



FRANKLIN TEMPLETON
INVESTMENTS

Prospectus
October 1, 2016

Franklin K2 Long Short Credit Fund

FRANKLIN ALTERNATIVE STRATEGIES FUNDS

The U.S. Securities and Exchange Commission (SEC) has not approved or disapproved these securities or passed upon the adequacy of this prospectus. Any representation to the contrary is a criminal offense.

Class A	Class C	Class R	Class R6	Advisor Class
FKLSX	FKLCX	FKLRX	FKLQX	FKLZX

**SUPPLEMENT DATED JUNE 12, 2017
TO THE CURRENTLY EFFECTIVE PROSPECTUS
OF EACH OF THE FUNDS LISTED BELOW**

Franklin Alternative Strategies Funds

Franklin K2 Alternative Strategies Fund
Franklin K2 Global Macro Opportunities Fund
Franklin K2 Long Short Credit Fund
Franklin Pelagos Commodities Strategy Fund

Franklin California Tax-Free Income Fund

Franklin California Tax-Free Trust

Franklin California Intermediate-Term Tax-Free Income Fund
Franklin California Ultra-Short Tax-Free Income Fund

Franklin Custodian Funds

Franklin Dynatech Fund
Franklin Focused Growth Fund
Franklin Growth Fund
Franklin Income Fund
Franklin U.S. Government Securities Fund
Franklin Utilities Fund

Franklin Federal Tax-Free Income Fund

Franklin Fund Allocator Series

Franklin Corefolio Allocation Fund
Franklin Founding Funds Allocation Fund
Franklin LifeSmart™ Retirement Income Fund
Franklin LifeSmart™ 2020 Retirement Target Fund
Franklin LifeSmart™ 2025 Retirement Target Fund
Franklin LifeSmart™ 2030 Retirement Target Fund
Franklin LifeSmart™ 2035 Retirement Target Fund
Franklin LifeSmart™ 2040 Retirement Target Fund
Franklin LifeSmart™ 2045 Retirement Target Fund
Franklin LifeSmart™ 2050 Retirement Target Fund
Franklin LifeSmart™ 2055 Retirement Target Fund
Franklin Conservative Allocation Fund
Franklin Moderate Allocation Fund
Franklin Growth Allocation Fund
Franklin NextStep Conservative Fund
Franklin NextStep Moderate Fund
Franklin NextStep Growth Fund
Franklin Payout 2017 Fund
Franklin Payout 2018 Fund
Franklin Payout 2019 Fund
Franklin Payout 2020 Fund
Franklin Payout 2021 Fund
Franklin Payout 2022 Fund
Franklin Payout 2023 Fund

Franklin Global Trust

Franklin Emerging Markets Debt Opportunities Fund
Franklin Global Listed Infrastructure Fund
Franklin Global Real Estate Fund
Franklin International Growth Fund
Franklin International Small Cap Growth Fund

Franklin Gold and Precious Metals Fund

Franklin Investors Securities Trust

Franklin Adjustable U.S. Government Securities Fund
Franklin Balanced Fund
Franklin Convertible Securities Fund
Franklin Equity Income Fund
Franklin Floating Rate Daily Access Fund
Franklin Low Duration Total Return Fund
Franklin Real Return Fund
Franklin Total Return Fund

Franklin Managed Trust

Franklin Rising Dividends Fund

Franklin Mutual Series Funds

Franklin Mutual Beacon Fund
Franklin Mutual European Fund
Franklin Mutual Financial Services Fund
Franklin Mutual Global Discovery Fund
Franklin Mutual International Fund
Franklin Mutual Quest Fund
Franklin Mutual Shares Fund

Franklin New York Tax-Free Trust

Franklin New York Intermediate-Term Tax-Free Income Fund

Franklin Strategic Mortgage Portfolio

Franklin Strategic Series

Franklin Biotechnology Discovery Fund
Franklin Flexible Alpha Fund
Franklin Focused Core Equity Fund
Franklin Growth Opportunities Fund
Franklin Natural Resources Fund
Franklin Small Cap Growth Fund
Franklin Small-Mid Cap Growth Fund
Franklin Strategic Income Fund

Franklin Real Estate Securities Trust

Franklin Real Estate Securities Fund

Franklin High Income Trust

Franklin High Income Fund

Franklin New York Tax-Free Income Fund

Franklin Municipal Securities Trust

Franklin California High Yield Municipal Fund
Franklin Tennessee Municipal Bond Fund

Franklin Templeton Global Trust

Templeton Global Currency Fund

Franklin Templeton International Trust

Franklin India Growth Fund

Franklin Templeton Money Fund Trust

Franklin Templeton U.S. Government Money Fund

Franklin U.S. Government Money Fund

Franklin Value Investors Trust

Franklin Balance Sheet Investment Fund
Franklin Microcap Value Fund
Franklin Midcap Value Fund
Franklin Small Cap Value Fund

Institutional Fiduciary Trust

Money Market Portfolio

Templeton China World Fund

Templeton Developing Markets Trust

Templeton Funds

Templeton Foreign Fund
Templeton World Fund

Templeton Global Investment Trust

Templeton Dynamic Equity Fund
Templeton Emerging Markets Balanced Fund
Templeton Emerging Markets Small Cap Fund
Templeton Foreign Smaller Companies Fund
Templeton Frontier Markets Fund
Templeton Global Balanced Fund

Templeton Global Opportunities Trust

Templeton Global Smaller Companies Fund

Templeton Growth Fund, Inc.

Templeton Income Trust

Templeton Emerging Markets Bond Fund
Templeton Global Bond Fund
Templeton Global Total Return Fund
Templeton International Bond Fund

Templeton Institutional Funds

Emerging Markets Series
Foreign Smaller Companies Series
Global Equity Series
International Equity Series

The prospectus is amended as follows:

I. The following sentence is added as the second paragraph under the heading “Fees and Expenses of the Fund” in the Fund Summary section of the following Funds’ prospectus: Franklin K2 Alternative Strategies Fund, Franklin K2 Global Macro Opportunities Fund, Franklin K2 Long Short Credit Fund, Franklin Pelagos Commodities Strategy Fund, Franklin Dynatech Fund, Franklin Growth Fund, Franklin Income Fund, Franklin U.S. Government Securities Fund, Franklin Utilities Fund, Franklin LifeSmart™ Retirement Income Fund, Franklin Conservative Allocation Fund, Franklin Moderate Allocation Fund, Franklin Growth Allocation Fund, Franklin Global Listed Infrastructure Fund, Franklin Global Real Estate Fund, Franklin International Growth Fund, Franklin Gold and Precious Metals Fund, Franklin Adjustable U.S. Government Securities Fund, Franklin Balanced Fund, Franklin Convertible Securities Fund, Franklin Equity Income Fund, Franklin Floating Rate Daily Access Fund, Franklin Low Duration Total Return Fund, Franklin Real Return Fund, Franklin Total Return Fund, Franklin Rising Dividends Fund, Franklin Biotechnology Discovery Fund, Franklin Flexible Alpha Fund, Franklin Focused Core Equity Fund, Franklin Growth Opportunities Fund, Franklin Natural Resources Fund, Franklin Small-Mid Cap Growth Fund, Franklin Strategic Income Fund, Franklin Real Estate Securities Fund, Franklin High Income Fund, Franklin Balance Sheet Investment Fund, Franklin Small Cap Value Fund, Templeton China World Fund, Templeton Developing Markets Trust, Templeton Foreign Fund, Templeton World Fund, Templeton Frontier Markets Fund, Templeton Global Balanced Fund, Templeton Global Smaller Companies Fund, Templeton Growth Fund, Inc., Templeton Emerging Markets Bond Fund, Templeton Global Bond Fund and Templeton Global Total Return Fund:

Please note that the tables and examples below do not reflect any transaction fees that may be charged by financial intermediaries, or commissions that a shareholder may be required to pay directly to its financial intermediary when buying or selling Class R6 or Advisor Class shares.

II. The following sentence is added as the second paragraph under the heading “Fees and Expenses of the Fund” in the Fund Summary section of the following Funds’ prospectus: Franklin Corefolio Allocation Fund, Franklin Founding Funds Allocation Fund, Templeton Emerging Markets Balanced Fund, Templeton Emerging Markets Small Cap Fund, Templeton International Bond Fund, Templeton Global Currency Fund, Franklin California Tax-Free Income Fund, Franklin Federal Tax-Free Income Fund, Franklin New York Tax-Free Income Fund, Franklin California High Yield Municipal Fund, Franklin Tennessee Municipal Bond Fund, Franklin California Intermediate-Term Tax-Free Income Fund, Franklin Strategic Mortgage Portfolio and Franklin New York Intermediate-Term Tax-Free Income Fund:

Please note that the tables and examples below do not reflect any transaction fees that may be charged by financial intermediaries, or commissions that a shareholder may be required to pay directly to its financial intermediary when buying or selling Advisor Class shares.

III. The following sentence is added as the second paragraph under the heading “Fees and Expenses of the Fund” in the Fund Summary section of the following Funds’ prospectus: Franklin Mutual Beacon Fund, Franklin Mutual European Fund, Franklin Mutual Financial Services Fund, Franklin Mutual Global Discovery Fund, Franklin Mutual International Fund, Franklin Mutual Quest Fund and Franklin Mutual Shares Fund:

Please note that the tables and examples below do not reflect any transaction fees that may be charged by financial intermediaries, or commissions that a shareholder may be required to pay directly to its financial intermediary when buying or selling Class R6 or Class Z shares.

IV. For Franklin Federal Tax-Free Income Fund, footnote 1 under the “Fund Summary – Fees and Expenses of the Fund – Shareholder Fees” table is replaced with the following:

1. There is a 0.75% contingent deferred sales charge that applies to investments of \$1 million or more (see “Investments of \$1 Million or More” under “Choosing a Share Class”) and purchases by certain retirement plans without an initial sales charge on shares sold within 18 months of purchase.

V. For Franklin K2 Alternative Strategies Fund, footnote 2 under the “Fund Summary – Fees and Expenses of the Fund – Annual Fund Operating Expenses” table is replaced with the following:

2. Total annual Fund operating expenses differ from the ratio of expenses to average net assets shown in the Financial Highlights, which reflect the operating expenses of the Fund and do not include acquired fund fees and expenses.

VI. For Franklin Federal Tax-Free Income Fund, the “Fund Summary – Principal Risks – Liquidity” section is replaced with the following:

Liquidity From time to time, the trading market for a particular security or type of security or other investments in which the Fund invests may become less liquid or even illiquid. Reduced liquidity will have an adverse impact on the Fund’s

ability to sell such securities or other investments when necessary to meet the Fund's liquidity needs or in response to a specific economic event and will also generally lower the value of a security or other investments. Market prices for such securities or other investments may be volatile.

VII. For the Franklin K2 Alternative Strategies Fund, the following replaces the "Fund Summaries – Franklin Alternative Strategies Fund – Performance" section beginning on page 11 of the prospectus:

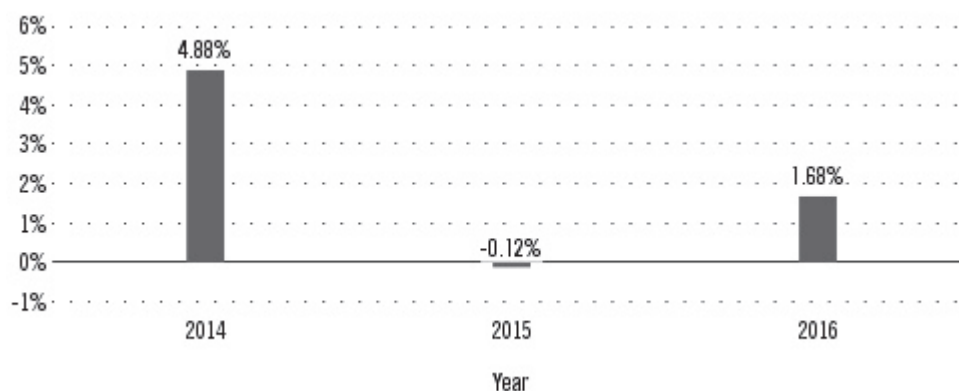
Performance

The following bar chart and table provide some indication of the risks of investing in the Fund. The bar chart shows changes in the Fund's performance from year to year for Class A shares. The table shows how the Fund's average annual returns for 1 year, 5 years, 10 years or since inception, as applicable, compared with those of a broad measure of market performance. The Fund's past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future. You can obtain updated performance information at franklintempleton.com or by calling (800) DIAL BEN/342-5236.

The secondary index in the table below shows how the Fund's performance compares to a group of securities that aligns more closely with the Fund's investment strategies.

Sales charges are not reflected in the bar chart, and if those charges were included, returns would be less than those shown.

Class A Annual Total Returns



Best Quarter:	Q1'15	2.68%
Worst Quarter:	Q3'15	-2.18%
As of March 31, 2017, the Fund's year-to-date return was 2.60%.		

Average Annual Total Returns

(figures reflect sales charges)

For the periods ended December 31, 2016

	1 Year	Since Inception 10/11/2013
Franklin K2 Alternative Strategies Fund - Class A		
Return Before Taxes	-4.18%	1.41%
Return After Taxes on Distributions	-4.33%	1.06%
Return After Taxes on Distributions and Sale of Fund Shares	-2.33%	0.96%
Franklin K2 Alternative Strategies Fund - Class C	0.04%	2.62%
Franklin K2 Alternative Strategies Fund - Class R	1.52%	2.96%
Franklin K2 Alternative Strategies Fund - Class R6	2.10%	3.65%
Franklin K2 Alternative Strategies Fund - Advisor Class	1.90%	3.57%
BofA Merrill Lynch US 3-Month Treasury Bill Index (index reflects no deduction for fees, expenses or taxes)	0.33%	0.14%
HFRX Global Hedge Fund Index (index reflects no deduction for fees, expenses or taxes)	2.50%	-0.02%

No one index is representative of the Fund's portfolio.

The after-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. After-tax returns are not relevant to investors who hold their Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts. After-tax returns are shown only for Class A and after-tax returns for other classes will vary.

VIII. For the Franklin K2 Long Short Credit Fund, the following replaces the "Fund Summaries – Franklin K2 Long Short Credit Fund – Performance" section beginning on page 14 of the prospectus:

Performance

The following bar chart and table provide some indication of the risks of an investment in the Fund by comparing the Fund's performance with a broad measure of market performance. The bar chart shows the Fund's performance for the most recent calendar year for Class A shares. The Fund's past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future. You can obtain updated performance information at franklintempleton.com or by calling (800) DIAL BEN/342-5236.

The secondary index in the table below shows how the Fund's performance compares to a group of securities that aligns more closely with the Fund's investment strategies.

Sales charges are not reflected in the bar chart, and if those charges were included, returns would be less than those shown.

Class A Annual Total Returns



Best Quarter:	Q2'16	3.53%
Worst Quarter:	Q1'16	0.20%
As of March 31, 2017, the Fund's year-to-date return was 1.46%.		

Average Annual Total Returns

For the periods ended December 31, 2016

	1 Year	Since Inception 9/8/2015
Franklin K2 Long Short Credit Fund - Class A		
Return Before Taxes	2.11%	1.85%
Return After Taxes on Distributions	0.37%	0.04%
Return After Taxes on Distributions and Sale of Fund Shares	1.19%	0.58%
Franklin K2 Long Short Credit Fund - Class C	6.15%	5.45%
Franklin K2 Long Short Credit Fund - Class R	7.79%	6.00%
Franklin K2 Long Short Credit Fund - Class R6	8.33%	6.59%
Franklin K2 Long Short Credit Fund - Advisor Class	8.21%	6.56%
BofA Merrill Lynch US 3-Month Treasury Bill Index (index reflects no deduction for fees, expenses or taxes)	0.33%	0.28%
HFRX Fixed Income - Credit Index (index reflects no deduction for fees, expenses or taxes)	4.97%	0.60%

No one index is representative of the Fund's portfolio.

The after-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. After-tax returns are not relevant to investors who hold their Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts. After tax-returns are shown only for Advisor Class and after-tax returns for other classes will vary.

