 2,288,930 |
| <sup>a</sup> Banca Popolare di Milano Scarl,<br>secured note, Reg S, 0.875%, 9/14/23 . . . . .               | Italy          | 900,000                  | EUR 1,020,297 |
| secured note, Reg S, 0.625%, 6/08/24 . . . . .   | Italy          | 2,800,000                | EUR 3,137,289 |
| <sup>a</sup> Banco BPM SpA, secured note, Reg S, 0.75%, 3/31/23 . . . . .                                    | Italy          | 1,700,000                | EUR 1,922,202 |
| Bank of America Corp.,<br>senior bond, 5.50%, 12/04/19 . . . . .   | United States  | 75,000                   | GBP 100,515   |
| senior note, 3.55% to 3/05/23, FRN thereafter, 3/05/24 . . . . .   | United States  | 1,400,000                | 1,422,999     |
| <sup>a</sup> Bank of China Ltd., senior note, Reg S, 2.875%, 4/20/22 . . . . .                               | China          | 1,000,000                | 993,090       |
| Bank of Nova Scotia, secured note, 1.875%, 4/26/22 . . . . .   | Canada         | 100,000                  | 98,769        |
| <sup>a</sup> China Construction Bank Corp., senior note, Reg S, 2.75%, 12/04/20 . . . . .                    | China          | 1,000,000                | 994,200       |
| Citigroup Inc., senior note, 2.65%, 10/26/20 . . . . .   | United States  | 1,050,000                | 1,048,886     |
| HSBC Holdings PLC,<br>senior note, 4.30%, 3/08/26 . . . . .  | United Kingdom | 800,000                  | 834,176       |
| senior note, 3.262% to 3/13/22, FRN thereafter, 3/13/23 . . . . .  | United Kingdom | 1,400,000                | 1,409,681     |
| Industrial & Commercial Bank of China Ltd., senior note, 2.452%,<br>10/20/21 . . . . .                       | China          | 1,900,000                | 1,867,595     |
| JPMorgan Chase & Co.,<br>senior bond, 3.30%, 4/01/26 . . . . .   | United States  | 800,000                  | 800,603       |
| senior note, 2.40%, 6/07/21 . . . . .  | United States  | 400,000                  | 397,542       |
| <sup>b</sup> Kookmin Bank, secured note, 144A, 2.25%, 2/03/22 . . . . .                                      | South Korea    | 1,800,000                | 1,780,852     |
| PHH Corp., senior note, 7.375%, 9/01/19 . . . . .  | United States  | 200,000                  | 200,625       |
| Royal Bank of Canada, secured note, 2.10%, 10/14/21 . . . . .  | Canada         | 100,000                  | 99,372        |
| <sup>b</sup> The Toronto-Dominion Bank, secured note, 144A, 2.25%, 3/15/22 . . . . .                         | Canada         | 200,000                  | 198,975       |
| <sup>a</sup> Turkiye Vakiflar Bankasi TAO, secured note, Reg S, 2.375%, 11/04/22 . . . . .                   | Turkey         | 3,800,000                | EUR 4,138,124 |
|  |                |                          | 26,547,630    |
| <b>Consumer Durables &amp; Apparel 0.0%†</b>   |                |                          |               |
| KB Home, senior note, 8.00%, 3/15/20 . . . . .   | United States  | 100,000                  | 104,250       |
| <b>Consumer Services 0.1%</b>  |                |                          |               |
| <sup>b</sup> Wynn Las Vegas LLC/Wynn Las Vegas Capital Corp., senior bond, 144A,<br>5.50%, 3/01/25 . . . . . | United States  | 525,000                  | 531,400       |
| <b>Diversified Financials 2.1%</b>   |                |                          |               |
| Capital One Financial Corp., senior note, 3.05%, 3/09/22 . . . . .   | United States  | 1,200,000                | 1,205,171     |
| <sup>c</sup> Deutsche Bank AG, senior note, FRN, 3.954%, (3-month USD LIBOR +<br>1.31%), 8/20/20 . . . . .   | Germany        | 100,000                  | 100,117       |
| <sup>b</sup> Dexia Credit Local SA, senior note, 144A, 2.375%, 9/20/22 . . . . .                             | France         | 250,000                  | 248,370       |
| The Goldman Sachs Group Inc.,<br>senior note, 3.75%, 5/22/25 . . . . .                                       | United States  | 2,000,000                | 2,029,888     |
| <sup>c</sup> senior note, FRN, 3.811%, (3-month USD LIBOR + 1.20%), 9/15/20 . . . . .                        | United States  | 500,000                  | 505,444       |

Franklin Flexible Alpha Bond Fund (continued)

|   | Country        | Principal Amount* | Value             |
|---|----------------|-------------------|-------------------|
| <b>Corporate Bonds (continued)</b>  |                |                   |                   |
| <b>Diversified Financials (continued)</b>   |                |                   |                   |
| <sup>b</sup> ICBCIL Finance Co. Ltd., senior note, 144A, 2.50%, 9/29/21 . . . . .                         | China          | 500,000           | \$ 490,167        |
| Morgan Stanley, senior note, 3.70%, 10/23/24 . . . . .  | United States  | 1,400,000         | 1,438,551         |
| Navient Corp., senior bond, 8.00%, 3/25/20 . . . . .  | United States  | 4,660,000         | 4,840,575         |
|   |                |                   | <u>10,858,283</u> |
| <b>Energy 1.9%</b>  |                |                   |                   |
| CNOOC Finance 2015 USA LLC, senior note, 3.50%, 5/05/25 . . . . .   | China          | 1,700,000         | 1,712,673         |
| <sup>b</sup> CNPC General Capital Ltd., senior note, 144A, 3.40%, 4/16/23 . . . . .                       | China          | 2,100,000         | 2,110,731         |
| Energy Transfer Operating LP, senior note, 7.50%, 10/15/20 . . . . .                                      | United States  | 750,000           | 798,022           |
| Enterprise Products Operating LLC, senior note, 3.35%, 3/15/23 . . . . .                                  | United States  | 850,000           | 861,737           |
| <sup>b</sup> Harvest Operations Corp., senior note, 144A, 4.20%, 6/01/23 . . . . .                        | South Korea    | 1,000,000         | 1,042,818         |
| Oceaneering International Inc., senior note, 4.65%, 11/15/24 . . . . .                                    | United States  | 50,000            | 47,735            |
| <sup>b</sup> Sinopec Group Overseas Development 2015 Ltd.,<br>senior note, 144A, 2.50%, 4/28/20 . . . . . | China          | 1,800,000         | 1,793,493         |
| senior note, 144A, 3.25%, 4/28/25 . . . . .   | China          | 1,000,000         | 989,098           |
|   |                |                   | <u>9,356,307</u>  |
| <b>Food, Beverage &amp; Tobacco 0.6%</b>  |                |                   |                   |
| <sup>b</sup> Imperial Brands Finance PLC, senior note, 144A, 4.25%, 7/21/25 . . . . .                     | United Kingdom | 1,695,000         | 1,732,761         |
| Kraft Heinz Foods Co.,<br>senior bond, 3.00%, 6/01/26 . . . . .   | United States  | 600,000           | 566,428           |
| senior note, 3.50%, 7/15/22 . . . . .   | United States  | 350,000           | 354,227           |
| Reynolds American Inc., senior note, 4.45%, 6/12/25 . . . . .   | United Kingdom | 100,000           | 103,247           |
|   |                |                   | <u>2,756,663</u>  |
| <b>Health Care Equipment &amp; Services 1.0%</b>  |                |                   |                   |
| Anthem Inc., senior note, 2.95%, 12/01/22 . . . . .   | United States  | 600,000           | 599,817           |
| CVS Health Corp., senior note, 3.70%, 3/09/23 . . . . .   | United States  | 1,700,000         | 1,724,045         |
| Edwards Lifesciences Corp., senior note, 4.30%, 6/15/28 . . . . .   | United States  | 300,000           | 313,105           |
| HCA Inc., senior note, 7.50%, 2/15/22 . . . . .   | United States  | 2,050,000         | 2,260,125         |
|   |                |                   | <u>4,897,092</u>  |
| <b>Insurance 0.2%</b>   |                |                   |                   |
| <sup>b</sup> Athene Global Funding, secured note, 144A, 3.00%, 7/01/22 . . . . .                          | United States  | 950,000           | 949,611           |
| <sup>b</sup> Jackson National Life Global Funding,<br>secured note, 144A, 2.25%, 4/29/21 . . . . .        | United States  | 50,000            | 49,548            |
| secured note, 144A, 2.10%, 10/25/21 . . . . .   | United States  | 25,000            | 24,590            |
|   |                |                   | <u>1,023,749</u>  |
| <b>Materials 0.4%</b>   |                |                   |                   |
| Freeport-McMoRan Inc., senior note, 4.00%, 11/14/21 . . . . .   | United States  | 915,000           | 927,581           |
| <sup>b</sup> Sealed Air Corp., senior bond, 144A, 5.25%, 4/01/23 . . . . .                                | United States  | 950,000           | 992,750           |
|   |                |                   | <u>1,920,331</u>  |
| <b>Media &amp; Entertainment 0.3%</b>   |                |                   |                   |
| Baidu Inc., senior note, 4.375%, 5/14/24 . . . . .  | China          | 500,000           | 521,557           |
| <sup>b</sup> Tencent Holdings Ltd., senior note, 144A, 2.985%, 1/19/23 . . . . .                          | China          | 1,200,000         | 1,192,890         |
|   |                |                   | <u>1,714,447</u>  |
| <b>Pharmaceuticals, Biotechnology &amp; Life Sciences 0.4%</b>  |                |                   |                   |
| Allergan Funding SCS, senior bond, 3.80%, 3/15/25 . . . . .   | United States  | 600,000           | 606,517           |
| Amgen Inc., senior note, 2.60%, 8/19/26 . . . . .   | United States  | 850,000           | 807,101           |
| <sup>b</sup> Bayer U.S. Finance II LLC, senior note, 144A, 3.875%, 12/15/23 . . . . .                     | Germany        | 400,000           | 403,704           |
| <sup>b</sup> SABIC Capital II BV, senior note, 144A, 4.50%, 10/10/28 . . . . .                            | Saudi Arabia   | 400,000           | 423,046           |
|   |                |                   | <u>2,240,368</u>  |

**Franklin Flexible Alpha Bond Fund** (continued)

|   | Country       | Principal Amount* | Value             |
|---|---------------|-------------------|-------------------|
| <b>Corporate Bonds</b> (continued)  |               |                   |                   |
| <b>Real Estate 0.6%</b>   |               |                   |                   |
| American Tower Corp., senior bond, 3.375%, 10/15/26 . . . . .   | United States | 700,000           | \$ 689,712        |
| <sup>a</sup> China Overseas Finance Cayman VII Ltd., senior note, Reg S, 4.25%,<br>4/26/23 . . . . .                    | China         | 2,500,000         | 2,571,712         |
|   |               |                   | <u>3,261,424</u>  |
| <b>Retailing 0.3%</b>   |               |                   |                   |
| Alibaba Group Holding Ltd., senior note, 2.80%, 6/06/23 . . . . .   | China         | 1,100,000         | 1,088,340         |
| <sup>b</sup> PetSmart Inc., senior note, 144A, 7.125%, 3/15/23 . . . . .  | United States | 550,000           | 489,500           |
|   |               |                   | <u>1,577,840</u>  |
| <b>Semiconductors &amp; Semiconductor Equipment 0.2%</b>  |               |                   |                   |
| Maxim Integrated Products Inc., senior note, 3.45%, 6/15/27 . . . . .   | United States | 800,000           | 777,109           |
| <b>Software &amp; Services 0.2%</b>   |               |                   |                   |
| Fiserv Inc., senior bond, 3.85%, 6/01/25 . . . . .  | United States | 800,000           | 824,460           |
| <b>Technology Hardware &amp; Equipment 0.0%†</b>  |               |                   |                   |
| <sup>b</sup> Sanmina Corp., senior note, first lien, 144A, 4.375%, 6/01/19 . . . . .                                    | United States | 100,000           | 100,188           |
| <b>Telecommunication Services 1.1%</b>  |               |                   |                   |
| CenturyLink Inc., senior note, Series S, 6.45%, 6/15/21 . . . . .   | United States | 4,700,000         | 4,911,500         |
| Verizon Communications Inc., senior note, 2.45%, 11/01/22 . . . . .   | United States | 850,000           | 843,265           |
|   |               |                   | <u>5,754,765</u>  |
| <b>Transportation 0.4%</b>  |               |                   |                   |
| <sup>b</sup> American Airlines Group Inc., senior note, 144A, 5.50%, 10/01/19 . . . . .                                 | United States | 530,000           | 535,300           |
| American Airlines Pass Through Trust, first lien, 2016-2, AA, 3.20%,<br>12/15/29 . . . . .                              | United States | 44,975            | 44,067            |
| FedEx Corp., senior bond, 3.20%, 2/01/25 . . . . .  | United States | 850,000           | 858,148           |
| <sup>b</sup> Kazakhstan Temir Zholy Finance BV, senior bond, 144A, 6.95%, 7/10/42 . . . . .                             | Kazakhstan    | 200,000           | 237,158           |
| <sup>a,d</sup> RZD Capital PLC, (Russian Railways), loan participation, senior bond, Reg<br>S, 5.70%, 4/05/22 . . . . . | Russia        | 200,000           | 209,167           |
|   |               |                   | <u>1,883,840</u>  |
| <b>Utilities 3.5%</b>   |               |                   |                   |
| AES Corp., senior note, 4.00%, 3/15/21 . . . . .  | United States | 2,750,000         | 2,784,375         |
| <sup>a</sup> CGNPC International Ltd., senior note, Reg S, 3.75%, 12/11/27 . . . . .                                    | China         | 2,100,000         | 2,094,383         |
| Dominion Energy Inc., senior bond, 2.85%, 8/15/26 . . . . .   | United States | 1,300,000         | 1,246,565         |
| Duke Energy Indiana Inc., senior secured bond, 3.75%, 7/15/20 . . . . .   | United States | 100,000           | 101,310           |
| <sup>b,e</sup> EDF SA, junior sub. bond, 144A, 5.625% to 1/22/24, FRN thereafter,<br>Perpetual . . . . .                | France        | 2,200,000         | 2,224,915         |
| <sup>b</sup> Israel Electric Corp. Ltd., secured bond, 144A, 4.25%, 8/14/28 . . . . .                                   | Israel        | 1,400,000         | 1,418,753         |
| <sup>b</sup> Korea East-West Power Co. Ltd., senior note, 144A, 3.875%, 7/19/23 . . . . .                               | South Korea   | 1,500,000         | 1,548,015         |
| The Southern Co., senior bond, 3.25%, 7/01/26 . . . . .   | United States | 850,000           | 839,662           |
| <sup>b</sup> State Grid Overseas Investment 2016 Ltd., senior note, 144A, 3.50%,<br>5/04/27 . . . . .                   | China         | 3,500,000         | 3,492,527         |
| <sup>b</sup> Three Gorges Finance I Cayman Islands Ltd., senior note, 144A, 3.70%,<br>6/10/25 . . . . .                 | China         | 2,100,000         | 2,140,583         |
|   |               |                   | <u>17,891,088</u> |
| <b>Total Corporate Bonds (Cost \$94,285,723)</b> . . . . .  |               |                   | <u>94,950,773</u> |

Franklin Flexible Alpha Bond Fund (continued)

|  | Country            | Principal Amount* |     | Value             |
|--|--------------------|-------------------|-----|-------------------|
| <b>Foreign Government and Agency Securities 2.8%</b>   |                    |                   |     |                   |
| <sup>b</sup> Angolan Government International Bond, senior note, 144A, 8.25%, 5/09/28 . . . . .                    | Angola             | 700,000           | \$  | 734,023           |
| <sup>a</sup> Banque Centrale de Tunisie International Bond, senior note, Reg S, 5.625%, 2/17/24 . . . . .          | Tunisia            | 300,000           | EUR | 328,398           |
| <sup>b</sup> Dominican Republic, senior note, 144A, 8.90%, 2/15/23 . . . . .                                       | Dominican Republic | 8,000,000         | DOP | 158,310           |
| <sup>b</sup> The Export-Import Bank of China, senior note, 144A, 2.50%, 7/31/19 . . . . .                          | China              | 200,000           |     | 199,869           |
| senior note, 144A, 3.625%, 7/31/24 . . . . .   | China              | 2,100,000         |     | 2,141,706         |
| <sup>b</sup> The Export-Import Bank of India, senior note, 144A, 3.875%, 2/01/28 . . . . .                         | India              | 3,400,000         |     | 3,365,764         |
| The Export-Import Bank of Korea, senior note, 2.875%, 1/21/25 . . . . .  | South Korea        | 2,000,000         |     | 1,988,090         |
| Government of Colombia, senior bond, 9.85%, 6/28/27 . . . . .  | Colombia           | 1,935,000,000     | COP | 741,303           |
| <sup>b</sup> Government of Gabon, 144A, 6.375%, 12/12/24 . . . . .   | Gabon              | 500,000           |     | 483,265           |
| Government of Indonesia, senior bond, FR70, 8.375%, 3/15/24 . . . . .  | Indonesia          | 263,000,000       | IDR | 19,252            |
| <sup>b</sup> Government of Iraq, 144A, 5.80%, 1/15/28 . . . . .  | Iraq               | 800,000           |     | 779,216           |
| <sup>b</sup> Government of Kazakhstan, senior bond, 144A, 4.875%, 10/14/44 . . . . .                               | Kazakhstan         | 300,000           |     | 322,998           |
| Government of South Africa, senior bond, 7.00%, 2/28/31 . . . . .  | South Africa       | 11,100,000        | ZAR | 653,064           |
| <sup>b</sup> Government of Ukraine, senior bond, 144A, 7.375%, 9/25/32 . . . . .                                   | Ukraine            | 800,000           |     | 705,840           |
| <sup>f</sup> Government of Uruguay, senior bond, Index Linked, 3.70%, 6/26/37 . . . . .                            | Uruguay            | 21,486,098        | UYU | 634,725           |
| The Korea Development Bank, senior note, 3.375%, 3/12/23 . . . . .   | South Korea        | 600,000           |     | 609,960           |
| Republic of Colombia, senior bond, 5.00%, 6/15/45 . . . . .  | Colombia           | 600,000           |     | 627,981           |
| <b>Total Foreign Government and Agency Securities (Cost \$14,329,477) . . . . .</b>                                |                    |                   |     | <u>14,493,764</u> |
| <b>U.S. Government and Agency Securities 1.5%</b>  |                    |                   |     |                   |
| <sup>f</sup> U.S. Treasury Note, Index Linked, 0.25%, 1/15/25 . . . . .  | United States      | 1,429,878         |     | 1,415,177         |
| Index Linked, 0.625%, 1/15/26 . . . . .  | United States      | 3,084,649         |     | 3,113,820         |
| Index Linked, 0.125%, 7/15/26 . . . . .  | United States      | 2,952,314         |     | 2,884,516         |
| <b>Total U.S. Government and Agency Securities (Cost \$7,276,462) . . . . .</b>                                    |                    |                   |     | <u>7,413,513</u>  |
| <b>Asset-Backed Securities and Commercial Mortgage-Backed Securities 62.0%</b>                                     |                    |                   |     |                   |
| <b>Banks 0.3%</b>  |                    |                   |     |                   |
| <sup>b,g</sup> DBCG Mortgage Trust, 2017-BBG, A, 144A, FRN, 3.173%, (1-month USD LIBOR + 0.70%), 6/15/34 . . . . . | United States      | 1,500,000         |     | 1,499,611         |
| <sup>g</sup> Impac Secured Assets Corp., 2004-4, M1, FRN, 3.242%, (1-month USD LIBOR + 0.765%), 2/25/35 . . . . .  | United States      | 4,831             |     | 4,852             |
|  |                    |                   |     | <u>1,504,463</u>  |
| <b>Diversified Financials 61.5%</b>  |                    |                   |     |                   |
| <sup>b,g</sup> Alinea CLO Ltd., 2018-1A, B, 144A, FRN, 4.242%, (3-month USD LIBOR + 1.65%), 7/20/31 . . . . .      | United States      | 2,300,000         |     | 2,250,757         |
| <sup>b,h</sup> AMMC CLO 15 Ltd., 2014-15A, ARR, 144A, FRN, 3.857%, 1/15/32 . . . . .                               | United States      | 1,000,000         |     | 995,930           |
| 2014-15A, BRR, 144A, FRN, 4.397%, 1/15/32 . . . . .  | United States      | 439,516           |     | 438,505           |
| <sup>b,g</sup> AMMC CLO 21 Ltd., 2017-21A, C, 144A, FRN, 4.838%, (3-month USD LIBOR + 2.10%), 11/02/30 . . . . .   | United States      | 400,000           |     | 389,896           |
| <sup>b,h</sup> AMMC CLO XI Ltd., 2012-11A, A1R2, 144A, FRN, 3.593%, 4/30/31 . . . . .                              | United States      | 5,350,000         |     | 5,270,552         |
| <sup>b,g</sup> Antares CLO Ltd., 2018-1A, B, 144A, FRN, 4.242%, (3-month USD LIBOR + 1.65%), 4/20/31 . . . . .     | United States      | 600,000           |     | 585,558           |
| <sup>b,h</sup> ARES L CLO Ltd., 2018-50A, B, 144A, FRN, 4.478%, 1/15/32 . . . . .                                  | United States      | 2,000,000         |     | 1,994,780         |

