



FRANKLIN TEMPLETON
INVESTMENTS

Semiannual Report
and Shareholder Letter

October 31, 2018

Franklin Flexible Alpha Bond Fund

A SERIES OF FRANKLIN STRATEGIC SERIES



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Franklin Templeton Investments

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

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

Dear Shareholder:

During the six months ended October 31, 2018, the U.S. economy grew, while annual inflation began and ended the period at the same level. With these factors in mind, the U.S. Federal Reserve (Fed) raised its target range for the federal funds rate 0.25% at its June and September 2018 meetings. Overall, the 10-year Treasury yield, which moves inversely to price, increased during the period. The yield rose to multi-year highs in May and October 2018 amid investor concerns about inflation and Fed actions, but declined at certain points during the period due to uncertainty surrounding political tensions and economic turmoil in the U.S. and other countries. The U.S. dollar also 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 modest 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 semiannual 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 B. Jamieson
President and Chief Executive Officer –
Investment Management
Franklin Strategic Series

This letter reflects our analysis and opinions as of October 31, 2018, 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.

Not FDIC Insured | May Lose Value | No Bank Guarantee

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

Semiannual Report

Franklin Flexible Alpha Bond Fund

This semiannual report for Franklin Flexible Alpha Bond Fund covers the period ended October 31, 2018.

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 six months under review, the Fund's Class A shares delivered a +1.00% cumulative total return. In comparison, the LIBOR USD 3-Month Rate Index posted a +2.16% total return.¹ 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 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 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 15.

Sector Exposure*

10/31/18

	% of Total Net Assets
Collateralized Loan Obligations	22.2%
Residential Mortgage-Backed Securities	21.9%
Floating-Rate Loans	17.0%
Investment-Grade Corporate Securities	12.4%
International Bonds	8.6%
Commercial Mortgage-Backed Securities	6.1%
Covered Bonds	4.8%
High-Yield Corporate Securities	3.7%
Treasury Inflation-Protected Securities	2.9%
Municipal Bonds	2.4%
Asset-Backed Securities	0.0%**
Other	0.0%**
Agency Mortgage-Backed Securities	0.0%**
Interest-Rate Derivatives	-34.7%
Cash & Cash Equivalents	19.1%

*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.

**Rounds to less than 0.1%.

Economic and Market Overview

The U.S. economy grew during the six months under review. The economy grew faster in 2018's second quarter, driven by consumer spending, business investment, exports and government spending, but moderated in the third quarter due to declines in exports and housing investment. The manufacturing and services sectors expanded during the period. The unemployment rate declined from 3.9% in April 2018, as reported at the beginning of the six-month period, to a nearly 49-year low of 3.7% at period-end.² Annual inflation, as measured by the Consumer Price Index, was 2.5% in April

2018, as reported at the beginning of the period, and while it varied during the six months under review, it ended the period at 2.5%.²

Dividend Distributions*

5/1/18–10/31/18

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
Total	9.7030	8.6788	9.2837	11.5669	11.6895

*The distribution amount is the sum of all estimated tax-basis net investment income distributions for the period shown. A portion or all of the distribution may be reclassified as return of capital or short-term or long-term capital gains once final tax designations are known. 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.

The U.S. Federal Reserve (Fed) raised its target range for the federal funds rate 0.25% at its June 2018 meeting and continued to reduce its balance sheet as part of its ongoing plan to normalize monetary policy. In his congressional testimony in July 2018 and at the Fed symposium in August, Fed Chair Jerome Powell reiterated the Fed's intention to gradually raise interest rates. At its September 2018 meeting, the Fed raised its target range for the federal funds rate 0.25% to 2.00%–2.25%, as widely expected. Furthermore, the Fed raised its forecast for U.S. economic growth in 2018 and 2019 and projected one more rate increase in 2018. Minutes from the Fed's September meeting (released in October) indicated that a few officials expected monetary policy to become modestly restrictive of economic growth, while some officials seemed to favor increasing the federal funds rate temporarily above what they consider to be its longer-term level to reduce the risk of overshooting the Fed's inflation objective. In contrast, some officials indicated they would not favor a restrictive policy unless they see clear signs of an overheating economy and rising inflation.

The 10-year Treasury yield, which moves inversely to its price, increased during the period. The yield rose to multi-year highs in May and October 2018 amid investor concerns about higher inflation and the Fed's interest-rate path. Expectations that other central banks might scale back monetary stimulus and better-than-expected U.S. economic reports 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, the Trump administration's protectionist trade policies, U.S. trade disputes with its allies and China, and economic turmoil in Turkey and Argentina. Overall, the 10-year Treasury yield rose from 2.95% at the beginning of the period to 3.15% at period-end.

Currency Composition*

10/31/18

	% of Total Net Assets
North America	99.8%
U.S. Dollar	99.8%
Mexican Peso	0.5%
Canadian Dollar	-0.5%
Europe	0.4%
Swedish Krona	0.3%
Polish Zloty	0.1%
Norwegian Krone	0.0%**
British Pound	0.0%**
Euro	0.0%**
Asia	0.1%
India Rupee	0.3%
Indonesia Rupiah	0.3%
Chinese Renminbi	-0.2%
Philippine Peso	-0.3%
Australia & New Zealand	-0.3%
Australian Dollar	-0.3%

*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 six-month period, the Fund delivered 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 (including collateralized loan obligations), residential mortgage-backed securities (RMBS), as well as investment-grade and high-yield corporate securities. The Fund's sovereign emerging markets debt exposure and basis-trade positions (taking opposing long and short positions in two securities to profit from the convergence of their values) also contributed to returns. In contrast, the Fund's exposure to covered bonds, Treasury Inflation-Protected Securities (TIPS), and foreign currency exposure were the primary detractors from 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 the investment-grade corporate bond sector as well as securitized sectors including RMBS and commercial mortgage-backed securities. We also 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 collateralized loan obligations. We also retained positions in TIPS as well as covered bonds. Overall, portfolio duration remained relatively neutral toward U.S. interest-rate and non-U.S. duration positions.

The Fund maintained an overweighting 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 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 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



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

Michael J. Materasso

Portfolio Management Team

The foregoing information reflects our analysis, opinions and portfolio holdings as of October 31, 2018, 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 October 31, 2018

The performance tables 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 10/31/18¹

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 4.25% and the minimum is 0%. **Class A:** 4.25% maximum initial sales charge; **Advisor Class:** no sales charges. For other share classes, visit franklintempleton.com.

Share Class	Cumulative Total Return ²	Average Annual Total Return ³
A		
6-Month	+1.00% ⁴	-3.26%
1-Year	+1.23%	-3.10%
3-Year	+3.92%	-0.16%
Since Inception (8/3/15)	+3.61%	-0.23%
Advisor		
6-Month	+0.89%	+0.89%
1-Year	+1.54%	+1.54%
3-Year	+4.09%	+1.35%
Since Inception (8/3/15)	+3.89%	+1.18%

Share Class	Distribution Rate ⁵	30-Day Standardized Yield ⁶	
		(with waiver)	(without waiver)
A	2.78%	2.31%	2.20%
Advisor	3.38%	2.69%	2.56%

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

See page 8 for Performance Summary footnotes.

Distributions (5/1/18–10/31/18)

Share Class	Net Investment Income
A	\$0.097030
C	\$0.086788
R	\$0.092837
R6	\$0.115669
Advisor	\$0.116895

Total Annual Operating Expenses⁷

Share Class	With Waiver	Without 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. 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.
5. 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 10/31/18.
6. 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.
7. Figures are as stated in the Fund's current prospectus and may differ from the expense ratios disclosed in the Your Fund's Expenses and Financial Highlights sections in this report. In periods of market volatility, assets may decline significantly, causing total annual Fund operating expenses to become higher than the figures shown.

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 5/1/18	Actual (actual return after expenses)		Hypothetical (5% annual return before expenses)		Net Annualized Expense Ratio ²
		Ending Account Value 10/31/18	Expenses Paid During Period 5/1/18–10/31/18 ^{1,2}	Ending Account Value 10/31/18	Expenses Paid During Period 5/1/18–10/31/18 ^{1,2}	
A	\$1,000	\$1,007.90	\$4.56	\$1,020.67	\$4.58	0.90%
C	\$1,000	\$1,005.90	\$6.37	\$1,018.85	\$6.41	1.26%
R	\$1,000	\$1,006.40	\$5.71	\$1,019.51	\$5.75	1.13%
R6	\$1,000	\$1,008.80	\$2.99	\$1,022.23	\$3.01	0.59%
Advisor	\$1,000	\$1,008.90	\$3.09	\$1,022.13	\$3.11	0.61%

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 184/365 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

	Six Months Ended	Year Ended April 30,		
	October 31, 2018 (unaudited)	2018	2017	2016 ^a
Class A				
Per share operating performance (for a share outstanding throughout the period)				
Net asset value, beginning of period	\$ 9.79	\$ 9.86	\$ 9.88	\$ 10.00
Income from investment operations ^b :				
Net investment income	0.118 ^c	0.166 ^c	0.180	0.099
Net realized and unrealized gains (losses)	(0.051)	(0.066)	0.017	(0.123)
Total from investment operations	0.067	0.100	0.197	(0.024)
Less distributions from:				
Net investment income	(0.097)	(0.160)	(0.217)	(0.096)
Net realized gains	—	(0.010)	—	—
Total distributions	(0.097)	(0.170)	(0.217)	(0.096)
Net asset value, end of period	\$ 9.76	\$ 9.79	\$ 9.86	\$ 9.88
Total return ^d	0.79%	1.02%	2.22%	(0.34)%
Ratios to average net assets^e				
Expenses before waiver and payments by affiliates	1.19%	0.97%	3.17%	3.47%
Expenses net of waiver and payments by affiliates ^f	0.90%	0.79%	0.67%	0.84%
Net investment income	2.42%	1.80%	1.83%	1.37%
Supplemental data				
Net assets, end of period (000's)	\$2,142	\$1,132	\$10,443	\$10,200
Portfolio turnover rate	7.34%	48.04%	90.37%	40.12%
Portfolio turnover rate excluding mortgage dollar rolls ^g	6.58%	19.40%	57.79%	30.05%

^aFor the period August 3, 2015 (commencement of operations) to April 30, 2016.

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

^cBased on average daily shares outstanding.

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

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

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

^gSee Note 1(f) regarding mortgage dollar rolls.

Franklin Flexible Alpha Bond Fund (continued)

	Six Months Ended	Year Ended April 30,		
	October 31, 2018 (unaudited)	2018	2017	2016 ^a
Class C				
Per share operating performance				
(for a share outstanding throughout the period)				
Net asset value, beginning of period	\$ 9.73	\$ 9.80	\$ 9.86	\$ 10.00
Income from investment operations ^b :				
Net investment income	0.100 ^c	0.120	0.130	0.072
Net realized and unrealized gains (losses)	(0.043)	(0.062)	(0.006)	(0.131)
Total from investment operations	0.057	0.058	0.124	(0.059)
Less distributions from:				
Net investment income	(0.087)	(0.118)	(0.184)	(0.081)
Net realized gains	—	(0.010)	—	—
Total distributions	(0.087)	(0.128)	(0.184)	(0.081)
Net asset value, end of period	\$ 9.70	\$ 9.73	\$ 9.80	\$ 9.86
Total return ^d	0.59%	0.49%	1.47%	(0.69)%
Ratios to average net assets^e				
Expenses before waiver and payments by affiliates	1.55%	1.58%	3.88%	3.98%
Expenses net of waiver and payments by affiliates ^f	1.26%	1.40%	1.38%	1.34%
Net investment income	2.06%	1.19%	1.12%	0.87%
Supplemental data				
Net assets, end of period (000's)	\$303	\$279	\$245	\$204
Portfolio turnover rate	7.34%	48.04%	90.37%	40.12%
Portfolio turnover rate excluding mortgage dollar rolls ^g	6.58%	19.40%	57.79%	30.05%

^aFor the period August 3, 2015 (commencement of operations) to April 30, 2016.

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

^cBased on average daily shares outstanding.

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

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

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

^gSee Note 1(f) regarding mortgage dollar rolls.

Franklin Flexible Alpha Bond Fund (continued)

	Six Months Ended	Year Ended April 30,		
	October 31, 2018 (unaudited)	2018	2017	2016 ^a
Class R				
Per share operating performance				
(for a share outstanding throughout the period)				
Net asset value, beginning of period	\$ 9.78	\$ 9.86	\$ 9.86	\$ 10.00
Income from investment operations ^b :				
Net investment income	0.107 ^c	0.112	0.112	0.072
Net realized and unrealized gains (losses)	(0.044)	(0.058)	0.095	(0.127)
Total from investment operations	0.063	0.054	0.207	(0.055)
Less distributions from:				
Net investment income	(0.093)	(0.124)	(0.207)	(0.085)
Net realized gains	—	(0.010)	—	—
Total distributions	(0.093)	(0.134)	(0.207)	(0.085)
Net asset value, end of period	\$ 9.75	\$ 9.78	\$ 9.86	\$ 9.86
Total return ^d	0.64%	0.54%	2.21%	(0.65)%
Ratios to average net assets^e				
Expenses before waiver and payments by affiliates	1.42%	1.47%	3.36%	3.84%
Expenses net of waiver and payments by affiliates ^f	1.13%	1.29%	0.86%	1.22%
Net investment income	2.19%	1.30%	1.64%	0.99%
Supplemental data				
Net assets, end of period (000's)	\$52	\$51	\$60	\$10
Portfolio turnover rate	7.34%	48.04%	90.37%	40.12%
Portfolio turnover rate excluding mortgage dollar rolls ^g	6.58%	19.40%	57.79%	30.05%

^aFor the period August 3, 2015 (commencement of operations) to April 30, 2016.

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

^cBased on average daily shares outstanding.

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

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

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

^gSee Note 1(f) regarding mortgage dollar rolls.