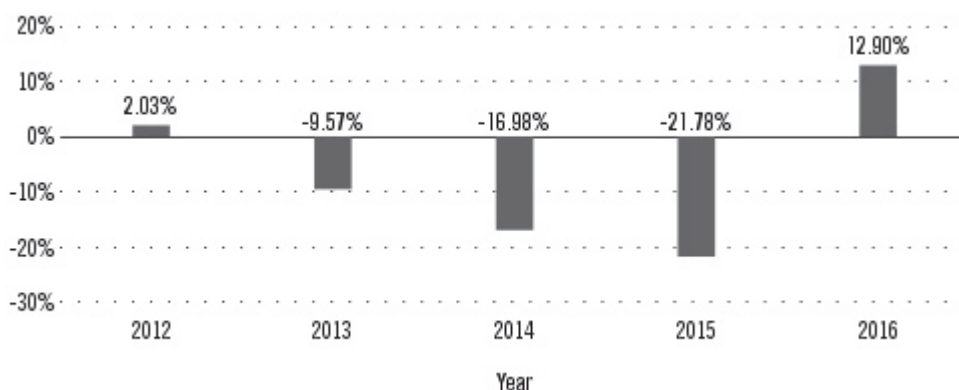
IX. For the Franklin Pelagos Commodities Strategy Fund, the following replaces the “Fund Summaries – Franklin Pelagos Commodities Strategy Fund – Performance” section beginning on page 8 of the prospectus:

Performance

The following bar chart and table provide some indication of the risks of investing in the Fund. The bar chart shows changes in the Fund's performance from year to year for Advisor Class shares. The table shows how the Fund's average annual returns for 1 year, 5 years, 10 years or since inception, as applicable, compared with those of a broad measure of market performance. The Fund's past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future. You can obtain updated performance information at franklintempleton.com or by calling (800) DIAL BEN/342-5236.

Sales charges are not reflected in the bar chart, and if those charges were included, returns would be less than those shown.

Advisor Class Annual Total Returns



Best Quarter:	Q2'16	14.82%
Worst Quarter:	Q3'15	-13.45%
As of March 31, 2017, the Fund's year-to-date return was -2.45%.		

Average Annual Total Returns (figures reflect sales charges)

For the periods ended December 31, 2016

	1 Year	5 Years	Since Inception
Franklin Pelagos Commodities Strategy Fund - Advisor Class			
Return Before Taxes	12.90%	-7.52%	-7.74%
Return After Taxes on Distributions	12.90%	-7.52%	-7.74%
Return After Taxes on Distributions and Sale of Fund Shares	7.30%	-5.50%	-5.65%
Franklin Pelagos Commodities Strategy Fund - Class A	6.36%	-9.07%	-9.27%
Franklin Pelagos Commodities Strategy Fund - Class C	10.95%	-8.66%	-8.87%
Franklin Pelagos Commodities Strategy Fund - Class R	12.70%	-8.18%	-8.39%
Franklin Pelagos Commodities Strategy Fund - Class R6	13.40%	—	-9.50% ¹
Bloomberg Commodity Index (index reflects no deduction for fees, expenses or taxes)	11.77%	-8.95%	-9.33%

1. Since inception January 10, 2014

Prior to January 1, 2014, the Fund was registered under the Investment Company Act of 1940, but the Fund's securities were not registered under the Securities Act of 1933, and the Fund privately offered its shares only to other mutual funds

in the Franklin Templeton Investments family of mutual funds. The privately offered shares of the Fund were redesignated Advisor Class shares upon the public offering of the Fund.

Historical performance for Class A, Class C and Class R shares prior to their inception is based on the performance of Advisor Class shares. Class A, Class C and Class R performance has been adjusted to reflect differences in sales charges and 12b-1 expenses between classes.

The after-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. After-tax returns are not relevant to investors who hold their Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts. After tax-returns are shown only for Advisor Class and after-tax returns for other classes will vary.

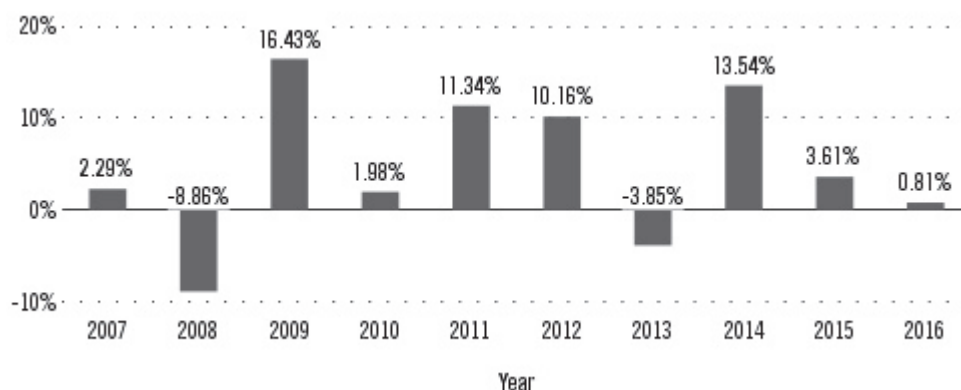
- X. For the Franklin California Tax-Free Income Fund, the following replaces the "Fund Summaries – Franklin California Tax-Free Income Fund – Performance" section beginning on page 6 of the prospectus:

Performance

The following bar chart and table provide some indication of the risks of investing in the Fund. The bar chart shows changes in the Fund's performance from year to year for Class A shares. The table shows how the Fund's average annual returns for 1 year, 5 years, 10 years or since inception, as applicable, compared with those of a broad measure of market performance. The Fund's past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future. You can obtain updated performance information at franklintempleton.com or by calling (800) DIAL BEN/342-5236.

Sales charges are not reflected in the bar chart, and if those charges were included, returns would be less than those shown.

Class A Annual Total Returns



Best Quarter:	Q3'09	11.00%
Worst Quarter:	Q4'10	-5.58%
As of March 31, 2017, the Fund's year-to-date return was 1.74%.		

Average Annual Total Returns (figures reflect sales charges)

For the periods ended December 31, 2016

	1 Year	5 Years	10 Years
Franklin California Tax-Free Income Fund - Class A			
Return Before Taxes	-3.43%	3.75%	4.01%
Return After Taxes on Distributions	-3.43%	3.75%	4.01%
Return After Taxes on Distributions and Sale of Fund Shares	-0.44%	3.84%	4.07%
Franklin California Tax-Free Income Fund - Class C	-0.86%	4.09%	3.88%
Franklin California Tax-Free Income Fund - Advisor Class	0.78%	4.77%	4.56%
Bloomberg Barclays Municipal Bond Index (index reflects no deduction for fees, expenses or taxes)	0.25%	3.28%	4.25%

The after-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. After-tax returns are shown only for Class A and after-tax returns for other classes will vary.

XI. For the Franklin California Intermediate-Term Tax-Free Income Fund, the following replaces the "Fund Summaries – Franklin California Intermediate-Term Tax-Free Income Fund – Performance" section beginning on page 6 of the prospectus:

Performance

The following bar chart and table provide some indication of the risks of investing in the Fund. The bar chart shows changes in the Fund's performance from year to year for Class A shares. The table shows how the Fund's average annual returns for 1 year, 5 years, 10 years or since inception, as applicable, compared with those of a broad measure of market performance. The Fund's past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future. You can obtain updated performance information at franklintempleton.com or by calling (800) DIAL BEN/342-5236.

Sales charges are not reflected in the bar chart, and if those charges were included, returns would be less than those shown.

Class A Annual Total Returns



Best Quarter:	Q3'09	7.14%
Worst Quarter:	Q4'10	-4.03%
As of March 31, 2017, the Fund's year-to-date return was 1.35%.		

Average Annual Total Returns (figures reflect sales charges)

For the periods ended December 31, 2016

	1 Year	5 Years	10 Years
Franklin California Intermediate-Term Tax-Free Income Fund - Class A			
Return Before Taxes	-2.36%	2.59%	3.57%
Return After Taxes on Distributions	-2.36%	2.59%	3.57%
Return After Taxes on Distributions and Sale of Fund Shares	-0.19%	2.70%	3.55%
Franklin California Intermediate-Term Tax-Free Income Fund - Class C			
Return After Taxes on Distributions and Sale of Fund Shares	-1.64%	2.49%	3.24%
Franklin California Intermediate-Term Tax-Free Income Fund - Advisor Class			
Return After Taxes on Distributions and Sale of Fund Shares	-0.02%	3.17%	3.91%
Bloomberg Barclays 10-Year Municipal Bond Index (index reflects no deduction for fees, expenses or taxes)	-0.12%	3.10%	4.70%

The after-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. After-tax returns are shown only for Class A and after-tax returns for other classes will vary.

XII. For the Franklin DynaTech Fund, the following is added to the "Fund Summaries – Franklin DynaTech Fund – Performance" section beginning on page 6 of the prospectus:

As of March 31, 2017, the Fund's year-to-date return was 13.38%.

XIII. For the Franklin Growth Fund, the following is added to the “Fund Summaries – Franklin Growth Fund – Performance” section beginning on page 12 of the prospectus:

As of March 31, 2017, the Fund's year-to-date return was 8.22%.

XIV. For the Franklin Income Fund, the following is added to the “Fund Summaries – Franklin Income Fund – Performance” section beginning on page 20 of the prospectus:

As of March 31, 2017, the Fund's year-to-date return was 3.48%.

XV. For the Franklin U.S. Government Securities Fund, the following is added to the “Fund Summaries – Franklin U.S. Government Securities Fund – Performance” section beginning on page 28 of the prospectus:

As of March 31, 2017, the Fund's year-to-date return was 0.13%.

XVI. For the Franklin Utilities Fund, the following is added to the “Fund Summaries – Franklin Utilities Fund – Performance” section beginning on page 35 of the prospectus:

As of March 31, 2017, the Fund's year-to-date return was 6.21%.

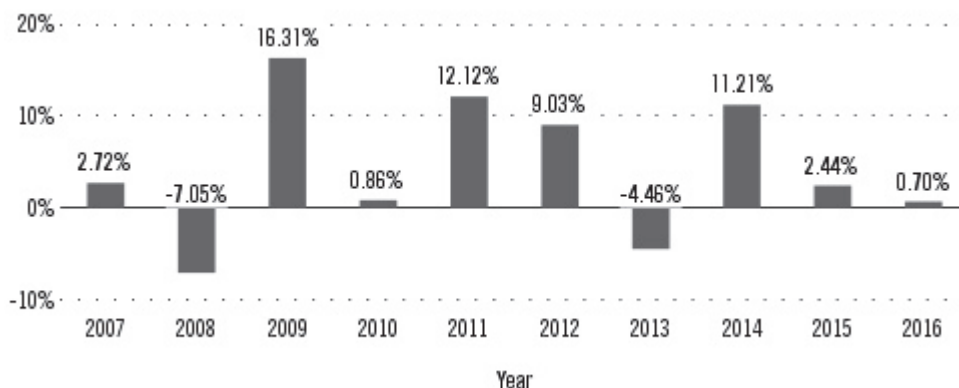
XVII. For the Franklin Federal Tax-Free Income Fund, the following replaces the “Fund Summaries – Franklin Federal Tax-Free Income Fund – Performance” section beginning on page 6 of the prospectus:

Performance

The following bar chart and table provide some indication of the risks of investing in the Fund. The bar chart shows changes in the Fund's performance from year to year for Class A shares. The table shows how the Fund's average annual returns for 1 year, 5 years, 10 years or since inception, as applicable, compared with those of a broad measure of market performance. The Fund's past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future. You can obtain updated performance information at franklintempleton.com or by calling (800) DIAL BEN/342-5236.

Sales charges are not reflected in the bar chart, and if those charges were included, returns would be less than those shown.

Class A Annual Total Returns



Best Quarter:	Q3'09	8.10%
Worst Quarter:	Q4'10	-5.34%
As of March 31, 2017, the Fund's year-to-date return was 0.99%.		

Average Annual Total Returns

(figures reflect sales charges)

For the periods ended December 31, 2016

	1 Year	5 Years	10 Years
Franklin Federal Tax-Free Income Fund - Class A			
Return Before Taxes	-3.59%	2.73%	3.69%

Return After Taxes on Distributions	-3.58%	2.73%	3.69%
Return After Taxes on Distributions and Sale of Fund Shares	-0.45%	3.00%	3.79%
Franklin Federal Tax-Free Income Fund - Class C	-0.83%	3.06%	3.57%
Franklin Federal Tax-Free Income Fund - Advisor Class	0.80%	3.73%	4.24%
Bloomberg Barclays Municipal Bond Index (index reflects no deduction for fees, expenses or taxes)	0.25%	3.28%	4.25%

The after-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. After-tax returns are shown only for Class A and after-tax returns for other classes will vary.

XVIII. For the Franklin Corefolio Allocation Fund, the following is added to the “Fund Summaries – Franklin Corefolio Allocation Fund – Performance” section beginning on page 14 of the prospectus:

As of March 31, 2017, the Fund's year-to-date return was 7.21%.

XIX. For the Franklin Founding Funds Allocation Fund, the following is added to the “Fund Summaries – Franklin Founding Funds Allocation Fund – Performance” section beginning on page 6 of the prospectus:

As of March 31, 2017, the Fund's year-to-date return was 4.31%.

XX. For the Franklin LifeSmart Retirement Income Fund, the following is added to the “Fund Summaries – Franklin LifeSmart Retirement Income Fund – Performance” section beginning on page 11 of the prospectus:

As of March 31, 2017, the Fund's year-to-date return was 2.00%.

XXI. For the Franklin Conservative Allocation Fund, the following is added to the “Fund Summaries – Franklin Conservative Allocation Fund – Performance” section beginning on page 8 of the prospectus:

As of March 31, 2017, the Fund's year-to-date return was 3.76%.

XXII. For the Franklin Moderate Allocation Fund, the following is added to the “Fund Summaries – Franklin Moderate Allocation Fund – Performance” section beginning on page 18 of the prospectus:

As of March 31, 2017, the Fund's year-to-date return was 5.03%.

XXIII. For the Franklin Growth Allocation Fund, the following is added to the “Fund Summaries – Franklin Growth Allocation Fund – Performance” section beginning on page 27 of the prospectus:

As of March 31, 2017, the Fund's year-to-date return was 6.21%.

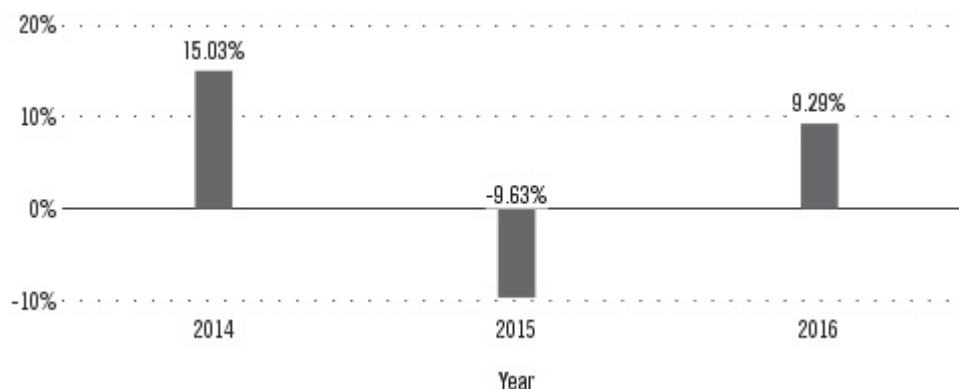
XXIV. For the Franklin Global Listed Infrastructure Fund, the following replaces the “Fund Summaries – Franklin Global Listed Infrastructure Fund – Performance” section beginning on page 8 of the prospectus:

Performance

The following bar chart and table provide some indication of the risks of investing in the Fund. The bar chart shows changes in the Fund's performance from year to year for Class A shares. The table shows how the Fund's average annual returns for 1 year, 5 years, 10 years or since inception, as applicable, compared with those of a broad measure of market performance. The Fund's past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future. You can obtain updated performance information at franklintempleton.com or by calling (800) DIAL BEN/342-5236.

Sales charges are not reflected in the bar chart, and if those charges were included, returns would be less than those shown.

Class A Annual Total Returns



Best Quarter:	Q2'14	9.33%
Worst Quarter:	Q3'15	-7.56%
As of March 31, 2017, the Fund's year-to-date return was 8.94%.		