**Franklin Flexible Alpha Bond Fund** (continued)

|  | Country       | Principal Amount* | Value      |
|--|---------------|-------------------|------------|
| <b>Asset-Backed Securities and Commercial Mortgage-Backed Securities</b> (continued)   |               |                   |            |
| <b>Diversified Financials</b> (continued)  |               |                   |            |
| <sup>b,h</sup> ARES LII CLO Ltd.,  |               |                   |            |
| 2019-52A, A2, 144A, FRN, 4.259%, 4/22/31 . . . . .   | United States | 345,528           | \$ 344,329 |
| 2019-52A, C, 144A, FRN, 5.289%, 4/22/31 . . . . .  | United States | 500,000           | 499,175    |
| 2019-52A, D, 144A, FRN, 6.559%, 4/22/31 . . . . .  | United States | 851,852           | 848,555    |
| <sup>b,h</sup> Atrium XII, 2012A, CR, 144A, FRN, 3.422%, 4/22/27 . . . . .   | United States | 7,000,000         | 6,979,350  |
| <sup>b,g</sup> Atrium XIII,  |               |                   |            |
| 2013A, B, 144A, FRN, 4.092%, (3-month USD LIBOR + 1.50%),<br>11/21/30 . . . . .  | United States | 2,000,000         | 1,971,300  |
| 2013A, C, 144A, FRN, 4.392%, (3-month USD LIBOR + 1.80%),<br>11/21/30 . . . . .  | United States | 600,000           | 584,268    |
| <sup>b,h</sup> Atrium XV, 15A, D, 144A, FRN, 5.592%, 1/23/31 . . . . .   | United States | 1,666,667         | 1,629,084  |
| <sup>b</sup> BAMLL Commercial Mortgage Securities Trust,   |               |                   |            |
| 2012-PARK, A, 144A, 2.959%, 12/10/30 . . . . .   | United States | 100,000           | 101,245    |
| 2015-200P, A, 144A, 3.218%, 4/14/33 . . . . .  | United States | 600,000           | 608,006    |
| Banc of America Commercial Mortgage Trust, 2015-UBS7, A4, 3.705%,<br>9/15/48 . . . . .   | United States | 100,000           | 103,686    |
| <sup>b,g</sup> Bellemeade Re Ltd., 2018-1A, M1B, 144A, FRN, 4.077%, (1-month USD<br>LIBOR + 1.60%), 4/25/28 . . . . .                  | Bermuda       | 1,320,000         | 1,326,646  |
| <sup>b,g</sup> Betony CLO 2 Ltd., 2018-1A, C, 144A, FRN, 5.483%, (3-month USD<br>LIBOR + 2.90%), 4/30/31 . . . . .                     | United States | 500,000           | 478,915    |
| <sup>b,h</sup> BlueMountain CLO Ltd.,  |               |                   |            |
| 2012-2A, BR2, 144A, FRN, 4.094%, 11/20/28 . . . . .  | United States | 918,083           | 915,577    |
| 2012-2A, DR2, 144A, FRN, 5.544%, 11/20/28 . . . . .  | United States | 2,000,000         | 1,960,440  |
| 2018-3A, B, 144A, FRN, 4.35%, 10/25/30 . . . . .   | United States | 3,000,000         | 2,986,200  |
| 2018-3A, C, 144A, FRN, 4.78%, 10/25/30 . . . . .   | United States | 1,428,570         | 1,398,299  |
| <sup>b,h</sup> BlueMountain CLO XXIII Ltd.,  |               |                   |            |
| 2018-23A, B, 144A, FRN, 4.292%, 10/20/31 . . . . .   | United States | 1,000,000         | 987,820    |
| 2018-23A, C, 144A, FRN, 4.742%, 10/20/31 . . . . .   | United States | 694,444           | 677,659    |
| <sup>b,h</sup> BlueMountain CLO XXIV Ltd.,   |               |                   |            |
| 2019-24A, A2, 144A, FRN, 4.224%, 4/20/31 . . . . .   | United States | 1,562,500         | 1,561,000  |
| 2019-24A, D, 144A, FRN, 6.524%, 4/20/31 . . . . .  | United States | 1,000,000         | 997,070    |
| <sup>b,g</sup> BlueMountain Fuji U.S. CLO I Ltd., 2017-1A, C, 144A, FRN, 4.942%,<br>(3-month USD LIBOR + 2.35%), 7/20/29 . . . . .     | United States | 60,000            | 60,026     |
| <sup>b,g</sup> BlueMountain Fuji U.S. CLO II Ltd., 2017-2A, A1A, 144A, FRN, 3.792%,<br>(3-month USD LIBOR + 1.20%), 10/20/30 . . . . . | United States | 250,000           | 250,190    |
| <sup>b,g</sup> BlueMountain Fuji U.S. CLO III Ltd., 2017-3A, C, 144A, FRN, 4.297%,<br>(3-month USD LIBOR + 1.70%), 1/15/30 . . . . .   | United States | 1,900,000         | 1,833,025  |
| <sup>b</sup> BRAVO Residential Funding Trust, 2019-1, A1C, 144A, 3.50%, 3/25/58 . . . . .  | United States | 1,270,000         | 1,270,648  |
| <sup>b,h</sup> Burnham Park CLO Ltd.,  |               |                   |            |
| 2016-1A, BR, 144A, FRN, 4.092%, 10/20/29 . . . . .   | United States | 3,000,000         | 2,959,830  |
| 2016-1A, CR, 144A, FRN, 4.742%, 10/20/29 . . . . .   | United States | 2,000,000         | 1,968,060  |
| 2016-1A, DR, 144A, FRN, 5.442%, 10/20/29 . . . . .   | United States | 2,000,000         | 1,968,840  |
| <sup>b,h</sup> BX Commercial Mortgage Trust, 2018-IND, A, 144A, FRN, 3.223%,<br>11/15/35 . . . . .                                     | United States | 833,511           | 834,137    |
| <sup>b</sup> BXP Trust, 2017-GM, A, 144A, 3.379%, 6/13/39 . . . . .  | United States | 2,000,000         | 2,028,203  |
| <sup>b,g</sup> Carlyle Global Market Strategies CLO Ltd.,  |               |                   |            |
| 2014-4RA, A1B, 144A, FRN, 3.947%, (3-month USD LIBOR + 1.35%),<br>7/15/30 . . . . .  | United States | 2,750,000         | 2,688,565  |
| 2014-4RA, C, 144A, FRN, 5.497%, (3-month USD LIBOR + 2.90%),<br>7/15/30 . . . . .  | United States | 750,000           | 713,438    |

Franklin Flexible Alpha Bond Fund (continued)

|   | Country       | Principal Amount* | Value      |
|---|---------------|-------------------|------------|
| <b>Asset-Backed Securities and Commercial Mortgage-Backed Securities</b> (continued)                            |               |                   |            |
| <b>Diversified Financials</b> (continued)   |               |                   |            |
| <sup>b,h</sup> Carlyle GMS Finance MM CLO LLC, 2015-1A, A2R, 144A, FRN, 4.797%, 10/15/31                        | United States | 800,000           | \$ 769,832 |
| <sup>b,g</sup> Carlyle U.S. CLO Ltd.,<br>2017-2A, B, 144A, FRN, 4.992%, (3-month USD LIBOR + 2.40%), 7/20/31    | United States | 60,000            | 60,028     |
| 2017-4A, B, 144A, FRN, 4.447%, (3-month USD LIBOR + 1.85%), 1/15/30   | United States | 1,107,000         | 1,078,727  |
| 2017-4A, C, 144A, FRN, 5.397%, (3-month USD LIBOR + 2.80%), 1/15/30   | United States | 400,000           | 384,000    |
| <sup>b,h</sup> Cent CLO,<br>2018-28A, B, 144A, FRN, 4.889%, 11/07/30  | United States | 2,025,000         | 1,975,914  |
| 2018-28A, C, 144A, FRN, 6.009%, 11/07/30  | United States | 2,500,000         | 2,456,275  |
| <sup>b,h</sup> CGRBS Commercial Mortgage Trust, 2013-VN05, C, 144A, FRN, 3.703%, 3/13/35                        | United States | 450,000           | 456,494    |
| <sup>b,h</sup> CIM Trust,<br>2018-INV1, A4, 144A, FRN, 4.00%, 8/25/48   | United States | 1,226,386         | 1,249,414  |
| 2019-INV1, A1, 144A, FRN, 4.00%, 2/25/49  | United States | 1,908,462         | 1,943,998  |
| <sup>b,h</sup> Cole Park CLO Ltd., 2015-1A, BR, 144A, FRN, 4.192%, 10/20/28                                     | United States | 857,143           | 853,217    |
| <sup>b,h</sup> Colombia Cent CLO 27 Ltd., 2018-27A, A2A, 144A, FRN, 4.18%, 10/25/28                             | United States | 769,231           | 761,846    |
| <sup>b</sup> COMM Mortgage Trust,<br><sup>h</sup> 2014-277P, A, 144A, FRN, 3.732%, 8/10/49                      | United States | 900,000           | 934,052    |
| 2015-3BP, A, 144A, 3.178%, 2/10/35  | United States | 600,000           | 606,912    |
| <sup>h</sup> Conseco Finance Securitizations Corp., 2002-2, M1, FRN, 7.424%, 3/01/33                            | United States | 59,838            | 64,845     |
| <sup>b</sup> Core Industrial Trust, 2015-CALW, A, 144A, 3.04%, 2/10/34  | United States | 28,460            | 28,822     |
| <sup>b,g</sup> Dorchester Park CLO Ltd., 2015-1A, CR, 144A, FRN, 4.342%, (3-month USD LIBOR + 1.75%), 4/20/28   | United States | 1,350,000         | 1,341,576  |
| <sup>b,h</sup> Dryden 38 Senior Loan Fund, 2015-38A, CR, 144A, FRN, 4.597%, 7/15/30                             | United States | 2,500,000         | 2,454,275  |
| <sup>b,h</sup> Dryden 45 Senior Loan Fund,<br>2016-45A, A2R, 144A, FRN, 3.997%, 10/15/30                        | United States | 1,000,000         | 995,160    |
| 2016-45A, BR, 144A, FRN, 4.297%, 10/15/30   | United States | 1,000,000         | 995,030    |
| 2016-45A, CR, 144A, FRN, 4.797%, 10/15/30   | United States | 1,250,000         | 1,243,313  |
| <sup>b,g</sup> Dryden 49 Senior Loan Fund, 2017-49A, C, 144A, FRN, 4.951%, (3-month USD LIBOR + 2.35%), 7/18/30 | United States | 60,000            | 60,013     |
| <sup>b,g</sup> Dryden 53 CLO Ltd.,<br>2017-53A, B, 144A, FRN, 3.997%, (3-month USD LIBOR + 1.40%), 1/15/31      | United States | 6,000,000         | 5,873,280  |
| 2017-53A, C, 144A, FRN, 4.297%, (3-month USD LIBOR + 1.70%), 1/15/31  | United States | 1,000,000         | 963,210    |
| <sup>b,h</sup> Dryden 61 CLO Ltd., 61A, A2, FRN, 3.988%, 1/17/32  | United States | 2,000,000         | 1,989,340  |
| <sup>b,g</sup> Dryden 64 CLO Ltd.,<br>2018-64A, A, 144A, FRN, 3.571%, (3-month USD LIBOR + 0.97%), 4/18/31      | United States | 3,000,000         | 2,957,220  |
| 2018-64A, C, 144A, FRN, 4.351%, (3-month USD LIBOR + 1.75%), 4/18/31  | United States | 750,000           | 724,253    |

**Franklin Flexible Alpha Bond Fund** (continued)

|   | Country       | Principal Amount* | Value      |
|---|---------------|-------------------|------------|
| <b>Asset-Backed Securities and Commercial Mortgage-Backed Securities</b> (continued)                                  |               |                   |            |
| <b>Diversified Financials</b> (continued)   |               |                   |            |
| <sup>b,h</sup> Dryden 70 CLO Ltd., 2018-70A, B, 144A, FRN, 4.54%, 1/16/32 . . . . .                                   | United States | 280,290           | \$ 278,995 |
| <sup>b,h</sup> Eleven Madison Trust Mortgage Trust, 2015-11MD, A, 144A, FRN, 3.673%, 9/10/35 . . . . .                | United States | 2,005,000         | 2,066,789  |
| <sup>b,g</sup> Ellington CLO III Ltd., 2018-3A, A1, 144A, FRN, 4.242%, (3-month USD LIBOR + 1.65%), 7/20/30 . . . . . | United States | 500,000           | 496,330    |
| FHLMC Structured Agency Credit Risk Debt Notes,   |               |                   |            |
| <sup>g</sup> 2013-DN2, M2, FRN, 6.727%, (1-month USD LIBOR + 4.25%), 11/25/23 . . . . .                               | United States | 2,406,155         | 2,627,827  |
| <sup>g</sup> 2014-DN1, M2, FRN, 4.677%, (1-month USD LIBOR + 2.20%), 2/25/24 . . . . .                                | United States | 372,222           | 378,554    |
| <sup>g</sup> 2014-DN2, M3, FRN, 6.077%, (1-month USD LIBOR + 3.60%), 4/25/24 . . . . .                                | United States | 2,645,000         | 2,849,461  |
| <sup>g</sup> 2014-DN3, M3, FRN, 6.477%, (1-month USD LIBOR + 4.00%), 8/25/24 . . . . .                                | United States | 2,093,650         | 2,263,217  |
| <sup>g</sup> 2014-DN4, M3, FRN, 7.027%, (1-month USD LIBOR + 4.55%), 10/25/24 . . . . .                               | United States | 1,584,919         | 1,737,440  |
| <sup>g</sup> 2014-HQ1, M3, FRN, 6.577%, (1-month USD LIBOR + 4.10%), 8/25/24 . . . . .                                | United States | 973,871           | 1,056,646  |
| <sup>g</sup> 2014-HQ2, M2, FRN, 4.677%, (1-month USD LIBOR + 2.20%), 9/25/24 . . . . .                                | United States | 371,678           | 378,838    |
| <sup>g</sup> 2014-HQ2, M3, FRN, 6.227%, (1-month USD LIBOR + 3.75%), 9/25/24 . . . . .                                | United States | 2,500,000         | 2,770,758  |
| <sup>g</sup> 2014-HQ3, M3, FRN, 7.227%, (1-month USD LIBOR + 4.75%), 10/25/24 . . . . .                               | United States | 248,604           | 273,426    |
| <sup>g</sup> 2015-DN1, M3, FRN, 6.627%, (1-month USD LIBOR + 4.15%), 1/25/25 . . . . .                                | United States | 612,692           | 654,891    |
| <sup>g</sup> 2015-DNA1, M2, FRN, 4.327%, (1-month USD LIBOR + 1.85%), 10/25/27 . . . . .                              | United States | 178,904           | 180,786    |
| <sup>g</sup> 2015-DNA1, M3, FRN, 5.777%, (1-month USD LIBOR + 3.30%), 10/25/27 . . . . .                              | United States | 2,000,000         | 2,167,460  |
| <sup>g</sup> 2015-DNA2, M2, FRN, 5.077%, (1-month USD LIBOR + 2.60%), 12/25/27 . . . . .                              | United States | 95,439            | 96,596     |
| <sup>g</sup> 2015-DNA2, M3, FRN, 6.377%, (1-month USD LIBOR + 3.90%), 12/25/27 . . . . .                              | United States | 2,850,000         | 3,071,614  |
| <sup>g</sup> 2015-DNA3, M2, FRN, 5.327%, (1-month USD LIBOR + 2.85%), 4/25/28 . . . . .                               | United States | 362,426           | 370,925    |
| <sup>g</sup> 2015-DNA3, M3, FRN, 7.177%, (1-month USD LIBOR + 4.70%), 4/25/28 . . . . .                               | United States | 2,500,000         | 2,872,231  |
| <sup>g</sup> 2015-HQ1, M3, FRN, 6.277%, (1-month USD LIBOR + 3.80%), 3/25/25 . . . . .                                | United States | 528,843           | 557,902    |
| <sup>g</sup> 2015-HQ2, M3, FRN, 5.727%, (1-month USD LIBOR + 3.25%), 5/25/25 . . . . .                                | United States | 1,500,000         | 1,621,215  |
| <sup>g</sup> 2015-HQA1, M3, FRN, 7.177%, (1-month USD LIBOR + 4.70%), 3/25/28 . . . . .                               | United States | 2,000,000         | 2,244,665  |
| <sup>g</sup> 2015-HQA2, M2, FRN, 5.277%, (1-month USD LIBOR + 2.80%), 5/25/28 . . . . .                               | United States | 217,719           | 222,169    |
| <sup>g</sup> 2015-HQA2, M3, FRN, 7.277%, (1-month USD LIBOR + 4.80%), 5/25/28 . . . . .                               | United States | 2,000,000         | 2,266,168  |
| <sup>g</sup> 2016-DNA1, M3, FRN, 8.027%, (1-month USD LIBOR + 5.55%), 7/25/28 . . . . .                               | United States | 1,550,000         | 1,814,415  |



Franklin Flexible Alpha Bond Fund (continued)

|   | Country       | Principal Amount* | Value      |
|---|---------------|-------------------|------------|
| <b>Asset-Backed Securities and Commercial Mortgage-Backed Securities</b> (continued)                                      |               |                   |            |
| <b>Diversified Financials</b> (continued)   |               |                   |            |
| FHLMC Structured Agency Credit Risk Debt Notes, (continued)   |               |                   |            |
| <sup>g</sup> 2016-DNA2, M2, FRN, 4.677%, (1-month USD LIBOR + 2.20%),<br>10/25/28 . . . . .                               | United States | 180,362           | \$ 181,463 |
| <sup>g</sup> 2016-DNA2, M3, FRN, 7.127%, (1-month USD LIBOR + 4.65%),<br>10/25/28 . . . . .                               | United States | 3,600,000         | 4,010,214  |
| <sup>g</sup> 2016-DNA3, M2, FRN, 4.477%, (1-month USD LIBOR + 2.00%),<br>12/25/28 . . . . .                               | United States | 229,809           | 231,629    |
| <sup>g</sup> 2016-HQA2, M2, FRN, 4.727%, (1-month USD LIBOR + 2.25%),<br>11/25/28 . . . . .                               | United States | 372,566           | 378,382    |
| <sup>g</sup> 2016-HQA2, M3, FRN, 7.627%, (1-month USD LIBOR + 5.15%),<br>11/25/28 . . . . .                               | United States | 2,000,000         | 2,321,638  |
| <sup>g</sup> 2016-HQA3, M2, FRN, 3.827%, (1-month USD LIBOR + 1.35%),<br>3/25/29 . . . . .                                | United States | 2,349,454         | 2,363,826  |
| <sup>g</sup> 2016-HQA4, M2, FRN, 3.777%, (1-month USD LIBOR + 1.30%),<br>4/25/29 . . . . .                                | United States | 700,000           | 703,764    |
| <sup>h</sup> 2017-DNA1, M2, FRN, 5.727%, 7/25/29 . . . . .  | United States | 2,600,000         | 2,785,226  |
| <sup>h</sup> 2017-DNA2, M2, FRN, 5.927%, 10/25/29 . . . . .   | United States | 3,000,000         | 3,252,438  |
| <sup>g</sup> 2017-DNA3, M2, FRN, 4.977%, (1-month USD LIBOR + 2.50%),<br>3/25/30 . . . . .                                | United States | 2,000,000         | 2,063,995  |
| <sup>h</sup> 2017-HQA1, M2, FRN, 6.027%, 8/25/29 . . . . .  | United States | 2,350,000         | 2,524,355  |
| <sup>b,g</sup> Flagship CLO VIII Ltd., 2014-8A, CRR, 144A, FRN, 4.401%, (3-month USD<br>LIBOR + 1.80%), 1/16/26 . . . . . | United States | 1,400,000         | 1,370,992  |
| <sup>b,h</sup> Flagstar Mortgage Trust, 2018-6RR, 1A3, 144A, FRN, 4.00%, 10/25/48 . . .                                   | United States | 1,306,788         | 1,325,096  |
| FNMA Connecticut Avenue Securities,   |               |                   |            |
| <sup>g</sup> 2013-C01, M2, FRN, 7.727%, (1-month USD LIBOR + 5.25%),<br>10/25/23 . . . . .                                | United States | 2,863,669         | 3,228,967  |
| <sup>g</sup> 2014-C01, M2, FRN, 6.877%, (1-month USD LIBOR + 4.40%),<br>1/25/24 . . . . .                                 | United States | 3,300,000         | 3,681,188  |
| <sup>g</sup> 2014-C02, 1M2, FRN, 5.077%, (1-month USD LIBOR + 2.60%),<br>5/25/24 . . . . .                                | United States | 1,820,000         | 1,909,840  |
| <sup>g</sup> 2014-C02, 2M2, FRN, 5.077%, (1-month USD LIBOR + 2.60%),<br>5/25/24 . . . . .                                | United States | 2,619,410         | 2,735,511  |
| <sup>g</sup> 2014-C03, 1M2, FRN, 5.477%, (1-month USD LIBOR + 3.00%),<br>7/25/24 . . . . .                                | United States | 1,241,633         | 1,327,894  |
| <sup>g</sup> 2014-C03, 2M2, FRN, 5.377%, (1-month USD LIBOR + 2.90%),<br>7/25/24 . . . . .                                | United States | 2,465,276         | 2,593,214  |
| <sup>g</sup> 2014-C04, 1M1, FRN, 7.377%, (1-month USD LIBOR + 4.90%),<br>11/25/24 . . . . .                               | United States | 2,935,436         | 3,306,820  |
| <sup>g</sup> 2014-C04, 2M2, FRN, 7.477%, (1-month USD LIBOR + 5.00%),<br>11/25/24 . . . . .                               | United States | 458,320           | 510,032    |
| <sup>g</sup> 2015-C01, 1M2, FRN, 6.777%, (1-month USD LIBOR + 4.30%),<br>2/25/25 . . . . .                                | United States | 30,021            | 32,632     |
| <sup>g</sup> 2015-C01, 2M2, FRN, 7.027%, (1-month USD LIBOR + 4.55%),<br>2/25/25 . . . . .                                | United States | 115,804           | 124,582    |
| <sup>g</sup> 2015-C02, 1M2, FRN, 6.477%, (1-month USD LIBOR + 4.00%),<br>5/25/25 . . . . .                                | United States | 439,437           | 473,544    |
| <sup>g</sup> 2015-C02, 2M2, FRN, 6.477%, (1-month USD LIBOR + 4.00%),<br>5/25/25 . . . . .                                | United States | 132,918           | 141,654    |
| <sup>g</sup> 2015-C03, 1M2, FRN, 7.477%, (1-month USD LIBOR + 5.00%),<br>7/25/25 . . . . .                                | United States | 2,598,421         | 2,889,164  |