Franklin Flexible Alpha Bond Fund (continued)

	Six Months Ended	Year Ended April 30,		
	October 31, 2018 (unaudited)	2018	2017	2016 ^a
Class R6				
Per share operating performance				
(for a share outstanding throughout the period)				
Net asset value, beginning of period	\$ 9.79	\$ 9.86	\$ 9.88	\$ 10.00
Income from investment operations ^b :				
Net investment income	0.135 ^c	0.204	0.177	0.108
Net realized and unrealized gains (losses)	(0.049)	(0.088)	0.022	(0.124)
Total from investment operations	0.086	0.116	0.199	(0.016)
Less distributions from:				
Net investment income	(0.116)	(0.176)	(0.219)	(0.104)
Net realized gains	—	(0.010)	—	—
Total distributions	(0.116)	(0.186)	(0.219)	(0.104)
Net asset value, end of period	\$ 9.76	\$ 9.79	\$ 9.86	\$ 9.88
Total return ^d	0.88%	1.18%	2.03%	(0.15)%
Ratios to average net assets^e				
Expenses before waiver and payments by affiliates	0.66%	0.86%	5.23%	3.72%
Expenses net of waiver and payments by affiliates ^f	0.59%	0.71%	0.71%	0.71%
Net investment income	2.73%	1.88%	1.79%	1.50%
Supplemental data				
Net assets, end of period (000's)	\$411,574	\$210,808	\$10	\$10
Portfolio turnover rate	7.34%	48.04%	90.37%	40.12%
Portfolio turnover rate excluding mortgage dollar rolls ^g	6.58%	19.40%	57.79%	30.05%

^aFor the period August 3, 2015 (commencement of operations) to April 30, 2016.

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

^cBased on average daily shares outstanding.

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

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

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

^gSee Note 1(f) regarding mortgage dollar rolls.

Franklin Flexible Alpha Bond Fund (continued)

	Six Months Ended	Year Ended April 30,		
	October 31, 2018 (unaudited)	2018	2017	2016 ^a
Advisor Class				
Per share operating performance (for a share outstanding throughout the period)				
Net asset value, beginning of period	\$ 9.79	\$ 9.85	\$ 9.88	\$ 10.00
Income from investment operations ^b :				
Net investment income	0.133 ^c	0.194	0.166	0.107
Net realized and unrealized gains (losses)	(0.046)	(0.072)	0.023	(0.129)
Total from investment operations	0.087	0.122	0.189	(0.022)
Less distributions from:				
Net investment income	(0.117)	(0.172)	(0.219)	(0.098)
Net realized gains	—	(0.010)	—	—
Total distributions	(0.117)	(0.182)	(0.219)	(0.098)
Net asset value, end of period	\$ 9.76	\$ 9.79	\$ 9.85	\$ 9.88
Total return ^d	0.89%	1.14%	2.13%	(0.31)%
Ratios to average net assets^e				
Expenses before waiver and payments by affiliates	0.90%	0.93%	3.22%	3.34%
Expenses net of waiver and payments by affiliates ^f	0.61%	0.75%	0.72%	0.71%
Net investment income	2.71%	1.84%	1.78%	1.50%
Supplemental data				
Net assets, end of period (000's)	\$389	\$425	\$232	\$344
Portfolio turnover rate	7.34%	48.04%	90.37%	40.12%
Portfolio turnover rate excluding mortgage dollar rolls ^g	6.58%	19.40%	57.79%	30.05%

^aFor the period August 3, 2015 (commencement of operations) to April 30, 2016.

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

^cBased on average daily shares outstanding.

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

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

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

^gSee Note 1(f) regarding mortgage dollar rolls.

Statement of Investments, October 31, 2018 (unaudited)
Franklin Flexible Alpha Bond Fund

	Country	Shares	Value
Management Investment Companies (Cost \$4,549,803) 1.1%			
Diversified Financials 1.1%			
Invesco Senior Loan ETF	United States	196,765	\$ 4,527,563
		Principal Amount*	
Corporate Bonds 26.0%			
Automobiles & Components 0.2%			
Aptiv Corp., senior bond, 4.15%, 3/15/24	United States	900,000	896,604
Banks 8.7%			
^a Banca Monte dei Paschi di Siena SpA, secured note, Reg S, 2.875%, 7/16/62	Italy	1,500,000	EUR 1,816,115
secured note, Reg S, 2.125%, 11/26/63	Italy	2,000,000	EUR 2,314,398
^a Banca Popolare di Milano Scarl, secured note, Reg S, 0.875%, 9/14/23	Italy	900,000	EUR 1,016,900
secured note, Reg S, 0.625%, 6/08/24	Italy	2,800,000	EUR 3,087,682
^a Banco BPM SpA, secured note, Reg S, 0.75%, 3/31/23	Italy	1,700,000	EUR 1,918,117
^a Banco Comercial Portugues SA, secured note, Reg S, 0.75%, 5/31/23	Portugal	900,000	EUR 1,031,707
Bank of America Corp., senior bond, 5.50%, 12/04/19	United States	75,000	GBP 100,005
senior note, 3.50%, 4/19/26	United States	2,300,000	2,190,254
senior note, 3.55% to 3/05/23, FRN thereafter, 3/05/24	United States	1,400,000	1,374,786
Bank of Nova Scotia, secured note, 1.875%, 4/26/22	Canada	100,000	96,661
Caixa Geral de Depositos SA, secured note, 3.00%, 1/15/20	Portugal	2,000,000	EUR 2,278,879
^a secured note, Reg S, 1.00%, 1/27/23	Portugal	100,000	EUR 115,712
Citigroup Inc., senior note, 2.65%, 10/26/20	United States	1,050,000	1,034,458
senior note, 3.40%, 5/01/26	United States	2,300,000	2,162,527
HSBC Holdings PLC, senior note, 4.30%, 3/08/26	United Kingdom	1,400,000	1,380,722
senior note, 3.262% to 3/13/22, FRN thereafter, 3/13/23	United Kingdom	1,400,000	1,369,270
^b ICICI Bank Ltd./Dubai, senior note, 144A, 3.80%, 12/14/27	India	500,000	449,127
Industrial & Commercial Bank of China Ltd., senior note, 2.452%, 10/20/21	China	1,900,000	1,823,468
JPMorgan Chase & Co., senior bond, 3.30%, 4/01/26	United States	2,300,000	2,174,460
senior note, 2.40%, 6/07/21	United States	400,000	389,851
^b Kookmin Bank, secured note, 144A, 2.25%, 2/03/22	South Korea	1,800,000	1,739,860
PHH Corp., senior note, 7.375%, 9/01/19	United States	200,000	205,750
Royal Bank of Canada, secured note, 2.10%, 10/14/21	Canada	100,000	97,861
^b Standard Chartered PLC, senior note, 144A, 3.885% to 3/15/23, FRN thereafter, 3/15/24	United Kingdom	1,200,000	1,167,450
^b The Toronto-Dominion Bank, secured note, 144A, 2.25%, 3/15/22	Canada	200,000	195,333
^a Turkiye Vakiflar Bankasi TAO, secured note, Reg S, 2.375%, 11/04/22	Turkey	3,800,000	EUR 4,142,387
Wells Fargo & Co., senior note, 3.00%, 4/22/26	United States	600,000	553,567
			<u>36,227,307</u>
Consumer Durables & Apparel 0.0%†			
KB Home, senior note, 8.00%, 3/15/20	United States	100,000	104,875
Consumer Services 0.1%			
^b Wynn Las Vegas LLC/Wynn Las Vegas Capital Corp., senior bond, 144A, 5.50%, 3/01/25	United States	525,000	500,719

Franklin Flexible Alpha Bond Fund (continued)

	Country	Principal Amount*	Value
Corporate Bonds (continued)			
Diversified Financials 2.2%			
Capital One Financial Corp., senior note, 3.05%, 3/09/22	United States	1,200,000	\$ 1,171,653
senior note, 3.20%, 2/05/25	United States	3,100,000	2,900,692
^c Deutsche Bank AG, senior note, FRN, 3.632%, (3-month USD LIBOR + 1.31%), 8/20/20	Germany	100,000	99,888
^b Dexia Credit Local SA, senior note, 144A, 2.375%, 9/20/22	France	250,000	241,159
The Goldman Sachs Group Inc., senior note, 3.75%, 5/22/25	United States	2,000,000	1,939,387
^c senior note, FRN, 3.534%, (3-month USD LIBOR + 1.20%), 9/15/20	United States	500,000	507,086
^b ICBCIL Finance Co. Ltd., senior note, 144A, 2.50%, 9/29/21	China	500,000	476,120
Morgan Stanley, senior note, 3.70%, 10/23/24	United States	1,400,000	1,367,872
Navient Corp., senior bond, 8.00%, 3/25/20	United States	400,000	418,500
Springleaf Finance Corp., senior note, 6.00%, 6/01/20	United States	60,000	61,500
			9,183,857
Energy 2.5%			
Anadarko Petroleum Corp., senior bond, 3.45%, 7/15/24	United States	1,350,000	1,284,220
CNOOC Finance 2015 USA LLC, senior note, 3.50%, 5/05/25	China	1,700,000	1,618,391
^b CNPC General Capital Ltd., senior note, 144A, 3.40%, 4/16/23	China	2,100,000	2,046,891
Energy Transfer LP, senior bond, first lien, 7.50%, 10/15/20	United States	750,000	795,939
Enterprise Products Operating LLC, senior note, 3.35%, 3/15/23	United States	1,450,000	1,421,325
Exxon Mobil Corp., senior note, 2.222%, 3/01/21	United States	100,000	97,738
Oceaneering International Inc., senior note, 4.65%, 11/15/24	United States	50,000	46,489
Sabine Pass Liquefaction LLC, senior secured note, first lien, 5.625%, 4/15/23	United States	1,250,000	1,317,267
^b Sinopec Group Overseas Development 2015 Ltd., senior note, 144A, 2.50%, 4/28/20	China	1,800,000	1,773,873
^b Woodside Finance Ltd., senior note, 144A, 3.65%, 3/05/25	Australia	100,000	95,952
			10,498,085
Food & Staples Retailing 0.3%			
Safeway Inc., senior bond, 5.00%, 8/15/19	United States	1,000,000	1,010,000
Food, Beverage & Tobacco 1.0%			
Anheuser-Busch Inbev Finance Inc., senior bond, 3.65%, 2/01/26	Belgium	1,400,000	1,329,961
Bunge Ltd. Finance Corp., senior note, 3.25%, 8/15/26	United States	50,000	44,886
^b Imperial Brands Finance PLC, senior note, 144A, 4.25%, 7/21/25	United Kingdom	1,695,000	1,667,093
Kraft Heinz Foods Co., senior bond, 3.00%, 6/01/26	United States	600,000	536,456
senior note, 3.50%, 7/15/22	United States	350,000	346,008
Reynolds American Inc., senior note, 4.45%, 6/12/25	United Kingdom	100,000	99,634
			4,024,038
Health Care Equipment & Services 1.1%			
Anthem Inc., senior note, 2.95%, 12/01/22	United States	600,000	580,323
^b Centene Corp., senior note, 144A, 5.375%, 6/01/26	United States	1,000,000	1,017,500
CVS Health Corp., senior note, 3.70%, 3/09/23	United States	1,700,000	1,681,289
Edwards Lifesciences Corp., senior note, 4.30%, 6/15/28	United States	300,000	298,451
HCA Inc., senior secured bond, first lien, 5.875%, 3/15/22	United States	950,000	996,312
Tenet Healthcare Corp., senior note, 5.50%, 3/01/19	United States	90,000	90,563
^b Universal Health Services Inc., senior secured note, first lien, 144A, 3.75%, 8/01/19	United States	50,000	50,031
			4,714,469

Franklin Flexible Alpha Bond Fund (continued)

	Country	Principal Amount*	Value
Corporate Bonds (continued)			
Insurance 0.5%			
^b Athene Global Funding, secured note, 144A, 3.00%, 7/01/22	United States	1,850,000	\$ 1,791,245
^b Jackson National Life Global Funding, secured note, 144A, 2.25%, 4/29/21	United States	50,000	48,606
secured note, 144A, 2.10%, 10/25/21	United States	25,000	23,970
			<u>1,863,821</u>
Materials 1.1%			
Freeport-McMoRan Inc., senior note, 4.00%, 11/14/21	United States	915,000	894,412
^b Glencore Funding LLC, senior note, 144A, 3.00%, 10/27/22	Switzerland	1,300,000	1,245,192
LYB International Finance BV, senior note, 4.00%, 7/15/23	United States	1,500,000	1,496,475
^b Sealed Air Corp., senior bond, 144A, 5.25%, 4/01/23	United States	950,000	945,250
			<u>4,581,329</u>
Media & Entertainment 0.3%			
^b Tencent Holdings Ltd., senior note, 144A, 2.985%, 1/19/23	China	1,200,000	1,157,172
Pharmaceuticals, Biotechnology & Life Sciences 1.1%			
Allergan Funding SCS, senior bond, 3.80%, 3/15/25	United States	900,000	868,486
Amgen Inc., senior note, 2.60%, 8/19/26	United States	1,100,000	986,137
senior note, 3.20%, 11/02/27	United States	550,000	506,846
^b Bayer U.S. Finance II LLC, senior note, 144A, 3.875%, 12/15/23	Germany	400,000	394,391
Celgene Corp., senior bond, 3.875%, 8/15/25	United States	200,000	193,254
senior bond, 3.45%, 11/15/27	United States	1,100,000	1,004,449
^b SABIC Capital II BV, senior note, 144A, 4.50%, 10/10/28	Saudi Arabia	400,000	392,628
			<u>4,346,191</u>
Real Estate 0.6%			
American Homes 4 Rent LP, senior bond, 4.25%, 2/15/28	United States	400,000	379,897
American Tower Corp., senior bond, 3.50%, 1/31/23	United States	500,000	490,083
senior bond, 3.375%, 10/15/26	United States	700,000	644,207
Crown Castle International Corp., senior note, 3.15%, 7/15/23	United States	600,000	576,532
Prologis LP, senior note, 4.25%, 8/15/23	United States	200,000	205,754
			<u>2,296,473</u>
Retailing 0.4%			
Alibaba Group Holding Ltd., senior note, 2.80%, 6/06/23	China	1,100,000	1,053,926
Amazon.com Inc., senior note, 2.40%, 2/22/23	United States	300,000	286,891
^b PetSmart Inc., senior note, 144A, 7.125%, 3/15/23	United States	550,000	387,750
			<u>1,728,567</u>
Semiconductors & Semiconductor Equipment 0.3%			
Maxim Integrated Products Inc., senior note, 3.45%, 6/15/27	United States	1,300,000	1,211,616
Software & Services 0.3%			
Fiserv Inc., senior bond, 3.85%, 6/01/25	United States	1,400,000	1,382,721
Technology Hardware & Equipment 0.0%†			
^b Sanmina Corp., senior note, first lien, 144A, 4.375%, 6/01/19	United States	100,000	100,125
Tech Data Corp., senior bond, 4.95%, 2/15/27	United States	50,000	48,341
			<u>148,466</u>

Franklin Flexible Alpha Bond Fund (continued)