Average Annual Total Returns (figures reflect sales charges)

For the periods ended December 31, 2016

	1 Year	Since Inception 9/6/2013
Franklin Global Listed Infrastructure Fund - Class A		
Return Before Taxes	2.99%	4.58%
Return After Taxes on Distributions	2.69%	4.06%
Return After Taxes on Distributions and Sale of Fund Shares	2.20%	3.56%
Franklin Global Listed Infrastructure Fund - Class C	7.42%	5.68%
Franklin Global Listed Infrastructure Fund - Class R	8.94%	6.19%
Franklin Global Listed Infrastructure Fund - Class R6	9.74%	6.86%
Franklin Global Listed Infrastructure Fund - Advisor Class	9.48%	6.74%
S&P Global Infrastructure Index (index reflects no deduction for fees, expenses or taxes)	12.43%	6.44%

The after-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. After-tax returns are not relevant to investors who hold their Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts. After-tax returns are shown only for Class A and after-tax returns for other classes will vary.

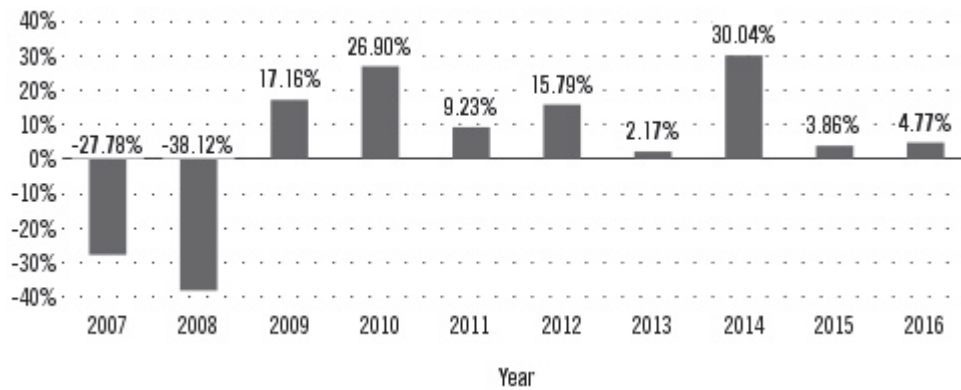
XXV. For the Franklin Global Real Estate Fund, the following replaces the "Fund Summaries – Franklin Global Real Estate Fund – Performance" section beginning on page 6 of the prospectus:

Performance

The following bar chart and table provide some indication of the risks of investing in the Fund. The bar chart shows changes in the Fund's performance from year to year for Class A shares. The table shows how the Fund's average annual returns for 1 year, 5 years, 10 years or since inception, as applicable, compared with those of a broad measure of market performance. The Fund's past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future. You can obtain updated performance information at franklintempleton.com or by calling (800) DIAL BEN/342-5236.

Sales charges are not reflected in the bar chart, and if those charges were included, returns would be less than those shown.

Class A Annual Total Returns



Best Quarter:	Q3'09	31.39%
Worst Quarter:	Q4'08	-37.80%
As of March 31, 2017, the Fund's year-to-date return was 0.00%.		

Average Annual Total Returns (figures reflect sales charges)

For the periods ended December 31, 2016

	1 Year	5 Years	10 Years
Franklin Real Estate Securities Fund - Class A			
Return Before Taxes	-1.24%	9.55%	1.36%
Return After Taxes on Distributions	-2.88%	8.70%	0.39%
Return After Taxes on Distributions and Sale of Fund Shares	-0.53%	7.16%	0.65%
Franklin Real Estate Securities Fund - Class C	2.97%	10.04%	1.20%
Franklin Real Estate Securities Fund - Class R6	5.29%	7.35% ¹	—
Franklin Real Estate Securities Fund - Advisor Class	5.06%	11.16%	2.23%
S&P US Property Index (index reflects no deduction for fees, expenses or taxes)	8.44%	11.85%	4.69%

1. Since inception May 1, 2013.

The after-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. After-tax returns are not relevant to investors who hold their Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts. After-tax returns are shown only for Class A and after-tax returns for other classes will vary.

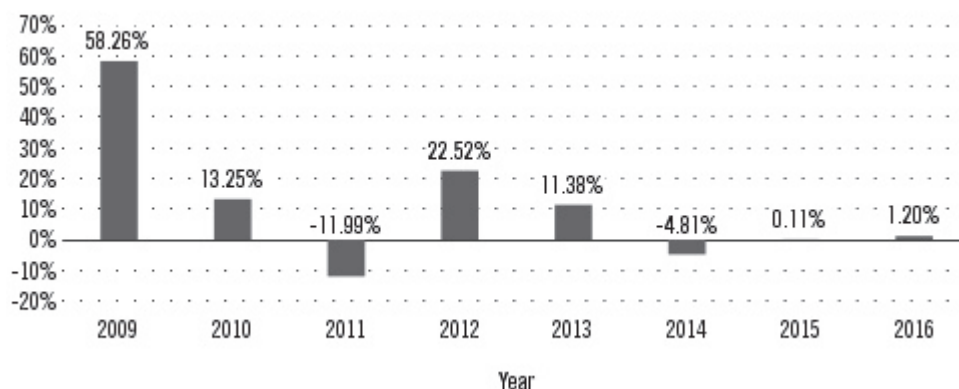
XXVI. For the Franklin International Growth Fund, the following replaces the "Fund Summaries – Franklin International Growth Fund – Performance" section beginning on page 6 of the prospectus:

Performance

The following bar chart and table provide some indication of the risks of investing in the Fund. The bar chart shows changes in the Fund's performance from year to year for Class A shares. The table shows how the Fund's average annual returns for 1 year, 5 years, 10 years or since inception, as applicable, compared with those of a broad measure of market performance. The Fund's past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future. You can obtain updated performance information at franklintempleton.com or by calling (800) DIAL BEN/342-5236.

Sales charges are not reflected in the bar chart, and if those charges were included, returns would be less than those shown.

Class A Annual Total Returns



Best Quarter:	Q2'09	29.68%
Worst Quarter:	Q3'11	-21.13%
As of March 31, 2017, the Fund's year-to-date return was 11.38%.		

Average Annual Total Returns (figures reflect sales charges)

For the periods ended December 31, 2016

	1 Year	5 Years	Since Inception ¹
Franklin International Growth Fund - Class A			
Return Before Taxes	-4.62%	4.40%	0.84%
Return After Taxes on Distributions	-4.62%	4.39%	0.80%
Return After Taxes on Distributions and Sale of Fund Shares	-2.40%	3.54%	0.75%
Franklin International Growth Fund - Class C	-0.52%	4.91%	0.81%
Franklin International Growth Fund - Class R	1.05%	5.43%	1.31%
Franklin International Growth Fund - Class R6	1.77%	—	1.49%
Franklin International Growth Fund - Advisor Class	1.47%	5.98%	1.84%
MSCI EAFE (Net Dividends) Index (index reflects no deduction for fees, expenses or taxes [other than the deduction of withholding taxes on reinvested dividends]) ²	1.00%	6.53%	0.07%
MSCI EAFE Index (index reflects no deduction for fees, expenses or taxes)	1.51%	7.02%	0.39%

1. Since inception June 3, 2008 for Class A, Class C, Class R and Advisor Class; Class R6, May 1, 2013.

2. The MSCI EAFE (Net Dividends) Index is replacing the MSCI EAFE Index as the Fund's benchmark. The investment manager believes the Net Dividends Index is more in line with the Fund, taking into account the impact of foreign withholding taxes.

The after-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. After-tax returns are not relevant to investors who hold their Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts. After-tax returns are shown only for Class A and after-tax returns for other classes will vary.

XXVII. For the Franklin Gold and Precious Metals Fund, the following replaces the "Fund Summaries – Franklin Gold and Precious Metals Fund – Performance" section beginning on page 7 of the prospectus:

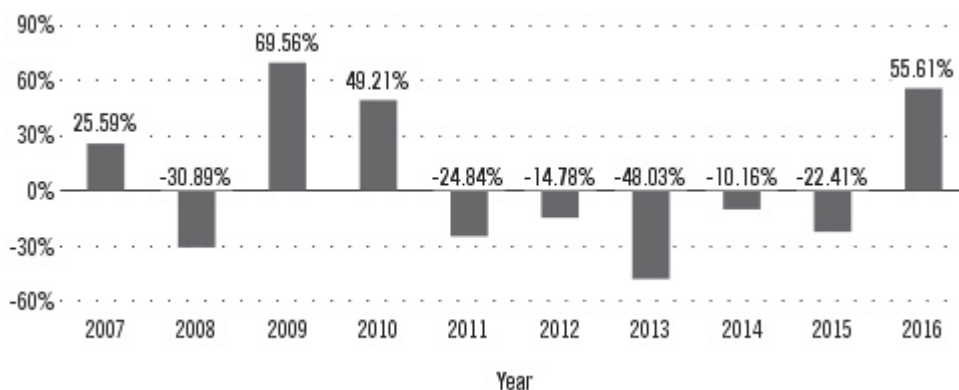
Performance

The following bar chart and table provide some indication of the risks of investing in the Fund. The bar chart shows changes in the Fund's performance from year to year for Class A shares. The table shows how the Fund's average annual returns for 1 year, 5 years, 10 years or since inception, as applicable, compared with those of a broad measure of market performance. The Fund's past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future. You can obtain updated performance information at franklintempleton.com or by calling (800) DIAL BEN/342-5236.

The secondary index in the table below shows how the Fund's performance compares to a group of securities that aligns more closely with the Fund's investment strategies.

Sales charges are not reflected in the bar chart, and if those charges were included, returns would be less than those shown.

Class A Annual Total Returns



Best Quarter:	Q1'16	45.50%
Worst Quarter:	Q2'13	-38.15%
As of March 31, 2017, the Fund's year-to-date return was 12.56%.		

Average Annual Total Returns (figures reflect sales charges)

For the periods ended December 31, 2016

	1 Year	5 Years	10 Years
Franklin Gold and Precious Metals Fund - Class A			
Return Before Taxes	46.69%	-14.66%	-2.87%
Return After Taxes on Distributions	41.63%	-15.34%	-4.18%
Return After Taxes on Distributions and Sale of Fund Shares	26.47%	-10.41%	-1.70%
Franklin Gold and Precious Metals Fund - Class C	53.47%	-14.27%	-3.01%
Franklin Gold and Precious Metals Fund - Class R6	56.38%	-3.58% ¹	—
Franklin Gold and Precious Metals Fund - Advisor Class	56.01%	-13.41%	-2.05%
S&P 500® Index (index reflects no deduction for fees, expenses or taxes)	11.96%	14.65%	6.94%
FTSE Gold Mines Index (index reflects no deduction for fees, expenses or taxes)	60.72%	-14.74%	-4.38%

1. Since inception May 1, 2013.

No one index is representative of the Fund's portfolio.

The after-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. After-tax returns are not relevant to investors who hold their Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts. After-tax returns are shown only for Class A and after-tax returns for other classes will vary.

XXVIII. For the Franklin Adjustable U.S. Government Securities Fund, the following is added to the "Fund Summaries – Franklin Adjustable U.S. Government Securities Fund – Performance" section beginning on page 7 of the prospectus:

As of March 31, 2017, the Fund's year-to-date return was 0.21%.

XXIX. For the Franklin Balanced Fund, the following is added to the "Fund Summaries – Franklin Balanced Fund – Performance" section beginning on page 7 of the prospectus:

As of March 31, 2017, the Fund's year-to-date return was 2.63%.

XXX. For the Franklin Convertible Securities Fund, the following is added to the “Fund Summaries – Franklin Convertible Securities Fund – Performance” section beginning on page 14 of the prospectus:

As of March 31, 2017, the Fund's year-to-date return was 6.38%.

XXXI. For the Franklin Equity Income Fund, the following is added to the “Fund Summaries – Franklin Equity Income Fund – Performance” section beginning on page 22 of the prospectus:

As of March 31, 2017, the Fund's year-to-date return was 3.57%.

XXXII. For the Franklin Floating Rate Daily Access Fund, the following is added to the “Fund Summaries – Franklin Floating Rate Daily Access Fund – Performance” section beginning on page 17 of the prospectus:

As of March 31, 2017, the Fund's year-to-date return was 0.70%.

XXXIII. For the Franklin Low Duration Total Return Fund, the following is added to the “Fund Summaries – Franklin Low Duration Total Return Fund – Performance” section beginning on page 28 of the prospectus:

As of March 31, 2017, the Fund's year-to-date return was 0.76%.

XXXIV. For the Franklin Real Return Fund, the following is added to the “Fund Summaries – Franklin Real Return Fund – Performance” section beginning on page 31 of the prospectus:

As of March 31, 2017, the Fund's year-to-date return was 1.09%.

XXXV. For the Franklin Total Return Fund, the following is added to the “Fund Summaries – Franklin Total Return Fund – Performance” section beginning on page 40 of the prospectus:

As of March 31, 2017, the Fund's year-to-date return was 1.03%.

XXXVI. For the Franklin Rising Dividends Fund, the following is added to the “Fund Summaries – Franklin Rising Dividends Fund – Performance” section beginning on page 5 of the prospectus:

As of March 31, 2017, the Fund's year-to-date return was 4.62%.

XXXVII. For the Franklin Mutual Beacon Fund, the following is added to the “Fund Summaries – Franklin Mutual Beacon Fund – Performance” section beginning on page 7 of the prospectus:

As of March 31, 2017, the Fund's year-to-date return was 6.46%.

XXXVIII. For the Franklin Mutual European Fund, the following is added to the “Fund Summaries – Franklin Mutual European Fund – Performance” section beginning on page 50 of the prospectus:

As of March 31, 2017, the Fund's year-to-date return was 3.75%.

XXXIX. For the Franklin Mutual Financial Services Fund, the following is added to the “Fund Summaries – Franklin Mutual Financial Services Fund – Performance” section beginning on page 41 of the prospectus:

As of March 31, 2017, the Fund's year-to-date return was 1.20%.

XL. For the Franklin Mutual Global Discovery Fund, the following is added to the “Fund Summaries – Franklin Mutual Global Discovery Fund – Performance” section beginning on page 15 of the prospectus:

As of March 31, 2017, the Fund's year-to-date return was 4.38%.

XLI. For the Franklin Mutual International Fund, the following is added to the “Fund Summaries – Franklin Mutual International Fund – Performance” section beginning on page 60 of the prospectus:

As of March 31, 2017, the Fund's year-to-date return was 4.63%.

XLII. For the Franklin Mutual Quest Fund, the following is added to the “Fund Summaries – Franklin Mutual Quest Fund – Performance” section beginning on page 23 of the prospectus:

As of March 31, 2017, the Fund's year-to-date return was 0.91%.

XLIII. For the Franklin Mutual Shares Fund, the following is added to the “Fund Summaries – Franklin Mutual Shares Fund – Performance” section beginning on page 31 of the prospectus:

As of March 31, 2017, the Fund's year-to-date return was 3.75%.

XLIV. For the Franklin New York Intermediate-Term Tax-Free Income Fund, the following is added to the “Fund Summaries – Franklin New York Intermediate-Term Tax-Free Income Fund – Performance” section beginning on page 6 of the prospectus:

As of March 31, 2017, the Fund's year-to-date return was 1.17%.

XLV. For the Franklin Biotechnology Discovery Fund, the following replaces the “Fund Summaries – Franklin Biotechnology Discovery Fund – Performance” section beginning on page 7 of the prospectus:

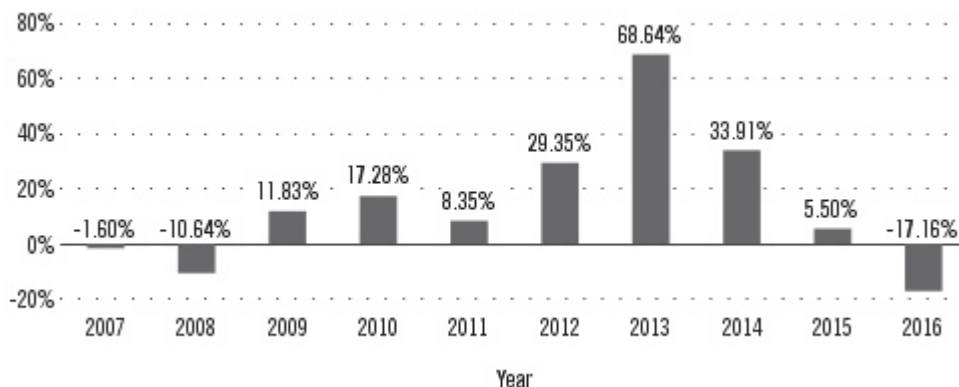
Performance

The following bar chart and table provide some indication of the risks of investing in the Fund. The bar chart shows changes in the Fund's performance from year to year for Class A shares. The table shows how the Fund's average annual returns for 1 year, 5 years, 10 years or since inception, as applicable, compared with those of a broad measure of market performance. The Fund's past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future. You can obtain updated performance information at franklintempleton.com or by calling (800) DIAL BEN/342-5236.