Franklin Flexible Alpha Bond Fund (continued)

|   | Country       | Principal Amount* | Value      |
|---|---------------|-------------------|------------|
| <b>Asset-Backed Securities and Commercial Mortgage-Backed Securities (continued)</b>                                      |               |                   |            |
| <b>Diversified Financials (continued)</b>   |               |                   |            |
| FNMA Connecticut Avenue Securities, (continued)   |               |                   |            |
| g 2015-C03, 2M2, FRN, 7.477%, (1-month USD LIBOR + 5.00%),<br>7/25/25 . . . . .   | United States | 666,066           | \$ 733,329 |
| g 2016-C01, 1M2, FRN, 9.227%, (1-month USD LIBOR + 6.75%),<br>8/25/28 . . . . .   | United States | 2,588,159         | 3,004,251  |
| h 2016-C04, 1M2, FRN, 6.727%, 1/25/29 . . . . .   | United States | 2,000,000         | 2,202,776  |
| g 2017-C01, 1B1, FRN, 8.227%, (1-month USD LIBOR + 5.75%),<br>7/25/29 . . . . .   | United States | 33,000            | 39,241     |
| g 2017-C01, 1M2, FRN, 6.027%, (1-month USD LIBOR + 3.55%),<br>7/25/29 . . . . .   | United States | 890,000           | 956,401    |
| h 2017-C03, 1M2, FRN, 5.477%, 10/25/29 . . . . .  | United States | 2,780,000         | 2,955,722  |
| h 2017-C03, 2M2, FRN, 5.327%, 11/25/29 . . . . .  | United States | 570,000           | 593,548    |
| h 2017-C07, 1M1, FRN, 3.127%, 5/25/30 . . . . .   | United States | 1,639,834         | 1,638,139  |
| g 2018-C04, 2M1, FRN, 3.227%, (1-month USD LIBOR + 0.75%),<br>12/25/30 . . . . .  | United States | 613,539           | 613,291    |
| h C02, 1M2, FRN, 8.477%, 9/25/28 . . . . .  | United States | 244,994           | 278,678    |
| b,h FREMF Mortgage Trust, 2018-K72, B, 144A, FRN, 4.117%, 12/25/50 . . . . .  | United States | 450,000           | 456,809    |
| b,h Galaxy XXVI CLO Ltd.,<br>2018-26A, A, 144A, FRN, 3.852%, 11/22/31 . . . . .   | United States | 685,921           | 681,456    |
| 2018-26A, B, 144A, FRN, 4.352%, 11/22/31 . . . . .  | United States | 600,000           | 594,732    |
| b,g Galaxy XXVII CLO Ltd.,<br>2018-27A, A, 144A, FRN, 3.703%, (3-month USD LIBOR + 1.02%),<br>5/16/31 . . . . .           | United States | 2,500,000         | 2,458,675  |
| 2018-27A, C, 144A, FRN, 4.483%, (3-month USD LIBOR + 1.80%),<br>5/16/31 . . . . .   | United States | 1,450,000         | 1,380,415  |
| 2018-27A, C, 144A, FRN, 5.433%, (3-month USD LIBOR + 2.75%),<br>5/16/31 . . . . .   | United States | 300,000           | 287,262    |
| b,g Gilbert Park CLO Ltd.,<br>2017-1A, B, 144A, FRN, 4.197%, (3-month USD LIBOR + 1.60%),<br>10/15/30 . . . . .           | United States | 3,000,000         | 2,964,870  |
| 2017-1A, D, 144A, FRN, 5.547%, (3-month USD LIBOR + 2.95%),<br>10/15/30 . . . . .   | United States | 400,000           | 390,432    |
| GS Mortgage Securities Trust,<br>2016-GS3, A4, 2.85%, 10/10/49 . . . . .  | United States | 600,000           | 590,890    |
| 2017-GS5, A4, 3.674%, 3/10/50 . . . . .   | United States | 2,600,000         | 2,697,368  |
| 2017-GS6, A3, 3.433%, 5/10/50 . . . . .   | United States | 2,000,000         | 2,028,206  |
| b,g Halcyon Loan Advisors Funding Ltd., 2018-1A, A2, 144A, FRN, 4.392%,<br>(3-month USD LIBOR + 1.80%), 7/21/31 . . . . . | United States | 400,000           | 393,012    |
| b,h Harbor Park CLO Ltd.,<br>1A, B1, 144A, FRN, 4.539%, 1/20/31 . . . . .   | United States | 1,333,333         | 1,326,666  |
| 1A, D, 144A, FRN, 5.739%, 1/20/31 . . . . .   | United States | 1,296,296         | 1,242,785  |
| b Invitation Homes Trust,<br>g 2017-SFR2, A, 144A, FRN, 3.324%, (1-month USD LIBOR + 0.85%),<br>12/17/36 . . . . .        | United States | 3,242,428         | 3,225,370  |
| g 2018-SFR1, A, 144A, FRN, 3.174%, (1-month USD LIBOR + 0.70%),<br>3/17/37 . . . . .                                      | United States | 1,560,914         | 1,546,466  |
| g 2018-SFR3, A, 144A, FRN, 3.474%, (1-month USD LIBOR + 1.00%),<br>7/17/37 . . . . .                                      | United States | 1,114,394         | 1,117,371  |
| h 2018-SFR4, A, 144A, FRN, 3.574%, 1/17/38 . . . . .  | United States | 1,360,632         | 1,367,424  |

Franklin Flexible Alpha Bond Fund (continued)

|  | Country       | Principal Amount* | Value      |
|--|---------------|-------------------|------------|
| <b>Asset-Backed Securities and Commercial Mortgage-Backed Securities</b> (continued)   |               |                   |            |
| <b>Diversified Financials</b> (continued)  |               |                   |            |
| <sup>b,h</sup> J.P. Morgan Chase Commercial Mortgage Securities Trust, 2016-NINE, A, 144A, FRN, 2.949%, 10/06/38 . . . . .     | United States | 600,000           | \$ 589,040 |
| JPMBB Commercial Mortgage Securities Trust,<br>2015-C30, A5, 3.822%, 7/15/48 . . . . .   | United States | 1,500,000         | 1,564,184  |
| <sup>h</sup> 2015-C30, AS, FRN, 4.226%, 7/15/48 . . . . .  | United States | 450,000           | 473,085    |
| 2016-C1, A5, 3.576%, 3/15/49 . . . . .   | United States | 1,500,000         | 1,549,017  |
| <sup>h,i</sup> JPMDB Commercial Mortgage Securities Trust, 2017-C5, XA, IO, FRN,<br>1.143%, 3/15/50 . . . . .                  | United States | 195,805           | 11,489     |
| <sup>b,g</sup> LCM 26 Ltd., 26A, C, 144A, FRN, 4.392%, (3-month USD LIBOR + 1.80%),<br>1/20/31 . . . . .                       | United States | 400,000           | 386,452    |
| <sup>b,h</sup> LCM 28 Ltd.,<br>28A, B, 144A, FRN, 4.192%, 10/20/30 . . . . .   | United States | 1,000,000         | 987,970    |
| 28A, C, 144A, FRN, 4.742%, 10/20/30 . . . . .  | United States | 500,000           | 487,140    |
| <sup>b,h</sup> LCM XVI LP, 2016A, BR2, 144A, FRN, 4.347%, 10/15/31 . . . . .   | United States | 878,301           | 877,546    |
| <sup>b,h</sup> LCM XXII Ltd.,<br>22A, A2R, 144A, FRN, 4.042%, 10/20/28 . . . . .   | United States | 3,500,000         | 3,438,995  |
| 22A, BR, 144A, FRN, 4.592%, 10/20/28 . . . . .   | United States | 1,500,000         | 1,469,265  |
| 22A, CR, 144A, FRN, 5.392%, 10/20/28 . . . . .   | United States | 2,000,000         | 1,930,720  |
| <sup>b,g</sup> LCM XXV Ltd., 25A, A, 144A, FRN, 3.802%, (3-month USD LIBOR +<br>1.21%), 7/20/30 . . . . .                      | United States | 250,000           | 249,920    |
| <sup>b,g</sup> Long Point Park CLO Ltd.,<br>2017-1A, A2, 144A, FRN, 3.963%, (3-month USD LIBOR + 1.375%),<br>1/17/30 . . . . . | United States | 1,000,000         | 979,620    |
| 2017-1A, B, 144A, FRN, 4.288%, (3-month USD LIBOR + 1.70%),<br>1/17/30 . . . . .   | United States | 1,000,000         | 964,850    |
| <sup>b,h</sup> Madison Park Funding XIV Ltd.,<br>2014-14A, A2RR, 144A, FRN, 3.992%, 10/22/30 . . . . .                         | United States | 1,000,000         | 1,002,930  |
| 2014-14A, BRR, 144A, FRN, 4.292%, 10/22/30 . . . . .   | United States | 1,500,000         | 1,496,805  |
| 2014-14A, CRR, 144A, FRN, 4.792%, 10/22/30 . . . . .   | United States | 562,500           | 560,649    |
| <sup>b,h</sup> Madison Park Funding XXIX Ltd.,<br>2018-29A, A2, 144A, FRN, 4.051%, 10/18/30 . . . . .                          | United States | 1,468,182         | 1,457,450  |
| 2018-29A, B, 144A, FRN, 4.351%, 10/18/30 . . . . .   | United States | 3,000,000         | 2,994,360  |
| 2018-29A, C, 144A, FRN, 4.801%, 10/18/30 . . . . .   | United States | 766,129           | 753,756    |
| 2018-29A, D, 144A, FRN, 5.601%, 10/18/30 . . . . .   | United States | 600,000           | 576,486    |
| <sup>b,g</sup> Madison Park Funding XXVI Ltd., 07-4A, AR, 144A, FRN, 3.782%,<br>(3-month USD LIBOR + 1.20%), 7/29/30 . . . . . | United States | 2,500,000         | 2,496,875  |
| <sup>b,h</sup> Madison Park Funding XXXI Ltd.,<br>2018-31A, A2A, 144A, FRN, 4.092%, 1/23/31 . . . . .                          | United States | 750,000           | 746,123    |
| 2018-31A, B, 144A, FRN, 4.292%, 1/23/31 . . . . .  | United States | 3,000,000         | 2,984,940  |
| 2018-31A, C, 144A, FRN, 4.742%, 1/23/31 . . . . .  | United States | 1,950,000         | 1,920,536  |
| <sup>b,h</sup> Mill City Mortgage Loan Trust,<br>2017-1, A1, 144A, FRN, 2.75%, 11/25/58 . . . . .                              | United States | 1,168,017         | 1,161,025  |
| 2018-1, A1, 144A, FRN, 3.25%, 5/25/62 . . . . .  | United States | 2,847,455         | 2,854,964  |
| 2018-4, A1B, 144A, FRN, 3.50%, 4/25/66 . . . . .   | United States | 1,660,000         | 1,673,131  |
| <sup>b</sup> Morgan Stanley Capital I Trust, 2014-150E, A, 144A, 3.912%, 9/09/32 . . . . .                                     | United States | 450,000           | 469,595    |
| <sup>b,h</sup> Neuberger Berman CLO XVIII Ltd.,<br>2014-18A, A1BR, 144A, FRN, 3.992%, 10/21/30 . . . . .                       | United States | 2,550,000         | 2,554,564  |
| 2014-18A, A2R2, 144A, FRN, 4.292%, 10/21/30 . . . . .  | United States | 545,455           | 540,579    |

**Franklin Flexible Alpha Bond Fund** (continued)

|  | Country       | Principal Amount* | Value      |
|--|---------------|-------------------|------------|
| <b>Asset-Backed Securities and Commercial Mortgage-Backed Securities</b> (continued)   |               |                   |            |
| <b>Diversified Financials</b> (continued)  |               |                   |            |
| <sup>b</sup> Neuberger Berman Loan Advisers CLO Ltd.,  |               |                   |            |
| <sup>g</sup> 2017-26A, B, 144A, FRN, 4.101%, (3-month USD LIBOR + 1.50%),<br>10/18/30 . . . . .                                      | United States | 539,475           | \$ 530,056 |
| <sup>h</sup> 2019-32A, B, 144A, FRN, 4.417%, 1/19/32 . . . . .   | United States | 2,800,000         | 2,797,172  |
| <sup>h</sup> 2019-32A, C, 144A, FRN, 5.217%, 1/19/32 . . . . .   | United States | 2,000,000         | 2,005,740  |
| <sup>h</sup> 2019-32A, D, 144A, FRN, 6.368%, 1/19/32 . . . . .   | United States | 710,526           | 709,929    |
| <sup>b,g</sup> Newark BSL CLO 2 Ltd., 2017-1A, B, 144A, FRN, 4.93%, (3-month USD LIBOR + 2.35%), 7/25/30 . . . . .                   | United States | 2,000,000         | 2,000,600  |
| <sup>b,g</sup> Octagon Investment Partners 18-R Ltd., 2018-18A, C, 144A, FRN, 5.301%, (3-month USD LIBOR + 2.70%), 4/16/31 . . . . . | United States | 350,000           | 333,312    |
| <sup>b,h</sup> Octagon Investment Partners 27 Ltd., 2016-1A, CR, 144A, FRN, 4.697%, 7/15/30 . . . . .                                | United States | 1,565,000         | 1,547,128  |
| <sup>b,h</sup> Octagon Investment Partners 28 Ltd., 2016-1A, BR, 144A, FRN, 4.381%, 10/24/30 . . . . .                               | United States | 593,141           | 594,434    |
| <sup>b,g</sup> Octagon Investment Partners 33 Ltd.,  |               |                   |            |
| 2017-1A, A2, 144A, FRN, 4.092%, (3-month USD LIBOR + 1.50%),<br>1/20/31 . . . . .  | United States | 2,000,000         | 1,970,220  |
| 2017-1A, B, 144A, FRN, 4.442%, (3-month USD LIBOR + 1.85%),<br>1/20/31 . . . . .   | United States | 500,000           | 492,720    |
| 2017-1A, C, 144A, FRN, 5.342%, (3-month USD LIBOR + 2.75%),<br>1/20/31 . . . . .   | United States | 250,000           | 240,130    |
| <sup>b,g</sup> Octagon Investment Partners XX Ltd., 2014-1A, AR, 144A, FRN, 3.828%, (3-month USD LIBOR + 1.13%), 8/12/26 . . . . .   | United States | 370,831           | 371,306    |
| <sup>b,g</sup> Octagon Investment Partners XXIII Ltd.,   |               |                   |            |
| 2015-1A, BR, 144A, FRN, 3.797%, (3-month USD LIBOR + 1.20%),<br>7/15/27 . . . . .  | United States | 1,200,000         | 1,193,568  |
| 2015-1A, CR, 144A, FRN, 4.447%, (3-month USD LIBOR + 1.85%),<br>7/15/27 . . . . .  | United States | 2,000,000         | 1,989,660  |
| 2015-1A, DR, 144A, FRN, 5.147%, (3-month USD LIBOR + 2.55%),<br>7/15/27 . . . . .  | United States | 300,000           | 296,100    |
| <sup>b,h</sup> Octagon Loan Funding Ltd., 2014-1A, DRR, 144A, FRN, 5.583%, 11/18/31 . . . . .  | United States | 1,333,333         | 1,277,160  |
| <sup>b</sup> Progress Residential Trust, 2018-SFR2, A, 144A, 3.712%, 8/17/35 . . . . .   | United States | 290,000           | 295,821    |
| <sup>b,h</sup> Race Point X CLO Ltd., 2016-10A, C1R, 144A, FRN, 4.58%, 7/25/31 . . . . .   | United States | 1,700,000         | 1,641,452  |
| <sup>b,g</sup> Radnor RE Ltd., 2018-1, M1, 144A, FRN, 3.877%, (1-month USD LIBOR + 1.40%), 3/25/28 . . . . .                         | United States | 630,000           | 631,935    |
| <sup>b,h</sup> Sequoia Mortgage Trust, 2016-2, A4, 144A, FRN, 3.50%, 8/25/46 . . . . .   | United States | 1,953,713         | 1,956,144  |
| <sup>b</sup> TCI-Flatiron CLO Ltd.,  |               |                   |            |
| <sup>h</sup> 2017-1A, A, 144A, FRN, 3.883%, 11/18/30 . . . . .   | United States | 2,000,000         | 1,995,220  |
| <sup>g</sup> 2017-1A, B, 144A, FRN, 4.243%, (3-month USD LIBOR + 1.56%),<br>11/18/30 . . . . .                                       | United States | 2,000,000         | 1,969,060  |
| <sup>g</sup> 2017-1A, C, 144A, FRN, 4.533%, (3-month USD LIBOR + 1.85%),<br>11/18/30 . . . . .                                       | United States | 1,200,000         | 1,149,336  |
| <sup>g</sup> 2017-1A, D, 144A, FRN, 5.433%, (3-month USD LIBOR + 2.75%),<br>11/18/30 . . . . .                                       | United States | 250,000           | 237,428    |
| <sup>h</sup> Thornburg Mortgage Securities Trust, 2005-1, A3, FRN, 4.576%, 4/25/45 . . . . .   | United States | 20,104            | 20,432     |
| <sup>b</sup> Towd Point Mortgage Trust,  |               |                   |            |
| <sup>h</sup> 2015-2, 2A1, 144A, FRN, 3.75%, 11/25/57 . . . . .   | United States | 314,692           | 316,610    |
| <sup>h</sup> 2016-3, A1, 144A, FRN, 2.25%, 4/25/56 . . . . .   | United States | 1,676,063         | 1,656,325  |
| <sup>h</sup> 2016-4, A1, 144A, FRN, 2.25%, 7/25/56 . . . . .   | United States | 1,078,787         | 1,063,262  |
| <sup>h</sup> 2016-5, A1, 144A, FRN, 2.50%, 10/25/56 . . . . .  | United States | 422,464           | 416,462    |