	Country	Principal Amount*	Value
Corporate Bonds (continued)			
Telecommunication Services 0.8%			
Telefonica Emisiones S.A.U., senior note, 4.103%, 3/08/27	Spain	1,800,000	\$ 1,713,492
Verizon Communications Inc., senior note, 2.45%, 11/01/22	United States	1,650,000	1,578,517
			<u>3,292,009</u>
Transportation 0.6%			
^b Air Canada 2017-1AA PTT, secured bond, 144A, 3.30%, 7/15/31	Canada	100,000	93,956
^b American Airlines Group Inc., senior note, 144A, 5.50%, 10/01/19	United States	530,000	537,287
American Airlines Pass Through Trust, first lien, 2016-2, AA, 3.20%, 12/15/29 . . .	United States	46,100	43,576
FedEx Corp., senior bond, 3.20%, 2/01/25	United States	1,450,000	1,387,456
^b Transurban Finance Co. Pty. Ltd., senior secured bond, 144A, 3.375%, 3/22/27 . . .	Australia	500,000	460,578
			<u>2,522,853</u>
Utilities 3.9%			
Calpine Corp., senior note, 5.375%, 1/15/23	United States	35,000	33,294
^a CGNPC International Ltd., senior note, Reg S, 3.75%, 12/11/27	China	2,100,000	1,965,222
^b Colbun SA, senior note, 144A, 3.95%, 10/11/27	Chile	200,000	184,393
Dominion Energy Inc.,			
senior bond, 3.90%, 10/01/25	United States	50,000	48,855
senior bond, 2.85%, 8/15/26	United States	2,500,000	2,267,526
Duke Energy Indiana Inc., senior secured bond, 3.75%, 7/15/20	United States	100,000	100,952
^{b,d} EDF SA, junior sub. bond, 144A, 5.625% to 1/22/24, FRN thereafter, Perpetual . .	France	2,200,000	2,136,695
^b Israel Electric Corp. Ltd., secured bond, 144A, 4.25%, 8/14/28	Israel	1,400,000	1,328,082
^b Korea East-West Power Co. Ltd., senior note, 144A, 3.875%, 7/19/23	South Korea	500,000	499,083
The Southern Co., senior bond, 3.25%, 7/01/26	United States	2,350,000	2,182,907
^b State Grid Overseas Investment 2016 Ltd., senior note, 144A, 3.50%, 5/04/27 . . .	China	3,500,000	3,289,020
^b Three Gorges Finance I Cayman Islands Ltd., senior note, 144A, 3.70%, 6/10/25	China	2,100,000	2,029,997
			<u>16,066,026</u>
Total Corporate Bonds (Cost \$111,317,668)			<u>107,757,198</u>
Foreign Government and Agency Securities 1.9%			
^b The Export-Import Bank of China,			
senior note, 144A, 2.50%, 7/31/19	China	200,000	198,871
senior note, 144A, 3.625%, 7/31/24	China	2,100,000	2,059,974
^b The Export-Import Bank of India, senior note, 144A, 3.875%, 2/01/28	India	3,400,000	3,125,035
The Export-Import Bank of Korea, senior note, 2.875%, 1/21/25	South Korea	1,100,000	1,029,028
Government of Indonesia, senior bond, FR70, 8.375%, 3/15/24	Indonesia	263,000,000	IDR 17,226
^b Harvest Operations Corp., senior note, 144A, 4.20%, 6/01/23	South Korea	1,000,000	1,011,285
The Korea Development Bank, senior note, 3.375%, 3/12/23	South Korea	600,000	590,907
			<u>8,032,326</u>
Total Foreign Government and Agency Securities (Cost \$8,220,570)			<u>8,032,326</u>
U.S. Government and Agency Securities 1.0%			
^e U.S. Treasury Note,			
Index Linked, 0.25%, 1/15/25	United States	1,426,489	1,355,864
Index Linked, 0.125%, 7/15/26	United States	2,945,316	2,742,653
			<u>4,098,517</u>
Total U.S. Government and Agency Securities (Cost \$4,252,958)			<u>4,098,517</u>

Franklin Flexible Alpha Bond Fund (continued)

	Country	Principal Amount*	Value
Asset-Backed Securities and Commercial Mortgage-Backed Securities 50.2%			
Banks 0.4%			
^{b,f} DBCG Mortgage Trust, 2017-BBG, A, 144A, FRN, 2.98%, (1-month USD LIBOR + 0.70%), 6/15/34	United States	1,500,000	\$ 1,500,754
^f Impac Secured Assets Corp., 2004-4, M1, FRN, 3.046%, (1-month USD LIBOR + 0.765%), 2/25/35	United States	21,522	21,587
			<u>1,522,341</u>
Diversified Financials 49.6%			
^{b,f} Alinea CLO Ltd., 2018-1A, B, 144A, FRN, 3.957%, (3-month USD LIBOR + 1.65%), 7/20/31	United States	2,300,000	2,298,873
^{b,f} AMMC CLO 21 Ltd., 2017-21A, C, 144A, FRN, 4.449%, (3-month USD LIBOR + 2.10%), 11/02/30	United States	400,000	395,408
^{b,f} Antares CLO Ltd., 2018-1A, B, 144A, FRN, 4.119%, (3-month USD LIBOR + 1.65%), 4/20/31	United States	600,000	600,330
^{b,f} Atrium XIII, 2013A, B, 144A, FRN, 3.977%, (3-month USD LIBOR + 1.50%), 11/21/30	United States	2,000,000	1,996,600
2013A, C, 144A, FRN, 4.277%, (3-month USD LIBOR + 1.80%), 11/21/30	United States	600,000	595,452
^b BAMLL Commercial Mortgage Securities Trust, 2012-PARK, A, 144A, 2.959%, 12/10/30	United States	100,000	98,586
2015-200P, A, 144A, 3.218%, 4/14/33	United States	600,000	579,876
Banc of America Commercial Mortgage Trust, 2015-UBS7, A4, 3.705%, 9/15/48	United States	100,000	99,301
^{b,f} Bellemeade Re Ltd., 2018-1A, M1B, 144A, FRN, 3.881%, (1-month USD LIBOR + 1.60%), 4/25/28	Bermuda	1,320,000	1,327,581
^g BENCHMARK Mortgage Trust, 2018-B1, A5, FRN, 3.666%, 1/15/51	United States	1,542,000	1,509,330
^{b,f} Betony CLO 2 Ltd., 2018-1A, C, 144A, FRN, 5.42%, (3-month USD LIBOR + 2.90%), 4/30/31	United States	500,000	499,500
^{b,g} BlueMountain CLO Ltd., 2018-3A, B, 144A, FRN, 4.206%, 10/25/30	United States	3,000,000	2,999,460
2018-3A, C, 144A, FRN, 4.636%, 10/25/30	United States	1,428,570	1,428,313
^{b,h,i} BlueMountain CLO XXIII Ltd., 2018-23A, B, 144A, FRN, 10/20/31	United States	1,000,000	1,000,000
2018-23A, C, 144A, FRN, 10/20/31	United States	694,444	694,444
^{b,f} BlueMountain Fuji U.S. CLO I Ltd., 2017-1A, C, 144A, FRN, 4.819%, (3-month USD LIBOR + 2.35%), 7/20/29	United States	60,000	60,350
^{b,f} BlueMountain Fuji U.S. CLO II Ltd., 2017-2A, A1A, 144A, FRN, 3.548%, (3-month USD LIBOR + 1.20%), 10/20/30	United States	250,000	251,245
^{b,f} BlueMountain Fuji U.S. CLO III Ltd., 2017-3A, C, 144A, FRN, 4.039%, (3-month USD LIBOR + 1.70%), 1/15/30	United States	1,900,000	1,878,245
^{b,g} BX Commercial Mortgage Trust, 2018-IND, A, 144A, FRN, 3.03%, 11/15/35	United States	1,020,000	1,029,807
^b BXP Trust, 2017-GM, A, 144A, 3.379%, 6/13/39	United States	2,000,000	1,916,055
^f Capital One Multi-Asset Execution Trust, 2004-B3, B3, FRN, 3.01%, (1-month USD LIBOR + 0.73%), 1/18/22	United States	150,000	150,302
^{b,f} Carlyle Global Market Strategies CLO Ltd., 2014-4RA, A1B, 144A, FRN, 3.786%, (3-month USD LIBOR + 1.35%), 7/15/30	United States	2,750,000	2,749,697
2014-4RA, C, 144A, FRN, 5.336%, (3-month USD LIBOR + 2.90%), 7/15/30	United States	750,000	744,465

Franklin Flexible Alpha Bond Fund (continued)

	Country	Principal Amount*	Value
Asset-Backed Securities and Commercial Mortgage-Backed Securities (continued)			
Diversified Financials (continued)			
^{b,g} Carlyle GMS Finance MM CLO LLC, 2015-1A, A2R, 144A, FRN, 4.636%, 10/15/31	United States	800,000	\$ 801,400
^{b,f} Carlyle U.S. CLO Ltd.,			
2017-2A, B, 144A, FRN, 4.869%, (3-month USD LIBOR + 2.40%), 7/20/31	United States	60,000	60,188
2017-4A, B, 144A, FRN, 4.286%, (3-month USD LIBOR + 1.85%), 1/15/30	United States	1,107,000	1,103,125
2017-4A, C, 144A, FRN, 5.236%, (3-month USD LIBOR + 2.80%), 1/15/30	United States	400,000	394,088
^g CD Mortgage Trust, 2016-CD2, A4, FRN, 3.526%, 11/10/49	United States	1,500,000	1,459,247
^{b,g} CGRBS Commercial Mortgage Trust, 2013-VN05, C, 144A, FRN, 3.584%, 3/13/35	United States	450,000	441,086
^{b,g} CIM Trust, 2018-INV1, A4, 144A, FRN, 4.00%, 8/25/48	United States	1,324,289	1,316,427
^{b,g} Colombia Cent CLO 27 Ltd., 2018-27A, A2A, 144A, FRN, 4.899%, 10/25/28	United States	769,231	769,616
^b COMM Mortgage Trust,			
^g 2014-277P, A, 144A, FRN, 3.611%, 8/10/49	United States	900,000	897,607
2015-3BP, A, 144A, 3.178%, 2/10/35	United States	600,000	579,054
^g Conseco Finance Securitizations Corp., 2002-2, M1, FRN, 7.424%, 3/01/33	United States	66,097	72,303
^b Core Industrial Trust, 2015-CALW, A, 144A, 3.04%, 2/10/34	United States	28,460	28,166
^{b,f} Dorchester Park CLO Ltd., 2015-1A, CR, 144A, FRN, 4.219%, (3-month USD LIBOR + 1.75%), 4/20/28	United States	1,350,000	1,346,760
^{b,g} Dryden 38 Senior Loan Fund, 2015-38A, CR, 144A, FRN, 4.436%, 7/15/30	United States	2,500,000	2,486,675
^{b,g} Dryden 45 Senior Loan Fund,			
2016-45A, A2R, 144A, FRN, 3.836%, 10/15/30	United States	1,000,000	1,000,040
2016-45A, BR, 144A, FRN, 4.136%, 10/15/30	United States	1,000,000	1,000,050
2016-45A, CR, 144A, FRN, 4.636%, 10/15/30	United States	1,250,000	1,250,050
^{b,f} Dryden 49 Senior Loan Fund, 2017-49A, C, 144A, FRN, 4.799%, (3-month USD LIBOR + 2.35%), 7/18/30	United States	60,000	60,127
^{b,f} Dryden 53 CLO Ltd.,			
2017-53A, B, 144A, FRN, 3.836%, (3-month USD LIBOR + 1.40%), 1/15/31	United States	1,000,000	989,900
2017-53A, C, 144A, FRN, 4.136%, (3-month USD LIBOR + 1.70%), 1/15/31	United States	1,000,000	987,100
^{b,h,i} Dryden 61 CLO Ltd., 61A, A2, FRN, 1/17/32	United States	2,000,000	2,000,000
^{b,f} Dryden 64 CLO Ltd.,			
2018-64A, A, 144A, FRN, 3.415%, (3-month USD LIBOR + 0.97%), 4/18/31	United States	3,000,000	2,985,270
2018-64A, C, 144A, FRN, 4.195%, (3-month USD LIBOR + 1.75%), 4/18/31	United States	750,000	743,842
^{b,g} Eleven Madison Trust Mortgage Trust, 2015-11MD, A, 144A, FRN, 3.555%, 9/10/35	United States	2,005,000	1,980,105
^{b,f} Ellington CLO III Ltd., 2018-3A, A1, 144A, FRN, 4.119%, (3-month USD LIBOR + 1.65%), 7/20/30	United States	500,000	499,715
^f FHLMC Structured Agency Credit Risk Debt Notes,			
2014-DN1, M2, FRN, 4.481%, (1-month USD LIBOR + 2.20%), 2/25/24	United States	430,828	442,130
2014-DN2, M3, FRN, 5.881%, (1-month USD LIBOR + 3.60%), 4/25/24	United States	2,000,000	2,206,550
2014-DN3, M3, FRN, 6.281%, (1-month USD LIBOR + 4.00%), 8/25/24	United States	203,490	221,225
2014-DN4, M3, FRN, 6.831%, (1-month USD LIBOR + 4.55%), 10/25/24	United States	1,703,728	1,884,060
2014-HQ2, M2, FRN, 4.481%, (1-month USD LIBOR + 2.20%), 9/25/24	United States	430,224	442,267
2014-HQ2, M3, FRN, 6.031%, (1-month USD LIBOR + 3.75%), 9/25/24	United States	2,500,000	2,865,922
2014-HQ3, M3, FRN, 7.031%, (1-month USD LIBOR + 4.75%), 10/25/24	United States	270,871	299,151
2015-DN1, M3, FRN, 6.431%, (1-month USD LIBOR + 4.15%), 1/25/25	United States	681,604	730,312
2015-DNA1, M2, FRN, 4.131%, (1-month USD LIBOR + 1.85%), 10/25/27	United States	213,380	216,811
2015-DNA1, M3, FRN, 5.581%, (1-month USD LIBOR + 3.30%), 10/25/27	United States	2,000,000	2,239,388
2015-DNA2, M2, FRN, 4.881%, (1-month USD LIBOR + 2.60%), 12/25/27	United States	126,898	129,365
2015-DNA2, M3, FRN, 6.181%, (1-month USD LIBOR + 3.90%), 12/25/27	United States	2,850,000	3,144,406
2015-DNA3, M2, FRN, 5.131%, (1-month USD LIBOR + 2.85%), 4/25/28	United States	433,386	447,388
2015-DNA3, M3, FRN, 6.981%, (1-month USD LIBOR + 4.70%), 4/25/28	United States	2,500,000	2,958,575