The secondary index in the table below shows how the Fund's performance compares to a group of securities that aligns more closely with the Fund's investment strategies.

Sales charges are not reflected in the bar chart, and if those charges were included, returns would be less than those shown.

Class A Annual Total Returns



Best Quarter:	Q3'13	24.98%
Worst Quarter:	Q1'16	-24.51%
As of March 31, 2017, the Fund's year-to-date return was 12.81%.		

Average Annual Total Returns (figures reflect sales charges)

For the periods ended December 31, 2016

	1 Year	5 Years	10 Years
Franklin Biotechnology Discovery Fund - Class A			
Return Before Taxes	-21.92%	19.20%	11.64%
Return After Taxes on Distributions	-22.83%	17.60%	10.65%
Return After Taxes on Distributions and Sale of Fund Shares	-11.84%	15.38%	9.50%
Franklin Biotechnology Discovery Fund - Class C			
	-18.54%	19.74%	11.48%

Franklin Biotechnology Discovery Fund - Class R6	-16.82%	13.83% ¹	—
Franklin Biotechnology Discovery Fund - Advisor Class	-16.96%	20.94%	12.53%
S&P 500® Index (index reflects no deduction for fees, expenses or taxes)	11.96%	14.65%	6.94%
NASDAQ Biotechnology Index (index reflects no deduction for fees, expenses or taxes)	-21.68%	20.80%	13.42%

1. Since inception May 1, 2013.

Historical performance for Class C and Advisor Class shares prior to their inception is based on the performance of Class A shares. Class C and Advisor Class performance have been adjusted to reflect differences in sales charges and 12b-1 expenses (with respect to Class C only) between classes.

No one index is representative of the Fund's portfolio.

The after-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. After-tax returns are not relevant to investors who hold their Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts. After-tax returns are shown only for Class A and after-tax returns for other classes will vary.

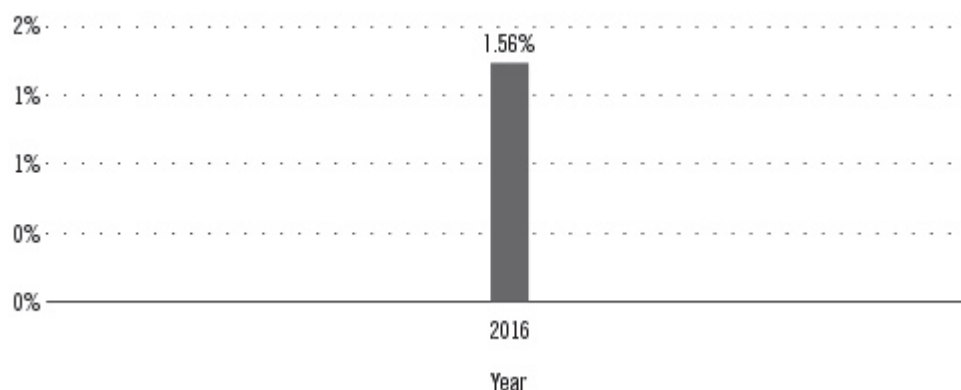
XLVI. For the Franklin Flexible Alpha Fund, the following replaces the "Fund Summaries – Franklin Flexible Alpha Fund – Performance" section beginning on page 10 of the prospectus:

Performance

The following bar chart and table provide some indication of the risks of an investment in the Fund by comparing the Fund's performance with a broad measure of market performance. The bar chart shows the Fund's performance for the most recent calendar year for Class A shares. The Fund's past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future. You can obtain updated performance information at franklintempleton.com or by calling (800) DIAL BEN/342-5236.

Sales charges are not reflected in the bar chart, and if those charges were included, returns would be less than those shown.

Class A Annual Total Returns



Best Quarter:	Q3'16	0.75%
Worst Quarter:	Q1'16	-0.31%
As of March 31, 2017, the Fund's year-to-date return was 0.42%.		

Average Annual Total Returns

For the periods ended December 31, 2016

	1 Year	Since Inception 8/3/2015
Franklin Flexible Alpha Bond Fund - Class A		
Return Before Taxes	-2.77%	-2.21%
Return After Taxes on Distributions	-3.58%	-3.01%
Return After Taxes on Distributions and Sale of Fund Shares	-1.57%	-2.05%
Franklin Flexible Alpha Bond Fund - Class C	-0.11%	0.23%
Franklin Flexible Alpha Bond Fund - Class R	1.55%	0.71%

Franklin Flexible Alpha Bond Fund - Class R6	1.59%	0.89%
Franklin Flexible Alpha Bond Fund - Advisor Class	1.47%	0.77%
LIBOR USD 3-Month Rate Index (index reflects no deduction for fees, expenses or taxes)	0.76%	0.66%

The after-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. After-tax returns are not relevant to investors who hold their Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts. After tax-returns are shown only for Advisor Class and after-tax returns for other classes will vary.

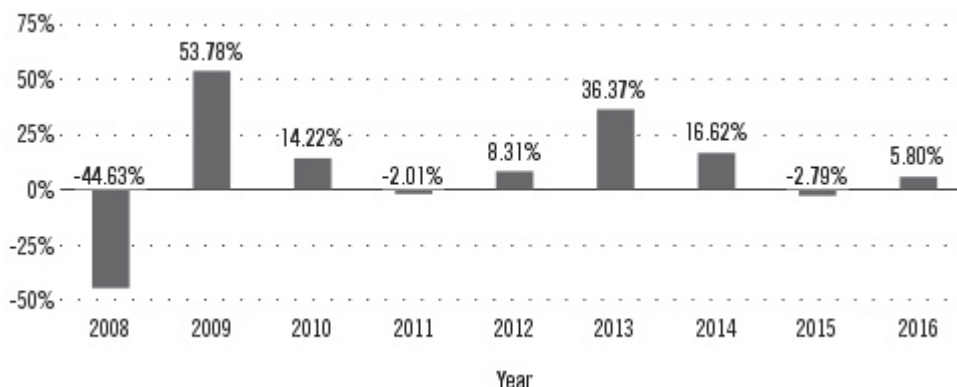
XLVII. For the Franklin Focused Core Equity Fund, the following replaces the “Fund Summaries – Franklin Focused Core Equity Fund – Performance” section beginning on page 5 of the prospectus:

Performance

The following bar chart and table provide some indication of the risks of investing in the Fund. The bar chart shows changes in the Fund's performance from year to year for Class A shares. The table shows how the Fund's average annual returns for 1 year, 5 years, 10 years or since inception, as applicable, compared with those of a broad measure of market performance. The Fund's past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future. You can obtain updated performance information at franklintempleton.com or by calling (800) DIAL BEN/342-5236.

Sales charges are not reflected in the bar chart, and if those charges were included, returns would be less than those shown.

Class A Annual Total Returns



Best Quarter:	Q2'09	20.89%
Worst Quarter:	Q4'08	-26.92%
As of March 31, 2017, the Fund's year-to-date return was 4.58%.		

Average Annual Total Returns

(figures reflect sales charges)

For the periods ended December 31, 2016

	1 Year	5 Years	Since Inception 12/13/2007
Franklin Focused Core Equity Fund - Class A			
Return Before Taxes	-0.28%	10.79%	5.39%
Return After Taxes on Distributions	-0.28%	10.35%	5.00%
Return After Taxes on Distributions and Sale of Fund Shares	-0.16%	8.51%	4.23%
Franklin Focused Core Equity Fund - Class C	4.04%	11.34%	5.34%
Franklin Focused Core Equity Fund - Class R	5.63%	11.88%	5.85%
Franklin Focused Core Equity Fund - Class R6	6.25%	—	11.64% ¹
Franklin Focused Core Equity Fund - Advisor Class	6.03%	12.43%	6.37%
S&P 500® Index (index reflects no deduction for fees, expenses or	11.96%	14.65%	6.92%

taxes)

1. Since inception May 1, 2013.

The after-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. After-tax returns are not relevant to investors who hold their Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts. After-tax returns are shown only for Class A and after-tax returns for other classes will vary.

XLVIII. For the Franklin Growth Opportunities Fund, the following replaces the “Fund Summaries – Franklin Growth Opportunities Fund – Performance” section beginning on page 13 of the prospectus:

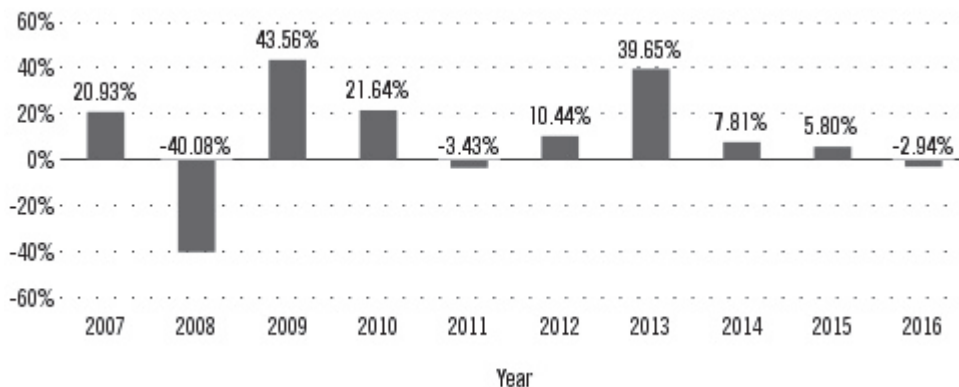
Performance

The following bar chart and table provide some indication of the risks of investing in the Fund. The bar chart shows changes in the Fund's performance from year to year for Class A shares. The table shows how the Fund's average annual returns for 1 year, 5 years, 10 years or since inception, as applicable, compared with those of a broad measure of market performance. The Fund's past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future. You can obtain updated performance information at franklintempleton.com or by calling (800) DIAL BEN/342-5236.

The secondary index in the table below shows how the Fund's performance compares to a group of securities that aligns more closely with the Fund's investment strategies.

Sales charges are not reflected in the bar chart, and if those charges were included, returns would be less than those shown.

Class A Annual Total Returns



Best Quarter:	Q3'10	16.91%
Worst Quarter:	Q4'08	-21.07%
As of March 31, 2017, the Fund's year-to-date return was 11.13%.		

Average Annual Total Returns (figures reflect sales charges)

For the periods ended December 31, 2016

	1 Year	5 Years	10 Years
Franklin Growth Opportunities Fund - Class A			
Return Before Taxes	-8.53%	9.98%	6.99%
Return After Taxes on Distributions	-8.97%	9.44%	6.62%
Return After Taxes on Distributions and Sale of Fund Shares	-4.46%	7.92%	5.67%
Franklin Growth Opportunities Fund - Class C	-4.61%	10.49%	6.87%
Franklin Growth Opportunities Fund - Class R	-3.20%	11.05%	7.41%
Franklin Growth Opportunities Fund - Class R6	-2.50%	10.14% ¹	—
Franklin Growth Opportunities Fund - Advisor Class	-2.72%	11.61%	7.94%
S&P 500® Index (index reflects no deduction for fees, expenses or taxes)	11.96%	14.65%	6.94%
Russell 3000® Growth Index (index reflects no deduction for fees, expenses)	7.39%	14.43%	8.28%

or taxes)

1. Since inception May 1, 2013.

No one index is representative of the Fund's portfolio.

The after-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. After-tax returns are not relevant to investors who hold their Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts. After-tax returns are shown only for Class A and after-tax returns for other classes will vary.

XLIX. For the Franklin Natural Resources Fund, the following replaces the "Fund Summaries – Franklin Natural Resources Fund – Performance" section beginning on page 15 of the prospectus:

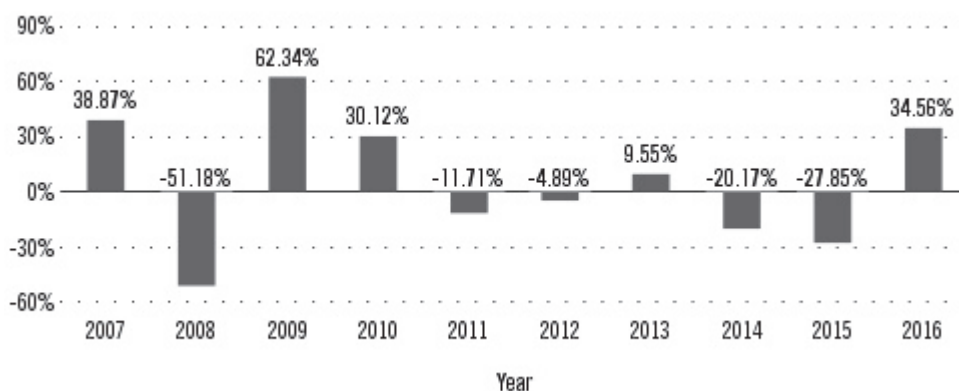
Performance

The following bar chart and table provide some indication of the risks of investing in the Fund. The bar chart shows changes in the Fund's performance from year to year for Class A shares. The table shows how the Fund's average annual returns for 1 year, 5 years, 10 years or since inception, as applicable, compared with those of a broad measure of market performance. The Fund's past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future. You can obtain updated performance information at franklintempleton.com or by calling (800) DIAL BEN/342-5236.

The secondary index in the table below shows how the Fund's performance compares to a group of securities that aligns more closely with the Fund's investment strategies.

Sales charges are not reflected in the bar chart, and if those charges were included, returns would be less than those shown.

Class A Annual Total Returns



Best Quarter:	Q2'08	23.66%
Worst Quarter:	Q4'08	-36.13%
As of March 31, 2017, the Fund's year-to-date return was -3.38%.		

Average Annual Total Returns

(figures reflect sales charges)

For the periods ended December 31, 2016

	1 Year	5 Years	10 Years
Franklin Natural Resources Fund - Class A			
Return Before Taxes	26.81%	-5.31%	-0.38%
Return After Taxes on Distributions	26.51%	-5.45%	-0.85%
Return After Taxes on Distributions and Sale of Fund Shares	15.43%	-3.94%	-0.24%
Franklin Natural Resources Fund - Class C			
	32.55%	-4.86%	-0.50%
Franklin Natural Resources Fund - Class R6			
	35.34%	-6.57% ¹	—
Franklin Natural Resources Fund - Advisor Class			
	34.89%	-3.91%	0.50%
S&P 500® Index (index reflects no deduction for fees, expenses or taxes)	11.96%	14.65%	6.94%
S&P North American Natural Resources Sector Index (index reflects no	31.69%	1.39%	2.71%

1. Since inception September 20, 2013.

No one index is representative of the Fund's portfolio.

The after-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. After-tax returns are not relevant to investors who hold their Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts. After-tax returns are shown only for Class A and after-tax returns for other classes will vary.

L. For the Franklin Small-Mid Cap Growth Fund, the following replaces the "Fund Summaries – Franklin Small-Mid Cap Growth Fund – Performance" section beginning on page 27 of the prospectus:

Performance

The following bar chart and table provide some indication of the risks of investing in the Fund. The bar chart shows changes in the Fund's performance from year to year for Class A shares. The table shows how the Fund's average annual returns for 1 year, 5 years, 10 years or since inception, as applicable, compared with those of a broad measure of market performance. The Fund's past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future. You can obtain updated performance information at franklintempleton.com or by calling (800) DIAL BEN/342-5236.

The secondary index in the table below shows how the Fund's performance compares to a group of securities that aligns more closely with the Fund's investment strategies.

Sales charges are not reflected in the bar chart, and if those charges were included, returns would be less than those shown.

Class A Annual Total Returns



Best Quarter:	Q2'09	17.32%
Worst Quarter:	Q4'08	-26.27%
As of March 31, 2017, the Fund's year-to-date return was 7.37%.		