Franklin Flexible Alpha Bond Fund (continued)

|  | Country       | Principal Amount* | Value              |
|--|---------------|-------------------|--------------------|
| <b>Asset-Backed Securities and Commercial Mortgage-Backed Securities (continued)</b>   |               |                   |                    |
| <b>Diversified Financials (continued)</b>  |               |                   |                    |
| <sup>b</sup> Towd Point Mortgage Trust, (continued)  |               |                   |                    |
| <sup>h</sup> 2017-1, A1, 144A, FRN, 2.75%, 10/25/56 . . . . .  | United States | 1,289,554         | \$ 1,275,859       |
| <sup>h</sup> 2017-2, A1, 144A, FRN, 2.75%, 4/25/57 . . . . .   | United States | 1,264,161         | 1,250,635          |
| <sup>h</sup> 2017-4, A1, 144A, FRN, 2.75%, 6/25/57 . . . . .   | United States | 2,186,825         | 2,162,467          |
| <sup>g</sup> 2017-5, A1, 144A, FRN, 3.077%, (1-month USD LIBOR + 0.60%),<br>2/25/57 . . . . .                                | United States | 134,479           | 133,946            |
| <sup>h</sup> 2018-1, A1, 144A, FRN, 3.00%, 1/25/58 . . . . .   | United States | 559,039           | 555,321            |
| <sup>h</sup> 2018-2, A1, 144A, FRN, 3.25%, 3/25/58 . . . . .   | United States | 279,909           | 281,315            |
| <sup>h</sup> 2018-4, A1, 144A, FRN, 3.00%, 6/25/58 . . . . .   | United States | 1,874,615         | 1,854,017          |
| <sup>h</sup> 2018-5, A1A, 144A, FRN, 3.25%, 7/25/58 . . . . .  | United States | 607,990           | 608,419            |
| <sup>h</sup> 2019-1, A1, 144A, FRN, 3.75%, 3/25/58 . . . . .   | United States | 2,470,984         | 2,521,569          |
| <sup>b</sup> Voya CLO Ltd.,  |               |                   |                    |
| <sup>g</sup> 2013-2A, A1R, 144A, FRN, 3.55%, (3-month USD LIBOR + 0.97%),<br>4/25/31 . . . . .                               | United States | 7,300,000         | 7,200,355          |
| <sup>g</sup> 2013-2A, BR, 144A, FRN, 4.43%, (3-month USD LIBOR + 1.85%),<br>4/25/31 . . . . .                                | United States | 2,000,000         | 1,929,920          |
| <sup>g</sup> 2014-1A, BR2, 144A, FRN, 4.501%, (3-month USD LIBOR + 1.90%),<br>4/18/31 . . . . .                              | United States | 2,750,000         | 2,673,467          |
| <sup>h</sup> 2016-3A, A2R, 144A, FRN, 4.001%, 10/18/31 . . . . .   | United States | 1,636,364         | 1,643,760          |
| <sup>g</sup> 2017-2A, B, 144A, FRN, 4.947%, (3-month USD LIBOR + 2.35%),<br>6/07/30 . . . . .                                | United States | 1,000,000         | 1,000,320          |
| <sup>h</sup> 2018-4A, B, 144A, FRN, 4.554%, 1/15/32 . . . . .  | United States | 474,026           | 475,524            |
| <sup>b,g</sup> Webster Park CLO Ltd., 2015-1A, BR, 144A, FRN, 4.392%, (3-month USD<br>LIBOR + 1.80%), 7/20/30 . . . . .      | United States | 2,000,000         | 1,937,520          |
| Wells Fargo Commercial Mortgage Trust, 2016-NXS6, A4, 2.918%,<br>11/15/49 . . . . .  | United States | 1,500,000         | 1,479,282          |
| <sup>b,h</sup> Wells Fargo Mortgage Backed Securities, 2018-1, A3, 144A, FRN, 3.50%,<br>7/25/47 . . . . .                    | United States | 867,924           | 875,032            |
| <sup>b,g</sup> West CLO Ltd., 2014-1A, A2R, 144A, FRN, 3.951%, (3-month USD LIBOR<br>+ 1.35%), 7/18/26 . . . . .             | United States | 170,000           | 169,471            |
|  |               |                   | <u>312,164,555</u> |
| <b>Real Estate 0.2%</b>  |               |                   |                    |
| <sup>b</sup> American Homes 4 Rent, 2014-SFR3, A, 144A, 3.678%, 12/17/36 . . . . .   | United States | 747,409           | 764,720            |
| <b>Total Asset-Backed Securities and Commercial Mortgage-Backed Securities (Cost \$317,117,678) . . . . .</b>                |               |                   |                    |
|  |               |                   | <u>314,433,738</u> |
| <b>Municipal Bonds 0.2%</b>  |               |                   |                    |
| Cincinnati GO, Various Purpose, Improvement and Refunding, Series A,<br>5.00%, 12/01/25 . . . . .                            | United States | 100,000           | 118,552            |
| Citizens Property Insurance Corp. Revenue, Coastal Account, senior<br>secured, Series A-1, 5.00%, 6/01/22 . . . . .          | United States | 125,000           | 135,045            |
| Colorado State Board of Governors University Enterprise System<br>Revenue, Green Bonds, Series E-2, 5.00%, 3/01/25 . . . . . | United States | 100,000           | 118,157            |
| Orlando Health Obligated Group, 3.777%, 10/01/28 . . . . .   | United States | 105,000           | 106,475            |
| Providence St. Joseph Health Obligated Group, 2.746%, 10/01/26 . . . . .   | United States | 15,000            | 14,345             |
| San Jose RDA Successor Agency Tax Allocation, Senior, Refunding,<br>Series A-T, 3.226%, 8/01/27 . . . . .                    | United States | 190,000           | 192,580            |
| Teays Valley Local School District GO, Pickaway Fairfield and Franklin<br>Counties, Refunding, 4.00%, 12/01/26 . . . . .     | United States | 100,000           | 108,758            |

**Franklin Flexible Alpha Bond Fund** (continued)

|  | Country                | Principal<br>Amount* | Value                |
|--|------------------------|----------------------|----------------------|
| <b>Municipal Bonds</b> (continued)   |                        |                      |                      |
| Texas State GO, Transportation Commission Highway Improvement, Series A, 5.00%, 4/01/21 . . . . .                      | United States          | 5,000                | \$ 5,319             |
| <b>Total Municipal Bonds (Cost \$778,837)</b> . . . . .  |                        |                      | <u>799,231</u>       |
|  | Number of<br>Contracts | Notional<br>Amount*  |                      |
| <b>Options Purchased 0.0%†</b>   |                        |                      |                      |
| <b>Puts - Over-the-Counter</b>   |                        |                      |                      |
| <b>Credit Default Swaptions 0.0%†</b>  |                        |                      |                      |
| Buy protection on CDX.NA.HY.31, Premium Rate 5.00%, Strike Price \$105, Counterparty JPHQ, Expires 6/19/19 . . . . .   | 1                      | 9,800,000            | 16,797               |
| Buy Protection on CDX.NA.HY.32, Premium Rate 5.00%, Strike Price \$106, Counterparty JPHQ, Expires 7/17/19 . . . . .   | 1                      | 8,000,000            | 50,752               |
| Buy protection on CDX.NA.IG.31, Premium Rate 1.00%, Strike Price \$67.50, Counterparty CITI, Expires 5/15/19 . . . . . | 1                      | 10,000,000           | 470                  |
| Buy protection on CDX.NA.IG.31, Premium Rate 1.00%, Strike Price \$72.50, Counterparty JPHQ, Expires 6/19/19 . . . . . | 1                      | 10,000,000           | 1,890                |
| Buy Protection on CDX.NA.IG.32, Premium Rate 1.00%, Strike Price \$62.50, Counterparty BNDP, Expires 7/17/19 . . . . . | 1                      | 24,000,000           | 41,376               |
|  |                        |                      | <u>111,285</u>       |
| <b>Interest Rate Swaptions 0.0%†</b>   |                        |                      |                      |
| Receive float 3 month USD LIBOR, pay fixed 2.25%, Counterparty CITI, Expires 6/28/19 . . . . .                         | 1                      | 17,400,000           | 26,239               |
| <b>Total Options Purchased (Cost \$335,689)</b> . . . . .  |                        |                      | <u>137,524</u>       |
| <b>Total Investments before Short Term Investments (Cost \$438,673,669)</b> . . . . .                                  |                        |                      | <u>436,748,235</u>   |
|  | Country                | Shares               |                      |
| <b>Short Term Investments (Cost \$77,861,898) 15.4%</b>  |                        |                      |                      |
| <b>Money Market Funds 15.4%</b>  |                        |                      |                      |
| <sup>i,k</sup> Institutional Fiduciary Trust Money Market Portfolio, 2.10% . . . . .                                   | United States          | 77,861,898           | 77,861,898           |
| <b>Total Investments (Cost \$516,535,567) 101.5%</b> . . . . .   |                        |                      | 514,610,133          |
| <b>Options Written (0.0)%†</b> . . . . .   |                        |                      | (30,265)             |
| <b>Other Assets, less Liabilities (1.5)%</b> . . . . .   |                        |                      | (7,363,083)          |
| <b>Net Assets 100.0%</b> . . . . .   |                        |                      | <u>\$507,216,785</u> |

Franklin Flexible Alpha Bond Fund (continued)

|  | Number of<br>Contracts | Notional<br>Amount* | Value              |
|--|------------------------|---------------------|--------------------|
| <b>Options Written (0.0)%<sup>†</sup></b>  |                        |                     |                    |
| <b>Puts - Over-the-Counter</b>   |                        |                     |                    |
| <b>Credit Default Swaptions (0.0)%<sup>†</sup></b>   |                        |                     |                    |
| Buy protection on CDX.NA.HY.31, Premium Rate 5.00%, Strike Price<br>\$101.50, Counterparty JPHQ, Expires 6/19/19 . . . . . | 1                      | 9,800,000           | \$ (6,017)         |
| Buy Protection on CDX.NA.HY.32, Premium Rate 5.00%, Strike Price<br>\$102, Counterparty JPHQ, Expires 7/17/19 . . . . .    | 1                      | 8,000,000           | (14,192)           |
| Buy Protection on CDX.NA.IG.32, Premium Rate 1.00%, Strike Price \$85,<br>Counterparty BNDP, Expires 7/17/19 . . . . .     | 1                      | 24,000,000          | (10,056)           |
| <b>Total Options Written (Premiums received \$57,620) . . . . .</b>  |                        |                     | <b>\$ (30,265)</b> |

<sup>†</sup>Rounds to less than 0.1% of net assets.

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

<sup>a</sup>Security was purchased pursuant to Regulation S under the Securities Act of 1933, which exempts from registration securities offered and sold outside of the United States. Such a security cannot be sold in the United States without either an effective registration statement filed pursuant to the Securities Act of 1933, or pursuant to an exemption from registration. These securities have been deemed liquid under guidelines approved by the Trust's Board of Trustees. At April 30, 2019, the aggregate value of these securities was \$21,490,700, representing 4.2% of net assets.

<sup>b</sup>Security was purchased pursuant to Rule 144A under the Securities Act of 1933 and may be sold in transactions exempt from registration only to qualified institutional buyers or in a public offering registered under the Securities Act of 1933. These securities have been deemed liquid under guidelines approved by the Trust's Board of Trustees. At April 30, 2019, the aggregate value of these securities was \$250,614,584, representing 49.4% of net assets.

<sup>c</sup>The coupon rate shown represents the rate at period end.

<sup>d</sup>See Note 1(e) regarding loan participation notes.

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

<sup>f</sup>Principal amount of security is adjusted for inflation. See Note 1(h).

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

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

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

<sup>j</sup>See Note 3(f) regarding investments in affiliated management investment companies.

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

<sup>l</sup>See Note 1(c) regarding written options.

**Franklin Flexible Alpha Bond Fund** (continued)

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

**Futures Contracts**

| Description                               | Type  | Number of Contracts | Notional Amount* | Expiration Date | Value/Unrealized Appreciation (Depreciation) |
|---|-------|---------------------|------------------|-----------------|--|
| <b>Interest Rate Contracts</b>            |       |                     |                  |                 |  |
| Australian 10 Yr. Bond . . . . .          | Long  | 79                  | \$ 7,704,233     | 6/17/19         | \$ 130,906                                   |
| Canadian 10 Yr. Bond . . . . .            | Long  | 70                  | 7,221,592        | 6/19/19         | 98,154                                       |
| Euro BOBL . . . . .                       | Short | 40                  | 5,964,303        | 6/06/19         | (30,095)                                     |
| Euro-Bund . . . . .                       | Short | 5                   | 927,141          | 6/06/19         | (10,156)                                     |
| U.S. Treasury 10 Yr. Note . . . . .       | Short | 80                  | 9,893,750        | 6/19/19         | (90,110)                                     |
| U.S. Treasury 2 Yr. Note . . . . .        | Short | 106                 | 22,578,828       | 6/28/19         | (68,035)                                     |
| U.S. Treasury 30 Yr. Bond . . . . .       | Short | 13                  | 1,917,094        | 6/19/19         | (11,268)                                     |
| U.S. Treasury 5 Yr. Note . . . . .        | Short | 349                 | 40,358,578       | 6/28/19         | (278,553)                                    |
| Ultra 10 Yr. U.S. Treasury Note . . . . . | Short | 71                  | 9,356,469        | 6/19/19         | (112,144)                                    |
| Total Futures Contracts . . . . .         |       |                     |                  |                 | <u>\$(371,301)</u>                           |

\*As of period end.

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

**Forward Exchange Contracts**

| Currency                              | Counterparty <sup>a</sup> | Type | Quantity       | Contract Amount* | Settlement Date | Unrealized Appreciation | Unrealized Depreciation |
|---------------------------------------|---------------------------|------|----------------|------------------|-----------------|-------------------------|-------------------------|
| <b>OTC Forward Exchange Contracts</b> |                           |      |                |                  |                 |                         |                         |
| Chinese Yuan Renminbi . . . . .       | JPHQ                      | Buy  | 8,800,000      | 1,312,181        | 5/06/19         | \$ —                    | \$ (5,826)              |
| Chinese Yuan Renminbi . . . . .       | JPHQ                      | Sell | 8,800,000      | 1,307,772        | 5/06/19         | 1,417                   | —                       |
| Canadian Dollar . . . . .             | UBSW                      | Sell | 26,000         | 27,537 AUD       | 5/14/19         | 9                       | —                       |
| Indonesian Rupiah . . . . .           | JPHQ                      | Buy  | 22,436,500,000 | 1,576,261        | 5/28/19         | —                       | (5,781)                 |
| South Korean Won . . . . .            | JPHQ                      | Sell | 1,174,000,000  | 1,052,726        | 6/03/19         | 43,346                  | —                       |
| Swedish Krona . . . . .               | UBSW                      | Buy  | 16,135,000     | 1,739,660        | 6/04/19         | —                       | (35,344)                |
| Swedish Krona . . . . .               | UBSW                      | Sell | 16,135,000     | 1,749,810        | 6/04/19         | 45,494                  | —                       |
| Canadian Dollar . . . . .             | UBSW                      | Sell | 3,347,000      | 2,512,763        | 6/05/19         | 11,456                  | —                       |
| Mexican Peso . . . . .                | RBS                       | Buy  | 35,708,000     | 1,806,628        | 6/10/19         | 64,712                  | —                       |
| Mexican Peso . . . . .                | RBS                       | Sell | 10,700,000     | 555,487          | 6/10/19         | —                       | (5,265)                 |
| Japanese Yen . . . . .                | JPHQ                      | Buy  | 172,000,000    | 1,561,054        | 6/12/19         | —                       | (11,076)                |
| Japanese Yen . . . . .                | JPHQ                      | Buy  | 173,000,000    | 1,553,176        | 6/12/19         | 5,814                   | —                       |
| Polish Zloty . . . . .                | RBS                       | Buy  | 1,930,000      | 512,616          | 6/19/19         | —                       | (6,754)                 |
| Polish Zloty . . . . .                | RBS                       | Sell | 1,930,000      | 511,326          | 6/19/19         | 5,463                   | —                       |
| Mexican Peso . . . . .                | JPHQ                      | Buy  | 4,800,000      | 247,365          | 6/21/19         | 3,755                   | —                       |
| Australian Dollar . . . . .           | UBSW                      | Sell | 5,050,000      | 3,580,097        | 7/01/19         | 13,207                  | —                       |
| Euro . . . . .                        | UBSW                      | Sell | 1,427,000      | 1,615,100        | 7/01/19         | 5,636                   | —                       |
| Norwegian Krone . . . . .             | UBSW                      | Buy  | 2,320,000      | 273,169          | 7/15/19         | —                       | (3,454)                 |
| Norwegian Krone . . . . .             | UBSW                      | Sell | 2,320,000      | 273,795          | 7/15/19         | 4,081                   | —                       |
| Chinese Yuan Renminbi . . . . .       | JPHQ                      | Sell | 8,700,000      | 1,292,719        | 7/24/19         | 1,311                   | —                       |
| British Pound . . . . .               | JPHQ                      | Sell | 86,300         | 115,081          | 8/15/19         | 1,916                   | —                       |
| Canadian Dollar . . . . .             | JPHQ                      | Sell | 1,700,000      | 1,278,396        | 9/18/19         | 4,904                   | —                       |
| Euro . . . . .                        | DBAB                      | Sell | 120,000        | 137,078          | 9/18/19         | 816                     | —                       |
| Euro . . . . .                        | JPHQ                      | Sell | 400,000        | 450,690          | 9/18/19         | —                       | (3,516)                 |



**Franklin Flexible Alpha Bond Fund** (continued)

**Forward Exchange Contracts** (continued)

| Currency  | Counterparty <sup>a</sup> | Type | Quantity  | Contract Amount* | Settlement Date | Unrealized Appreciation | Unrealized Depreciation |
|---|---------------------------|------|-----------|------------------|-----------------|-------------------------|-------------------------|
| <b>OTC Forward Exchange Contracts</b> (continued) |                           |      |           |                  |                 |                         |                         |
| Euro  | JPHQ                      | Sell | 4,550,000 | 5,196,328        | 9/18/19         | \$ 29,738               | \$ —                    |
| Australian Dollar                                 | JPHQ                      | Sell | 1,520,000 | 1,093,575        | 10/11/19        | 17,082                  | —                       |
| Turkish Lira                                      | JPHQ                      | Buy  | 2,600,000 | 399,969          | 10/18/19        | —                       | (9,688)                 |
| Euro  | DBAB                      | Buy  | 100,000   | 117,270          | 12/13/19        | —                       | (2,901)                 |
| Euro  | DBAB                      | Sell | 800,000   | 934,000          | 12/13/19        | 19,049                  | —                       |
| Total Forward Exchange Contracts                  |                           |      |           |                  |                 | \$ 279,206              | \$ (89,605)             |
| Net unrealized appreciation (depreciation)        |                           |      |           |                  |                 | \$ 189,601              |                         |

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

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

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

**Credit Default Swap Contracts**

| Description                                       | Periodic Payment Rate Received (Paid) | Payment Frequency | Counterparty | Maturity Date | Notional Amount <sup>a</sup> | Value        | Unamortized Upfront Payments (Receipts) | Unrealized Appreciation (Depreciation) | Rating <sup>b</sup> |
|---|---------------------------------------|-------------------|--------------|---------------|------------------------------|--------------|---|--|---------------------|
| <b>OTC Swap Contracts</b>                         |                                       |                   |              |               |                              |              |   |  |                     |
| <b>Contracts to Buy Protection<sup>c</sup></b>    |                                       |                   |              |               |                              |              |   |  |                     |
| <b>Single Name</b>                                |                                       |                   |              |               |                              |              |   |  |                     |
| The AES Corp.                                     | (5.00)%                               | Quarterly         | CITI         | 3/20/21       | \$ 2,750,000                 | \$ (260,197) | \$ (222,571)                            | \$ (37,626)                            |                     |
| Ally Financial Inc.                               | (5.00)%                               | Quarterly         | JPHQ         | 6/20/24       | 2,600,000                    | (487,286)    | (422,995)                               | (64,291)                               |                     |
| American Airlines Group Inc.                      | (5.00)%                               | Quarterly         | BZWS         | 12/20/19      | 400,000                      | (14,309)     | (10,688)                                | (3,621)                                |                     |
| American Airlines Group Inc.                      | (5.00)%                               | Quarterly         | CITI         | 12/20/19      | 130,000                      | (4,650)      | (3,429)                                 | (1,221)                                |                     |
| Boyd Gaming Corp.                                 | (5.00)%                               | Quarterly         | BZWS         | 6/20/22       | 525,000                      | (75,103)     | (62,211)                                | (12,892)                               |                     |
| Centurylink Inc.                                  | (5.00)%                               | Quarterly         | BZWS         | 6/20/21       | 4,700,000                    | (406,052)    | (238,403)                               | (167,649)                              |                     |
| Dish DBS Corp.                                    | (5.00)%                               | Quarterly         | BZWS         | 12/20/20      | 175,000                      | (11,017)     | (8,354)                                 | (2,663)                                |                     |
| Dish DBS Corp.                                    | (5.00)%                               | Quarterly         | JPHQ         | 6/20/21       | 470,000                      | (34,071)     | (14,741)                                | (19,330)                               |                     |
| Energy Transfer LP                                | (5.00)%                               | Quarterly         | MSCO         | 12/20/20      | 750,000                      | (63,058)     | (51,857)                                | (11,201)                               |                     |
| Government of Italy                               | (1.00)%                               | Quarterly         | BZWS         | 6/20/23       | 700,000                      | (1,700)      | 6,314                                   | (8,014)                                |                     |
| Government of Turkey                              | (1.00)%                               | Quarterly         | BZWS         | 12/20/19      | 166,667                      | 2,483        | 4,990                                   | (2,507)                                |                     |
| HCA Inc.  | (5.00)%                               | Quarterly         | FBCO         | 3/20/22       | 2,050,000                    | (271,640)    | (216,960)                               | (54,680)                               |                     |
| KB Home   | (5.00)%                               | Quarterly         | JPHQ         | 3/20/20       | 100,000                      | (4,797)      | (3,169)                                 | (1,628)                                |                     |
| Nabors Industries Inc.                            | (1.00)%                               | Quarterly         | CITI         | 12/20/21      | 805,000                      | 26,610       | 32,434                                  | (5,824)                                |                     |
| Nabors Industries Inc.                            | (1.00)%                               | Quarterly         | CITI         | 12/20/21      | 245,000                      | 8,098        | 7,935                                   | 163                                    |                     |
| Navient Corp.                                     | (5.00)%                               | Quarterly         | GSCO         | 3/20/20       | 1,800,000                    | (83,781)     | (62,910)                                | (20,871)                               |                     |
| Navient Corp.                                     | (5.00)%                               | Quarterly         | JPHQ         | 3/20/20       | 2,860,000                    | (133,119)    | (100,019)                               | (33,100)                               |                     |
| PHH Corp.   | (5.00)%                               | Quarterly         | BZWS         | 9/20/19       | 200,000                      | (4,906)      | (351)                                   | (4,555)                                |                     |
| Sanmina Corp.                                     | (5.00)%                               | Quarterly         | BZWS         | 6/20/19       | 100,000                      | (1,240)      | (601)                                   | (639)                                  |                     |
| Universal Health Services Inc.                    | (5.00)%                               | Quarterly         | BZWS         | 9/20/19       | 50,000                       | (1,252)      | (813)                                   | (439)                                  |                     |
| <b>Contracts to Sell Protection<sup>c,d</sup></b> |                                       |                   |              |               |                              |              |   |  |                     |
| <b>Single Name</b>                                |                                       |                   |              |               |                              |              |   |  |                     |
| American Tower Corp.                              | 1.00%                                 | Quarterly         | GSCO         | 3/20/21       | \$ 100,000                   | \$ 130       | \$ (708)                                | \$ 838                                 | BBB-                |
| Dish DBS Corp.                                    | 5.00%                                 | Quarterly         | BZWS         | 12/20/22      | 175,000                      | 7,358        | 6,579                                   | 779                                    | B-                  |