Franklin Flexible Alpha Bond Fund (continued)

	Country	Principal Amount*	Value
Asset-Backed Securities and Commercial Mortgage-Backed Securities (continued)			
Diversified Financials (continued)			
^f FHLMC Structured Agency Credit Risk Debt Notes, (continued)			
2015-HQ1, M2, FRN, 4.487%, (1-month USD LIBOR + 2.20%), 3/25/25 . . .	United States	84,178	\$ 84,403
2015-HQ1, M3, FRN, 6.087%, (1-month USD LIBOR + 3.80%), 3/25/25 . . .	United States	550,000	583,058
2015-HQ2, M3, FRN, 5.537%, (1-month USD LIBOR + 3.25%), 5/25/25 . . .	United States	1,500,000	1,669,014
2015-HQA1, M3, FRN, 6.981%, (1-month USD LIBOR + 4.70%), 3/25/28 . . .	United States	2,000,000	2,277,563
2015-HQA2, M2, FRN, 5.081%, (1-month USD LIBOR + 2.80%), 5/25/28 . . .	United States	272,839	280,170
2015-HQA2, M3, FRN, 7.081%, (1-month USD LIBOR + 4.80%), 5/25/28 . . .	United States	2,000,000	2,312,272
2016-DNA1, M3, FRN, 7.837%, (1-month USD LIBOR + 5.55%), 7/25/28 . . .	United States	1,550,000	1,865,316
2016-DNA2, M2, FRN, 4.481%, (1-month USD LIBOR + 2.20%), 10/25/28 . . .	United States	300,946	303,842
2016-DNA2, M3, FRN, 6.931%, (1-month USD LIBOR + 4.65%), 10/25/28 . . .	United States	1,800,000	2,066,134
2016-DNA3, M2, FRN, 4.281%, (1-month USD LIBOR + 2.00%), 12/25/28 . . .	United States	311,101	314,624
2016-HQA2, M2, FRN, 4.531%, (1-month USD LIBOR + 2.25%), 11/25/28 . . .	United States	455,537	464,825
2016-HQA2, M3, FRN, 7.431%, (1-month USD LIBOR + 5.15%), 11/25/28 . . .	United States	2,000,000	2,349,024
2016-HQA3, M1, FRN, 3.081%, (1-month USD LIBOR + 0.80%), 3/25/29 . . .	United States	110,793	110,870
2016-HQA3, M2, FRN, 3.631%, (1-month USD LIBOR + 1.35%), 3/25/29 . . .	United States	2,350,000	2,384,981
2016-HQA4, M2, FRN, 3.581%, (1-month USD LIBOR + 1.30%), 4/25/29 . . .	United States	700,000	708,386
2013-DN2, M2, FRN, 6.531%, (1-month USD LIBOR + 4.25%), 11/25/23 . . .	United States	1,835,477	2,030,484
^{b,f} Flagship CLO VIII Ltd., 2014-8A, CRR, 144A, FRN, 4.236%, (3-month USD LIBOR + 1.80%), 1/16/26	United States	1,400,000	1,394,568
^{b,g} Flagstar Mortgage Trust, 2018-6RR, 1A3, 144A, FRN, 4.00%, 10/25/48	United States	1,450,000	1,452,890
^f FNMA Connecticut Avenue Securities,			
2013-C01, M1, FRN, 4.281%, (1-month USD LIBOR + 2.00%), 10/25/23 . . .	United States	1,572	1,574
2013-C01, M2, FRN, 7.531%, (1-month USD LIBOR + 5.25%), 10/25/23 . . .	United States	2,000,000	2,291,768
2014-C01, M2, FRN, 6.681%, (1-month USD LIBOR + 4.40%), 1/25/24	United States	3,300,000	3,736,180
2014-C02, 1M2, FRN, 4.881%, (1-month USD LIBOR + 2.60%), 5/25/24 . . .	United States	1,820,000	1,935,890
2014-C02, 2M2, FRN, 4.881%, (1-month USD LIBOR + 2.60%), 5/25/24 . . .	United States	2,819,215	2,984,871
2014-C03, 1M2, FRN, 5.281%, (1-month USD LIBOR + 3.00%), 7/25/24 . . .	United States	1,313,579	1,400,270
2014-C03, 2M2, FRN, 5.181%, (1-month USD LIBOR + 2.90%), 7/25/24 . . .	United States	2,665,343	2,850,286
2014-C04, 1M1, FRN, 7.181%, (1-month USD LIBOR + 4.90%), 11/25/24 . . .	United States	714,333	816,783
2014-C04, 2M2, FRN, 7.281%, (1-month USD LIBOR + 5.00%), 11/25/24 . . .	United States	498,779	562,583
2015-C01, 1M2, FRN, 6.581%, (1-month USD LIBOR + 4.30%), 2/25/25 . . .	United States	32,410	35,588
2015-C01, 2M2, FRN, 6.831%, (1-month USD LIBOR + 4.55%), 2/25/25 . . .	United States	129,896	140,160
2015-C02, 1M2, FRN, 6.281%, (1-month USD LIBOR + 4.00%), 5/25/25 . . .	United States	468,090	513,465
2015-C02, 2M2, FRN, 6.281%, (1-month USD LIBOR + 4.00%), 5/25/25 . . .	United States	147,746	159,401
2015-C03, 1M2, FRN, 7.281%, (1-month USD LIBOR + 5.00%), 7/25/25 . . .	United States	2,786,680	3,137,063
2015-C03, 2M2, FRN, 7.281%, (1-month USD LIBOR + 5.00%), 7/25/25 . . .	United States	731,959	813,727
2016-C01, 1M2, FRN, 9.031%, (1-month USD LIBOR + 6.75%), 8/25/28 . . .	United States	2,666,493	3,200,770
2017-C01, 1B1, FRN, 8.031%, (1-month USD LIBOR + 5.75%), 7/25/29 . . .	United States	33,000	39,898
2018-C04, 2M1, FRN, 3.031%, (1-month USD LIBOR + 0.75%), 12/25/30 . . .	United States	757,865	758,182
^{b,g} FREMF Mortgage Trust, 2018-K72, B, 144A, FRN, 3.992%, 12/25/50	United States	450,000	432,511
^{b,h,i} Galaxy XXVI CLO Ltd.,			
2018-26A, A, 144A, FRN, 11/22/31	United States	685,921	685,921
2018-26A, B, 144A, FRN, 11/22/31	United States	600,000	600,000
^{b,f} Galaxy XXVII CLO Ltd.,			
2018-27A, A, 144A, FRN, 3.335%, (3-month USD LIBOR + 1.02%), 5/16/31 . . .	United States	2,500,000	2,488,800
2018-27A, C, 144A, FRN, 4.115%, (3-month USD LIBOR + 1.80%), 5/16/31 . . .	United States	1,450,000	1,448,608
2018-27A, C, 144A, FRN, 5.065%, (3-month USD LIBOR + 2.75%), 5/16/31 . . .	United States	300,000	298,965
^{b,f} Gilbert Park CLO Ltd.,			
2017-1A, B, 144A, FRN, 4.036%, (3-month USD LIBOR + 1.60%), 10/15/30 . . .	United States	3,000,000	3,001,650
2017-1A, D, 144A, FRN, 5.386%, (3-month USD LIBOR + 2.95%), 10/15/30 . . .	United States	400,000	400,500

Franklin Flexible Alpha Bond Fund (continued)

	Country	Principal Amount*	Value
Asset-Backed Securities and Commercial Mortgage-Backed Securities (continued)			
Diversified Financials (continued)			
GS Mortgage Securities Trust,			
2016-GS3, A4, 2.85%, 10/10/49	United States	600,000	\$ 558,455
2017-GS5, A4, 3.674%, 3/10/50	United States	2,600,000	2,552,273
2017-GS6, A3, 3.433%, 5/10/50	United States	2,000,000	1,923,658
^{b,f} Halcyon Loan Advisors Funding Ltd., 2018-1A, A2, 144A, FRN, 4.183%, (3-month USD LIBOR + 1.80%), 7/21/31	United States	400,000	398,752
^b Invitation Homes Trust,			
^f 2017-SFR2, A, 144A, FRN, 3.14%, (1-month USD LIBOR + 0.85%), 12/17/36	United States	3,345,149	3,353,808
^f 2018-SFR1, A, 144A, FRN, 2.99%, (1-month USD LIBOR + 0.70%), 3/17/37	United States	1,588,306	1,588,326
^f 2018-SFR3, A, 144A, FRN, 3.29%, (1-month USD LIBOR + 1.00%), 7/17/37	United States	1,129,791	1,130,530
^{g,h} 2018-SFR4, A, 144A, FRN, 3.35%, 1/17/38	United States	1,370,000	1,370,000
^{b,g} J.P. Morgan Chase Commercial Mortgage Securities Trust, 2016-NINE, A, 144A, FRN, 2.854%, 10/06/38	United States	600,000	556,104
JPMBB Commercial Mortgage Securities Trust,			
2015-C30, A5, 3.822%, 7/15/48	United States	1,500,000	1,496,731
^g 2015-C30, AS, FRN, 4.226%, 7/15/48	United States	450,000	452,855
2016-C1, A5, 3.576%, 3/15/49	United States	1,500,000	1,468,565
JPMCC Commercial Mortgage Securities Trust, 2017-JP6, A5, 3.49%, 7/15/50	United States	2,100,000	2,024,547
^{g,j} JPMDB Commercial Mortgage Securities Trust, 2017-C5, XA, IO, FRN, 1.018%, 3/15/50	United States	196,407	12,034
^{b,f} LCM 26 Ltd., 26A, C, 144A, FRN, 4.269%, (3-month USD LIBOR + 1.80%), 1/20/31	United States	400,000	395,596
^{b,h,i} LCM 28 Ltd.,			
28A, B, 144A, FRN, 10/20/30	United States	1,000,000	1,000,000
28A, C, 144A, FRN, 10/20/30	United States	500,000	500,000
^{b,f} Long Point Park CLO Ltd.,			
2017-1A, A2, 144A, FRN, 3.824%, (3-month USD LIBOR + 1.375%), 1/17/30	United States	1,000,000	991,220
2017-1A, B, 144A, FRN, 4.149%, (3-month USD LIBOR + 1.70%), 1/17/30	United States	1,000,000	982,140
^{b,h,i} Madison Park Funding XXIX Ltd.,			
2018-29A, A2, 144A, FRN, 10/18/30	United States	1,468,182	1,468,182
2018-29A, B, 144A, FRN, 10/18/30	United States	3,000,000	3,000,000
2018-29A, C, 144A, FRN, 10/18/30	United States	766,129	766,129
2018-29A, D, 144A, FRN, 10/18/30	United States	600,000	600,000
^{b,g} Madison Park Funding XIV Ltd.,			
2014-14A, A2RR, 144A, FRN, 3.869%, 10/22/30	United States	1,000,000	999,940
2014-14A, BRR, 144A, FRN, 4.169%, 10/22/30	United States	1,500,000	1,499,580
2014-14A, CRR, 144A, FRN, 4.669%, 10/22/30	United States	562,500	562,331
^{b,f} Magnetite XVIII Ltd., 2016-18A, C, 144A, FRN, 4.664%, (3-month USD LIBOR + 2.35%), 11/15/28	United States	1,867,000	1,868,662
^{b,g} Mill City Mortgage Loan Trust, 2018-1, A1, 144A, FRN, 3.25%, 5/25/62	United States	2,358,529	2,337,534
^b Morgan Stanley Capital I Trust, 2014-150E, A, 144A, 3.912%, 9/09/32	United States	450,000	449,835
^{b,f} Neuberger Berman Loan Advisors CLO Ltd., 2017-26A, B, 144A, FRN, 3.945%, (3-month USD LIBOR + 1.50%), 10/18/30	United States	539,475	536,540
^{b,f} Octagon Investment Partners 18-R Ltd., 2018-18A, C, 144A, FRN, 5.136%, (3-month USD LIBOR + 2.70%), 4/16/31	United States	350,000	347,039
^{b,g} Octagon Investment Partners 27 Ltd., 2016-1A, CR, 144A, FRN, 4.536%, 7/15/30	United States	1,565,000	1,562,715

Franklin Flexible Alpha Bond Fund (continued)