Average Annual Total Returns

(figures reflect sales charges)

For the periods ended December 31, 2016

	1 Year	5 Years	10 Years
Franklin Small-Mid Cap Growth Fund - Class A			
Return Before Taxes	-1.67%	9.74%	5.97%
Return After Taxes on Distributions	-3.14%	6.91%	4.26%
Return After Taxes on Distributions and Sale of Fund Shares	0.24%	7.52%	4.72%
Franklin Small-Mid Cap Growth Fund - Class C	2.63%	10.21%	5.81%
Franklin Small-Mid Cap Growth Fund - Class R	4.06%	10.75%	6.33%
Franklin Small-Mid Cap Growth Fund - Class R6	4.84%	9.72% ¹	—
Franklin Small-Mid Cap Growth Fund - Advisor Class	4.62%	11.33%	6.88%
S&P 500® Index (index reflects no deduction for fees, expenses or taxes)	11.96%	14.65%	6.94%

1. Since inception May 1, 2013.

No one index is representative of the Fund's portfolio.

The after-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. After-tax returns are not relevant to investors who hold their Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts. After-tax returns are shown only for Class A and after-tax returns for other classes will vary.

LI. For the Franklin Strategic Income Fund, the following replaces the "Fund Summaries – Franklin Strategic Income Fund – Performance" section beginning on page 9 of the prospectus:

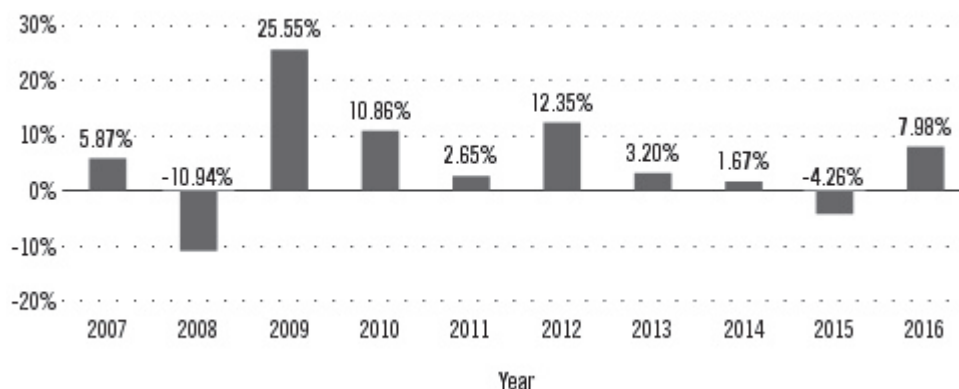
Performance

The following bar chart and table provide some indication of the risks of investing in the Fund. The bar chart shows changes in the Fund's performance from year to year for Class A shares. The table shows how the Fund's average annual returns for 1 year, 5 years, 10 years or since inception, as applicable, compared with those of a broad measure of market performance. The Fund's past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future. You can obtain updated performance information at franklintempleton.com or by calling (800) DIAL BEN/342-5236.

The Lipper Multi-Sector Income Funds Classification Average in the table shows how the Fund's performance compares with the returns of an index of funds with similar investment objectives.

Sales charges are not reflected in the bar chart, and if those charges were included, returns would be less than those shown.

Class A Annual Total Returns



Best Quarter:	Q2'09	9.70%
Worst Quarter:	Q4'08	-5.72%
As of March 31, 2017, the Fund's year-to-date return was 1.91%.		

Average Annual Total Returns

(figures reflect sales charges)

For the periods ended December 31, 2016

	1 Year	5 Years	10 Years
Franklin Strategic Income Fund - Class A			
Return Before Taxes	3.35%	3.13%	4.62%
Return After Taxes on Distributions	2.21%	1.15%	2.46%
Return After Taxes on Distributions and Sale of Fund Shares	1.87%	1.58%	2.69%
Franklin Strategic Income Fund - Class C	6.44%	3.60%	4.65%
Franklin Strategic Income Fund - Class R	7.63%	3.76%	4.82%
Franklin Strategic Income Fund - Class R6	8.40%	1.78% ¹	—
Franklin Strategic Income Fund - Advisor Class	8.24%	4.29%	5.35%

Bloomberg Barclays U.S. Aggregate Index (index reflects no deduction for fees, expenses or taxes)	2.65%	2.23%	4.34%
Lipper Multi-Sector Income Funds Classification Average (index reflects no deduction for fees, expenses or taxes)	-1.68%	3.46%	4.74%

1. Since inception May 1, 2013.

No one index is representative of the Fund's portfolio.

The after-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. After-tax returns are not relevant to investors who hold their Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts. After-tax returns are shown only for Class A and after-tax returns for other classes will vary.

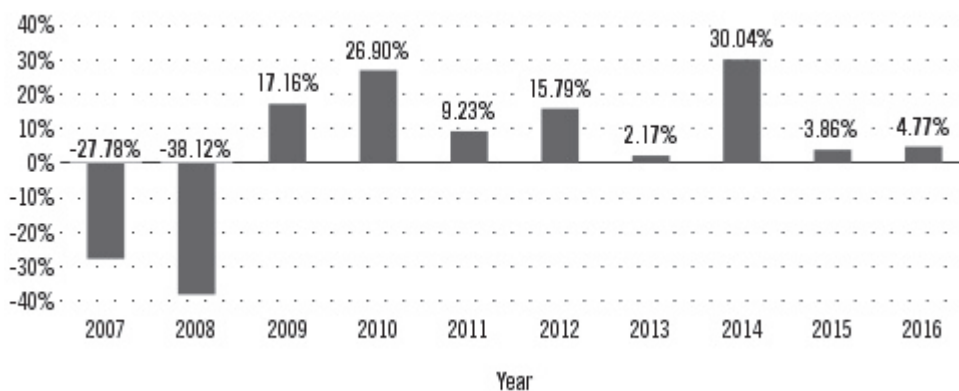
LII. For the Franklin Real Estate Securities Fund, the following replaces the "Fund Summaries – Franklin Real Estate Securities Fund – Performance" section beginning on page 5 of the prospectus:

Performance

The following bar chart and table provide some indication of the risks of investing in the Fund. The bar chart shows changes in the Fund's performance from year to year for Class A shares. The table shows how the Fund's average annual returns for 1 year, 5 years, 10 years or since inception, as applicable, compared with those of a broad measure of market performance. The Fund's past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future. You can obtain updated performance information at franklintempleton.com or by calling (800) DIAL BEN/342-5236.

Sales charges are not reflected in the bar chart, and if those charges were included, returns would be less than those shown.

Class A Annual Total Returns



Best Quarter:	Q3'09	31.39%
Worst Quarter:	Q4'08	-37.80%
As of March 31, 2017, the Fund's year-to-date return was 0.00%.		

Average Annual Total Returns (figures reflect sales charges)

For the periods ended December 31, 2016

	1 Year	5 Years	10 Years
Franklin Real Estate Securities Fund - Class A			
Return Before Taxes	-1.24%	9.55%	1.36%
Return After Taxes on Distributions	-2.88%	8.70%	0.39%
Return After Taxes on Distributions and Sale of Fund Shares	-0.53%	7.16%	0.65%
Franklin Real Estate Securities Fund - Class C	2.97%	10.04%	1.20%
Franklin Real Estate Securities Fund - Class R6	5.29%	7.35% ¹	—
Franklin Real Estate Securities Fund - Advisor Class	5.06%	11.16%	2.23%
S&P US Property Index (index reflects no deduction for fees, expenses or taxes)	8.44%	11.85%	4.69%

1. Since inception May 1, 2013.

The after-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. After-tax returns are not relevant to investors who hold their Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts. After-tax returns are shown only for Class A and after-tax returns for other classes will vary.

LIII. For the Franklin High Income Fund, the following replaces the "Fund Summaries – Franklin High Income Fund – Performance" section beginning on page 6 of the prospectus:

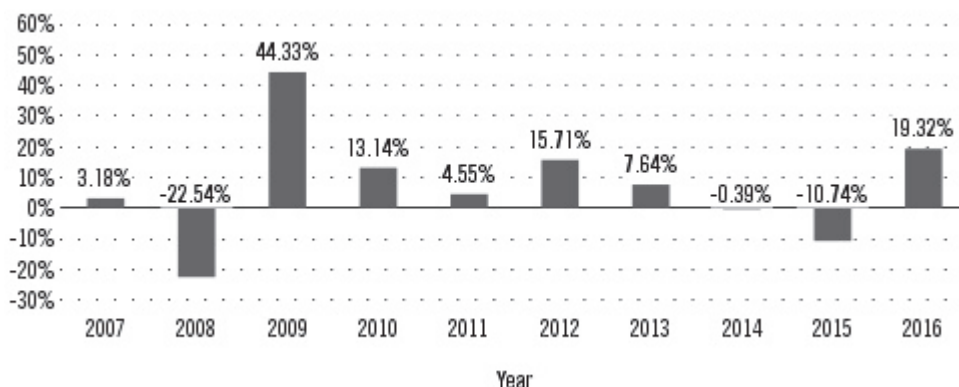
Performance

The following bar chart and table provide some indication of the risks of investing in the Fund. The bar chart shows changes in the Fund's performance from year to year for Class A shares. The table shows how the Fund's average annual returns for 1 year, 5 years, 10 years or since inception, as applicable, compared with those of a broad measure of market performance. The Fund's past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future. You can obtain updated performance information at franklintempleton.com or by calling (800) DIAL BEN/342-5236.

The secondary index in the table below shows how the Fund's performance compares with the returns of an index of funds with similar investment objectives as the Fund.

Sales charges are not reflected in the bar chart, and if those charges were included, returns would be less than those shown.

Class A Annual Total Returns



Best Quarter:	Q2'09	18.22%
Worst Quarter:	Q4'08	-14.25%
As of March 31, 2017, the Fund's year-to-date return was 3.50%.		

Average Annual Total Returns

(figures reflect sales charges)

For the periods ended December 31, 2016

	1 Year	5 Years	10 Years
Franklin High Income Fund - Class A			
Return Before Taxes	14.49%	4.78%	5.63%
Return After Taxes on Distributions	11.41%	2.03%	2.78%
Return After Taxes on Distributions and Sale of Fund Shares	8.03%	2.44%	3.10%
Franklin High Income Fund - Class C	17.47%	5.15%	5.54%
Franklin High Income Fund - Class R	18.53%	5.27%	5.68%
Franklin High Income Fund - Class R6	19.71%	2.55% ¹	—
Franklin High Income Fund - Advisor Class	19.41%	5.88%	6.27%
Credit Suisse High Yield Index (index reflects no deduction for fees, expenses or taxes)	18.39%	7.18%	7.15%
Lipper High Yield Funds Classification Average (index reflects no deduction for fees, expenses or taxes)	-4.09%	4.08%	5.58%

1. Since inception May 1, 2013.

The after-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. After-tax returns are not relevant to investors who hold their Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts. After-tax returns are shown only for Class A and after-tax returns for other classes will vary.

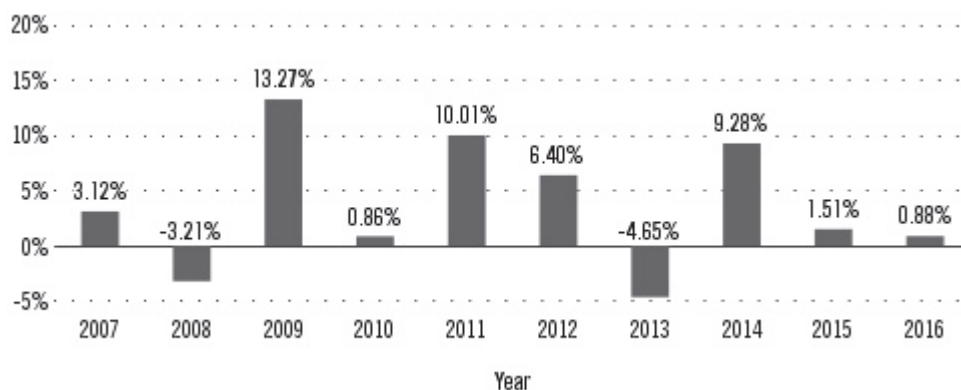
LIV. For the Franklin New York Tax-Free Income Fund, the following replaces the "Fund Summaries – Franklin New York Tax-Free Income Fund – Performance" section beginning on page 6 of the prospectus:

Performance

The following bar chart and table provide some indication of the risks of investing in the Fund. The bar chart shows changes in the Fund's performance from year to year for Class A shares. The table shows how the Fund's average annual returns for 1 year, 5 years, 10 years or since inception, as applicable, compared with those of a broad measure of market performance. The Fund's past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future. You can obtain updated performance information at franklintempleton.com or by calling (800) DIAL BEN/342-5236.

Sales charges are not reflected in the bar chart, and if those charges were included, returns would be less than those shown.

Class A Annual Total Returns



Best Quarter:	Q3'09	6.60%
Worst Quarter:	Q4'10	-5.18%
As of March 31, 2017, the Fund's year-to-date return was 0.71%.		

Average Annual Total Returns (figures reflect sales charges)

For the periods ended December 31, 2016

	1 Year	5 Years	10 Years
Franklin New York Tax-Free Income Fund - Class A			
Return Before Taxes	-3.41%	1.68%	3.14%
Return After Taxes on Distributions	-3.41%	1.68%	3.13%
Return After Taxes on Distributions and Sale of Fund Shares	-0.44%	2.14%	3.33%
Franklin New York Tax-Free Income Fund - Class C			
	-0.74%	1.99%	3.02%
Franklin New York Tax-Free Income Fund - Advisor Class			
	0.88%	2.65%	3.69%
Bloomberg Barclays Municipal Bond Index (index reflects no deduction for fees, expenses or taxes)	0.25%	3.28%	4.25%

The after-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. After-tax returns are shown only for Class A and after-tax returns for other classes will vary.

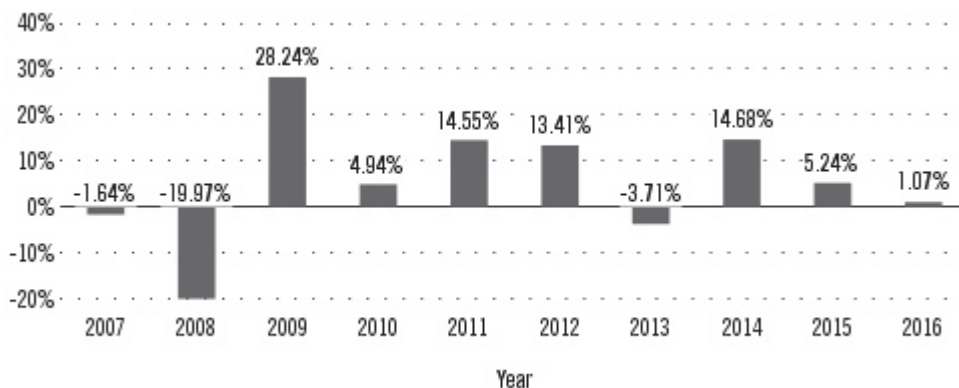
LV. For the Franklin California High Yield Municipal Fund, the following replaces the “Fund Summaries – Franklin California High Yield Municipal Fund – Performance” section beginning on page 6 of the prospectus:

Performance

The following bar chart and table provide some indication of the risks of investing in the Fund. The bar chart shows changes in the Fund's performance from year to year for Class A shares. The table shows how the Fund's average annual returns for 1 year, 5 years, 10 years or since inception, as applicable, compared with those of a broad measure of market performance. The Fund's past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future. You can obtain updated performance information at franklintempleton.com or by calling (800) DIAL BEN/342-5236.

Sales charges are not reflected in the bar chart, and if those charges were included, returns would be less than those shown.

Class A Annual Total Returns



Best Quarter:	Q3'09	14.92%
Worst Quarter:	Q4'08	-14.29%
As of March 31, 2017, the Fund's year-to-date return was 1.81%.		

Average Annual Total Returns

(figures reflect sales charges)

For the periods ended December 31, 2016

	1 Year	5 Years	10 Years
Franklin California High Yield Municipal Fund - Class A			
Return Before Taxes	-3.22%	4.99%	4.46%
Return After Taxes on Distributions	-3.22%	4.99%	4.46%
Return After Taxes on Distributions and Sale of Fund Shares	-0.27%	4.86%	4.47%
Franklin California High Yield Municipal Fund - Class C	-0.37%	5.35%	4.36%
Franklin California High Yield Municipal Fund - Advisor Class	1.17%	6.02%	5.05%
Bloomberg Barclays Municipal Bond Index (index reflects no deduction for fees, expenses or taxes)	0.25%	3.28%	4.25%

Historical performance for Advisor Class shares prior to their inception is based on the performance of Class A shares. Advisor Class performance has been adjusted to reflect differences in sales charges between classes.