**Franklin Flexible Alpha Bond Fund** (continued)

**Credit Default Swap Contracts** (continued)

| Description   | Periodic<br>Payment Rate<br>Received<br>(Paid) | Payment<br>Frequency | Counter-<br>party | Maturity<br>Date | Notional<br>Amount <sup>a</sup> | Value     | Unamortized<br>Upfront<br>Payments<br>(Receipts) | Unrealized<br>Appreciation<br>(Depreciation) | Rating <sup>b</sup>              |
|---|--|----------------------|-------------------|------------------|---------------------------------|-----------|--|--|----------------------------------|
| <b>OTC Swap Contracts</b> (continued)                         |  |                      |                   |                  |                                 |           |  |  |                                  |
| <b>Contracts to Sell Protection<sup>c,d</sup></b> (continued) |  |                      |                   |                  |                                 |           |  |  |                                  |
| <b>Single Name</b> (continued)                                |  |                      |                   |                  |                                 |           |  |  |                                  |
| Dish DBS Corp. . . . .  | 5.00%  | Quarterly            | JPHQ              | 6/20/23          | \$ 470,000                      | \$ 11,635 | \$ (5,150)                                       | \$ 16,785                                    | B-                               |
| Goldman Sachs Group Inc. . . . .                              | 1.00%  | Quarterly            | JPHQ              | 6/20/24          | 2,600,000                       | 34,257    | 18,335   | 15,922                                       | BBB+                             |
| Government of Argentina . . . . .                             | 5.00%  | Quarterly            | BZWS              | 6/20/23          | 330,000                         | (66,222)  | (69,163)   | 2,941  | B                                |
| Government of Argentina . . . . .                             | 5.00%  | Quarterly            | CITI              | 12/20/23         | 630,000                         | (132,289) | (33,119)   | (99,170)                                     | B                                |
| Government of Indonesia . . . . .                             | 1.00%  | Quarterly            | CITI              | 6/20/24          | 1,025,000                       | 3,682     | (3,436)  | 7,118  | BBB-                             |
| Government of Italy . . . . .                                 | 1.00%  | Quarterly            | BZWS              | 6/20/23          | 700,000                         | (17,272)  | (27,688)   | 10,416                                       | NR                               |
| Government of Russia . . . . .                                | 1.00%  | Quarterly            | BNDP              | 6/20/24          | 620,000                         | (6,546)   | (8,268)  | 1,722  | BBB-                             |
| Morgan Stanley . . . . .                                      | 1.00%  | Quarterly            | JPHQ              | 6/20/24          | 2,600,000                       | 48,093    | 36,908   | 11,185                                       | BBB+                             |
| Nabors Industries Inc. . . . .                                | 1.00%  | Quarterly            | CITI              | 12/20/23         | 1,050,000                       | (134,372) | (145,854)  | 11,482                                       | BB                               |
| Sprint Communications Inc. . . . .                            | 5.00%  | Quarterly            | JPHQ              | 9/20/20          | 12,000                          | 724       | —  | 724  | B                                |
| <b>Traded Index</b>   |  |                      |                   |                  |                                 |           |  |  |                                  |
| <sup>e</sup> BNP Paribas Bespoke                              |  |                      |                   |                  |                                 |           |  |  |                                  |
| Bordeaux Index, Mezzanine                                     |  |                      |                   |                  |                                 |           |  |  |                                  |
| Tranche 7-10% . . . . .                                       | 2.10%  | Quarterly            | BNDP              | 6/20/20          | 300,000                         | 4,371     | —  | 4,371  | Non-<br>Invest-<br>ment<br>Grade |
| <sup>e</sup> BNP Paribas Bespoke Rodez                        |  |                      |                   |                  |                                 |           |  |  |                                  |
| Index, Mezzanine Tranche                                      |  |                      |                   |                  |                                 |           |  |  |                                  |
| 5-7% . . . . .  | 2.00%  | Quarterly            | BNDP              | 12/20/20         | 500,000                         | 4,096     | —  | 4,096  | Non-<br>Invest-<br>ment<br>Grade |
| <sup>e</sup> BNP Paribas Bespoke Rodez2                       |  |                      |                   |                  |                                 |           |  |  |                                  |
| Index, Mezzanine Tranche                                      |  |                      |                   |                  |                                 |           |  |  |                                  |
| 5-7% . . . . .  | 3.20%  | Quarterly            | BNDP              | 12/20/20         | 340,000                         | 10,225    | —  | 10,225                                       | Non-<br>Invest-<br>ment<br>Grade |
| <sup>e</sup> Citibank Bespoke Bogota                          |  |                      |                   |                  |                                 |           |  |  |                                  |
| Index, Mezzanine Tranche                                      |  |                      |                   |                  |                                 |           |  |  |                                  |
| 7-10% . . . . .   | 1.35%  | Quarterly            | CITI              | 6/20/20          | 1,650,000                       | 15,378    | —  | 15,378                                       | Non-<br>Invest-<br>ment<br>Grade |
| <sup>e</sup> Citibank Bespoke Boulder                         |  |                      |                   |                  |                                 |           |  |  |                                  |
| Index, Mezzanine Tranche                                      |  |                      |                   |                  |                                 |           |  |  |                                  |
| 5-10% . . . . .   | 1.18%  | Quarterly            | CITI              | 12/20/19         | 3,000,000                       | 7,718     | —  | 7,718  | Non-<br>Invest-<br>ment<br>Grade |

**Franklin Flexible Alpha Bond Fund** (continued)

**Credit Default Swap Contracts** (continued)

| Description  | Periodic<br>Payment Rate<br>Received<br>(Paid) | Payment<br>Frequency | Counter-<br>party | Maturity<br>Date | Notional<br>Amount <sup>a</sup> | Value    | Unamortized<br>Upfront<br>Payments<br>(Receipts) | Unrealized<br>Appreciation<br>(Depreciation) | Rating <sup>b</sup>              |
|--|--|----------------------|-------------------|------------------|---------------------------------|----------|--|--|----------------------------------|
| <b>OTC Swap Contracts</b> (continued)  |  |                      |                   |                  |                                 |          |  |  |                                  |
| <b>Contracts to Sell Protection<sup>c,d</sup></b> (continued)                        |  |                      |                   |                  |                                 |          |  |  |                                  |
| <b>Traded Index</b> (continued)  |  |                      |                   |                  |                                 |          |  |  |                                  |
| <sup>e</sup> Citibank Bespoke Boulder<br>Index, Mezzanine Tranche<br>5-15% . . . . . | 1.24%  | Quarterly            | CITI              | 12/20/19         | \$ 1,600,000                    | \$ 8,064 | \$ —   | \$ 8,064                                     | Non-<br>Invest-<br>ment<br>Grade |
| <sup>e</sup> Citibank Bespoke Broker<br>Index, Mezzanine Tranche<br>3-7% . . . . .   | 1.30%  | Quarterly            | CITI              | 6/20/19          | 1,900,000                       | 6,231    | —  | 6,231  | Non-<br>Invest-<br>ment<br>Grade |
| <sup>e</sup> Citibank Bespoke Broker<br>Index, Mezzanine Tranche<br>3-7% . . . . .   | 1.40%  | Quarterly            | CITI              | 6/20/19          | 1,500,000                       | 5,298    | —  | 5,298  | Non-<br>Invest-<br>ment<br>Grade |
| <sup>e</sup> Citibank Bespoke Cambridge<br>Index, Equity Tranche 0-3% . . .          | 0.00%  | Quarterly            | CITI              | 12/20/19         | 500,000                         | (65,919) | (26,239)   | (39,680)                                     | Non-<br>Invest-<br>ment<br>Grade |
| <sup>e</sup> Citibank Bespoke Lima Index,<br>Mezzanine Tranche 5-7% . . . .          | 2.13%  | Quarterly            | CITI              | 12/20/19         | 650,000                         | 2,116    | —  | 2,116  | Non-<br>Invest-<br>ment<br>Grade |
| <sup>e</sup> Citibank Bespoke Lisbon<br>Index, Equity Tranche 0-3% . . .             | 0.00%  | Quarterly            | CITI              | 6/20/19          | 10,000                          | (289)    | (166)  | (123)  | Non-<br>Invest-<br>ment<br>Grade |
| <sup>e</sup> Citibank Bespoke Lisbon<br>Index, Mezzanine Tranche<br>3-7% . . . . .   | 0.79%  | Quarterly            | CITI              | 6/20/19          | 1,100,000                       | 397      | —  | 397  | Non-<br>Invest-<br>ment<br>Grade |
| <sup>e</sup> Citibank Bespoke Palma Index,<br>Mezzanine Tranche 5-7% . . . .         | 2.30%  | Quarterly            | CITI              | 6/20/21          | 710,000                         | 5,122    | —  | 5,122  | Non-<br>Invest-<br>ment<br>Grade |

**Franklin Flexible Alpha Bond Fund** (continued)

**Credit Default Swap Contracts** (continued)

| Description   | Periodic<br>Payment Rate<br>Received<br>(Paid) | Payment<br>Frequency | Counter-<br>party | Maturity<br>Date | Notional<br>Amount <sup>a</sup> | Value                 | Unamortized<br>Upfront<br>Payments<br>(Receipts) | Unrealized<br>Appreciation<br>(Depreciation) | Rating <sup>b</sup>              |
|---|--|----------------------|-------------------|------------------|---------------------------------|-----------------------|--|--|----------------------------------|
| <b>OTC Swap Contracts</b> (continued)                                     |  |                      |                   |                  |                                 |                       |  |  |                                  |
| <b>Contracts to Sell Protection<sup>c,d</sup></b> (continued)             |  |                      |                   |                  |                                 |                       |  |  |                                  |
| <b>Traded Index</b> (continued)   |  |                      |                   |                  |                                 |                       |  |  |                                  |
| <sup>e</sup> Citibank Bespoke Singapore<br>Index, Equity Tranche 0-3%     | 0.00%  | Quarterly            | CITI              | 6/20/20          | \$ 770,000                      | \$ (86,748)           | \$ (122,747)                                     | \$ 35,999                                    | Non-<br>Invest-<br>ment<br>Grade |
| <sup>e</sup> Citibank Bespoke Verona<br>Index, Equity Tranche 0-3%        | 0.00%  | Quarterly            | CITI              | 12/20/19         | 15,000                          | (1,711)               | (966)  | (745)  | Non-<br>Invest-<br>ment<br>Grade |
| <sup>e</sup> Citibank Bespoke Verona<br>Index, Mezzanine Tranche<br>7-15% | 0.40%  | Quarterly            | CITI              | 12/20/19         | 280,000                         | 581                   | —  | 581  | Non-<br>Invest-<br>ment<br>Grade |
| MCDX.NA.30  | 1.00%  | Quarterly            | CITI              | 6/20/28          | 2,000,000                       | 48,430                | 18,445   | 29,985                                       | Invest-<br>ment<br>Grade         |
| MCDX.NA.31  | 1.00%  | Quarterly            | CITI              | 12/20/23         | 12,200,000                      | 215,260               | 116,790  | 98,470                                       | Invest-<br>ment<br>Grade         |
| Total Credit Default Swap Contracts                                       |  |                      |                   |                  |                                 | <u>\$ (1,893,189)</u> | <u>\$ (1,614,846)</u>                            | <u>\$ (278,343)</u>                          |                                  |

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

<sup>b</sup>Based on Standard and Poor's (S&P) Rating for single name swaps and internal ratings for index swaps. Internal ratings based on mapping into equivalent ratings from external vendors.

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

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

<sup>e</sup>Represents a custom index comprised of a basket of underlying instruments.

At April 30, 2019, the Fund had the following cross-currency swap contracts outstanding. See Note 1(c).

**Cross-Currency Swap Contracts**

| Description                                 | Payment<br>Frequency | Counter-<br>party | Maturity<br>Date | Notional<br>Amount | Value/<br>Unrealized<br>Appreciation<br>(Depreciation) |
|---|----------------------|-------------------|------------------|--------------------|--|
| <b>OTC Swap Contracts</b>                   |                      |                   |                  |                    |  |
| Receive Floating 3-month USD LIBOR + 1.894% | Quarterly            |                   |                  | 2,460,000 USD      |  |
| Pay Fixed 1.50%                             | Annual               | CITI              | 5/04/21          | 2,000,000 EUR      | \$209,322  |

**Franklin Flexible Alpha Bond Fund** (continued)

**Cross-Currency Swap Contracts** (continued)

| Description                                 | Payment Frequency | Counter-party | Maturity Date | Notional Amount | Value/Unrealized Appreciation (Depreciation) |
|---|-------------------|---------------|---------------|-----------------|--|
| <b>OTC Swap Contracts</b> (continued)       |                   |               |               |                 |  |
| Receive Floating 3-month USD LIBOR + 1.850% | Quarterly         |               |               | 617,500 USD     |  |
| Pay Fixed 1.50%                             | Annual            | CITI          | 5/04/21       | 500,000 EUR     | \$ 54,260                                    |
| Receive Floating 3-month USD LIBOR + 2.87%  | Quarterly         |               |               | 232,400 USD     |  |
| Pay Fixed 2.50%                             | Annual            | CITI          | 5/04/21       | 200,000 EUR     | 6,059  |
| Receive Floating 3-month USD LIBOR + 1.303% | Quarterly         |               |               | 496,000 USD     |  |
| Pay Fixed 1.00%                             | Annual            | JPHQ          | 5/04/21       | 400,000 EUR     | 46,274                                       |
| Receive Floating 3-month USD LIBOR + 0.849% | Quarterly         |               |               | 3,472,000 USD   |  |
| Pay Fixed 0.75%                             | Annual            | DBAB          | 9/14/22       | 2,800,000 EUR   | 344,512                                      |
| Total Cross Currency Swap Contracts         |                   |               |               |                 | \$660,427                                    |

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

**Interest Rate Swap Contracts**

| Description                             | Payment Frequency | Maturity Date | Notional Amount | Value       | Unamortized Upfront Payments (Receipts) | Unrealized Appreciation (Depreciation) |
|---|-------------------|---------------|-----------------|-------------|---|--|
| <b>Centrally Cleared Swap Contracts</b> |                   |               |                 |             |   |  |
| Receive Floating 3-month USD LIBOR      | Quarterly         |               |                 |             |   |  |
| Pay Fixed 2.788%                        | Semi-Annual       | 3/26/23       | \$ 7,900,000    | \$(144,366) | \$ —                                    | \$ (144,366)                           |
| Receive Floating 3-month USD LIBOR      | Quarterly         |               |                 |             |   |  |
| Pay Fixed 2.79%                         | Semi-Annual       | 3/28/23       | 7,900,000       | (145,283)   | —                                       | (145,283)                              |
| Receive Floating 3-month USD LIBOR      | Quarterly         |               |                 |             |   |  |
| Pay Fixed 2.713%                        | Semi-Annual       | 3/29/23       | 4,700,000       | (71,897)    | —                                       | (71,897)                               |
| Receive Floating 3-month USD LIBOR      | Quarterly         |               |                 |             |   |  |
| Pay Fixed 2.806%                        | Semi-Annual       | 4/17/23       | 5,800,000       | (110,967)   | —                                       | (110,967)                              |
| Receive Floating 3-month USD LIBOR      | Quarterly         |               |                 |             |   |  |
| Pay Fixed 2.00%                         | Semi-Annual       | 6/20/25       | 11,100,000      | 180,018     | 553,194                                 | (373,176)                              |
| Receive Floating 3-month USD LIBOR      | Quarterly         |               |                 |             |   |  |
| Pay Fixed 3.082%                        | Semi-Annual       | 9/28/25       | 8,000,000       | (345,523)   | —                                       | (345,523)                              |
| Receive Floating 3-month USD LIBOR      | Quarterly         |               |                 |             |   |  |
| Pay Fixed 3.225%                        | Semi-Annual       | 11/13/25      | 5,500,000       | (337,171)   | —                                       | (337,171)                              |
| Total Interest Rate Swap Contracts      |                   |               |                 | \$(975,189) | \$553,194                               | \$(1,528,383)                          |

At April 30, 2019, the Fund had the following inflation index swap contracts outstanding. See Note 1(c).

**Inflation Index Swap Contracts**

| Description                             | Payment Frequency | Maturity Date | Notional Amount | Value/Unrealized Appreciation (Depreciation) |
|---|-------------------|---------------|-----------------|--|
| <b>Centrally Cleared Swap Contracts</b> |                   |               |                 |  |
| Receive variable change in USA-CPI-U    | At maturity       |               |                 |  |
| Pay Fixed 2.079%                        | At maturity       | 9/18/24       | \$1,770,000     | \$ 1,002                                     |

**Franklin Flexible Alpha Bond Fund** (continued)

**Inflation Index Swap Contracts** (continued)

| Description   | Payment Frequency | Maturity Date | Notional Amount | Value/ Unrealized Appreciation (Depreciation) |
|---|-------------------|---------------|-----------------|---|
| <b>Centrally Cleared Swap Contracts</b> (continued) |                   |               |                 |   |
| Receive variable change in USA-CPI-U                | At maturity       |               |                 |   |
| Pay Fixed 2.35%                                     | At maturity       | 9/20/26       | \$5,200,000     | \$(138,120)                                   |
| Receive variable change in USA-CPI-U                | At maturity       |               |                 |   |
| Pay Fixed 2.313%                                    | At maturity       | 6/01/28       | 1,400,000       | (31,216)                                      |
| Total Inflation Index Swap Contracts                |                   |               |                 | <u>\$(168,334)</u>                            |

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

**Total Return Swap Contracts**

| Underlying Instruments                       | Financing Rate     | Payment Frequency | Counterparty | Maturity Date | Notional Value | Value/ Unrealized Appreciation (Depreciation) |
|--|--------------------|-------------------|--------------|---------------|----------------|---|
| <b>OTC Swap Contracts</b>                    |                    |                   |              |               |                |   |
| <b>Long<sup>a</sup></b>                      |                    |                   |              |               |                |   |
| Markit iBoxx USD Liquid Leveraged Loan Index | .3-month USD LIBOR | Quarterly         | JPHQ         | 6/20/19       | \$17,550,000   | \$ 505,566                                    |
| Markit iBoxx USD Liquid Leveraged Loan Index | .3-month USD LIBOR | Quarterly         | MSCO         | 6/20/19       | 630,000        | 18,937  |
| Markit iBoxx USD Liquid Leveraged Loan Index | .3-month USD LIBOR | Quarterly         | CITI         | 9/20/19       | 4,200,000      | 94,235  |
| Markit iBoxx USD Liquid Leveraged Loan Index | .3-month USD LIBOR | Quarterly         | GSCO         | 9/20/19       | 3,300,000      | 70,224  |
| Markit iBoxx USD Liquid Leveraged Loan Index | .3-month USD LIBOR | Quarterly         | JPHQ         | 9/20/19       | 9,030,000      | 367,121                                       |
| Total Total Return Swap Contracts            |                    |                   |              |               |                | <u>\$1,056,083</u>                            |

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

See Note 8 regarding other derivative information.

See Abbreviations on page 56.