	Country	Principal Amount*	Value
Asset-Backed Securities and Commercial Mortgage-Backed Securities (continued)			
Diversified Financials (continued)			
^{b,f} Octagon Investment Partners 33 Ltd.,			
2017-1A, A2, 144A, FRN, 3.969%, (3-month USD LIBOR + 1.50%), 1/20/31	United States	2,000,000	\$ 1,992,740
2017-1A, B, 144A, FRN, 4.319%, (3-month USD LIBOR + 1.85%), 1/20/31	United States	500,000	495,710
2017-1A, C, 144A, FRN, 5.219%, (3-month USD LIBOR + 2.75%), 1/20/31	United States	250,000	248,297
^{b,f} Octagon Investment Partners XX Ltd., 2014-1A, AR, 144A, FRN, 3.468%, (3-month USD LIBOR + 1.13%), 8/12/26			
	United States	500,000	500,660
^{b,f} Octagon Investment Partners XXIII Ltd.,			
2015-1A, BR, 144A, FRN, 3.636%, (3-month USD LIBOR + 1.20%), 7/15/27	United States	1,200,000	1,198,836
2015-1A, CR, 144A, FRN, 4.286%, (3-month USD LIBOR + 1.85%), 7/15/27	United States	2,000,000	2,002,640
2015-1A, DR, 144A, FRN, 4.986%, (3-month USD LIBOR + 2.55%), 7/15/27	United States	300,000	298,491
^b Progress Residential Trust, 2018-SFR2, A, 144A, 3.712%, 8/17/35	United States	290,000	287,100
^{b,g} Race Point X CLO Ltd., 2016-10A, C1R, 144A, FRN, 4.49%, 7/25/31	United States	1,700,000	1,694,645
^{b,f} Radnor RE Ltd., 2018-1, M1, 144A, FRN, 3.681%, (1-month USD LIBOR + 1.40%), 3/25/28			
	United States	630,000	631,269
^{b,f} TCI-Cent CLO Income Note Issuer Ltd., 2017-1A, B, 144A, FRN, 4.84%, (3-month USD LIBOR + 2.35%), 7/25/30			
	United States	2,000,000	2,007,460
^b TCI-Flatiron CLO Ltd.,			
^g 2017-1A, A, 144A, FRN, 3.512%, 11/17/30	United States	2,000,000	2,001,520
^f 2017-1A, B, 144A, FRN, 3.872%, (3-month USD LIBOR + 1.56%), 11/17/30	United States	2,000,000	1,994,060
^f 2017-1A, C, 144A, FRN, 4.162%, (3-month USD LIBOR + 1.85%), 11/17/30	United States	1,200,000	1,190,196
^f 2017-1A, D, 144A, FRN, 5.062%, (3-month USD LIBOR + 2.75%), 11/17/30	United States	250,000	246,660
^g Thornburg Mortgage Securities Trust, 2005-1, A3, FRN, 3.518%, 4/25/45	United States	26,673	26,989
^b Towd Point Mortgage Trust,			
^g 2015-2, 2A1, 144A, FRN, 3.75%, 11/25/57	United States	385,264	385,782
^g 2016-3, A1, 144A, FRN, 2.25%, 4/25/56	United States	1,919,268	1,877,366
^g 2016-4, A1, 144A, FRN, 2.25%, 7/25/56	United States	1,215,792	1,183,846
^g 2016-5, A1, 144A, FRN, 2.50%, 10/25/56	United States	468,775	457,463
^g 2017-1, A1, 144A, FRN, 2.75%, 10/25/56	United States	1,421,414	1,392,526
^g 2017-2, A1, 144A, FRN, 2.75%, 4/25/57	United States	1,390,986	1,362,446
^g 2017-4, A1, 144A, FRN, 2.75%, 6/25/57	United States	272,917	265,728
^f 2017-5, A1, 144A, FRN, 2.887%, (1-month USD LIBOR + 0.60%), 2/25/57	United States	159,816	160,038
^g 2018-1, A1, 144A, FRN, 3.00%, 1/25/58	United States	620,657	608,420
^g 2018-2, A1, 144A, FRN, 3.25%, 3/25/58	United States	302,008	298,063
^g 2018-4, A1, 144A, FRN, 3.00%, 6/25/58	United States	1,959,199	1,903,975
^g 2018-5, A1A, 144A, FRN, 3.25%, 7/25/58	United States	652,576	645,038
^b Voya CLO Ltd.,			
^f 2013-2A, A1R, 144A, FRN, 3.46%, (3-month USD LIBOR + 0.97%), 4/25/31	United States	2,000,000	1,990,000
^f 2013-2A, BR, 144A, FRN, 4.34%, (3-month USD LIBOR + 1.85%), 4/25/31	United States	2,000,000	1,990,600
^f 2014-1A, BR2, 144A, FRN, 4.345%, (3-month USD LIBOR + 1.90%), 4/18/31	United States	2,750,000	2,746,700
^g 2016-3A, A2R, 144A, FRN, 3.871%, 10/18/31	United States	1,636,364	1,636,364
^f 2017-2A, B, 144A, FRN, 4.786%, (3-month USD LIBOR + 2.35%), 6/07/30	United States	1,000,000	1,002,770

Franklin Flexible Alpha Bond Fund (continued)

	Country	Principal Amount*	Value
Asset-Backed Securities and Commercial Mortgage-Backed Securities (continued)			
Diversified Financials (continued)			
^{b,f} Webster Park CLO Ltd., 2015-1A, BR, 144A, FRN, 4.269%, (3-month USD LIBOR + 1.80%), 7/20/30	United States	2,000,000	\$ 1,993,660
Wells Fargo Commercial Mortgage Trust, 2016-NXS6, A4, 2.918%, 11/15/49	United States	1,500,000	1,400,227
^{b,g} Wells Fargo Mortgage Backed Securities, 2018-1, A3, 144A, FRN, 3.50%, 7/25/47	United States	910,000	895,985
^{b,f} West CLO Ltd., 2014-1A, A2R, 144A, FRN, 3.795%, (3-month USD LIBOR + 1.35%), 7/18/26	United States	170,000	170,000
			<u>205,708,900</u>
Real Estate 0.2%			
^b American Homes 4 Rent, 2014-SFR3, A, 144A, 3.678%, 12/17/36	United States	754,475	746,086
^{b,f} Colony American Homes, 2015-1A, A, 144A, FRN, 3.487%, (1-month USD LIBOR + 1.20%), 7/17/32	United States	100,589	100,678
			<u>846,764</u>
Total Asset-Backed Securities and Commercial Mortgage-Backed Securities (Cost \$209,277,277)			<u>208,078,005</u>
Mortgage-Backed Securities (Cost \$258,612) 0.1%			
Federal National Mortgage Association (FNMA) Fixed Rate 0.1%			
FNMA, 3.50%, 7/01/56	United States	251,403	244,228
Municipal Bonds 0.2%			
Cincinnati GO, Various Purpose, Improvement and Refunding, Series A, 5.00%, 12/01/25	United States	100,000	113,844
Citizens Property Insurance Corp. Revenue, Coastal Account, senior secured, Series A-1, 5.00%, 6/01/22	United States	125,000	134,748
Colorado State Board of Governors University Enterprise System Revenue, Green Bonds, Series E-2, 5.00%, 3/01/25	United States	100,000	114,173
Orlando Health Obligated Group, 3.777%, 10/01/28	United States	105,000	102,049
Providence St. Joseph Health Obligated Group, 2.746%, 10/01/26	United States	15,000	13,751
San Jose RDA Successor Agency Tax Allocation, Senior, Refunding, Series A-T, 3.226%, 8/01/27	United States	190,000	182,119
Teays Valley Local School District GO, Pickaway Fairfield and Franklin Counties, Refunding, 4.00%, 12/01/26	United States	100,000	105,256
Texas State GO, Transportation Commission Highway Improvement, Series A, 5.00%, 4/01/21	United States	5,000	5,332
			<u>771,272</u>
			<u>771,272</u>
	Number of Contracts	Notional Amount*	
Options Purchased 0.1%			
Puts - Over-the-Counter			
Credit Default Swaptions 0.1%			
Buy protection on CDX.NA.HY.31, Premium Rate 5.00%, Strike Price \$106.50, Counterparty SMB, Expires 2/20/19	1	7,000,000	202,811
Buy Protection on CDX.NA.IG.30, Premium Rate 1.00%, Strike Price \$60, Counterparty JPHQ, Expires 12/19/18	1	13,000,000	37,076
Buy protection on CDX.NA.IG.30, Premium Rate 1.00%, Strike Price \$62.50, Counterparty SMB, Expires 11/21/18	1	8,750,000	13,825
			<u>253,712</u>

FRANKLIN STRATEGIC SERIES
STATEMENT OF INVESTMENTS (UNAUDITED)

Franklin Flexible Alpha Bond Fund (continued)

	Number of Contracts	Notional Amount*	Value
Options Purchased (continued)			
Puts - Over-the-Counter (continued)			
Interest Rate Swaptions 0.0%†			
Receive float 1 year USD LIBOR, Pay fixed 3.60%, Counterparty SMB, Expires 1/22/19	1	13,500,000	\$ 124,119
Receive float 3 month USD LIBOR, Pay fixed 3.42%, Counterparty SMB, Expires 2/05/19	1	8,000,000	<u>40,904</u>
			<u>165,023</u>
Total Options Purchased (Cost \$319,777)			<u>418,735</u>
Total Investments before Short Term Investments (Cost \$338,979,553)			<u>333,927,844</u>
	Country	Principal Amount*	
Short Term Investments 24.2%			
Corporate Bonds (Cost \$300,851) 0.0%†			
Diversified Financials 0.0%†			
Navient Corp., senior note, 5.50%, 1/15/19	United States	300,000	<u>301,500</u>
Total Investments before Money Market Funds (Cost \$339,280,404)			<u>334,229,344</u>
		Shares	
Money Market Funds (Cost \$100,219,262) 24.2%			
^{k,l} Institutional Fiduciary Trust Money Market Portfolio, 1.83%	United States	100,219,262	<u>100,219,262</u>
Total Investments (Cost \$439,499,666) 104.8%			434,448,606
Options Written (0.0)%†			(123,469)
TBA Sale Commitments (0.1)%			(292,066)
Other Assets, less Liabilities (4.7)%			<u>(19,573,538)</u>
Net Assets 100.0%			<u>\$414,459,533</u>
		Principal Amount*	
TBA Sale Commitments (Proceeds \$293,344) (0.1)%			
Federal National Mortgage Association (FNMA) Fixed Rate (0.1)%			
^m FNMA 30 Year, 3.50%, 10/01/48.	United States	300,000	\$ <u>(292,066)</u>

Franklin Flexible Alpha Bond Fund (continued)

	Number of Contracts	Notional Amount*	Value
ⁿOptions Written (0.0)%[†]			
Puts - Over-the-Counter			
Credit Default Swaptions (0.0)%[†]			
Buy protection on CDX.NA.HY.31, Premium Rate 5.00%, Strike Price \$104.50, Counterparty SMB, Expires 2/20/19	1	7,000,000	\$ (111,594)
Buy Protection on CDX.NA.IG.30, Premium Rate 1.00%, Strike Price \$75, Counterparty JPHQ, Expires 12/19/18.	1	13,000,000	(10,361)
Buy protection on CDX.NA.IG.30, Premium Rate 1.00%, Strike Price \$80, Counterparty SMB, Expires 11/21/18	1	8,750,000	(1,514)
Total Options Written (Premiums received \$62,463)			\$ (123,469)

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

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

^aSecurity 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 October 31, 2018, the aggregate value of these securities was \$17,408,240, representing 4.2% of net assets.

^bSecurity 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 October 31, 2018, the aggregate value of these securities was \$164,300,319, representing 39.6% of net assets.

^cThe coupon rate shown represents the rate at period end.

^dPerpetual security with no stated maturity date.

^ePrincipal amount of security is adjusted for inflation. See Note 1(h).

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

^gAdjustable 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.

^hSecurity purchased on a when-issued basis. See Note 1(c).

ⁱThe coupon rate will be determined at time of issue.

^jInvestment 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.

^kSee Note 3(f) regarding investments in affiliated management investment companies.

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

^mSecurity sold on a to-be-announced (TBA) basis resulting in a short position. As such, the Fund is not subject to fees and expenses associated with short sale transactions.

ⁿSee Note 1(d) regarding written options.

Franklin Flexible Alpha Bond Fund (continued)

At October 31, 2018, the Fund had the following futures contracts outstanding. See Note 1(d).

Futures Contracts

Description	Type	Number of Contracts	Notional Amount*	Expiration Date	Value/Unrealized Appreciation (Depreciation)
Interest Rate Contracts					
Australian 10 Yr. Bond	Long	63	\$ 5,771,100	12/17/18	\$ 10,572
Canadian 10 Yr. Bond	Long	55	5,522,357	12/18/18	(53,369)
Euro-Bund	Short	69	12,520,352	12/06/18	(67,518)
U.S. Treasury 2 Yr. Note	Short	308	64,882,125	12/31/18	125,886
U.S. Treasury 5 Yr. Note	Short	308	34,613,906	12/31/18	177,023
U.S. Treasury 10 Yr. Note	Short	187	22,147,813	12/19/18	171,974
Ultra 10 Yr. U.S. Treasury Note	Long	11	1,376,203	12/19/18	(32,685)
Total Futures Contracts					<u>\$331,883</u>

*As of period end.

At October 31, 2018, the Fund had the following forward exchange contracts outstanding. See Note 1(d).

Forward Exchange Contracts

Currency	Counterparty ^a	Type	Quantity	Contract Amount*	Settlement Date	Unrealized Appreciation	Unrealized Depreciation
OTC Forward Exchange Contracts							
Canadian Dollar	UBSW	Buy	26,000	27,915 AUD	11/02/18	\$ —	\$ (5)
Canadian Dollar	UBSW	Sell	26,000	26,805 AUD	11/02/18	—	(781)
Indonesian Rupiah	JPHQ	Buy	16,736,500,000	1,124,182	11/27/18	—	(28,758)
Mexican Peso	RBS	Buy	23,658,000	1,232,197	11/28/18	—	(73,047)
Philippine Peso	JPHQ	Sell	67,100,000	1,233,972	11/29/18	—	(21,871)
Japanese Yen	JPHQ	Buy	188,300,000	1,681,527	11/30/18	—	(9,810)
Japanese Yen	JPHQ	Sell	188,300,000	1,684,860	11/30/18	13,144	—
Polish Zloty	RBS	Buy	1,550,000	425,252	12/03/18	—	(21,068)
Swedish Krona	UBSW	Buy	19,735,000	2,203,179	12/05/18	—	(40,922)
Swedish Krona	UBSW	Sell	7,000,000	799,360	12/05/18	32,409	—
Canadian Dollar	UBSW	Sell	2,557,000	1,968,634	12/06/18	24,471	—
Japanese Yen	JPHQ	Buy	35,719,260	324,259	12/17/18	—	(6,514)
Japanese Yen	JPHQ	Sell	35,719,260	324,187	12/17/18	6,442	—
Australian Dollar	UBSW	Sell	1,820,000	1,310,768	12/27/18	21,651	—
Euro	UBSW	Sell	2,177,000	2,574,607	12/27/18	96,199	—
Norwegian Krone	UBSW	Buy	1,690,000	206,669	1/15/19	—	(5,527)
British Pound	UBSW	Sell	82,000	108,839	1/18/19	3,646	—
Indian Rupee	RBS	Buy	87,750,000	1,183,181	1/29/19	—	(13,025)
Canadian Dollar	RBS	Sell	91,000	69,705	1/30/19	434	—
Mexican Peso	JPHQ	Buy	16,500,000	811,768	2/05/19	—	(12,682)
Canadian Dollar	UBSW	Sell	26,000	27,934 AUD	2/11/19	7	—
Euro	JPHQ	Buy	1,200,000	1,383,657	3/14/19	—	(7,939)
Euro	JPHQ	Sell	1,200,000	1,403,160	3/14/19	27,443	—
Euro	JPHQ	Buy	1,500,000	1,729,746	3/15/19	—	(9,950)
Chinese Yuan Renminbi	JPHQ	Sell	5,800,000	827,862	4/26/19	2,661	—

Franklin Flexible Alpha Bond Fund (continued)

Forward Exchange Contracts (continued)

Currency	Counterparty ^a	Type	Quantity	Contract Amount*	Settlement Date	Unrealized Appreciation	Unrealized Depreciation
OTC Forward Exchange Contracts (continued)							
British Pound	JPHQ	Sell	86,300	115,081	8/15/19	\$ 3,184	\$ —
Total Forward Exchange Contracts						\$231,691	\$ (251,899)
Net unrealized appreciation (depreciation)							\$ (20,208)

*In U.S. dollars unless otherwise indicated.