The after-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. After-tax returns are shown only for Class A and after-tax returns for other classes will vary.

LVI. For the Franklin Tennessee Municipal Bond Fund, the following replaces the “Fund Summaries – Franklin Tennessee Municipal Bond Fund – Performance” section beginning on page 14 of the prospectus:

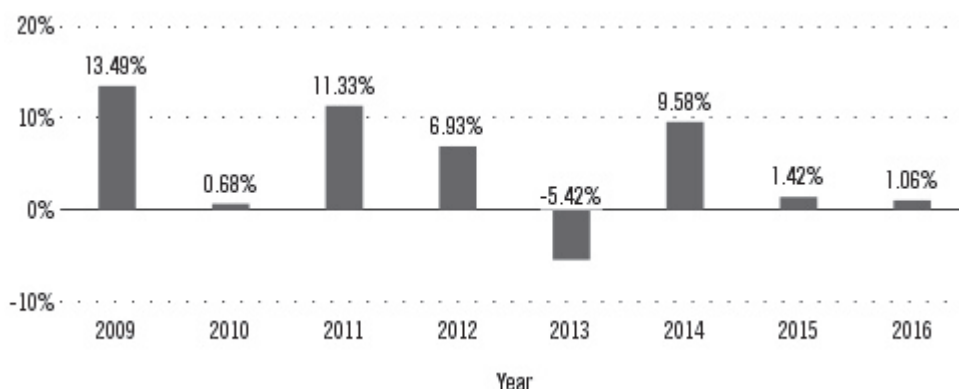
Performance

The following bar chart and table provide some indication of the risks of investing in the Fund. The bar chart shows changes in the Fund's performance from year to year for Class A shares. The table shows how the Fund's average annual returns for 1 year, 5 years, 10 years or since inception, as applicable, compared with those of a broad measure of market

performance. The Fund's past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future. You can obtain updated performance information at franklintempleton.com or by calling (800) DIAL BEN/342-5236.

Sales charges are not reflected in the bar chart, and if those charges were included, returns would be less than those shown.

Class A Annual Total Returns



Best Quarter:	Q3'09	5.93%
Worst Quarter:	Q4'10	-5.37%
As of March 31, 2017, the Fund's year-to-date return was 0.76%.		

Average Annual Total Returns (figures reflect sales charges)

For the periods ended December 31, 2016

	1 Year	5 Years	10 Years
Franklin Tennessee Municipal Bond Fund - Class A			
Return Before Taxes	-3.22%	1.69%	3.19%
Return After Taxes on Distributions	-3.22%	1.69%	3.19%
Return After Taxes on Distributions and Sale of Fund Shares	-0.39%	2.12%	3.32%
Franklin Tennessee Municipal Bond Fund - Advisor Class	1.08%	2.59%	3.64%
Bloomberg Barclays Municipal Bond Index (index reflects no deduction for fees, expenses or taxes)	0.25%	3.28%	4.25%

Historical performance for Advisor Class shares prior to their inception is based on the performance of Class A shares. Advisor Class performance has been adjusted to reflect differences in sales charges between classes.

The after-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. After-tax returns are shown only for Class A and after-tax returns for other classes will vary.

LVII. For the Templeton Global Currency Fund, the following is added to the "Fund Summaries – Templeton Global Currency Fund – Performance" section beginning on page 9 of the prospectus:

As of March 31, 2017, the Fund's year-to-date return was 2.93%.

LVIII. For the Franklin Balance Sheet Investment Fund, the following is added to the "Fund Summaries – Franklin Balance Sheet Investment Fund – Performance" section beginning on page 6 of the prospectus:

As of March 31, 2017, the Fund's year-to-date return was 1.83%.

LIX. For the Franklin MidCap Value Fund, the following is added to the "Fund Summaries – Franklin MidCap Value Fund – Performance" section beginning on page 21 of the prospectus:

As of March 31, 2017, the Fund's year-to-date return was 3.80%.

LX. For the Franklin Small Cap Value Fund, the following is added to the “Fund Summaries – Franklin Small Cap Value Fund – Performance” section beginning on page 29 of the prospectus:

As of March 31, 2017, the Fund's year-to-date return was -0.53%.

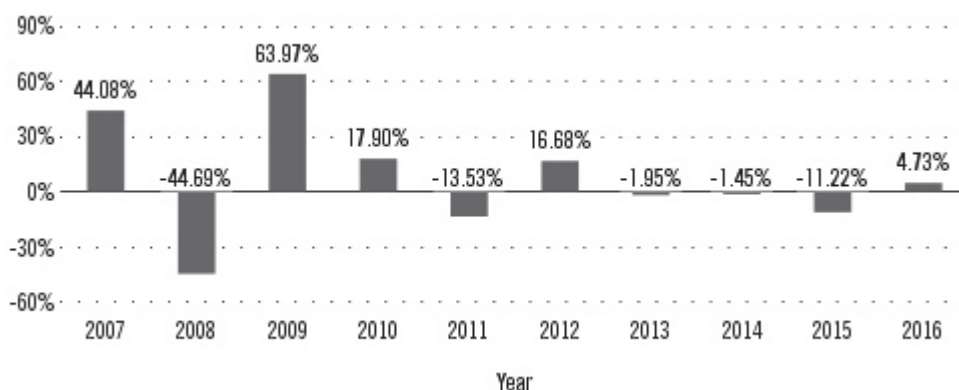
LXI. For the Templeton China World Fund, the following replaces the “Fund Summaries – Templeton China World Fund – Performance” section beginning on page 6 of the prospectus:

Performance

The following bar chart and table provide some indication of the risks of investing in the Fund. The bar chart shows changes in the Fund's performance from year to year for Class A shares. The table shows how the Fund's average annual returns for 1 year, 5 years, 10 years or since inception, as applicable, compared with those of a broad measure of market performance. The Fund's past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future. You can obtain updated performance information at franklintempleton.com or by calling (800) DIAL BEN/342-5236.

Sales charges are not reflected in the bar chart, and if those charges were included, returns would be less than those shown.

Class A Annual Total Returns



Best Quarter:	Q2'09	32.45%
Worst Quarter:	Q3'15	-21.80%
As of March 31, 2017, the Fund's year-to-date return was 9.51%.		

Average Annual Total Returns

(figures reflect sales charges)

For the periods ended December 31, 2016

	1 Year	5 Years	10 Years
Templeton China World Fund - Class A			
Return Before Taxes	-1.29%	-0.24%	2.79%
Return After Taxes on Distributions	-4.29%	-3.03%	0.97%
Return After Taxes on Distributions and Sale of Fund Shares	1.92%	-0.08%	2.31%
Templeton China World Fund - Class C	3.01%	0.23%	2.67%
Templeton China World Fund - Class R6	5.25%	-1.86% ¹	—
Templeton China World Fund - Advisor Class	4.98%	1.24%	3.70%
MSCI Golden Dragon Index (index reflects no deduction for fees, expenses or taxes)	5.75%	6.90%	4.22%

1. Since inception May 1, 2013.

The after-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. After-tax returns are not relevant to investors who hold their Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts. After-tax returns are shown only for Class A and after-tax returns for other classes will vary.

LXII. For the Templeton Developing Markets Trust, the following is added to the “Fund Summaries – Templeton Developing Markets Trust – Performance” section beginning on page 6 of the prospectus:

As of March 31, 2017, the Fund's year-to-date return was 12.96%.

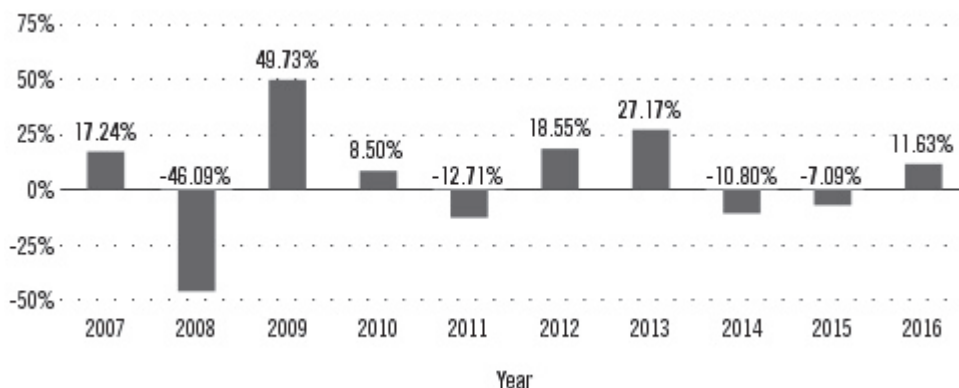
LXIII. For the Templeton Foreign Fund, the following replaces the “Fund Summaries – Templeton Foreign Fund – Performance” section beginning on page 7 of the prospectus:

Performance

The following bar chart and table provide some indication of the risks of investing in the Fund. The bar chart shows changes in the Fund's performance from year to year for Class A shares. The table shows how the Fund's average annual returns for 1 year, 5 years, 10 years or since inception, as applicable, compared with those of a broad measure of market performance. The Fund's past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future. You can obtain updated performance information at franklintempleton.com or by calling (800) DIAL BEN/342-5236.

Sales charges are not reflected in the bar chart, and if those charges were included, returns would be less than those shown.

Class A Annual Total Returns



Best Quarter:	Q2'09	28.36%
Worst Quarter:	Q4'08	-24.25%
As of March 31, 2017, the Fund's year-to-date return was 7.58%.		

Average Annual Total Returns (figures reflect sales charges)

For the periods ended December 31, 2016

	1 Year	5 Years	10 Years
Templeton Foreign Fund - Class A			
Return Before Taxes	5.20%	5.63%	1.66%
Return After Taxes on Distributions	4.82%	4.98%	0.53%
Return After Taxes on Distributions and Sale of Fund Shares	3.40%	4.56%	1.63%
Templeton Foreign Fund - Class C	9.88%	6.07%	1.49%
Templeton Foreign Fund - Class R	11.42%	6.61%	2.00%
Templeton Foreign Fund - Class R6	12.09%	3.49% ¹	—
Templeton Foreign Fund - Advisor Class	11.99%	7.13%	2.51%
MSCI All Country World ex-US Index (index reflects no deduction for fees, expenses or taxes) ²	5.01%	5.48%	1.42%
MSCI EAFE Index (index reflects no deduction for fees, expenses or taxes)	1.51%	7.02%	1.22%

1. Since inception May 1, 2013.

2. As of June 30, 2016, the MSCI All Country World ex-US Index replaced the MSCI EAFE Index as the Fund's benchmark. The investment manager believes the composition of the MSCI All Country World ex-US Index more accurately reflects the Fund's holdings.

The after-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ

from those shown. After-tax returns are not relevant to investors who hold their Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts. After-tax returns are shown only for Class A and after-tax returns for other classes will vary.

LXIV. For the Templeton World Fund, the following replaces the “Fund Summaries – Templeton World Fund – Performance” section beginning on page 7 of the prospectus:

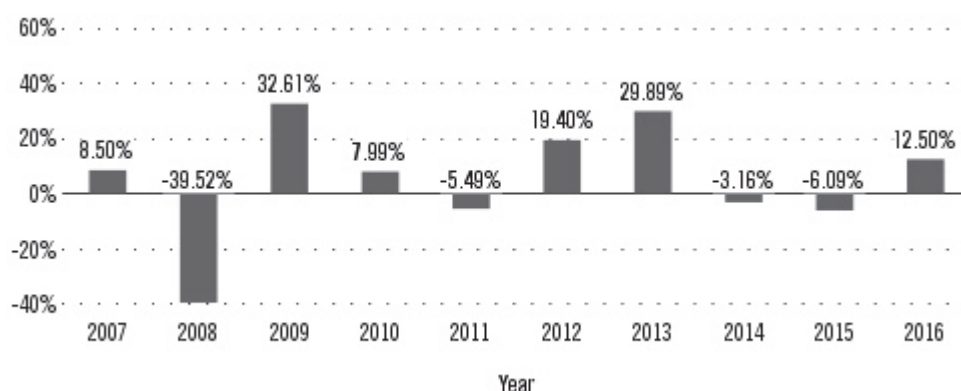
Performance

The following bar chart and table provide some indication of the risks of investing in the Fund. The bar chart shows changes in the Fund's performance from year to year for Class A shares. The table shows how the Fund's average annual returns for 1 year, 5 years, 10 years or since inception, as applicable, compared with those of a broad measure of market performance. The Fund's past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future. You can obtain updated performance information at franklintempleton.com or by calling (800) DIAL BEN/342-5236.

The secondary indices in the table below show how the Fund's performance compares to groups of securities that more closely align with the Fund's portfolio or benchmark history.

Sales charges are not reflected in the bar chart, and if those charges were included, returns would be less than those shown.

Class A Annual Total Returns



Best Quarter:	Q3'09	18.55%
Worst Quarter:	Q4'08	-19.25%
As of March 31, 2017, the Fund's year-to-date return was 4.79%.		

Average Annual Total Returns (figures reflect sales charges)

For the periods ended December 31, 2016

	1 Year	5 Years	10 Years
Templeton World Fund - Class A			
Return Before Taxes	6.01%	8.38%	2.88%
Return After Taxes on Distributions	4.29%	6.94%	1.93%
Return After Taxes on Distributions and Sale of Fund Shares	4.44%	6.65%	2.39%
Templeton World Fund - Class C	10.67%	8.85%	2.72%
Templeton World Fund - Class R6	12.92%	5.84% ¹	—
Templeton World Fund - Advisor Class	12.79%	9.94%	3.74%
MSCI AC World (USD Hedged) Index (index reflects no deduction for fees, expenses or taxes) ²	9.77%	12.21%	4.83%
MSCI World Index (index reflects no deduction for fees, expenses or taxes)	8.15%	11.04%	4.41%
Linked MSCI ACWI Hedged/World (index reflects no deduction for fees, expenses or taxes) ³	10.81%	11.58%	4.67%
MSCI All Country World Index (index reflects no deduction for fees, expenses or taxes)	8.49%	9.96%	4.12%

1. Since inception May 1, 2013.

2. As of June 30, 2016, the MSCI AC World (USD Hedged) Index replaced the MSCI World Index as the Fund's benchmark. On the same date, the Fund began using certain derivative instruments to seek to hedge against currency risk. The investment manager believes the composition of the MSCI AC World (USD Hedged) Index more accurately reflects the Fund's hedging activity and holdings.

3. The Linked MSCI ACWI Hedged/World Index consists of the MSCI World Index through June 29, 2016 and the MSCI ACWI 100% Hedged to the USD Index thereafter.

No one index is representative of the Fund's portfolio.

Historical performance for Advisor Class shares prior to their inception is based on the performance of Class A shares. Advisor Class performance has been adjusted to reflect differences in sales charges between classes.

The after-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. After-tax returns are not relevant to investors who hold their Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts. After-tax returns are shown only for Class A and after-tax returns for other classes will vary.

LXV. For the Templeton Emerging Markets Balanced Fund, the following is added to the "Fund Summaries – Templeton Emerging Markets Balanced Fund – Performance" section beginning on page 10 of the prospectus:

As of March 31, 2017, the Fund's year-to-date return was 10.97%.

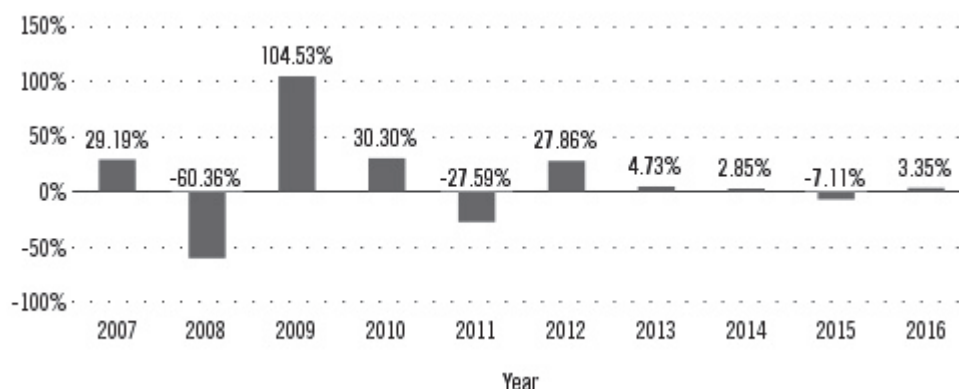
LXVI. For the Templeton Emerging Markets Small Cap Fund, the following replaces the "Fund Summaries – Templeton Emerging Markets Small Cap Fund – Performance" section beginning on page 6 of the prospectus:

Performance

The following bar chart and table provide some indication of the risks of investing in the Fund. The bar chart shows changes in the Fund's performance from year to year for Class A shares. The table shows how the Fund's average annual returns for 1 year, 5 years, 10 years or since inception, as applicable, compared with those of a broad measure of market performance. The Fund's past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future. You can obtain updated performance information at franklintempleton.com or by calling (800) DIAL BEN/342-5236.