## Financial Statements

### Statement of Assets and Liabilities

April 30, 2019

#### Franklin Flexible Alpha Bond Fund

##### Assets:

##### Investments in securities:

|   |               |
|---|---------------|
| Cost - Unaffiliated issuers                               | \$438,673,669 |
| Cost - Non-controlled affiliates (Note 3f)                | 77,861,898    |
| Value - Unaffiliated issuers                              | \$436,748,235 |
| Value - Non-controlled affiliates (Note 3f)               | 77,861,898    |
| Restricted cash for OTC derivative contracts (Note 1d)    | 350,000       |
| Foreign currency, at value (cost \$176,361)               | 176,872       |
| Receivables:  |               |
| Investment securities sold                                | 29,631        |
| Capital shares sold                                       | 13,556        |
| Interest  | 1,792,680     |
| Deposits with brokers for:                                |               |
| OTC derivative contracts                                  | 680,000       |
| Futures contracts   | 820,859       |
| Centrally cleared swap contracts                          | 1,249,016     |
| OTC swap contracts (upfront payments \$212,485)           | 248,730       |
| Unrealized appreciation on OTC forward exchange contracts | 279,206       |
| Unrealized appreciation on OTC swap contracts             | 2,030,636     |
| Other assets  | 1,126         |
| Total assets  | \$522,282,445 |

##### Liabilities:

##### Payables:

|   |               |
|---|---------------|
| Investment securities purchased                           | 162,028       |
| Capital shares redeemed                                   | 9,872,838     |
| Management fees   | 208,439       |
| Distribution fees   | 523           |
| Transfer agent fees                                       | 6,924         |
| Distributions to shareholders                             | 1,430,678     |
| Variation margin on futures contracts                     | 105,401       |
| Variation margin on centrally cleared swap contracts      | 74,037        |
| Deposits from brokers for:                                |               |
| OTC derivative contracts                                  | 350,000       |
| OTC swap contracts (upfront receipts \$1,856,384)         | 1,863,576     |
| Funds advanced by custodian                               | 185,709       |
| Options written, at value (premiums received \$57,620)    | 30,265        |
| Unrealized depreciation on OTC forward exchange contracts | 89,605        |
| Unrealized depreciation on OTC swap contracts             | 592,469       |
| Accrued expenses and other liabilities                    | 93,168        |
| Total liabilities   | 15,065,660    |
| Net assets, at value                                      | \$507,216,785 |

##### Net assets consist of:

|                                     |               |
|-------------------------------------|---------------|
| Paid-in capital                     | \$510,708,346 |
| Total distributable earnings (loss) | (3,491,561)   |
| Net assets, at value                | \$507,216,785 |

**Statement of Assets and Liabilities** (continued)  
April 30, 2019

**Franklin Flexible Alpha Bond Fund**

**Class A:**

|   |              |
|---|--------------|
| Net assets, at value . . . . .  | \$ 1,457,621 |
| Shares outstanding . . . . .  | 150,249      |
| Net asset value per share <sup>a</sup> . . . . .                                | \$9.70       |
| Maximum offering price per share (net asset value per share ÷ 96.25%) . . . . . | \$10.08      |

**Class C:**

|   |            |
|---|------------|
| Net assets, at value . . . . .  | \$ 368,100 |
| Shares outstanding . . . . .  | 38,195     |
| Net asset value and maximum offering price per share <sup>a</sup> . . . . . | \$9.64     |

**Class R:**

|  |           |
|--|-----------|
| Net assets, at value . . . . .                                 | \$ 83,197 |
| Shares outstanding . . . . .                                   | 8,586     |
| Net asset value and maximum offering price per share . . . . . | \$9.69    |

**Class R6:**

|  |               |
|--|---------------|
| Net assets, at value . . . . .                                 | \$504,874,698 |
| Shares outstanding . . . . .                                   | 51,989,012    |
| Net asset value and maximum offering price per share . . . . . | \$9.71        |

**Advisor Class:**

|  |            |
|--|------------|
| Net assets, at value . . . . .                                 | \$ 433,169 |
| Shares outstanding . . . . .                                   | 44,672     |
| Net asset value and maximum offering price per share . . . . . | \$9.70     |

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



**Statement of Operations**  
for the year ended April 30, 2019

**Franklin Flexible Alpha Bond Fund**

|   |                   |
|---|-------------------|
| Investment income:  |                   |
| Dividends:  |                   |
| Unaffiliated issuers . . . . .                                | \$ 209,204        |
| Non-controlled affiliates (Note 3f) . . . . .                 | 1,286,983         |
| Interest: (net of foreign taxes)-                             |                   |
| Unaffiliated issuers . . . . .                                | 12,686,283        |
| Total investment income . . . . .                             | <u>14,182,470</u> |
| Expenses:   |                   |
| Management fees (Note 3a) . . . . .                           | 2,134,980         |
| Distribution fees: (Note 3c)                                  |                   |
| Class A . . . . .   | 4,259             |
| Class C . . . . .   | 1,913             |
| Class R . . . . .   | 338               |
| Transfer agent fees: (Note 3e)                                |                   |
| Class A . . . . .   | 4,034             |
| Class C . . . . .   | 797               |
| Class R . . . . .   | 178               |
| Class R6 . . . . .  | 77,410            |
| Advisor Class . . . . .                                       | 1,076             |
| Custodian fees (Note 4) . . . . .                             | 14,219            |
| Reports to shareholders . . . . .                             | 5,299             |
| Registration and filing fees . . . . .                        | 81,512            |
| Professional fees . . . . .                                   | 96,105            |
| Trustees' fees and expenses . . . . .                         | 3,703             |
| Other . . . . .   | 135,451           |
| Total expenses . . . . .                                      | 2,561,274         |
| Expense reductions (Note 4) . . . . .                         | (1,692)           |
| Expenses waived/paid by affiliates (Note 3f and 3g) . . . . . | (245,137)         |
| Net expenses . . . . .  | <u>2,314,445</u>  |
| Net investment income . . . . .                               | <u>11,868,025</u> |
| Realized and unrealized gains (losses):                       |                   |
| Net realized gain (loss) from:                                |                   |
| Investments:  |                   |
| Unaffiliated issuers . . . . .                                | (1,067,398)       |
| Written options . . . . .                                     | 45,360            |
| Foreign currency transactions . . . . .                       | (114,146)         |
| Forward exchange contracts . . . . .                          | 474,291           |
| Futures contracts . . . . .                                   | (991,042)         |
| TBA sale commitments . . . . .                                | (2,027)           |
| Swap contracts . . . . .                                      | 711,463           |
| Net realized gain (loss) . . . . .                            | <u>(943,499)</u>  |
| Net change in unrealized appreciation (depreciation) on:      |                   |
| Investments:  |                   |
| Unaffiliated issuers . . . . .                                | (294,296)         |
| Translation of other assets and liabilities                   |                   |
| denominated in foreign currencies . . . . .                   | 2,504             |
| Forward exchange contracts . . . . .                          | 213,188           |
| Written options . . . . .                                     | 22,575            |
| Futures contracts . . . . .                                   | (494,189)         |

FRANKLIN STRATEGIC SERIES  
 FINANCIAL STATEMENTS

**Statement of Operations** (continued)  
 for the year ended April 30, 2019

**Franklin Flexible Alpha Bond Fund**

|   |                     |
|---|---------------------|
| TBA sale commitments . . . . .  | 2,227               |
| Swap contracts . . . . .  | <u>(541,588)</u>    |
| Net change in unrealized appreciation (depreciation) . . . . .            | <u>(1,089,579)</u>  |
| Net realized and unrealized gain (loss) . . . . .                         | <u>(2,033,078)</u>  |
| Net increase (decrease) in net assets resulting from operations . . . . . | <u>\$ 9,834,947</u> |

~Foreign taxes withheld on interest . . . . . \$ 238

Statements of Changes in Net Assets

Franklin Flexible Alpha Bond Fund

|  | Year Ended April 30, |               |
|--|----------------------|---------------|
|  | 2019                 | 2018          |
| Increase (decrease) in net assets:                                       |                      |               |
| Operations:  |                      |               |
| Net investment income . . . . .  | \$ 11,868,025        | \$ 1,642,692  |
| Net realized gain (loss) . . . . .                                       | (943,499)            | 1,033,175     |
| Net change in unrealized appreciation (depreciation) . . . . .           | (1,089,579)          | (1,558,393)   |
| Net increase (decrease) in net assets resulting from operations. . . . . | 9,834,947            | 1,117,474     |
| Distributions to shareholders: (Note 1h)                                 |                      |               |
| Class A . . . . .  | (41,958)             | (103,600)     |
| Class C . . . . .  | (7,107)              | (3,159)       |
| Class R . . . . .  | (1,752)              | (745)         |
| Class R6 . . . . .   | (12,371,974)         | (1,711,598)   |
| Advisor Class. . . . .   | (11,924)             | (6,239)       |
| Total distributions to shareholders . . . . .                            | (12,434,715)         | (1,825,341)   |
| Capital share transactions: (Note 2)                                     |                      |               |
| Class A . . . . .  | 351,865              | (9,288,308)   |
| Class C . . . . .  | 91,704               | 35,861        |
| Class R . . . . .  | 33,323               | (9,156)       |
| Class R6 . . . . .   | 296,632,582          | 211,478,984   |
| Advisor Class. . . . .   | 11,647               | 195,749       |
| Total capital share transactions . . . . .                               | 297,121,121          | 202,413,130   |
| Net increase (decrease) in net assets. . . . .                           | 294,521,353          | 201,705,263   |
| Net assets:  |                      |               |
| Beginning of year . . . . .  | 212,695,432          | 10,990,169    |
| End of year (Note 1h) . . . . .  | \$507,216,785        | \$212,695,432 |

## Notes to Financial Statements

### Franklin Flexible Alpha Bond Fund

#### 1. Organization and Significant Accounting Policies

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

The following summarizes the Fund's significant accounting policies.

##### a. Financial Instrument Valuation

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

Equity securities, exchange traded funds and derivative financial instruments listed on an exchange or on the NASDAQ National Market System are valued at the last quoted sale price or the official closing price of the day, respectively. 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.

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 may differ significantly from the values that would have been used had an active market existed.

**Franklin Flexible Alpha Bond Fund** (continued)**b. Foreign Currency Translation**

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

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

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

**c. Derivative Financial Instruments**

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

Liabilities. Realized gain and loss and unrealized appreciation and depreciation on these contracts for the period are included in the Statement of Operations.

Derivative counterparty credit risk is managed through a formal evaluation of the creditworthiness of all potential counterparties. The Fund attempts to reduce its exposure to counterparty credit risk on OTC derivatives, whenever possible, by entering into International Swaps and Derivatives Association (ISDA) master agreements with certain counterparties. These agreements contain various provisions, including but not limited to collateral requirements, events of default, or early termination. Termination events applicable to 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

## Franklin Flexible Alpha Bond Fund (continued)

### 1. Organization and Significant Accounting Policies (continued)

#### c. Derivative Financial Instruments (continued)

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 risk. A futures contract is an agreement between the Fund and a counterparty to buy or sell an asset at a specified price on a future date. Required initial margins are pledged by the Fund, and the daily change in fair value is accounted for as a variation margin payable or receivable in the Statement of Assets and Liabilities.

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

The Fund entered into credit default swap contracts primarily to manage and/or gain exposure to credit risk. A credit default swap is an agreement between the Fund and a counterparty whereby the buyer of the contract receives credit protection and the seller of the contract guarantees the credit 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 OTC cross currency swap contracts primarily to manage and/or gain exposure to interest rate risk and certain foreign currencies. A cross currency swap is an agreement between the Fund and a counterparty to exchange cash flows (determined using either a fixed or floating rate) based on the notional amounts of two different currencies. The notional amounts are typically determined based on the spot exchange rates at the opening of the contract. Cross currency swaps may require the exchange of notional amounts at the opening and/or closing of the contract. 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. Upfront payments and receipts are reflected in the Statement of Assets and Liabilities and represent compensating factors between stated terms of the cross currency swap contract and prevailing market conditions (interest rate 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 inflation index swap contracts primarily to manage and/or gain exposure to inflation risk. An inflation index swap is an agreement between the Fund and a counterparty to exchange cash flows whereby one party makes payments based on the percentage change in an index that serves as a measure of inflation and the other party makes a regular payment based on a compounded fixed rate, applied to a notional amount. These agreements may be privately negotiated in the over-the-counter market (OTC inflation index swap) or may be executed on a registered exchange (centrally cleared inflation index swap). For centrally cleared inflation index 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. Over the term of the contract, contractually required payments to be paid and to be received

**Franklin Flexible Alpha Bond Fund** (continued)

are accrued daily and recorded as unrealized depreciation and appreciation until the payments are made, at which time they are realized. Typically, an inflation index swap has payment obligations netted and exchanged upon maturity.

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 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, foreign exchange rate and credit 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 8 regarding other derivative information.

**d. Restricted Cash**

At April 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 and is reflected in the Statement of Assets and Liabilities.

**e. Loan Participation Notes**

The Fund invests in loan participation notes (Participations). Participations are loans originally issued to a borrower by one or more financial institutions (the Lender) and subsequently sold to other investors, such as the Fund. Participations typically result in the Fund having a contractual relationship only with the Lender and not with the borrower. The Fund has the right to receive from the Lender any payments of principal, interest and fees which the Lender received from the borrower. The Fund generally has no rights to either enforce compliance by the borrower with the terms of the loan agreement or to any collateral relating to the original loan. As a result, the Fund assumes the credit risk of both the borrower and the Lender that is selling the Participation. The Participations may also involve interest rate risk and liquidity risk, including the potential default or insolvency of the borrower and/or the Lender.

**f. Mortgage Dollar Rolls**

The Fund enters into mortgage dollar rolls, typically on a TBA basis. Mortgage dollar rolls are agreements between the Fund and a financial institution where the Fund sells (or buys) mortgage-backed securities for delivery on a specified date and simultaneously contracts to repurchase (or sell) substantially similar (same type, coupon, and maturity) securities at a future date and at a predetermined price. Gains or losses are realized on the initial sale, and the difference between the repurchase price and the sale price is recorded as an unrealized gain or loss to the Fund upon entering into the mortgage dollar roll. In addition, the Fund may invest the cash proceeds that are received from the initial sale. During the period between the sale and repurchase, the Fund is not entitled to principal and interest paid on the mortgage backed securities. Transactions in mortgage dollar rolls are accounted for as purchases and sales

## Franklin Flexible Alpha Bond Fund (continued)

### 1. Organization and Significant Accounting Policies (continued)

#### f. Mortgage Dollar Rolls (continued)

and may result in an increase to the Fund's portfolio turnover rate. The risks of mortgage dollar roll transactions include the potential inability of the counterparty to fulfill its obligations.

#### g. 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 April 30, 2019, the 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.

#### h. 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. Dividend income is recorded on the ex-dividend date. Dividends from net investment income are

normally declared daily; these dividends may be reinvested or paid monthly to shareholders. Distributions from realized capital gains and other distributions, if any, 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.

Net investment income, excluding class specific expenses, is allocated daily to each class of shares based upon the relative value of the settled shares of each class. Realized and unrealized gains and losses 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.

Inflation-indexed bonds are adjusted for inflation through periodic increases or decreases in the security's interest accruals, face amount, or principal redemption value, by amounts corresponding to the rate of inflation as measured by an index. Any increase or decrease in the face amount or principal redemption value will be included as interest income in the Statement of Operations.

#### i. 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.

#### j. 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.



**Franklin Flexible Alpha Bond Fund** (continued)

Additionally, in the normal course of business, the Trust, on behalf of the Fund, enters into contracts with service providers that contain general indemnification clauses. The Trust's maximum exposure under these arrangements is unknown as

this would involve future claims that may be made against the Trust that have not yet occurred. Currently, the Trust expects the risk of loss to be remote.

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

For the year ended April 30, 2018, distributions to shareholders were as follows:

|   |              |
|---|--------------|
| Distributions from net investment income: |              |
| Class A                                   | \$ (102,670) |
| Class C                                   | (2,927)      |
| Class R                                   | (695)        |
| Class R6                                  | (1,603,614)  |
| Advisor Class                             | (5,822)      |
| Distributions from net realized gains:    |              |
| Class A                                   | (930)        |
| Class C                                   | (232)        |
| Class R                                   | (50)         |
| Class R6                                  | (107,984)    |
| Advisor Class                             | (417)        |

For the year ended April 30, 2018, undistributed net investment income included in net assets was \$58,013.

**2. Shares of Beneficial Interest**

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

|  | Year Ended April 30, |              |             |                |
|--|----------------------|--------------|-------------|----------------|
|  | 2019                 |              | 2018        |                |
|  | Shares               | Amount       | Shares      | Amount         |
| <b>Class A Shares:</b>                         |                      |              |             |                |
| Shares sold <sup>a</sup>                       | 146,054              | \$ 1,426,571 | 71,706      | \$ 705,410     |
| Shares issued in reinvestment of distributions | 4,309                | 41,654       | 2,584       | 25,433         |
| Shares redeemed                                | (115,764)            | (1,116,360)  | (1,017,579) | (10,019,151)   |
| Net increase (decrease)                        | 34,599               | \$ 351,865   | (943,289)   | \$ (9,288,308) |
| <b>Class C Shares:</b>                         |                      |              |             |                |
| Shares sold                                    | 21,517               | \$ 208,316   | 28,772      | \$ 281,596     |
| Shares issued in reinvestment of distributions | 735                  | 7,066        | 318         | 3,106          |
| Shares redeemed <sup>a</sup>                   | (12,740)             | (123,678)    | (25,418)    | (248,841)      |
| Net increase (decrease)                        | 9,512                | \$ 91,704    | 3,672       | \$ 35,861      |
| <b>Class R Shares:</b>                         |                      |              |             |                |
| Shares sold                                    | 3,238                | \$ 31,606    | —           | \$ —           |
| Shares issued in reinvestment of distributions | 181                  | 1,752        | 71          | 695            |
| Shares redeemed                                | (3)                  | (35)         | (1,001)     | (9,851)        |
| Net increase (decrease)                        | 3,416                | \$ 33,323    | (930)       | \$ (9,156)     |

**Franklin Flexible Alpha Bond Fund** (continued)

**2. Shares of Beneficial Interest** (continued)

|  | Year Ended April 30, |               |            |               |
|--|----------------------|---------------|------------|---------------|
|  | 2019                 |               | 2018       |               |
|  | Shares               | Amount        | Shares     | Amount        |
| <b>Class R6 Shares:</b>                                  |                      |               |            |               |
| Shares sold . . . . .                                    | 31,582,771           | \$307,592,000 | 21,649,534 | \$212,625,650 |
| Shares issued in reinvestment of distributions . . . . . | 29,382               | 284,707       | 9,792      | 96,166        |
| Shares redeemed . . . . .                                | (1,157,235)          | (11,244,125)  | (126,232)  | (1,242,832)   |
| Net increase (decrease) . . . . .                        | 30,454,918           | \$296,632,582 | 21,533,094 | \$211,478,984 |
| <b>Advisor Class Shares:</b>                             |                      |               |            |               |
| Shares sold . . . . .                                    | 4,301                | \$ 41,736     | 19,425     | \$ 191,301    |
| Shares issued in reinvestment of distributions . . . . . | 1,232                | 11,923        | 635        | 6,240         |
| Shares redeemed . . . . .                                | (4,298)              | (42,012)      | (181)      | (1,792)       |
| Net increase (decrease) . . . . .                        | 1,235                | \$ 11,647     | 19,879     | \$ 195,749    |

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

**3. Transactions with Affiliates**

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

| Subsidiary  | Affiliation            |
|---|------------------------|
| Franklin Advisers, Inc. (Advisers)                            | Investment manager     |
| Franklin Templeton Institutional, LLC (FT Institutional)      | 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 Advisers based on the average daily net assets of the Fund as follows:

| Annualized Fee Rate | Net Assets  |
|---------------------|---|
| 0.550%              | Up to and including \$1 billion                     |
| 0.500%              | Over \$1 billion, up to and including \$5 billion   |
| 0.450%              | Over \$5 billion, up to and including \$10 billion  |
| 0.445%              | Over \$10 billion, up to and including \$15 billion |
| 0.440%              | Over \$15 billion, up to and including \$20 billion |
| 0.435%              | In excess of \$20 billion                           |

Under a subadvisory agreement, FT Institutional, an affiliate of Advisers, provides subadvisory services to the Fund. The subadvisory fee is paid by Advisers based on the Fund's average daily net assets, and is not an additional expense of the Fund.

**b. Administrative Fees**

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

**Franklin Flexible Alpha Bond Fund** (continued)

**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 . . . . . | 0.65% |
| Class R . . . . . | 0.50% |

**d. Sales Charges/Underwriting Agreements**

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

|   |       |
|---|-------|
| Sales charges retained net of commissions paid to unaffiliated<br>brokers/dealers . . . . . | \$181 |
| CDSC retained . . . . .   | \$546 |

Effective March 1, 2019, certain front-end sales charges on Class A shares, if any, were lowered. Further details are disclosed in the Fund’s Prospectus.

**e. Transfer Agent Fees**

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

For the year ended April 30, 2019, the Fund paid transfer agent fees of \$83,495, of which \$83,233 was retained by Investor Services.

**Franklin Flexible Alpha Bond Fund** (continued)

**3. Transactions with Affiliates** (continued)

**f. Investments in Affiliated Management Investment Companies**

The Fund invests in one or more affiliated management investment companies for purposes other than exercising a controlling influence over the management or policies. Management fees paid by the Fund are waived on assets invested in the affiliated management investment companies, as noted in the Statement of Operations, in an amount not to exceed the management and administrative fees paid directly or indirectly by each affiliate. During the year ended April 30, 2019, the Fund held investments in affiliated management investment companies as follows:

|  | Number of<br>Shares Held<br>at Beginning<br>of Year | Gross<br>Additions | Gross<br>Reductions | Number of<br>Shares<br>Held at End<br>of Year | Value<br>at End<br>of Year | Dividend<br>Income | Realized<br>Gain<br>(Loss) | Net Change in<br>Unrealized<br>Appreciation<br>(Depreciation) |
|--|---|--------------------|---------------------|---|----------------------------|--------------------|----------------------------|---|
| <b>Non-Controlled Affiliates</b>   |   |                    |                     |   |                            |                    |                            |   |
| Institutional Fiduciary Trust Money Market<br>Portfolio, 2.10% . . . . . | 44,846,991  | 362,467,562        | (329,452,655)       | 77,861,898                                    | \$77,861,898               | \$1,286,983        | \$ —                       | \$ —  |

**g. Waiver and Expense Reimbursements**

Advisers has contractually agreed in advance to waive or limit its fees and to assume as its own expense certain expenses otherwise payable by the Fund so that the expenses (excluding distribution fees, acquired fund fees and expenses 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 do not exceed 0.85% and for Class R6 do not exceed 0.81%, based on the average net assets of each class until August 31, 2019. Total expenses waived or paid are not subject to recapture subsequent to the Fund's fiscal year end.

Prior to September 1, 2018, expenses (excluding certain fees and expenses as previously disclosed) for Class R6 were limited to 0.85% based on the average net assets of the class.

Investor Services has voluntarily agreed in advance to waive or limit its fees so that the new transfer agent fee arrangement effective November 1, 2017 will not increase the fees retained by more than 0.02% based on the average net assets of the class. Investor Services discontinued the waiver effective October 31, 2018.