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

At October 31, 2018, the Fund had the following credit default swap contracts outstanding. See Note 1(d).

Credit Default Swap Contracts

Description	Periodic Payment Rate Received (Paid)	Payment Frequency	Counterparty	Maturity Date	Notional Amount ^a	Value	Unamortized Upfront Payments (Receipts)	Unrealized Appreciation (Depreciation)	Rating ^b
Centrally Cleared Swap Contracts									
Contracts to Buy Protection^c									
Single Name									
Navient Corp.	(5.00)%	Quarterly		3/20/19	\$ 300,000	\$ (7,129)	\$ (4,746)	\$ (2,383)	
Contracts to Sell Protection^{c,d}									
Traded Index									
CDX.EM.30	1.00%	Quarterly		12/20/23	400,000	(18,566)	(17,477)	(1,089)	Investment Grade
Total Centrally Cleared Swap Contracts						\$ (25,695)	\$ (22,223)	\$ (3,472)	
OTC Swap Contracts									
Contracts to Buy Protection^c									
Single Name									
The AES Corp.	(5.00)%	Quarterly	JPHQ	6/20/22	\$ 35,000	\$ (5,250)	\$ (3,435)	\$ (1,815)	
Ally Financial Inc.	(5.00)%	Quarterly	CITI	12/20/22	150,000	(22,859)	(22,652)	(207)	
Ally Financial Inc.	(5.00)%	Quarterly	JPHQ	12/20/22	100,000	(15,240)	(15,272)	32	
Ally Financial Inc.	(5.00)%	Quarterly	JPHQ	12/20/22	150,000	(22,859)	(22,770)	(89)	
American Airlines Group Inc.	(5.00)%	Quarterly	BZWS	12/20/19	400,000	(22,826)	(18,955)	(3,871)	
American Airlines Group Inc.	(5.00)%	Quarterly	CITI	12/20/19	130,000	(7,418)	(6,082)	(1,336)	
Boyd Gaming Corp.	(5.00)%	Quarterly	BZWS	6/20/22	525,000	(74,497)	(72,027)	(2,470)	
Dish DBS Corp.	(5.00)%	Quarterly	BZWS	12/20/20	175,000	(12,946)	(10,873)	(2,073)	
Dish DBS Corp.	(5.00)%	Quarterly	JPHQ	6/20/21	470,000	(31,403)	(18,153)	(13,250)	
Energy Transfer LP	(5.00)%	Quarterly	MSCO	12/20/20	750,000	(77,204)	(67,501)	(9,703)	
Government of Italy	(1.00)%	Quarterly	BZWS	6/20/23	700,000	15,528	7,070	8,458	
Government of Turkey	(1.00)%	Quarterly	BZWS	12/20/19	166,667	3,944	8,850	(4,906)	
KB Home	(5.00)%	Quarterly	JPHQ	3/20/20	100,000	(6,662)	(4,933)	(1,729)	
Nabors Industries Inc.	(1.00)%	Quarterly	JPHQ	6/20/20	5,000	(10)	74	(84)	
Navient Corp.	(5.00)%	Quarterly	JPHQ	3/20/20	400,000	(26,247)	(20,145)	(6,102)	
PHH Corp.	(5.00)%	Quarterly	BZWS	9/20/19	200,000	(9,552)	(796)	(8,756)	
Safeway Inc.	(5.00)%	Quarterly	BZWS	6/20/19	1,000,000	(34,272)	(22,457)	(11,815)	
Sanmina Corp.	(5.00)%	Quarterly	BZWS	6/20/19	100,000	(3,628)	(2,735)	(893)	

Franklin Flexible Alpha Bond Fund (continued)

Credit Default Swap Contracts (continued)

Description	Periodic Payment Rate Received (Paid)	Payment Frequency	Counter- party	Maturity Date	Notional Amount ^a	Value	Unamortized Upfront Payments (Receipts)	Unrealized Appreciation (Depreciation)	Rating ^b
OTC Swap Contracts (continued)									
Contracts to Buy Protection^c (continued)									
Single Name (continued)									
Springleaf Finance Corp.	(5.00)%	Quarterly	GSCO	6/20/20	60,000	(4,378)	(1,186)	(3,192)	
Tenet Healthcare Corp.	(5.00)%	Quarterly	BZWS	3/20/19	90,000	(2,135)	(782)	(1,353)	
Universal Health Services Inc.	(5.00)%	Quarterly	BZWS	9/20/19	50,000	(2,449)	(1,841)	(608)	
Contracts to Sell Protection^{c,d}									
Single Name									
American Tower Corp.	1.00%	Quarterly	GSCO	3/20/21	\$ 100,000	\$ (59)	\$ (894)	\$ 835	BBB-
Capital One Financial Corp.	1.00%	Quarterly	JPHQ	12/20/22	150,000	2,509	2,153	356	BBB
Dish DBS Corp.	5.00%	Quarterly	BZWS	12/20/22	175,000	3,840	7,473	(3,633)	B
Dish DBS Corp.	5.00%	Quarterly	JPHQ	6/20/23	470,000	(2,271)	(5,767)	3,496	B
General Electric Co.	1.00%	Quarterly	BZWS	12/20/23	400,000	(8,226)	(1,649)	(6,577)	BBB+
General Electric Co.	1.00%	Quarterly	CITI	12/20/23	840,000	(17,275)	4,080	(21,355)	BBB+
General Electric Co.	1.00%	Quarterly	CITI	12/20/23	440,000	(9,049)	(2,120)	(6,929)	BBB+
General Electric Co.	1.00%	Quarterly	JPHQ	12/20/23	200,000	(3,838)	(4,071)	233	BBB+
Goldman Sachs Group Inc.	1.00%	Quarterly	BZWS	12/20/22	250,000	4,063	3,904	159	BBB+
Goldman Sachs Group Inc.	1.00%	Quarterly	JPHQ	12/20/22	150,000	2,438	2,318	120	BBB+
Government of Argentina.	5.00%	Quarterly	CITI	12/20/23	630,000	(24,024)	(36,656)	12,632	B+
Government of China	1.00%	Quarterly	CITI	12/20/23	4,150,000	59,579	74,343	(14,764)	A+
Government of Indonesia	1.00%	Quarterly	CITI	12/20/23	2,925,000	(72,600)	(65,012)	(7,588)	BBB-
Government of Italy	1.00%	Quarterly	BZWS	6/20/23	700,000	(44,217)	(31,002)	(13,215)	NR
Morgan Stanley.	1.00%	Quarterly	BZWS	12/20/22	250,000	4,752	4,377	375	BBB+
Nabors Industries Inc.	1.00%	Quarterly	JPHQ	6/20/22	5,000	(304)	(475)	171	BB
Sprint Communications Inc.	5.00%	Quarterly	JPHQ	9/20/20	12,000	999	—	999	B
Traded Index									
^e BNP Paribas Bespoke									
Bordeaux Index, Mezzanine									
Tranche 5-7%	2.00%	Quarterly	BNDP	12/20/20	500,000	(5,005)	—	(5,005)	Non-Investment Grade
^e BNP Paribas Bespoke									
Bordeaux Index, Mezzanine									
Tranche 7-10%	2.10%	Quarterly	BNDP	6/20/20	300,000	243	—	243	Non-Investment Grade
^e Citibank Bespoke Bogota									
Index, Mezzanine Tranche									
7-10%.	1.35%	Quarterly	CITI	6/20/20	1,650,000	4,919	—	4,919	Non-Investment Grade
^e Citibank Bespoke Boulder									
Index, Mezzanine Tranche									
5-10%.	1.18%	Quarterly	CITI	12/20/19	3,000,000	12,582	—	12,582	Non-Investment Grade

Franklin Flexible Alpha Bond Fund (continued)

Credit Default Swap Contracts (continued)

Description	Periodic Payment Rate Received (Paid)	Payment Frequency	Counter- party	Maturity Date	Notional Amount ^a	Value	Unamortized Upfront Payments (Receipts)	Unrealized Appreciation (Depreciation)	Rating ^b
OTC Swap Contracts (continued)									
Contracts to Sell Protection^{c,d} (continued)									
Traded Index (continued)									
^e Citibank Bespoke Boulder Index, Mezzanine Tranche 5-15%	1.24%	Quarterly	CITI	12/20/19	\$1,600,000	\$ 11,914	\$ —	\$ 11,914	Non- Investment Grade
^e Citibank Bespoke Broker Index, Mezzanine Tranche 3-7%	1.30%	Quarterly	CITI	6/20/19	1,900,000	4,049	—	4,049	Non- Investment Grade
^e Citibank Bespoke Broker Index, Mezzanine Tranche 3-7%	1.40%	Quarterly	CITI	6/20/19	1,500,000	4,316	—	4,316	Non- Investment Grade
^e Citibank Bespoke Cambridge Index, Equity Tranche 0-3%	0.00%	Quarterly	CITI	12/20/19	500,000	(87,430)	(46,534)	(40,896)	Non- Investment Grade
^e Citibank Bespoke Hong Kong Index, Mezzanine Tranche 3-5%	1.00%	Quarterly	CITI	12/20/18	30,000	39	(88)	127	Non- Investment Grade
^e Citibank Bespoke Index, Mezzanine Tranche 6-10%	0.63%	Quarterly	CITI	12/20/18	1,000,000	599	—	599	Non- Investment Grade
^e Citibank Bespoke Lima Index, Mezzanine Tranche 5-7%	2.13%	Quarterly	CITI	12/20/19	650,000	3,815	—	3,815	Non- Investment Grade
^e Citibank Bespoke Lisbon Index, Equity Tranche 0-3%	0.00%	Quarterly	CITI	6/20/19	10,000	(638)	(752)	114	Non- Investment Grade
^e Citibank Bespoke Lisbon Index, Mezzanine Tranche 3-7%	0.79%	Quarterly	CITI	6/20/19	1,100,000	(1,957)	—	(1,957)	Non- Investment Grade
^e Citibank Bespoke Verona Index, Equity Tranche 0-3%	0.00%	Quarterly	CITI	12/20/19	15,000	(2,199)	(1,713)	(486)	Non- Investment Grade

Franklin Flexible Alpha Bond Fund (continued)

Credit Default Swap Contracts (continued)

Description	Periodic Payment Rate Received (Paid)	Payment Frequency	Counter- party	Maturity Date	Notional Amount ^a	Value	Unamortized Upfront Payments (Receipts)	Unrealized Appreciation (Depreciation)	Rating ^b
OTC Swap Contracts (continued)									
Contracts to Sell Protection^{c,d} (continued)									
Traded Index (continued)									
^e Citibank Bespoke Verona Index, Mezzanine Tranche									
7-15%	0.40%	Quarterly	CITI	12/20/19	\$ 280,000	\$ 825	\$ —	\$ 825	Non-Investment Grade
MCDX.NA.30	1.00%	Quarterly	CITI	6/20/23	7,100,000	177,856	154,075	23,781	Investment Grade
MCDX.NA.30	1.00%	Quarterly	CITI	6/20/28	2,000,000	50,100	19,444	30,656	Investment Grade
Total OTC Swap Contracts						\$ (292,018)	\$ (221,167)	\$ (70,851)	
Total Credit Default Swap Contracts						\$ (317,713)	\$ (243,390)	\$ (74,323)	

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

^bBased on Standard and Poor's (S&P) Rating for single name swaps and internal ratings for index swaps. Internal ratings based on mapping into equivalent ratings from external vendors.

^cPerformance triggers for settlement of contract include default, bankruptcy or restructuring for single name swaps, and failure to pay or bankruptcy of the underlying securities for traded index swaps.

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

^eRepresents a custom index comprised of a basket of underlying instruments.

At October 31, 2018, the Fund had the following cross-currency swap contracts outstanding. See Note 1(d).

Cross-Currency Swap Contracts

Description	Payment Frequency	Counter- party	Maturity Date	Notional Amount	Value/ Unrealized Appreciation (Depreciation)
OTC Swap Contracts					
Receive Floating 3-month USD LIBOR + 0.728%	Quarterly			1,185,000 USD	
Pay Fixed 0.10%	Annual	HSBK	1/15/19	1,000,000 EUR	\$ 52,943
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	229,459
Receive Floating 3-month USD LIBOR + 1.850%	Quarterly			617,500 USD	
Pay Fixed 1.50%	Annual	CITI	5/04/21	500,000 EUR	59,603
Receive Floating 3-month USD LIBOR + 2.870%	Quarterly			232,400 USD	
Pay Fixed 2.50%	Annual	CITI	5/04/21	200,000 EUR	6,980
Receive Floating 3-month USD LIBOR + 1.303%	Quarterly			496,000 USD	
Pay Fixed 1.00%	Annual	JPHQ	5/04/21	400,000 EUR	49,684
Receive Floating 3-month USD LIBOR + 1.123%	Quarterly			111,500 USD	
Pay Fixed 0.75%	Annual	HSBK	4/01/22	100,000 EUR	(1,077)

Franklin Flexible Alpha Bond Fund (continued)

Cross-Currency Swap Contracts (continued)

Description	Payment Frequency	Counter-party	Maturity Date	Notional Amount	Value	Unrealized Appreciation (Depreciation)
OTC Swap Contracts (continued)						
Receive Floating 3-month USD LIBOR + 1.045%	Quarterly			1,552,200 USD		
Pay Fixed 0.75%	Annual	HSBK	5/31/22	1,300,000 EUR	\$	93,566
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		350,096
Receive Floating 3-month USD LIBOR + 0.821%	Quarterly			466,000 USD		
Pay Fixed 0.625%	Annual	BNDP	6/08/23	400,000 EUR		18,132
Receive Floating 3-month USD LIBOR + 0.783%	Quarterly			957,600 USD		
Pay Fixed 0.625%	Annual	HSBK	6/08/23	800,000 EUR		61,836
Receive Floating 3-month USD LIBOR + 0.825%	Quarterly			4,616,000 USD		
Pay Fixed 1.00%	Annual	CITI	7/16/24	4,000,000 EUR		64,775
Receive Floating 3-month USD LIBOR + 0.730%	Quarterly			466,000 USD		
Pay Fixed 1.00%	Annual	CITI	11/26/25	400,000 EUR		15,305
Receive Floating 3-month USD LIBOR + 1.395%	Quarterly			358,500 USD		
Pay Fixed 1.50%	Annual	HSBK	11/26/25	300,000 EUR		21,291
Receive Floating 3-month USD LIBOR + 1.415%	Quarterly			598,500 USD		
Pay Fixed 1.50%	Annual	HSBK	11/26/25	500,000 EUR		36,596
Total Cross Currency Swap Contracts						\$1,059,189

At October 31, 2018, the Fund had the following interest rate swap contracts outstanding. See Note 1(d).