Sales charges are not reflected in the bar chart, and if those charges were included, returns would be less than those shown.

Class A Annual Total Returns



Best Quarter:	Q2'09	60.36%
Worst Quarter:	Q4'08	-29.81%
As of March 31, 2017, the Fund's year-to-date return was 13.22%.		

Average Annual Total Returns (figures reflect sales charges)

For the periods ended December 31, 2016

	1 Year	5 Years	10 Years
Templeton Emerging Markets Small Cap Fund - Class A			
Return Before Taxes	-2.58%	4.50%	2.10%
Return After Taxes on Distributions	-2.97%	4.43%	1.64%

Return After Taxes on Distributions and Sale of Fund Shares	-1.12%	3.61%	1.54%
Templeton Emerging Markets Small Cap Fund - Class C	1.58%	4.97%	2.00%
Templeton Emerging Markets Small Cap Fund - Class R	3.04%	5.50%	2.50%
Templeton Emerging Markets Small Cap Fund - Advisor Class	3.60%	6.03%	3.02%
MSCI Emerging Markets Small Cap Index (index reflects no deduction for fees, expenses or taxes)	2.56%	3.82%	3.70%

The after-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. After-tax returns are not relevant to investors who hold their Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts. After-tax returns are shown only for Class A and after-tax returns for other classes will vary.

LXVII. For the Templeton Frontier Markets Fund, the following replaces the “Fund Summaries – Templeton Frontier Markets Fund – Performance” section beginning on page 8 of the prospectus:

Performance

The following bar chart and table provide some indication of the risks of investing in the Fund. The bar chart shows changes in the Fund's performance from year to year for Class A shares. The table shows how the Fund's average annual returns for 1 year, 5 years, 10 years or since inception, as applicable, compared with those of a broad measure of market performance. The Fund's past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future. You can obtain updated performance information at franklintempleton.com or by calling (800) DIAL BEN/342-5236.

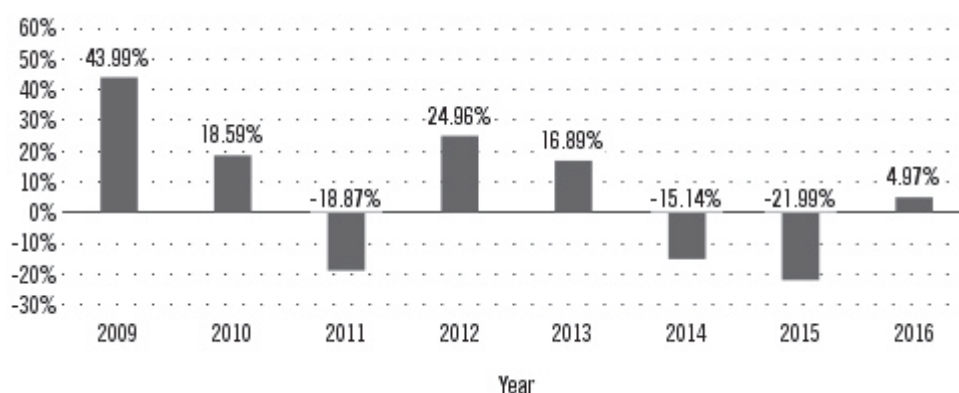
The secondary index in the table below shows how the Fund's performance compares to an additional group of equity securities of frontier market companies.

The MSCI Frontier Emerging Markets Select Countries Capped Index (MSCI FEMI Select Countries Capped), will be the Fund's secondary index effective on May 31, 2017. The MSCI FEMI Select Countries Capped was developed by MSCI for the Fund's investment manager and represents a capped version of the MSCI Frontier Emerging Markets Index (MSCI FEMI). MSCI applies caps on the exposure of the MSCI FEMI to emerging market and frontier market countries to create the MSCI FEMI Select Countries Capped so that the index reflects predominantly frontier market countries. The secondary index is included in the table below because the investment manager believes the composition of the MSCI FEMI Select Countries Capped more accurately reflects the Fund's holdings.

No one index is representative of the Fund's portfolio.

Sales charges are not reflected in the bar chart, and if those charges were included, returns would be less than those shown.

Class A Annual Total Returns



Best Quarter:	Q2'09	29.03%
Worst Quarter:	Q4'14	-18.71%
As of March 31, 2017, the Fund's year-to-date return was 8.55%.		

Average Annual Total Returns
(figures reflect sales charges)
For the periods ended December 31, 2016

	1 Year	5 Years	Since Inception
Templeton Frontier Markets Fund - Class A			
Return Before Taxes	-1.10%	-0.88%	3.27%
Return After Taxes on Distributions	-0.59%	-1.83%	2.53%
Return After Taxes on Distributions and Sale of Fund Shares	0.15%	-0.66%	2.57%
Templeton Frontier Markets Fund - Class C	3.27%	-0.42%	3.27%
Templeton Frontier Markets Fund - Class R	4.80%	0.08%	3.79%
Templeton Frontier Markets Fund - Class R6	5.54%	—	-6.72% ¹
Templeton Frontier Markets Fund - Advisor Class	5.22%	0.55%	4.29%
MSCI Frontier Markets Index (index reflects no deduction for fees, expenses or taxes)	3.16%	5.57%	-0.40%
MSCI Frontier Emerging Markets Select Countries Capped Index (index reflects no deduction for fees, expenses or taxes)	5.18%	5.48%	2.36%
S&P Frontier BMI Index (index reflects no deduction for fees, expenses or taxes)	6.86%	5.62%	0.56%

1. Since inception for Class R6, May 1, 2013.

The after-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. After-tax returns are not relevant to investors who hold their Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts. After-tax returns are shown only for Class A and after-tax returns for other classes will vary.

LXVIII. For the Templeton Global Balanced Fund, the following is added to the “Fund Summaries – Templeton Global Balanced Fund – Performance” section beginning on page 10 of the prospectus:

As of March 31, 2017, the Fund's year-to-date return was 5.90%.

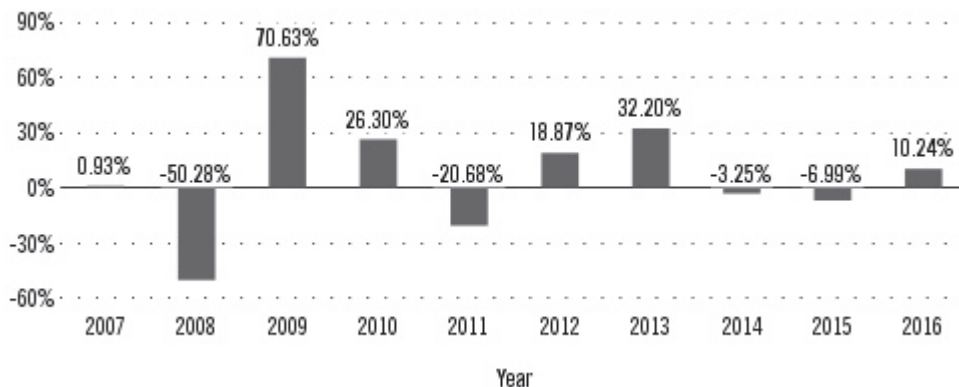
LXIX. For the Templeton Global Smaller Companies Fund, the following replaces the “Fund Summaries – Templeton Global Smaller Companies Fund – Performance” section beginning on page 7 of the prospectus:

Performance

The following bar chart and table provide some indication of the risks of investing in the Fund. The bar chart shows changes in the Fund's performance from year to year for Class A shares. The table shows how the Fund's average annual returns for 1 year, 5 years, 10 years or since inception, as applicable, compared with those of a broad measure of market performance. The Fund's past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future. You can obtain updated performance information at franklintempleton.com or by calling (800) DIAL BEN/342-5236.

Sales charges are not reflected in the bar chart, and if those charges were included, returns would be less than those shown.

Class A Annual Total Returns



Best Quarter:	Q2'09	40.19%
Worst Quarter:	Q4'08	-32.18%
As of March 31, 2017, the Fund's year-to-date return was 5.82%.		

Average Annual Total Returns
(figures reflect sales charges)

For the periods ended December 31, 2016

	1 Year	5 Years	10 Years
Templeton Global Smaller Companies Fund - Class A			
Return Before Taxes	3.88%	7.99%	2.34%
Return After Taxes on Distributions	3.74%	7.91%	1.96%
Return After Taxes on Distributions and Sale of Fund Shares	2.36%	6.41%	1.94%
Templeton Global Smaller Companies Fund - Class C	8.53%	8.49%	2.17%
Templeton Global Smaller Companies Fund - Class R6	10.87%	5.84% ¹	—
Templeton Global Smaller Companies Fund - Advisor Class	10.57%	9.56%	3.20%
MSCI All Country World Small Cap Index (index reflects no deduction for fees, expenses or taxes)	12.10%	11.77%	6.09%

1. Since inception May 1, 2013.

The after-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. After-tax returns are not relevant to investors who hold their Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts. After-tax returns are shown only for Class A and after-tax returns for other classes will vary.

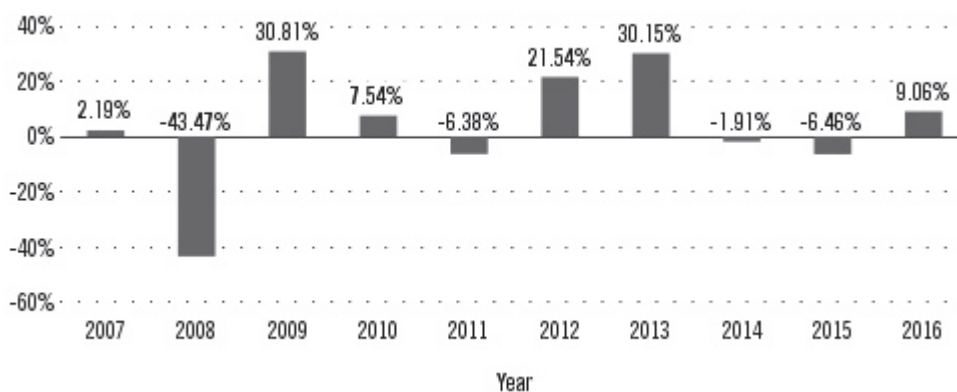
LXX. For the Templeton Growth Fund, Inc., the following replaces the “Fund Summaries – Templeton Growth Fund – Performance” section beginning on page 6 of the prospectus:

Performance

The following bar chart and table provide some indication of the risks of investing in the Fund. The bar chart shows changes in the Fund's performance from year to year for Class A shares. The table shows how the Fund's average annual returns for 1 year, 5 years, 10 years or since inception, as applicable, compared with those of a broad measure of market performance. The Fund's past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future. You can obtain updated performance information at franklintempleton.com or by calling (800) DIAL BEN/342-5236.

Sales charges are not reflected in the bar chart, and if those charges were included, returns would be less than those shown.

Class A Annual Total Returns



Best Quarter:	Q2'09	20.40%
Worst Quarter:	Q4'08	-22.29%
As of March 31, 2017, the Fund's year-to-date return was 5.98%.		

Average Annual Total Returns
(figures reflect sales charges)
For the periods ended December 31, 2016

	1 Year	5 Years	10 Years
Templeton Growth Fund, Inc. - Class A			
Return Before Taxes	-11.83%	5.07%	2.40%
Return After Taxes on Distributions	-12.04%	4.81%	1.99%
Return After Taxes on Distributions and Sale of Fund Shares	-6.30%	4.15%	2.16%
Templeton Growth Fund, Inc. - Class C	-8.15%	5.51%	2.24%
Templeton Growth Fund, Inc. - Class R	-6.71%	6.05%	2.75%
Templeton Growth Fund, Inc. - Class R6	-6.17%	3.55% ¹	—
Templeton Growth Fund, Inc. - Advisor Class	-6.27%	6.59%	3.26%
MSCI World Index (index reflects no deduction for fees, expenses or taxes)	-0.32%	8.20%	5.56%
MSCI All Country World Index (index reflects no deduction for fees, expenses or taxes) ²	-1.84%	6.66%	5.31%

1. Since inception May 1, 2013.

2. The MSCI All Country World Index is replacing the MSCI World Index as the Fund's benchmark. The investment manager believes the composition of the MSCI All Country World Index more accurately reflects the Fund's holdings.

The after-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. After-tax returns are not relevant to investors who hold their Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts. After-tax returns are shown only for Class A and after-tax returns for other classes will vary.

LXXI. For the Templeton Emerging Markets Bond Fund, the following is added to the "Fund Summaries – Templeton Emerging Markets Bond Fund – Performance" section beginning on page 9 of the prospectus:

As of March 31, 2017, the Fund's year-to-date return was 7.45%.

LXXII. For the Templeton Global Bond Fund, the following is added to the "Fund Summaries – Templeton Global Bond Fund – Performance" section beginning on page 20 of the prospectus:

As of March 31, 2017, the Fund's year-to-date return was 4.57%.

LXXIII. For the Templeton Global Total Return Fund, the following is added to the "Fund Summaries – Templeton Global Total Return Fund – Performance" section beginning on page 29 of the prospectus:

As of March 31, 2017, the Fund's year-to-date return was 4.47%.

LXXIV. For the Templeton International Bond Fund, the following is added to the "Fund Summaries – Templeton International Bond Fund – Performance" section beginning on page 40 of the prospectus:

As of March 31, 2017, the Fund's year-to-date return was 4.63%.

LXXV. For the Franklin Conservative Allocation Fund, Franklin Moderate Allocation Fund, Franklin Growth Allocation Fund, Franklin LifeSmart™ Retirement Income Fund, Franklin LifeSmart™ 2020 Retirement Target Fund, Franklin LifeSmart™ 2025 Retirement Target Fund, Franklin LifeSmart™ 2030 Retirement Target Fund, Franklin LifeSmart™ 2035 Retirement Target Fund, Franklin LifeSmart™ 2040 Retirement Target Fund, Franklin LifeSmart™ 2045 Retirement Target Fund, Franklin LifeSmart™ 2050 Retirement Target Fund and Franklin LifeSmart™ 2055 Retirement Target Fund, the following is added to the "Fund Details – Information about the Underlying Franklin Templeton Funds" section of the prospectus:

Franklin LibertyQ US Equity ETF The fund invests at least 80% of its assets in the component securities of the U.S. Large Cap Underlying Index, which is a systematic, rules-based proprietary index that is maintained and calculated by FTSE Russell (Russell) and is based on the Russell 1000® Index using a methodology developed with Franklin Templeton to reflect Franklin Templeton's desired investment strategy.

Franklin LibertyQ US Mid Cap ETF The fund invests at least 80% of its assets in the component securities of the U.S. Mid Cap Underlying Index, which is a systematic, rules-based proprietary index that is maintained and calculated by FTSE Russell (Russell) and is based on the Russell Midcap® Index using a methodology developed with Franklin Templeton to reflect Franklin Templeton's desired investment strategy.

Franklin LibertyQ US Small Cap Equity ETF The fund invests at least 80% of its assets in the component securities of the U.S. Small Cap Underlying Index, which is a systematic, rules-based proprietary index that is maintained and calculated by FTSE Russell (Russell) and is based on the Russell 2000® Index using a methodology developed with Franklin Templeton to reflect Franklin Templeton's desired investment strategy.

Franklin Liberty International Opportunities ETF The fund invests predominantly in equity securities in developed, developing and frontier markets outside of the U.S. across the entire market capitalization spectrum. The fund's individual country and sector weightings may vary significantly from its benchmark index.