**h. Other Affiliated Transactions**

At April 30, 2019, the shares of the Fund were owned by the following entities/investment companies:

|                                      | Shares     | Percentage of<br>Outstanding Shares <sup>a</sup> |
|--------------------------------------|------------|--|
| Franklin Resources, Inc . . . . .    | 41,816,072 | 80.0%  |
| Franklin Total Return Fund . . . . . | 10,172,940 | 19.5%  |
|                                      | 51,989,012 | 99.5%  |

<sup>a</sup>Investment activities of significant shareholders could have a material impact on the Fund.

**4. Expense Offset Arrangement**

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

**Franklin Flexible Alpha Bond Fund** (continued)

**5. Income Taxes**

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

At April 30, 2019, the capital loss carryforwards were as follows:

|   |                    |
|---|--------------------|
| Capital loss carryforwards not subject to expiration: |                    |
| Short term . . . . .                                  | \$1,069,279        |
| Long term . . . . .                                   | 2,264,409          |
| Total capital loss carryforwards . . . . .            | <u>\$3,333,688</u> |

The tax character of distributions paid during the years ended April 30, 2019 and 2018, was as follows:

|                                  | <u>2019</u>         | <u>2018</u>        |
|----------------------------------|---------------------|--------------------|
| Distributions paid from:         |                     |                    |
| Ordinary income . . . . .        | \$11,879,347        | \$1,715,728        |
| Long term capital gain . . . . . | 555,368             | 109,613            |
|                                  | <u>\$12,434,715</u> | <u>\$1,825,341</u> |

At April 30, 2019, the cost of investments, net unrealized appreciation (depreciation) and undistributed ordinary income for income tax purposes were as follows:

|  |                       |
|--|-----------------------|
| Cost of investments . . . . .                            | <u>\$516,432,581</u>  |
| Unrealized appreciation . . . . .                        | \$ 6,937,414          |
| Unrealized depreciation . . . . .                        | (10,007,284)          |
| Net unrealized appreciation (depreciation) . . . . .     | <u>\$ (3,069,870)</u> |
| Distributable earnings-undistributed ordinary income . . | <u>\$ 4,596,603</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 paydown losses, swaps and financial futures transactions.

**6. Investment Transactions**

Purchases and sales of investments (excluding short term securities) for the year ended April 30, 2019, aggregated \$348,007,267 and \$78,955,568, respectively.

**7. Credit Risk**

At April 30, 2019, the Fund had 12.7% of its portfolio invested in high yield securities, 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.

**Franklin Flexible Alpha Bond Fund** (continued)

**8. Other Derivative Information**

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

| Derivative Contracts<br>Not Accounted for as<br>Hedging Instruments | Asset Derivatives   |                        | Liability Derivatives                                     |                        |
|---|---|------------------------|---|------------------------|
|   | Statement of<br>Assets and Liabilities<br>Location        | Fair Value             | Statement of<br>Assets and Liabilities<br>Location        | Fair Value             |
| Interest rate contracts . . . . .                                   | Investments in securities, at value                       | \$ 26,239 <sup>a</sup> | Options written, at value                                 | \$ —                   |
|   | Variation margin on futures contracts                     | 229,060 <sup>b</sup>   | Variation margin on futures contracts                     | 600,361 <sup>b</sup>   |
|   | Variation margin on centrally cleared swap contracts      | —                      | Variation margin on centrally cleared swap contracts      | 1,528,383 <sup>b</sup> |
|   | Unrealized appreciation on OTC swap contracts             | 1,716,510              | Unrealized depreciation on OTC swap contracts             | —                      |
| Foreign exchange contracts . . . . .                                | Unrealized appreciation on OTC forward exchange contracts | 279,206                | Unrealized depreciation on OTC forward exchange contracts | 89,605                 |
| Credit contracts . . . . .  | Investments in securities, at value                       | 111,285 <sup>a</sup>   | Options written, at value                                 | 30,265                 |
|   | OTC swap contracts (upfront payments)                     | 248,730                | OTC swap contracts (upfront receipts)                     | 1,863,576              |
|   | Unrealized appreciation on OTC swap contracts             | 314,126                | Unrealized depreciation on OTC swap contracts             | 592,469                |
| Inflation contracts . . . . .                                       | Variation margin on centrally cleared swap contracts      | 1,002 <sup>b</sup>     | Variation margin on centrally cleared swap contracts      | 169,336 <sup>b</sup>   |
| Totals . . . . .  |   | <u>\$2,926,158</u>     |   | <u>\$4,873,995</u>     |

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

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

For the year ended April 30, 2019, the effect of derivative contracts in the Statement of Operations was as follows:

| Derivative Contracts<br>Not Accounted for as<br>Hedging Instruments | Statement of<br>Operations Location | Net Realized<br>Gain (Loss) for<br>the Year | Statement of<br>Operations Location                      | Net Change in<br>Unrealized<br>Appreciation<br>(Depreciation)<br>for the Year |
|---|-------------------------------------|---|--|---|
|   | Net realized gain (loss) from:      |   | Net change in unrealized appreciation (depreciation) on: |   |
| Interest rate contracts . . . . .                                   | Investments                         | \$(172,796) <sup>a</sup>                    | Investments  | \$ (133,922) <sup>a</sup>   |
|   | Written options                     | 15,180                                      | Written options  | (1,380)   |
|   | Futures contracts                   | (991,042)                                   | Futures contracts  | (494,189)   |
|   | Swap contracts                      | (67,416)                                    | Swap contracts   | (131,781)   |
| Foreign exchange contracts . . .                                    | Forward exchange contracts          | 474,291                                     | Forward exchange contracts                               | 213,188   |
| Credit contracts . . . . .  | Investments                         | 5,719 <sup>a</sup>                          | Investments  | (96,299) <sup>a</sup>   |
|   | Written options                     | 30,180                                      | Written options  | 23,955  |
|   | Swap contracts                      | 778,919                                     | Swap contracts   | (202,065)   |
| Inflation contracts . . . . .                                       | Swap contracts                      | (40)  | Swap contracts   | (207,742)   |
| Totals . . . . .  |                                     | <u>\$ 72,995</u>                            |  | <u>\$(1,030,235)</u>  |

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

**Franklin Flexible Alpha Bond Fund** (continued)

For the year ended April 30, 2019, the average month end notional amount of futures contracts, options and swap contracts and the average month end contract value for forward exchange contracts, were as follows:

|                                      |                   |
|--------------------------------------|-------------------|
| Futures contracts . . . . .          | \$106,181,424     |
| Options . . . . .                    | 74,964,462 shares |
| Swap contracts . . . . .             | 158,507,557       |
| Forward exchange contracts . . . . . | 25,527,325        |

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

| <b>Gross Amounts of<br/>Assets and Liabilities Presented<br/>in the Statement of Assets and Liabilities</b> |                           |                                |
|---|---------------------------|--------------------------------|
|   | <b>Assets<sup>a</sup></b> | <b>Liabilities<sup>a</sup></b> |
| <b>Derivatives</b>  |                           |                                |
| Forward exchange contracts . . . . .  | \$ 279,206                | \$ 89,605                      |
| Options purchased . . . . .   | 137,524                   | —                              |
| Options written . . . . .   | —                         | 30,265                         |
| Swap contracts . . . . .  | 2,279,366                 | 2,456,045                      |
| Total . . . . .   | \$2,696,096               | \$2,575,915                    |

<sup>a</sup>Absent an event of default or early termination, OTC derivative assets and liabilities are presented gross and not offset in the Statement of Assets and Liabilities.

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

|                     | <b>Amounts Not Offset in the<br/>Statement of Assets and Liabilities</b>                            |   |  |   |           |
|---------------------|---|---|--|---|-----------|
|                     | <b>Gross<br/>Amounts of<br/>Assets Presented in<br/>the Statement of<br/>Assets and Liabilities</b> | <b>Financial<br/>Instruments<br/>Available for<br/>Offset</b> | <b>Financial<br/>Instruments<br/>Collateral<br/>Received<sup>a</sup></b> | <b>Cash<br/>Collateral<br/>Received</b> |           |
| <b>Counterparty</b> |   |   |  |   |           |
| BNDP . . . . .      | \$ 61,790   | \$ (18,324)   | \$ —   | \$ —                                    | \$ 43,466 |
| BZWS . . . . .      | 32,019  | (32,019)  | —  | —                                       | —         |
| CITI . . . . .      | 800,311   | (742,917)   | —  | —                                       | 57,394    |
| DBAB . . . . .      | 364,377   | (2,901)   | —  | (350,000)                               | 11,476    |
| FBCO . . . . .      | —   | —   | —  | —                                       | —         |
| GSCO . . . . .      | 71,062  | (71,062)  | —  | —                                       | —         |
| JPHQ . . . . .      | 1,197,542   | (720,519)   | (267,634)  | —                                       | 209,389   |
| MSCO . . . . .      | 18,937  | (18,937)  | —  | —                                       | —         |
| RBS . . . . .       | 70,175  | (12,019)  | —  | —                                       | 58,156    |
| UBSW . . . . .      | 79,883  | (38,798)  | —  | —                                       | 41,085    |
| Total . . . . .     | \$2,696,096   | \$(1,657,496)   | \$(267,634)  | \$(350,000)                             | \$420,966 |

<sup>a</sup>At April 30, 2019, the Fund received U.S. Treasury Bonds and Notes as collateral for derivatives.

**Franklin Flexible Alpha Bond Fund** (continued)

**8. Other Derivative Information** (continued)

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

|                     | Gross<br>Amounts of<br>Liabilities Presented in<br>the Statement of<br>Assets and Liabilities | Amounts Not Offset in the<br>Statement of Assets and Liabilities |   |                               | Net Amount<br>(Not less<br>than zero) |
|---------------------|---|--|---|-------------------------------|---------------------------------------|
|                     |   | Financial<br>Instruments<br>Available for<br>Offset              | Financial<br>Instruments<br>Collateral<br>Pledged | Cash<br>Collateral<br>Pledged |                                       |
| <b>Counterparty</b> |   |  |   |                               |                                       |
| BNDP . . . . .      | \$ 18,324   | \$ (18,324)  | \$ —  | \$ —                          | \$ —                                  |
| BZWS . . . . .      | 621,250   | (32,019)   | —   | (440,000)                     | 149,231                               |
| CITI . . . . .      | 742,917   | (742,917)  | —   | —                             | —                                     |
| DBAB . . . . .      | 2,901   | (2,901)  | —   | —                             | —                                     |
| FBCO . . . . .      | 271,640   | —  | —   | (240,000)                     | 31,640                                |
| GSCO . . . . .      | 84,489  | (71,062)   | —   | —                             | 13,427                                |
| JPHQ . . . . .      | 720,519   | (720,519)  | —   | —                             | —                                     |
| MSCO . . . . .      | 63,058  | (18,937)   | —   | —                             | 44,121                                |
| RBS . . . . .       | 12,019  | (12,019)   | —   | —                             | —                                     |
| UBSW . . . . .      | 38,798  | (38,798)   | —   | —                             | —                                     |
| Total . . . . .     | \$2,575,915   | \$(1,657,496)  | \$ —  | \$(680,000)                   | \$238,419                             |

See Note 1(c) regarding derivative financial instruments.

See Abbreviations on page 56.

**9. 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 year ended April 30, 2019, the Fund did not use the Global Credit Facility.

**10. 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 Flexible Alpha Bond Fund** (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 April 30, 2019, in valuing the Fund’s assets and liabilities carried at fair value, is as follows:

|  | Level 1       | Level 2        | Level 3 | Total          |
|--|---------------|----------------|---------|----------------|
| <b>Assets:</b>   |               |                |         |                |
| Investments in Securities: <sup>a</sup>  |               |                |         |                |
| Management Investment Companies . . . . .                                      | \$ 4,519,692  | \$ —           | \$ —    | \$ 4,519,692   |
| Corporate Bonds . . . . .  | —             | 94,950,773     | —       | 94,950,773     |
| Foreign Government and Agency Securities . . . . .                             | —             | 14,493,764     | —       | 14,493,764     |
| U.S. Government and Agency Securities . . . . .                                | —             | 7,413,513      | —       | 7,413,513      |
| Asset-Backed Securities and Commercial<br>Mortgage-Backed Securities . . . . . | —             | 314,433,738    | —       | 314,433,738    |
| Municipal Bonds . . . . .  | —             | 799,231        | —       | 799,231        |
| Options Purchased . . . . .  | —             | 137,524        | —       | 137,524        |
| Short Term Investments . . . . .   | 77,861,898    | —              | —       | 77,861,898     |
| Total Investments in Securities . . . . .                                      | \$ 82,381,590 | \$ 432,228,543 | \$ —    | \$ 514,610,133 |
| Other Financial Instruments:   |               |                |         |                |
| Futures Contracts . . . . .  | \$ 229,060    | \$ —           | \$ —    | \$ 229,060     |
| Forward Exchange Contracts . . . . .   | —             | 279,206        | —       | 279,206        |
| Swap Contracts . . . . .   | —             | 2,031,638      | —       | 2,031,638      |
| Total Other Financial Instruments . . . . .                                    | \$ 229,060    | \$ 2,310,844   | \$ —    | \$ 2,539,904   |
| <b>Liabilities:</b>  |               |                |         |                |
| Other Financial Instruments:   |               |                |         |                |
| Options Written . . . . .  | \$ —          | \$ 30,265      | \$ —    | \$ 30,265      |
| Futures Contracts . . . . .  | 600,361       | —              | —       | 600,361        |
| Forward Exchange Contracts . . . . .   | —             | 89,605         | —       | 89,605         |
| Swap Contracts . . . . .   | —             | 2,290,188      | —       | 2,290,188      |
| Total Other Financial Instruments . . . . .                                    | \$ 600,361    | \$ 2,410,058   | \$ —    | \$ 3,010,419   |

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

**11. 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.

**Franklin Flexible Alpha Bond Fund** (continued)

**Abbreviations**

| <b>Counterparty/Exchange</b> |                               | <b>Currency</b> | <b>Selected Portfolio</b> |              |                                       |
|------------------------------|-------------------------------|-----------------|---------------------------|--------------|---------------------------------------|
| <b>BNDP</b>                  | BNP Paribas                   | <b>AUD</b>      | Australian Dollar         | <b>CLO</b>   | Collateralized Loan Obligation        |
| <b>BZWS</b>                  | Barclays Bank PLC             | <b>COP</b>      | Colombian Peso            | <b>CPI</b>   | Consumer Price Index                  |
| <b>CITI</b>                  | Citigroup, Inc.               | <b>DOP</b>      | Dominican Peso            | <b>ETF</b>   | Exchange Traded Fund                  |
| <b>DBAB</b>                  | Deutsche Bank AG              | <b>EUR</b>      | Euro                      | <b>FHLMC</b> | Federal Home Loan Mortgage Corp.      |
| <b>FBCO</b>                  | Credit Suisse International   | <b>GBP</b>      | British Pound             | <b>FNMA</b>  | Federal National Mortgage Association |
| <b>GSCO</b>                  | The Goldman Sachs Group, Inc. | <b>IDR</b>      | Indonesian Rupiah         | <b>FRN</b>   | Floating Rate Note                    |
| <b>JPHQ</b>                  | JP Morgan Chase & Co.         | <b>USD</b>      | United States Dollar      | <b>GO</b>    | General Obligation                    |
| <b>MSCO</b>                  | Morgan Stanley                | <b>UYU</b>      | Uruguayan Peso            | <b>IO</b>    | Interest Only                         |
| <b>RBS</b>                   | Royal Bank of Scotland PLC    | <b>ZAR</b>      | South African Rand        | <b>LIBOR</b> | London InterBank Offered Rate         |
| <b>UBSW</b>                  | UBS AG                        |                 |                           | <b>RDA</b>   | Redevelopment Agency/Authority        |
|                              |                               |                 |                           | <b>SFR</b>   | Single Family Revenue                 |

**Index**

|                                |  |
|--------------------------------|--|
| <b>CDX.EM.Series number</b>    | CDX Emerging Markets Index               |
| <b>CDX.NA.HY.Series number</b> | CDX North America High Yield Index       |
| <b>CDX.NA.IG.Series number</b> | CDX North America Investment Grade Index |
| <b>MCDX.NA.Series number</b>   | MCDX North America Index                 |

## Report of Independent Registered Public Accounting Firm

To the Board of Trustees of Franklin Strategic Series and Shareholders of Franklin Flexible Alpha Bond Fund

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

We have audited the accompanying statement of assets and liabilities, including the statement of investments, of Franklin Flexible Alpha Bond Fund (the "Fund") as of April 30, 2019, the related statement of operations for the year ended April 30, 2019, the statement of changes in net assets for each of the two years in the period ended April 30, 2019, including the related notes, and the financial highlights for each of the periods indicated therein (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as of April 30, 2019, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period ended April 30, 2019 and the financial highlights for each of the periods indicated therein in conformity with accounting principles generally accepted in the United States of America.

### ***Basis for Opinion***

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

We conducted our audits of these financial statements in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our procedures included confirmation of securities owned as of April 30, 2019 by correspondence with the custodian, transfer agent, and brokers; when replies were not received from brokers, we performed other auditing procedures. We believe that our audits provide a reasonable basis for our opinion.

### **PricewaterhouseCoopers LLP**

San Francisco, California  
June 17, 2019

We have served as the auditor of one or more investment companies in the Franklin Templeton Group of Funds since 1948.

## **Tax Information (unaudited)**

Under Section 852(b)(3)(C) of the Internal Revenue Code, the Fund hereby reports the maximum amount allowable but no less than \$555,368 as a long term capital gain dividend for the fiscal year ended April 30, 2019.

Under Section 871(k)(2)(C) of the Internal Revenue Code, the Fund hereby reports the maximum amount allowable but no less than \$115,922 as a short term capital gain dividend for purposes of the tax imposed under Section 871(a)(1)(A) of the Internal Revenue Code for the fiscal year ended April 30, 2019.

Under Section 871(k)(1)(C) of the Internal Revenue Code, the Fund hereby reports the maximum amount allowable but no less than \$9,731,236 as interest related dividends for purposes of the tax imposed under Section 871(a)(1)(A) of the Internal Revenue Code for the fiscal year ended April 30, 2019.

## Board Members and Officers

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

### Independent Board Members

| Name, Year of Birth and Address  | Position | Length of Time Served | Number of Portfolios in Fund Complex Overseen by Board Member* | Other Directorships Held During at Least the Past 5 Years |
|--|----------|-----------------------|--|---|
| <b>Harris J. Ashton (1932)</b><br>One Franklin Parkway<br>San Mateo, CA 94403-1906 | Trustee  | Since 1991            | 136  | Bar-S Foods (meat packing company) (1981-2010).           |

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

Director of various companies; and **formerly**, Director, RBC Holdings, Inc. (bank holding company) (until 2002); and President, Chief Executive Officer and Chairman of the Board, General Host Corporation (nursery and craft centers) (until 1998).

|  |         |            |     |   |
|--|---------|------------|-----|---|
| <b>Terrence J. Checki (1945)</b><br>One Franklin Parkway<br>San Mateo, CA 94403-1906 | Trustee | Since 2017 | 112 | Hess Corporation (exploration of oil and gas) (2014-present). |
|--|---------|------------|-----|---|

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

Member of the Council on Foreign Relations (1996-present); Member of the National Committee on U.S.-China Relations (1999-present); member of the Board of Trustees of the Economic Club of New York (2013-present); member of the Board of Trustees of the Foreign Policy Association (2005-present) and member of various other boards of trustees and advisory boards; and **formerly**, Executive Vice President of the Federal Reserve Bank of New York and Head of its Emerging Markets and Internal Affairs Group and Member of Management Committee (1995-2014); and Visiting Fellow at the Council on Foreign Relations (2014).

|  |         |            |     |   |
|--|---------|------------|-----|---|
| <b>Mary C. Choksi (1950)</b><br>One Franklin Parkway<br>San Mateo, CA 94403-1906 | Trustee | Since 2014 | 136 | Avis Budget Group Inc. (car rental) (2007-present), Omnicom Group Inc. (advertising and marketing communications services) (2011-present) and White Mountains Insurance Group, Ltd. (holding company) (2017-present). |
|--|---------|------------|-----|---|

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

Director of various companies; and **formerly**, Founder and Senior Advisor, Strategic Investment Group (investment management group) (2015-2017); Founding Partner and Senior Managing Director, Strategic Investment Group (1987-2015); Founding Partner and Managing Director, Emerging Markets Management LLC (investment management firm) (1987-2011); and Loan Officer/Senior Loan Officer/Senior Pension Investment Officer, World Bank Group (international financial institution) (1977-1987).

|  |                          |  |     |   |
|--|--------------------------|--|-----|---|
| <b>Edith E. Holiday (1952)</b><br>One Franklin Parkway<br>San Mateo, CA 94403-1906 | Lead Independent Trustee | Trustee since 1998 and Lead Independent Trustee since March 2019 | 136 | Hess Corporation (exploration of oil and gas) (1993-present), Canadian National Railway (railroad) (2001-present), White Mountains Insurance Group, Ltd. (holding company) (2004-present), Santander Consumer USA Holdings, Inc. (consumer finance) (2016-present), RTI International Metals, Inc. (manufacture and distribution of titanium) (1999-2015) and H.J. Heinz Company (processed foods and allied products) (1994-2013). |
|--|--------------------------|--|-----|---|

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

Director or Trustee of various companies and trusts; and **formerly**, Assistant to the President of the United States and Secretary of the Cabinet (1990-1993); General Counsel to the United States Treasury Department (1989-1990); and Counselor to the Secretary and Assistant Secretary for Public Affairs and Public Liaison—United States Treasury Department (1988-1989).

|   |         |            |     |  |
|---|---------|------------|-----|--|
| <b>J. Michael Luttig (1954)</b><br>One Franklin Parkway<br>San Mateo, CA 94403-1906 | Trustee | Since 2009 | 136 | Boeing Capital Corporation (aircraft financing) (2006-2013). |
|---|---------|------------|-----|--|

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

Executive Vice President, Counselor and Senior Advisor to Boeing Chairman and Board of Directors, The Boeing Company (aerospace company) (May 2019); and **formerly**, General Counsel and member of the Executive Council, The Boeing Company (2006-2019); Federal Appeals Court Judge, U.S. Court of Appeals for the Fourth Circuit (1991-2006).