Interest Rate Swap Contracts

Description	Payment Frequency	Maturity Date	Notional Amount	Value	Unamortized Upfront Payments (Receipts)	Unrealized Appreciation (Depreciation)
Centrally Cleared Swap Contracts						
Receive Floating 3-month USD LIBOR	Quarterly					
Pay Fixed 2.788%	Semi-Annual	3/26/23	\$ 7,900,000	\$ 105,085	\$ —	\$105,085
Receive Floating 3-month USD LIBOR	Quarterly					
Pay Fixed 2.790%	Semi-Annual	3/28/23	7,900,000	104,682	—	104,682
Receive Floating 3-month USD LIBOR	Quarterly					
Pay Fixed 2.713%	Semi-Annual	3/29/23	4,700,000	77,786	—	77,786
Receive Floating 3-month USD LIBOR	Quarterly					
Pay Fixed 2.806%	Semi-Annual	4/17/23	5,800,000	75,836	—	75,836
Receive Floating 3-month USD LIBOR	Quarterly					
Pay Fixed 2.00%	Semi-Annual	6/20/25	11,100,000	716,619	597,834	118,785
Receive Floating 3-month USD LIBOR	Quarterly					
Pay Fixed 3.082%	Semi-Annual	9/28/25	8,000,000	31,251	—	31,251
Total Interest Rate Swap Contracts				\$1,111,259	\$597,834	\$513,425

Franklin Flexible Alpha Bond Fund (continued)

At October 31, 2018, the Fund had the following inflation index swap contracts outstanding. See Note 1(d).

Inflation Index Swap Contracts

Description	Payment Frequency	Maturity Date	Notional Amount	Value/ Unrealized Appreciation (Depreciation)
Centrally Cleared Swap Contracts				
Receive variable change in USA-CPI-U	At maturity			
Pay Fixed 2.079%	At maturity	9/18/24	\$1,770,000	\$ 24,763
Receive variable change in USA-CPI-U	At maturity			
Pay Fixed 2.35%	At maturity	9/20/26	5,200,000	(50,794)
Receive variable change in USA-CPI-U	At maturity			
Pay Fixed 2.313%	At maturity	6/01/28	1,400,000	(6,455)
Total Inflation Index Swap Contracts				<u>\$ (32,486)</u>

At October 31, 2018, the Fund had the following total return swap contracts outstanding. See Note 1(d).

Total Return Swap Contracts

Underlying Instruments	Financing Rate	Payment Frequency	Counterparty	Maturity Date	Notional Value	Value/ Unrealized Appreciation (Depreciation)
OTC Swap Contracts						
Long^a						
Markit iBoxx USD Liquid Leveraged Loan Index	3-month USD LIBOR	Quarterly	FBCO	12/20/18	\$ 4,500,000	\$ 71,787
Markit iBoxx USD Liquid Leveraged Loan Index	3-month USD LIBOR	Quarterly	GSCO	12/20/18	5,160,000	98,099
Markit iBoxx USD Liquid Leveraged Loan Index	3-month USD LIBOR	Quarterly	FBCO	3/20/19	5,300,000	82,025
Markit iBoxx USD Liquid Leveraged Loan Index	3-month USD LIBOR	Quarterly	GSCO	3/20/19	4,000,000	60,272
Markit iBoxx USD Liquid Leveraged Loan Index	3-month USD LIBOR	Quarterly	JPHQ	3/20/19	1,050,000	16,775
Markit iBoxx USD Liquid Leveraged Loan Index	3-month USD LIBOR	Quarterly	JPHQ	6/20/19	22,800,000	6,178
Markit iBoxx USD Liquid Leveraged Loan Index	3-month USD LIBOR	Quarterly	MSCO	6/20/19	900,000	1,020
Markit iBoxx USD Liquid Leveraged Loan Index	3-month USD LIBOR	Quarterly	CITI	9/20/19	4,200,000	(33,482)
Markit iBoxx USD Liquid Leveraged Loan Index	3-month USD LIBOR	Quarterly	GSCO	9/20/19	14,000,000	(122,567)
Markit iBoxx USD Liquid Leveraged Loan Index	3-month USD LIBOR	Quarterly	JPHQ	9/20/19	4,200,000	(26,289)
Total Total Return Swap Contracts						<u>\$ 153,818</u>

^aThe 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 53.

Financial Statements

Statement of Assets and Liabilities

October 31, 2018 (unaudited)

Franklin Flexible Alpha Bond Fund

Assets:

Investments in securities:

Cost - Unaffiliated issuers	\$339,280,404
Cost - Non-controlled affiliates (Note 3f)	100,219,262
Value - Unaffiliated issuers	\$334,229,344
Value - Non-controlled affiliates (Note 3f)	100,219,262
Cash	316,796
Restricted cash for OTC derivative contracts (Note 1e)	1,090,000
Foreign currency, at value (cost \$219,345)	219,470

Receivables:

Investment securities sold	293,693
Capital shares sold	95
Interest	1,259,050
Deposits with brokers for:	
Futures contracts	908,252
Centrally cleared swap contracts	1,216,075
Variation margin on futures contracts	132,164
Variation margin on centrally cleared swap contracts	101,707
OTC swap contracts (upfront payments \$317,135)	288,161
Unrealized appreciation on OTC forward exchange contracts	231,691
Unrealized appreciation on OTC swap contracts	1,522,228
Other assets	69,365
Total assets	<u>442,097,353</u>

Liabilities:

Payables:

Investment securities purchased	23,658,111
Capital shares redeemed	557
Management fees	159,435
Distribution fees	822
Transfer agent fees	5,955
Distributions to shareholders	898,417
Deposits from brokers for:	
OTC derivative contracts	1,310,000
OTC swap contracts (upfront receipts \$719,624)	509,328
Options written, at value (premiums received \$62,463)	123,469
TBA sale commitments, at value (proceeds \$293,344)	292,066
Unrealized depreciation on OTC forward exchange contracts	251,899
Unrealized depreciation on OTC swap contracts	380,072
Accrued expenses and other liabilities	47,689
Total liabilities	<u>27,637,820</u>
Net assets, at value	<u>\$414,459,533</u>

Net assets consist of:

Paid-in capital	\$416,804,664
Total distributable earnings (loss)	(2,345,131)
Net assets, at value	<u>\$414,459,533</u>

Statement of Assets and Liabilities (continued)
October 31, 2018 (unaudited)

Franklin Flexible Alpha Bond Fund

Class A:

Net assets, at value	\$ 2,141,549
Shares outstanding	219,412
Net asset value per share ^a	\$9.76
Maximum offering price per share (net asset value per share ÷ 95.75%)	\$10.19

Class C:

Net assets, at value	\$ 303,467
Shares outstanding	31,292
Net asset value and maximum offering price per share ^a	\$9.70

Class R:

Net assets, at value	\$ 52,092
Shares outstanding	5,344
Net asset value and maximum offering price per share	\$9.75

Class R6:

Net assets, at value	\$411,573,641
Shares outstanding	42,177,376
Net asset value and maximum offering price per share	\$9.76

Advisor Class:

Net assets, at value	\$ 388,784
Shares outstanding	39,848
Net asset value and maximum offering price per share	\$9.76

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

Statement of Operations

for the six months ended October 31, 2018 (unaudited)

Franklin Flexible Alpha Bond Fund

Investment income:

Dividends:

Unaffiliated issuers	\$ 93,022
Non-controlled affiliates (Note 3f)	466,014

Interest: (net of foreign taxes)-

Unaffiliated issuers	4,278,602
Total investment income	4,837,638

Expenses:

Management fees (Note 3a)	799,250
Distribution fees: (Note 3c)	
Class A	2,150
Class C	891
Class R	139
Transfer agent fees: (Note 3e)	
Class A	1,691
Class C	360
Class R	68
Class R6	28,985
Advisor Class	515
Custodian fees (Note 4)	8,702
Reports to shareholders	3,242
Registration and filing fees	41,296
Professional fees	45,608
Trustees' fees and expenses	576
Other	29,333
Total expenses	962,806
Expense reductions (Note 4)	(305)
Expenses waived/paid by affiliates (Note 3f and 3g)	(102,250)
Net expenses	860,251
Net investment income	3,977,387

Realized and unrealized gains (losses):

Net realized gain (loss) from:

Investments:

Unaffiliated issuers	(184,671)
Written options	45,318
Foreign currency transactions	(97,218)
Forward exchange contracts	45,641
Futures contracts	(102,835)
TBA sale commitments	4,758
Swap contracts	21,468
Net realized gain (loss)	(267,539)

Net change in unrealized appreciation (depreciation) on:

Investments:

Unaffiliated issuers	(3,170,472)
Translation of other assets and liabilities denominated in foreign currencies	1,750
Forward exchange contracts	3,379
Written options	(65,786)
Futures contracts	208,995

Statement of Operations (continued)
for the six months ended October 31, 2018 (unaudited)

Franklin Flexible Alpha Bond Fund

TBA sale commitments	1,277
Swap contracts	1,336,585
Net change in unrealized appreciation (depreciation).	(1,684,272)
Net realized and unrealized gain (loss)	(1,951,811)
Net increase (decrease) in net assets resulting from operations.	<u>\$ 2,025,576</u>

~Foreign taxes withheld on interest. \$ 1,435

Statements of Changes in Net Assets

Franklin Flexible Alpha Bond Fund

	Six Months Ended October 31, 2018 (unaudited)	Year Ended April 30, 2018
Increase (decrease) in net assets:		
Operations:		
Net investment income	\$ 3,977,387	\$ 1,642,692
Net realized gain (loss)	(267,539)	1,033,175
Net change in unrealized appreciation (depreciation)	(1,684,272)	(1,558,393)
Net increase (decrease) in net assets resulting from operations	<u>2,025,576</u>	<u>1,117,474</u>
Distributions to shareholders: (Note 1h)		
Class A	(13,076)	(103,600)
Class C	(2,400)	(3,159)
Class R	(489)	(745)
Class R6	(3,448,779)	(1,711,598)
Advisor Class	(4,658)	(6,239)
Total distributions to shareholders	<u>(3,469,402)</u>	<u>(1,825,341)</u>
Capital share transactions: (Note 2)		
Class A	1,016,665	(9,288,308)
Class C	25,280	35,861
Class R	1,704	(9,156)
Class R6	202,199,383	211,478,984
Advisor Class	(35,105)	195,749
Total capital share transactions	<u>203,207,927</u>	<u>202,413,130</u>
Net increase (decrease) in net assets	<u>201,764,101</u>	<u>201,705,263</u>
Net assets:		
Beginning of period	212,695,432	10,990,169
End of period (Note 1h)	<u>\$414,459,533</u>	<u>\$212,695,432</u>

Notes to Financial Statements (unaudited)

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 VC provides administration and oversight of the Fund's valuation policies and procedures, which are approved annually by the Board. Among other things, these procedures allow the Fund to utilize independent pricing services, quotations from securities and financial instrument dealers, and other market sources to determine fair value.

Equity securities, 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 VC convenes on a regular basis to review such financial instruments and considers a number of factors, including significant unobservable valuation inputs, when arriving at fair value. The VC 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

Franklin Flexible Alpha Bond Fund (continued)

1. Organization and Significant Accounting Policies (continued)

a. Financial Instrument Valuation (continued)

investments. Due to the inherent uncertainty of valuations of such investments, the fair values may differ significantly from the values that would have been used had an active market existed. The VC employs various methods for calibrating these valuation approaches including a regular review of key inputs and assumptions, transactional back-testing or disposition analysis, and reviews of any related market activity.

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. Securities Purchased on a When-Issued Basis

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

d. Derivative Financial Instruments

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

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

Franklin Flexible Alpha Bond Fund (continued)

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

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

The Fund entered into exchange traded futures contracts primarily to manage and/or gain exposure to interest rate 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

Franklin Flexible Alpha Bond Fund (continued)

1. Organization and Significant Accounting Policies (continued)

d. Derivative Financial Instruments (continued)

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 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. Certain option contracts are marked-to-market daily and the daily change in fair value is accounted for as variation margin payable or receivable in the Statement of Assets and Liabilities. 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.

e. Restricted Cash

At October 31, 2018, 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.

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

Franklin Flexible Alpha Bond Fund (continued)

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 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 October 31, 2018, the Fund has determined that no tax liability is required in its financial statements related to uncertain tax positions for any open tax years (or expected to be taken in future tax years). Open tax years are those that remain subject to examination and are based on the statute of limitations in each jurisdiction in which the Fund invests.

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.

Franklin Flexible Alpha Bond Fund (continued)

1. Organization and Significant Accounting Policies (continued)

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. 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 on the Statements of Changes in Net Assets. Such disclosure changes are included in the Statements of Changes in Net Assets, therefore prior period amounts are presented below.

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 October 31, 2018, there were an unlimited number of shares authorized (without par value). Transactions in the Fund’s shares were as follows:

	Six Months Ended October 31, 2018		Year Ended April 30, 2018	
	Shares	Amount	Shares	Amount
Class A Shares:				
Shares sold ^a	112,051	\$ 1,097,858	71,706	\$ 705,410
Shares issued in reinvestment of distributions	1,320	12,915	2,584	25,433
Shares redeemed	(9,609)	(94,108)	(1,017,579)	(10,019,151)
Net increase (decrease)	103,762	\$ 1,016,665	(943,289)	\$ (9,288,308)
Class C Shares:				
Shares sold	13,163	\$ 127,939	28,772	\$ 281,596
Shares issued in reinvestment of distributions	247	2,400	318	3,106
Shares redeemed ^a	(10,801)	(105,059)	(25,418)	(248,841)
Net increase (decrease)	2,609	\$ 25,280	3,672	\$ 35,861

Franklin Flexible Alpha Bond Fund (continued)

	Six Months Ended October 31, 2018		Year Ended April 30, 2018	
	Shares	Amount	Shares	Amount
Class R Shares:				
Shares sold	124	\$ 1,216	—	\$ —
Shares issued in reinvestment of distributions	50	488	71	695
Shares redeemed	—	—	(1,001)	(9,851)
Net increase (decrease)	174	\$ 1,704	(930)	\$ (9,156)
Class R6 Shares:				
Shares sold	20,683,370	\$202,592,000	21,649,534	\$212,625,650
Shares issued in reinvestment of distributions	11,779	115,199	9,792	96,166
Shares redeemed	(51,867)	(507,816)	(126,232)	(1,242,832)
Net increase (decrease)	20,643,282	\$202,199,383	21,533,094	\$211,478,984
Advisor Class Shares:				
Shares sold	—	\$ —	19,425	\$ 191,301
Shares issued in reinvestment of distributions	477	4,658	635	6,240
Shares redeemed	(4,066)	(39,763)	(181)	(1,792)
Net increase (decrease)	(3,589)	\$ (35,105)	19,879	\$ 195,749

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

3. Transactions with Affiliates

Franklin Resources, Inc. is the holding company for various subsidiaries that together are referred to as Franklin Templeton Investments. 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

For the period ended October 31, 2018, the annualized gross effective investment management fee rate was 0.550% of the Fund's average daily net assets.

Franklin Flexible Alpha Bond Fund (continued)

3. Transactions with Affiliates (continued)

a. Management Fees (continued)

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.

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 period:

Sales charges retained net of commissions paid to unaffiliated brokers/dealers	\$179
CDSC retained	\$ 2

Effective September 10, 2018, the Board approved changes to certain front-end sales charges and dealer commissions on Class A shares. Further details are disclosed in the Funds’ 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 period ended October 31, 2018, the Fund paid transfer agent fees of \$31,619, of which \$29,470 was retained by Investor Services.

Franklin Flexible Alpha Bond Fund (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 period ended October 31, 2018, the Fund held investments in affiliated management investment companies as follows:

	Number of Shares Held at Beginning of Period	Gross Additions	Gross Reductions	Number of Shares Held at End of Period	Value at End of Period	Dividend Income	Realized Gain (Loss)	Net Change in Unrealized Appreciation (Depreciation)
Non-Controlled Affiliates								
Institutional Fiduciary Trust Money Market Portfolio, 1.83%	44,846,991	211,312,068	(155,939,797)	100,219,262	\$100,219,262	\$466,014	\$ —	\$ —

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, and 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 may discontinue this waiver in the future.

h. Other Affiliated Transactions

At October 31, 2018, the shares of the Fund were owned by the following entities/investment companies:

	Shares	Percentage of Outstanding Shares ^a
Franklin Resources, Inc.	31,020,441	73.0%
Franklin Total Return Fund	10,172,940	24.0%
	41,193,381	97.0%

^aInvestment 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 period ended October 31, 2018, the custodian fees were reduced as noted in the Statement of Operations.

Franklin Flexible Alpha Bond Fund (continued)

5. Income Taxes

At October 31, 2018, the cost of investments, net unrealized appreciation (depreciation) for income tax purposes were as follows:

Cost of investments	\$439,832,402
Unrealized appreciation	\$ 3,079,507
Unrealized depreciation	(6,580,418)
Net unrealized appreciation (depreciation)	\$ (3,500,911)

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, bond discounts and premiums, swaps and financial futures transactions.

6. Investment Transactions

Purchases and sales of investments (excluding short term securities) for the period ended October 31, 2018, aggregated \$184,634,594 and \$17,163,249, respectively.

7. Credit Risk

At October 31, 2018, the Fund had 8.4% 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.

8. Other Derivative Information

At October 31, 2018, the Fund's investments in derivative contracts are reflected in the Statement of Assets and Liabilities as follows:

Derivative Contracts Not Accounted for as Hedging Instruments	Asset Derivatives		Liability Derivatives	
	Statement of Assets and Liabilities Location	Fair Value	Statement of Assets and Liabilities Location	Fair Value
Interest rate contracts	Investments in securities, at value	\$ 165,023 ^a	Options written, at value	\$ —
	Variation margin on futures contracts	485,455 ^b	Variation margin on futures contracts	153,572 ^b
	Variation margin on centrally cleared swap contracts	513,425 ^b	Variation margin on centrally cleared swap contracts	—
	Unrealized appreciation on OTC swap contracts	1,396,422	Unrealized depreciation on OTC swap contracts	183,415
Foreign exchange contracts	Unrealized appreciation on OTC forward exchange contracts	231,691	Unrealized depreciation on OTC forward exchange contracts	251,899
Credit contracts	Investments in securities, at value	253,712 ^a	Options written, at value	123,469
	Variation margin on centrally cleared swap contracts	—	Variation margin on centrally cleared swap contracts	3,472 ^b
	OTC swap contracts (upfront payments)	288,161	OTC swap contracts (upfront receipts)	509,328
	Unrealized appreciation on OTC swap contracts	125,806	Unrealized depreciation on OTC swap contracts	196,657

Franklin Flexible Alpha Bond Fund (continued)

Derivative Contracts Not Accounted for as Hedging Instruments	Asset Derivatives		Liability Derivatives	
	Statement of Assets and Liabilities Location	Fair Value	Statement of Assets and Liabilities Location	Fair Value
Inflation contracts	Variation margin on centrally cleared swap contracts	\$ 24,763 ^b	Variation margin on centrally cleared swap contracts	\$ 57,249 ^b
Totals		<u>\$3,484,458</u>		<u>\$1,479,061</u>

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

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

For the period ended October 31, 2018, the effect of derivative contracts in the Fund's Statement of Operations was as follows:

Derivative Contracts Not Accounted for as Hedging Instruments	Statement of Operations Location	Net Realized Gain (Loss) for the Period	Statement of Operations Location	Net Change in Unrealized Appreciation (Depreciation) for the Period
	Net realized gain (loss) from:		Net change in unrealized appreciation (depreciation) on:	
Interest rate contracts	Investments	\$ 44,224 ^a	Investments	\$ (56,773) ^a
	Written options	15,180	Written options	(1,380)
	Futures contracts	(102,836)	Futures contracts	208,995
	Swap contracts	(216,624)	Swap contracts	1,406,524
Foreign exchange contracts	Forward exchange contracts	45,641	Forward exchange contracts	3,379
Credit contracts	Investments	(57,719) ^a	Investments	123,675 ^a
	Written options	30,138	Written options	(64,406)
	Swap contracts	238,108	Swap contracts	1,955
Inflation contracts	Swap contracts	(16)	Swap contracts	(71,894)
Totals		<u>\$ (3,904)</u>		<u>\$1,550,075</u>

^aPurchased option contracts are included in net realized gain (loss) from investments and net change in unrealized appreciation (depreciation) on investments in the Statement of Operations.

For the period ended October 31, 2018, 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	\$ 99,762,506
Options	57,876,857
Swap contracts	135,185,178
Forward exchange contracts	18,005,341

At October 31, 2018, the Fund's OTC derivative assets and liabilities are as follows:

	Gross Amounts of Assets and Liabilities Presented in the Statement of Assets and Liabilities	
	Assets ^a	Liabilities ^a
Derivatives		
Forward exchange contracts	\$ 231,691	\$ 251,899
Options purchased	418,735	—
Options written	—	123,469
Swap contracts	1,810,389	889,400
Total	<u>\$2,460,815</u>	<u>\$1,264,768</u>

^aAbsent an event of default or early termination, OTC derivative assets and liabilities are presented gross and not offset in the Statement of Assets and Liabilities.

Franklin Flexible Alpha Bond Fund (continued)

8. Other Derivative Information (continued)

At October 31, 2018, the Fund's OTC derivative assets, which may be offset against the Fund's OTC derivative liabilities and collateral received from the counterparty, are as follows:

	Gross Amounts of Assets Presented in the Statement of Assets and Liabilities	Amounts Not Offset in the Statement of Assets and Liabilities			Net Amount (Not less than zero)
		Financial Instruments Available for Offset	Financial Instruments Collateral Received	Cash Collateral Received ^a	
Counterparty					
BNDP	\$ 18,375	\$ (5,005)	\$ —	\$ —	\$ 13,370
BZWS	40,666	(40,666)	—	—	—
CITI	1,120,053	(423,716)	—	(696,337)	—
DBAB	350,096	—	—	(290,000)	60,096
FBCO	153,812	—	—	(153,812)	—
GSCO	159,206	(127,839)	—	(31,367)	—
HSBK	266,232	(1,077)	—	—	265,155
JPHQ	172,538	(172,538)	—	—	—
MSCO	1,020	(1,020)	—	—	—
RBS	434	(434)	—	—	—
UBSW	178,383	(47,235)	—	—	131,148
Total	\$2,460,815	\$(819,530)	\$ —	\$(1,171,516)	\$469,769

^aIn some instances, the collateral amount disclosed in the table above was adjusted due to the requirement to limit collateral amount to avoid the effect of overcollateralization. Actual collateral received and/or pledged may be more than the amount disclosed herein.

At October 31, 2018, the Fund's OTC derivative liabilities, which may be offset against the Fund's OTC derivative assets and collateral pledged to the counterparty, are as follows:

	Gross Amounts of Liabilities Presented in the Statement of Assets and Liabilities	Amounts Not Offset in the Statement of Assets and Liabilities			Net Amount (Not less than zero)
		Financial Instruments Available for Offset	Financial Instruments Collateral Pledged	Cash Collateral Pledged	
Counterparty					
BNDP	\$ 5,005	\$ (5,005)	\$ —	\$ —	\$ —
BZWS	223,288	(40,666)	—	—	182,622
CITI	423,716	(423,716)	—	—	—
DBAB	—	—	—	—	—
FBCO	—	—	—	—	—
GSCO	127,839	(127,839)	—	—	—
HSBK	1,077	(1,077)	—	—	—
JPHQ	252,264	(172,538)	—	—	79,726
MSCO	77,204	(1,020)	—	—	76,184
RBS	107,140	(434)	—	—	106,706
UBSW	47,235	(47,235)	—	—	—
Total	\$1,264,768	\$(819,530)	\$ —	\$ —	\$445,238

See Note 1(d) regarding derivative financial instruments.

See Abbreviations on page 53.

Franklin Flexible Alpha Bond Fund (continued)

9. Credit Facility

The Fund, together with other U.S. registered and foreign investment funds (collectively, Borrowers), managed by Franklin Templeton Investments, are borrowers in a joint syndicated senior unsecured credit facility totaling \$2 billion (Global Credit Facility) which matures on February 8, 2019. This Global Credit Facility provides a source of funds to the Borrowers for temporary and emergency purposes, including the ability to meet future unanticipated or unusually large redemption requests.

Under the terms of the Global Credit Facility, the Fund shall, in addition to interest charged on any borrowings made by the Fund and other costs incurred by the Fund, pay its share of fees and expenses incurred in connection with the implementation and maintenance of the Global Credit Facility, based upon its relative share of the aggregate net assets of all of the Borrowers, including an annual commitment fee of 0.15% based upon the unused portion of the Global Credit Facility. These fees are reflected in other expenses in the Statement of Operations. During the period ended October 31, 2018, 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.)
- 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.

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

Franklin Flexible Alpha Bond Fund (continued)

10. Fair Value Measurements (continued)

A summary of inputs used as of October 31, 2018, in valuing the Fund's assets and liabilities carried at fair value, is as follows:

	Level 1	Level 2	Level 3	Total
Assets:				
Investments in Securities: ^a				
Management Investment Companies	\$ 4,527,563	\$ —	\$ —	\$ 4,527,563
Corporate Bonds	—	107,757,198	—	107,757,198
Foreign Government and Agency Securities	—	8,032,326	—	8,032,326
U.S. Government and Agency Securities	—	4,098,517	—	4,098,517
Asset-Backed Securities and Commercial				
Mortgage-Backed Securities	—	208,078,005	—	208,078,005
Mortgage-Backed Securities	—	244,228	—	244,228
Municipal Bonds	—	771,272	—	771,272
Options Purchased	—	418,735	—	418,735
Short Term Investments	100,219,262	301,500	—	100,520,762
Total Investments in Securities	\$ 104,746,825	\$ 329,701,781	\$ —	\$ 434,448,606
Other Financial Instruments:				
Futures Contracts	\$ 485,455	\$ —	\$ —	\$ 485,455
Forward Exchange Contracts	—	231,691	—	231,691
Swap Contracts	—	2,060,416	—	2,060,416
Total Other Financial Instruments	\$ 485,455	\$ 2,292,107	\$ —	\$ 2,777,562
Liabilities:				
Other Financial Instruments:				
Options Written	\$ —	\$ 123,469	\$ —	\$ 123,469
TBA Sales Commitments	—	292,066	—	292,066
Futures Contracts	153,572	—	—	153,572
Forward Exchange Contracts	—	251,899	—	251,899
Swap Contracts	—	440,793	—	440,793
Total Other Financial Instruments	\$ 153,572	\$ 1,108,227	\$ —	\$ 1,261,799

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

11. New Accounting Pronouncements

In August 2018, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurements. The amendments in the ASU modify the disclosure requirements on fair value measurements in Topic 820. The ASU is effective for interim and annual reporting periods beginning after December 15, 2019. Management has reviewed the requirements and believes the adoption of this ASU will not have a material impact on the financial statements.

12. Subsequent Events

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

Franklin Flexible Alpha Bond Fund (continued)

Abbreviations

Counterparty/Exchange	Currency	Selected Portfolio
BNDP BNP Paribas	AUD Australian Dollar	CLO Collateralized Loan Obligation
BZWS Barclays Bank PLC	EUR Euro	CPI Consumer Price Index
CITI Citigroup, Inc.	GBP British Pound	ETF Exchange Traded Fund
DBAB Deutsche Bank AG	IDR Indonesian Rupiah	FHLMC Federal Home Loan Mortgage Corp.
FBCO Credit Suisse International	USD United States Dollar	FRN Floating Rate Note
GSCO Goldman Sachs Group, Inc.		GO General Obligation
HSBK HSBC Bank PLC		IO Interest Only
JPHQ JP Morgan Chase & Co.		LIBOR London InterBank Offered Rate
MSCO Morgan Stanley		RDA Redevelopment Agency/Authority
RBS Royal Bank of Scotland PLC		SFR Single Family Revenue
SMB Citigroup Global Markets		
UBSW UBS AG		

Index

CDX.EM.30	CDX Emerging Markets Index
CDX.NA.HY.Series number	CDX North America High Yield Index
CDX.NA.IG.Series number	CDX North America Investment Grade Index
MCDX.NA.Series number	MCDX North America Index

Shareholder Information

Proxy Voting Policies and Procedures

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

Quarterly Statement of Investments

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

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**Semiannual Report and Shareholder Letter
Franklin Flexible Alpha Bond Fund**

Investment Manager

Franklin Advisers, Inc.

Subadvisor

Franklin Templeton Institutional, LLC

Distributor

Franklin Templeton Distributors, Inc.

(800) DIAL BEN® / 342-5236

franklintempleton.com

Shareholder Services

(800) 632-2301

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

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