## Independent Board Members (continued)

| Name, Year of Birth and Address   | Position | Length of Time Served | Number of Portfolios in Fund Complex Overseen by Board Member* | Other Directorships Held During at Least the Past 5 Years   |
|---|----------|-----------------------|--|---|
| <b>Larry D. Thompson (1945)</b><br>One Franklin Parkway<br>San Mateo, CA 94403-1906 | Trustee  | Since 2007            | 136  | The Southern Company (energy company) (2014-present; previously 2010-2012), Graham Holdings Company (education and media organization) (2011-present) and Cbeyond, Inc. (business communications provider) (2010-2012). |

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

Director of various companies; Counsel, Finch McCranie, LLP (law firm) (2015-present); Independent Compliance Monitor and Auditor, Volkswagen AG (manufacturer of automobiles and commercial vehicles) (2017-present); John A. Sibley Professor of Corporate and Business Law, University of Georgia School of Law (2015-present; previously 2011-2012); and **formerly**, Executive Vice President – Government Affairs, General Counsel and Corporate Secretary, PepsiCo, Inc. (consumer products) (2012-2014); Senior Vice President – Government Affairs, General Counsel and Secretary, PepsiCo, Inc. (2004-2011); Senior Fellow of The Brookings Institution (2003-2004); Visiting Professor, University of Georgia School of Law (2004); and Deputy Attorney General, U.S. Department of Justice (2001-2003).

## Interested Board Members and Officers

| Name, Year of Birth and Address  | Position | Length of Time Served | Number of Portfolios in Fund Complex Overseen by Board Member* | Other Directorships Held During at Least the Past 5 Years |
|--|----------|-----------------------|--|---|
| <b>**Gregory E. Johnson (1961)</b><br>One Franklin Parkway<br>San Mateo, CA 94403-1906 | Trustee  | Since 2013            | 150  | None  |

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

Chairman of the Board, Member – Office of the Chairman, Director and Chief Executive Officer, Franklin Resources, Inc.; officer and/or director or trustee, as the case may be, of some of the other subsidiaries of Franklin Resources, Inc. and of 42 of the investment companies in Franklin Templeton; Vice Chairman, Investment Company Institute; and **formerly**, President, Franklin Resources, Inc. (1994-2015).

|  |                                   |   |     |      |
|--|-----------------------------------|---|-----|------|
| <b>**Rupert H. Johnson, Jr. (1940)</b><br>One Franklin Parkway<br>San Mateo, CA 94403-1906 | Chairman of the Board and Trustee | Chairman of the Board since 2013 and Trustee since 1991 | 136 | None |
|--|-----------------------------------|---|-----|------|

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

Vice Chairman, Member – Office of the Chairman and Director, Franklin Resources, Inc.; Director, Franklin Advisers, Inc.; and officer and/or director or trustee, as the case may be, of some of the other subsidiaries of Franklin Resources, Inc. and of 40 of the investment companies in Franklin Templeton.

|  |                |            |                |                |
|--|----------------|------------|----------------|----------------|
| <b>Alison E. Baur (1964)</b><br>One Franklin Parkway<br>San Mateo, CA 94403-1906 | Vice President | Since 2012 | Not Applicable | Not Applicable |
|--|----------------|------------|----------------|----------------|

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

Deputy General Counsel, Franklin Templeton; and officer of some of the other subsidiaries of Franklin Resources, Inc. and of 44 of the investment companies in Franklin Templeton.

|  |                |                     |                |                |
|--|----------------|---------------------|----------------|----------------|
| <b>Sonal Desai, Ph.D. (1963)</b><br>One Franklin Parkway<br>San Mateo, CA 94403-1906 | Vice President | Since December 2018 | Not Applicable | Not Applicable |
|--|----------------|---------------------|----------------|----------------|

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

Director and Executive Vice President, Franklin Advisers, Inc.; Executive Vice President, Franklin Templeton Institutional, LLC; and officer of 18 of the investment companies in Franklin Templeton.

## Interested Board Members and Officers (continued)

| Name, Year of Birth and Address  | Position   | Length of Time Served   | Number of Portfolios in Fund Complex Overseen by Board Member* | Other Directorships Held During at Least the Past 5 Years |
|--|--|---|--|---|
| <b>Gaston Gardey (1967)</b><br>One Franklin Parkway<br>San Mateo, CA 94403-1906  | Treasurer, Chief Financial Officer and, Chief Accounting Officer | Since 2009  | Not Applicable   | Not Applicable  |
| <b>Principal Occupation During at Least the Past 5 Years:</b><br>Treasurer, U.S. Fund Administration & Reporting and officer of 28 of the investment companies in Franklin Templeton.  |  |   |  |   |
| <b>Aliya S. Gordon (1973)</b><br>One Franklin Parkway<br>San Mateo, CA 94403-1906  | Vice President   | Since 2009  | Not Applicable   | Not Applicable  |
| <b>Principal Occupation During at Least the Past 5 Years:</b><br>Senior Associate General Counsel and officer of 44 of the investment companies in Franklin Templeton.   |  |   |  |   |
| <b>Steven J. Gray (1955)</b><br>One Franklin Parkway<br>San Mateo, CA 94403-1906   | Vice President and Co-Secretary                                  | Vice President since 2009 and Co-Secretary since January 2019 | Not Applicable   | Not Applicable  |
| <b>Principal Occupation During at Least the Past 5 Years:</b><br>Senior Associate General Counsel, Franklin Templeton; Vice President, Franklin Templeton Distributors, Inc. and FASA, LLC; and officer of 44 of the investment companies in Franklin Templeton.   |  |   |  |   |
| <b>Matthew T. Hinkle (1971)</b><br>One Franklin Parkway<br>San Mateo, CA 94403-1906  | Chief Executive Officer – Finance and Administration             | Since 2017  | Not Applicable   | Not Applicable  |
| <b>Principal Occupation During at Least the Past 5 Years:</b><br>Senior Vice President, Franklin Templeton Services, LLC; officer of 44 of the investment companies in Franklin Templeton; and <b>formerly</b> , Vice President, Global Tax (2012-April 2017) and Treasurer/Assistant Treasurer, Franklin Templeton (2009-2017).   |  |   |  |   |
| <b>Robert Lim (1948)</b><br>One Franklin Parkway<br>San Mateo, CA 94403-1906   | Vice President – AML Compliance                                  | Since 2016  | Not Applicable   | Not Applicable  |
| <b>Principal Occupation During at Least the Past 5 Years:</b><br>Vice President, Franklin Templeton Companies, LLC; Chief Compliance Officer, Franklin Templeton Distributors, Inc. and Franklin Templeton Investor Services, LLC; and officer of 44 of the investment companies in Franklin Templeton.  |  |   |  |   |
| <b>Kimberly H. Novotny (1972)</b><br>300 S.E. 2nd Street<br>Fort Lauderdale, FL 33301-1923   | Vice President   | Since 2013  | Not Applicable   | Not Applicable  |
| <b>Principal Occupation During at Least the Past 5 Years:</b><br>Associate General Counsel, Franklin Templeton; Vice President and Corporate Secretary, Fiduciary Trust International of the South; Vice President, Templeton Investment Counsel, LLC; Assistant Secretary, Franklin Resources, Inc.; and officer of 44 of the investment companies in Franklin Templeton. |  |   |  |   |
| <b>Edward D. Perks (1970)</b><br>One Franklin Parkway<br>San Mateo, CA 94403-1906  | President and Chief Executive Officer – Investment Management    | Since December 2018   | Not Applicable   | Not Applicable  |
| <b>Principal Occupation During at Least the Past 5 Years:</b><br>President and Director, Franklin Advisers, Inc.; and officer of nine of the investment companies in Franklin Templeton (since December 2018).   |  |   |  |   |

**Interested Board Members and Officers** (continued)

| <b>Name, Year of Birth and Address</b>  | <b>Position</b>                 | <b>Length of Time Served</b>                                  | <b>Number of Portfolios in Fund Complex Overseen by Board Member*</b> | <b>Other Directorships Held During at Least the Past 5 Years</b> |
|---|---------------------------------|---|---|--|
| <b>Robert C. Rosselot (1960)</b><br>300 S.E. 2nd Street<br>Fort Lauderdale, FL 33301-1923   | Chief Compliance Officer        | Since 2013  | Not Applicable  | Not Applicable   |
| <b>Principal Occupation During at Least the Past 5 Years:</b><br>Director, Global Compliance, Franklin Templeton; Vice President, Franklin Templeton Companies, LLC; officer of 44 of the investment companies in Franklin Templeton; and <b>formerly</b> , Senior Associate General Counsel, Franklin Templeton (2007-2013); and Secretary and Vice President, Templeton Group of Funds (2004-2013). |                                 |   |   |  |
| <b>Navid J. Tofigh (1972)</b><br>One Franklin Parkway<br>San Mateo, CA 94403-1906   | Vice President                  | Since 2015  | Not Applicable  | Not Applicable   |
| <b>Principal Occupation During at Least the Past 5 Years:</b><br>Associate General Counsel and officer of 44 of the investment companies in Franklin Templeton.   |                                 |   |   |  |
| <b>Craig S. Tyle (1960)</b><br>One Franklin Parkway<br>San Mateo, CA 94403-1906   | Vice President                  | Since 2005  | Not Applicable  | Not Applicable   |
| <b>Principal Occupation During at Least the Past 5 Years:</b><br>General Counsel, Executive Vice President and Secretary, Franklin Resources, Inc.; and officer of some of the other subsidiaries of Franklin Resources, Inc. and of 44 of the investment companies in Franklin Templeton.  |                                 |   |   |  |
| <b>Lori A. Weber (1964)</b><br>300 S.E. 2nd Street<br>Fort Lauderdale, FL 33301-1923  | Vice President and Co-Secretary | Vice President since 2011 and Co-Secretary since January 2019 | Not Applicable  | Not Applicable   |
| <b>Principal Occupation During at Least the Past 5 Years:</b><br>Senior Associate General Counsel, Franklin Templeton; Assistant Secretary, Franklin Resources, Inc.; Vice President and Secretary, Templeton Investment Counsel, LLC; and officer of 44 of the investment companies in Franklin Templeton.   |                                 |   |   |  |

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

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

Note 1: Rupert H. Johnson, Jr. is the uncle of Gregory E. Johnson.

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

The Sarbanes-Oxley Act of 2002 and Rules adopted by the Securities and Exchange Commission require the Fund to disclose whether the Fund's Audit Committee includes at least one member who is an audit committee financial expert within the meaning of such Act and Rules. The Fund's Board has determined that there is at least one such financial expert on the Audit Committee and effective May 21, 2019, designated Mary C. Choksi as its audit committee financial expert. The Board believes that Ms. Choksi qualifies as such an expert in view of her extensive business background and experience. She currently serves as a director of Avis Budget Group, Inc. (2007-present) and formerly, Founder and Senior Advisor, Strategic Investment Group (1987 to 2017). Ms. Choksi has been a Member of the Fund's Audit Committee since 2014. As a result of such background and experience, the Board believes that Ms. Choksi has acquired an understanding of generally accepted accounting principles and financial statements, the general application of such principles in connection with the accounting estimates, accruals and reserves, and analyzing and evaluating financial statements that present a breadth and level of complexity of accounting issues generally comparable to those of the Fund, as well as an understanding of internal controls and procedures for financial reporting and an understanding of audit committee functions. Ms. Choksi is an independent Board member as that term is defined under the relevant Securities and Exchange Commission Rules and Releases.

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



# Shareholder Information

## Board Approval of Investment Management Agreements

**FRANKLIN STRATEGIC SERIES**  
**Franklin Flexible Alpha Bond Fund**  
(Fund)

At an in-person meeting held on April 16, 2019 (Meeting), the Board of Trustees (Board) of Franklin Strategic Series (Trust), including a majority of the trustees who are not “interested persons” as defined in the Investment Company Act of 1940 (Independent Trustees), reviewed and approved the continuance of the investment management agreement between Franklin Advisers, Inc. (FAI) and the Trust, on behalf of the Fund and the investment sub-advisory agreement between FAI and Franklin Templeton Institutional, LLC (Sub-Adviser), an affiliate of FAI, on behalf of the Fund (each a Management Agreement) for an additional one-year period. The Independent Trustees received advice from and met separately with Independent Trustee counsel in considering whether to approve the continuation of each Management Agreement. FAI and the Sub-Adviser are each referred to herein as a Manager.

In considering the continuation of each Management Agreement, the Board reviewed and considered information provided by each Manager at the Meeting and throughout the year at meetings of the Board and its committees. The Board also reviewed and considered information provided in response to a detailed set of requests for information submitted to each Manager by Independent Trustee counsel on behalf of the Independent Trustees in connection with the annual contract renewal process. In addition, prior to the Meeting, the Independent Trustees held a telephonic contract renewal meeting at which the Independent Trustees conferred amongst themselves and Independent Trustee counsel about contract renewal matters. The Board reviewed and considered all of the factors it deemed relevant in approving the continuance of each Management Agreement, including, but not limited to: (i) the nature, extent and quality of the services provided by each Manager; (ii) the investment performance of the Fund; (iii) the costs of the services provided and profits realized by each Manager and its affiliates from the relationship with the Fund; (iv) the extent to which economies of scale are realized as the Fund grows; and (v) whether fee levels reflect these economies of scale for the benefit of Fund investors.

In approving the continuance of each Management Agreement, the Board, including a majority of the Independent Trustees, determined that the terms of the Management Agreement are fair and reasonable and that the continuance of such

Management Agreement is in the interests of the Fund and its shareholders. While attention was given to all information furnished, the following discusses some primary factors relevant to the Board’s determination.

### Nature, Extent and Quality of Services

The Board reviewed and considered information regarding the nature, extent and quality of investment management services provided by each Manager and its affiliates to the Fund and its shareholders. This information included, among other things, the qualifications, background and experience of the senior management and investment personnel of each Manager; the structure of investment personnel compensation; oversight of third-party service providers; investment performance reports and related financial information for the Fund; reports on expenses, shareholder services, marketing support payments made to financial intermediaries and third party servicing arrangements; legal and compliance matters; risk controls; pricing and other services provided by each Manager and its affiliates; and management fees charged by each Manager and its affiliates to US funds and other accounts, including management’s explanation of differences among accounts where relevant. The Board also reviewed and considered an annual report on payments made by Franklin Templeton Investments (FTI) or the Fund to financial intermediaries, as well as a memorandum relating to third-party servicing arrangements in response to a guidance update in 2016 from the US Securities and Exchange Commission (SEC) relating to mutual fund distribution and sub-accounting fees. The Board noted management’s continuing efforts and expenditures in establishing effective business continuity plans and developing strategies to address areas of heightened concern in the mutual fund industry, such as cybersecurity and liquidity risk management. The Board also recognized management’s commitment to facilitating Board oversight of liquidity through the designation of a liquidity/risk administrator and the development of reports that highlight the amount of illiquid investments for the Fund.

The Board also reviewed and considered the benefits provided to Fund shareholders of investing in a fund that is part of the Franklin Templeton family of funds. The Board noted the financial position of Franklin Resources, Inc. (FRI), the Managers’ parent, and its commitment to the mutual fund business as evidenced by its continued introduction of new funds, reassessment of the fund offerings in response to the market environment and project initiatives and capital investments relating to the services provided to the Fund by the FTI organization.

Following consideration of such information, the Board was satisfied with the nature, extent and quality of services provided by each Manager and its affiliates to the Fund and its shareholders.

### **Fund Performance**

The Board reviewed and considered the performance results of the Fund over various time periods ended January 31, 2019. The Board considered the performance returns for the Fund in comparison to the performance returns of mutual funds deemed comparable to the Fund included in a universe (Performance Universe) selected by Broadridge Financial Solutions, Inc. (Broadridge), an independent provider of investment company data. The Board received a description of the methodology used by Broadridge to select the mutual funds included in a Performance Universe. The Board also reviewed and considered Fund performance reports provided and discussions that occurred with portfolio managers at Board meetings throughout the year. A summary of the Fund's performance results is below.

The Performance Universe for the Fund included the Fund and all retail and institutional alternative credit focus funds. The Fund commenced operations on August 3, 2015, and thus has been in operation for less than five years. The Board noted that the Fund's annualized income return for the one- and three-year periods was below the median of its Performance Universe. The Board noted that the Fund's annualized total return for the three-year period was below the median of its Performance Universe, but for the one-year period was above the median and in the second quintile of its Performance Universe. The Board concluded that the Fund's performance was satisfactory, especially given its short period of operation.

### **Comparative Fees and Expenses**

The Board reviewed and considered information regarding the Fund's actual total expense ratio and its various components, including, as applicable, management fees; transfer agent expenses; underlying fund expenses; Rule 12b-1 and non-Rule 12b-1 service fees; and other non-management fees. The Board also noted the quarterly and annual reports it receives on all marketing support payments made by FTI to financial intermediaries. The Board considered the actual total expense ratio and, separately, the contractual management fee rate, without the effect of fee waivers, if any (Management Rate) of the Fund in comparison to the median expense ratio and median Management Rate, respectively, of other mutual funds deemed comparable to and with a similar expense structure to the Fund selected by Broadridge (Expense Group).

Broadridge fee and expense data is based upon information taken from each fund's most recent annual report, which reflects historical asset levels that may be quite different from those currently existing, particularly in a period of market volatility. While recognizing such inherent limitation and the fact that expense ratios and Management Rates generally increase as assets decline and decrease as assets grow, the Board believed the independent analysis conducted by Broadridge to be an appropriate measure of comparative fees and expenses. The Broadridge Management Rate includes administrative charges, and the actual total expense ratio, for comparative consistency, was shown for Class A shares for funds with multiple classes of shares. The Board received a description of the methodology used by Broadridge to select the mutual funds included in an Expense Group.

The Expense Group for the Fund included the Fund and 12 other alternative credit focus funds. The Board noted that the Management Rate and actual total expense ratio for the Fund were below the medians of its Expense Group. The Board concluded that the Management Rate charged to the Fund is reasonable. In doing so, the Board noted that the Fund's actual total expense ratio reflected a fee waiver from management and that the Sub-Adviser was paid by FAI out of the management fee FAI received from the Fund.

### **Profitability**

The Board reviewed and considered information regarding the profits realized by each Manager and its affiliates in connection with the operation of the Fund. In this respect, the Board considered the Fund profitability analysis that addresses the overall profitability of FTI's US fund business, as well as its profits in providing investment management and other services to each of the individual funds during the 12-month period ended September 30, 2018, being the most recent fiscal year-end for FRI. The Board noted that although management continually makes refinements to its methodologies used in calculating profitability in response to organizational and product-related changes, the overall methodology has remained consistent with that used in the Fund's profitability report presentations from prior years. Additionally, PricewaterhouseCoopers LLP, auditor to FRI and certain Franklin Templeton funds, has been engaged to periodically review and assess the allocation methodologies to be used solely by the Fund's Board with respect to the profitability analysis.

The Board noted management's belief that costs incurred in establishing the infrastructure necessary for the type of mutual fund operations conducted by each Manager and its affiliates

may not be fully reflected in the expenses allocated to the Fund in determining its profitability, as well as the fact that the level of profits, to a certain extent, reflected operational cost savings and efficiencies initiated by management. The Board also noted management's expenditures in improving shareholder services provided to the Fund, as well as the need to implement systems and meet additional regulatory and compliance requirements resulting from recent SEC and other regulatory requirements.

The Board also considered the extent to which each Manager and its affiliates might derive ancillary benefits from fund operations, including revenues generated from transfer agent services, potential benefits resulting from personnel and systems enhancements necessitated by fund growth, as well as increased leverage with service providers and counterparties. Based upon its consideration of all these factors, the Board concluded that the level of profits realized by each Manager and its affiliates from providing services to the Fund was not excessive in view of the nature, extent and quality of services provided to the Fund.

#### **Economies of Scale**

The Board reviewed and considered the extent to which each Manager may realize economies of scale, if any, as the Fund grows larger and whether the Fund's management fee structure reflects any economies of scale for the benefit of shareholders. With respect to possible economies of scale, the Board noted the existence of management fee breakpoints, which operate generally to share any economies of scale with the Fund's shareholders by reducing the Fund's effective management fees as the Fund grows in size. The Board considered each Manager's view that any analyses of potential economies of scale in managing a particular fund are inherently limited in light of the joint and common costs and investments each Manager incurs across the Franklin Templeton family of funds as a whole. The Board concluded that to the extent economies of scale may be realized by each Manager and its affiliates, the Fund's management fee structure provided a sharing of benefits with the Fund and its shareholders as the Fund grows.

#### **Conclusion**

Based on its review, consideration and evaluation of all factors it believed relevant, including the above-described factors and conclusions, the Board unanimously approved the continuation of each Management Agreement for an additional one-year period.

## **Proxy Voting Policies and Procedures**

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

## **Quarterly Statement of Investments**

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

## **Householding of Reports and Prospectuses**

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

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