Franklin Liberty Investment Grade Corporate ETF The fund invests at least 80% of its net assets in investment grade corporate debt securities and investments, which include derivatives whose reference securities are investment grade. The fund invests primarily in U.S. dollar denominated corporate debt securities issued by U.S. and foreign companies.

Franklin Liberty US Low Volatility ETF The fund invests at least 80% of its net assets in U.S. investments, primarily equity securities of U.S. companies. The fund seeks capital appreciation while providing a lower level of volatility than the broader equity market as measured by the Russell 1000 Index.

LXXVI. For all applicable Funds, the following are added as additional categories for purchasing Class R6 shares under the section "Your Account - Choosing a Share Class – Qualified Investors – Class R6:"

- Intermediaries that execute an addendum to their selling agreement acknowledging that they are acting exclusively as agents of their clients in transacting in Class R6 shares.
- *Advisory Fee Programs.* A registered broker-dealer, investment advisor, trust company, bank, or other financial intermediary (referred to as a "Sponsor") that has an agreement with Distributors authorizing the sale of Fund shares and that acquires shares of the Fund for its clients in connection with a comprehensive fee or other advisory fee arrangement for which the client pays the Sponsor a fee for investment advisory services. No minimum initial investment.

LXXVII. For all Funds, the following replaces the "Your Account –Account Policies – Dealer Compensation – Other dealer and financial intermediary compensation" section of the prospectus:

Purchases of Certain Share Classes through Financial Intermediaries (Class R6 and Advisor Class) There are no associated sales charges or Rule 12b-1 distribution and service fees for the purchase of Class R6 and Advisor Class shares. However, pursuant to SEC guidance, certain financial intermediaries acting as agents on behalf of their customers may directly impose on shareholders sales charges or transaction fees determined by the financial intermediary related to the purchase of these shares. These charges and fees are not disclosed in this prospectus. You should consult with your financial advisor or visit your financial intermediary's website for more information.

The Fund's service providers also may pay financial intermediaries for marketing support and other related services as disclosed below for Advisor Class shares, but not for Class R6 shares. These payments may create a conflict of interest by influencing the financial intermediary and your salesperson to recommend one share class over another. There is some uncertainty concerning whether marketing support or other similar payments may be made or received in connection with Advisor Class shares where a financial intermediary has imposed its own sales charges or transaction fees. Based on future regulatory developments, such payments may be terminated.

Other financial intermediary compensation. Except with respect to Class R6 shares, Distributors may make marketing support payments (a portion of which may be reimbursable under the terms of the Fund's Rule 12b-1 distribution plans) to certain dealers and other financial intermediaries, such as banks, insurance companies, or plan administrators, in connection with their efforts to educate financial advisors or provide other services which may facilitate, directly or indirectly, investment in Franklin Templeton mutual funds. In the case of any one intermediary, marketing support payments will generally not exceed 0.05% of the total assets of Franklin Templeton mutual funds attributable to that intermediary, on an annual basis. For an intermediary exceeding \$15 billion in total assets of Franklin Templeton mutual funds, Distributors may agree to make annual marketing support payments exceeding 0.05% of such assets. For an intermediary exceeding \$50 billion in total assets of Franklin Templeton mutual funds, Distributors may agree to make annual marketing support payments up to a limit of 0.06% of such assets. Marketing support payments made to organizations located outside the U.S., with respect to investments in the Fund by non-U.S. persons, may exceed this limitation. Any assets held on behalf of Employer Sponsored Retirement Plans for which payment is made to a financial intermediary pursuant to the following paragraph will be excluded from the calculation of marketing support payments pursuant to this paragraph.

Except with respect to Class R6 shares, Distributors and/or its affiliates may also make payments (a portion of which may be reimbursable under the terms of the Fund's Rule 12b-1 distribution plans) to certain financial intermediaries in connection with their activities that are intended to assist in the sale of shares of Franklin Templeton mutual funds, directly

or indirectly, to certain Employer Sponsored Retirement Plans. In the case of any one financial intermediary, such payments will not exceed 0.10% of the total assets of Franklin Templeton mutual funds held, directly or indirectly, by such Employer Sponsored Retirement Plans, on an annual basis.

A number of factors will be considered in determining these payments, including the qualifying financial intermediary's sales, assets and redemption rates, the nature and quality of any servicing provided by the financial intermediary, and the quality of the financial intermediary's relationship with Distributors. Distributors will, on an annual basis, determine the advisability of continuing these payments. These payments may be in addition to any shareholder servicing fees paid by the Fund's transfer agent from payments it receives under its agreement with the Fund.

To the extent permitted by SEC and Financial Industry Regulatory Authority rules and other applicable laws and regulations, Distributors may, in addition to marketing support payments, pay or allow other promotional incentives or payments to financial intermediaries, such as payments related to transaction support, various financial intermediary-sponsored events intended to educate financial advisers and their clients about the Franklin Templeton mutual funds, and data analytics and support.

Sales of Fund shares, as well as shares of other mutual funds in Franklin Templeton Investments, is not considered a factor in the selection of financial intermediaries to execute the Fund's portfolio transactions. Accordingly, the allocation of portfolio transactions for execution by financial intermediaries that sell Fund shares is not considered marketing support payments to such financial intermediaries.

You can find further details in the SAI about the payments made by Distributors and the services provided by your financial advisor. Your financial advisor may charge you additional fees or commissions other than those disclosed in this prospectus. You should ask your financial advisor for information about any payments it receives from Distributors and any services it provides, as well as about fees and/or commissions it charges.

LXXVIII. For all Funds, the paragraph that starts with "When determining its NAV, the Fund values cash and receivables . . ." under the "Your Account – Account Policies – Calculating Share Price – All Classes " section of the prospectus is replaced with the following:

When determining its NAV, the Fund values cash and receivables at their realizable amounts, and records interest as accrued and dividends on the ex-dividend date. The Fund generally utilizes two independent pricing services to assist in determining a current market value for each security. If market quotations are readily available for portfolio securities listed on a securities exchange, the Fund values those securities at the last quoted sale price or the official closing price of the day, respectively, or, if there is no reported sale, within the range of the most recent quoted bid and ask prices. The Fund values over-the-counter portfolio securities within the range of the most recent bid and ask prices. If portfolio securities trade both in the over-the-counter market and on a stock exchange, the Fund values them according to the broadest and most representative market. Prices received by the Fund for securities may be based on institutional "round lot" sizes, but the Fund may hold smaller, "odd lot" sizes. Odd lots may trade at lower prices than round lots.

LXXIX. The following section is added after the "Your Account – Account Policies – Accounts with Low Balances" section:

Redemptions

Typically, the Fund uses cash and cash equivalents held in its portfolio or sells portfolio assets to meet all redemption needs. In unusual circumstances or under stressed market conditions, the Fund may use other methods to meet redemptions, such as the use of lines of credit or interfund lending in reliance on exemptive relief from the SEC. Also, see "Account Policies – Redemptions in Kind" for information regarding redemption requests that exceed \$250,000 or 1% of the value of the Fund's assets, whichever is less.

LXXX. The following bullet point replaces the first bullet point under the "Your Account – Account Policies – Additional Policies" section:

- Typically, redemptions are processed by the next business day provided the redemption request is received in proper form and good order, but may take up to seven days to be processed if making immediate payment would adversely affect the Fund or there is another cause for delay (for example, if you sell shares recently purchased, proceeds may be delayed until your check, draft or wire/electronic funds transfer has cleared).

Please keep this supplement with your prospectus for future reference.

**SUPPLEMENT DATED APRIL 3, 2017
TO THE CURRENTLY EFFECTIVE PROSPECTUS
OF EACH OF THE FUNDS LISTED BELOW**

Franklin Alternative Strategies Funds

Franklin K2 Alternative Strategies Fund
Franklin K2 Global Macro Opportunities Fund

Franklin K2 Long Short Credit Fund
Franklin Pelagos Commodities Strategy Fund

Franklin California Tax-Free Income Fund**Franklin California Tax-Free Trust**

Franklin California Intermediate-Term Tax-Free Income Fund
Franklin California Ultra-Short Tax-Free Income Fund

Franklin Custodian Funds

Franklin Dynatech Fund
Franklin Focused Growth Fund
Franklin Growth Fund
Franklin Income Fund
Franklin U.S. Government Securities Fund
Franklin Utilities Fund

Franklin Federal Tax-Free Income Fund**Franklin Fund Allocator Series**

Franklin Corefolio Allocation Fund
Franklin Founding Funds Allocation Fund
Franklin LifeSmart™ Retirement Income Fund

Franklin LifeSmart™ 2020 Retirement Target Fund

Franklin LifeSmart™ 2025 Retirement Target Fund

Franklin LifeSmart™ 2030 Retirement Target Fund

Franklin LifeSmart™ 2035 Retirement Target Fund

Franklin LifeSmart™ 2040 Retirement Target Fund

Franklin LifeSmart™ 2045 Retirement Target Fund

Franklin LifeSmart™ 2050 Retirement Target Fund

Franklin LifeSmart™ 2055 Retirement Target Fund

Franklin Conservative Allocation Fund

Franklin Moderate Allocation Fund

Franklin Growth Allocation Fund

Franklin NextStep Conservative Fund

Franklin NextStep Growth Fund

Franklin NextStep Moderate Fund

Franklin Payout 2017 Fund

Franklin Payout 2018 Fund

Franklin Payout 2019 Fund

Franklin Payout 2020 Fund

Franklin Payout 2021 Fund

Franklin Payout 2022 Fund

Franklin Payout 2023 Fund

Franklin Global Trust

Franklin Emerging Markets Debt Opportunities Fund
Franklin Global Listed Infrastructure Fund
Franklin Global Real Estate Fund
Franklin International Growth Fund

Franklin International Small Cap Growth Fund

Franklin Gold and Precious Metals Fund**Franklin Investors Securities Trust**

Franklin Adjustable U.S. Government Securities Fund
Franklin Balanced Fund
Franklin Convertible Securities Fund
Franklin Equity Income Fund
Franklin Floating Rate Daily Access Fund
Franklin Low Duration Total Return Fund
Franklin Real Return Fund
Franklin Total Return Fund

Franklin Managed Trust

Franklin Rising Dividends Fund

Franklin Mutual Series Funds

Franklin Mutual Beacon Fund
Franklin Mutual European Fund
Franklin Mutual Financial Services Fund
Franklin Mutual Global Discovery Fund
Franklin Mutual International Fund
Franklin Mutual Quest Fund
Franklin Mutual Shares Fund

Franklin New York Tax-Free Trust

Franklin New York Intermediate-Term Tax-Free Income Fund

Franklin Strategic Mortgage Portfolio**Franklin Strategic Series**

Franklin Biotechnology Discovery Fund
Franklin Flexible Alpha Fund
Franklin Focused Core Equity Fund
Franklin Global Government Bond Fund
Franklin Growth Opportunities Fund
Franklin Natural Resources Fund
Franklin Small Cap Growth Fund
Franklin Small-Mid Cap Growth Fund
Franklin Strategic Income Fund

Franklin Real Estate Securities Trust

Franklin Real Estate Securities Fund

Franklin High Income Trust

Franklin High Income Fund

Franklin New York Tax-Free Income Fund**Franklin Municipal Securities Trust**

Franklin California High Yield Municipal Fund
Franklin Tennessee Municipal Bond Fund

Franklin Tax-Free Trust

Franklin Alabama Tax-Free Income Fund
Franklin Arizona Tax-Free Income Fund
Franklin Colorado Tax-Free Income Fund
Franklin Connecticut Tax-Free Income Fund
Franklin Federal Intermediate-Term Tax-Free Income Fund
Franklin Federal Limited-Term Tax-Free Income Fund
Franklin Florida Tax-Free Income Fund
Franklin Georgia Tax-Free Income Fund
Franklin High Yield Tax-Free Income Fund
Franklin Kentucky Tax-Free Income Fund
Franklin Louisiana Tax-Free Income Fund

Franklin Maryland Tax-Free Income Fund
Franklin Massachusetts Tax-Free Income Fund

Franklin Michigan Tax-Free Income Fund
Franklin Minnesota Tax-Free Income Fund
Franklin Missouri Tax-Free Income Fund
Franklin New Jersey Tax-Free Income Fund
Franklin North Carolina Tax-Free Income Fund

Franklin Ohio Tax-Free Income Fund
Franklin Oregon Tax-Free Income Fund
Franklin Pennsylvania Tax-Free Income Fund
Franklin Virginia Tax-Free Income Fund

Franklin Templeton Global Trust

Templeton Global Currency Fund

Franklin Templeton International Trust

Franklin India Growth Fund

Franklin Templeton Money Fund Trust

Franklin Templeton U.S. Government Money Fund

Franklin U.S. Government Money Fund**Franklin Value Investors Trust**

Franklin Balance Sheet Investment Fund
Franklin Microcap Value Fund
Franklin Midcap Value Fund
Franklin Small Cap Value Fund

Institutional Fiduciary Trust

Money Market Portfolio

Templeton China World Fund**Templeton Developing Markets Trust****Templeton Funds**

Templeton Foreign Fund
Templeton World Fund

Templeton Global Investment Trust

Templeton Dynamic Equity Fund
Templeton Emerging Markets Balanced Fund
Templeton Emerging Markets Small Cap Fund
Templeton Foreign Smaller Companies Fund
Templeton Frontier Markets Fund
Templeton Global Balanced Fund

Templeton Global Opportunities Trust

Templeton Global Smaller Companies Fund

Templeton Growth Fund, Inc.**Templeton Income Trust**

Templeton Emerging Markets Bond Fund
Templeton Global Bond Fund
Templeton Global Total Return Fund
Templeton International Bond Fund

Templeton Institutional Funds

Emerging Markets Series
Foreign Smaller Companies Series
Global Equity Series
International Equity Series

The prospectus is amended as follows:

I. Effective on April 10, 2017, additional sales charge reduction and waiver categories will be added in an Appendix to the prospectus for purchases through specific intermediaries for all of the funds listed above, as applicable (the “Funds”).

II. The following sentence is added to the end of the first full paragraph of each of the following Funds after the heading “Fees and Expenses of the Fund” in the Fund Summary section of the prospectus: Franklin Adjustable U.S. Government Securities Fund, Franklin Alabama Tax-Free Income Fund, Franklin Arizona Tax-Free Income Fund, Franklin Balance Sheet Investment Fund, Franklin Balanced Fund, Franklin Biotechnology Discovery Fund, Franklin California High Yield Municipal Fund, Franklin California Intermediate-Term Tax-Free Income Fund, Franklin California Tax-Free Income Fund, Franklin Colorado Tax-Free Income Fund, Franklin Connecticut Tax-Free Income Fund, Franklin Conservative Allocation Fund, Franklin Convertible Securities Fund, Franklin Corefolio Allocation Fund, Franklin DynaTech Fund, Franklin Equity Income Fund, Franklin Federal Intermediate-Term Tax-Free Income Fund, Franklin Federal Limited-Term Tax-Free Income Fund, Franklin Federal Tax-Free Income Fund, Franklin Flexible Alpha Fund, Franklin Floating Rate Daily Access Fund, Franklin Florida Tax-Free Income Fund, Franklin Focused Core Equity Fund, Franklin Founding Funds Allocation Fund, Franklin Georgia Tax-Free Income Fund, Franklin Global Listed Infrastructure Fund, Franklin Global Real Estate Fund, Franklin Gold and Precious Metals Fund, Franklin Growth Allocation Fund, Franklin Growth Fund, Franklin Growth Opportunities Fund, Franklin High Income Fund, Franklin High Yield Tax-Free Income Fund, Franklin Income Fund, Franklin India Growth Fund, Franklin International Growth Fund, Franklin K2 Alternative Strategies Fund, Franklin K2 Global Macro Opportunities Fund, Franklin K2 Long Short Credit Fund, Franklin Kentucky Tax-Free Income Fund, Franklin LifeSmart Retirement Income Fund, Franklin Louisiana Tax-Free Income Fund, Franklin Low Duration Total Return Fund, Franklin Maryland Tax-Free Income Fund, Franklin Massachusetts Tax-Free Income Fund, Franklin Michigan Tax-Free Income Fund, Franklin MidCap Value Fund, Franklin Minnesota Tax-Free Income Fund, Franklin Missouri Tax-Free Income Fund, Franklin Moderate Allocation Fund, Franklin Mutual Beacon Fund, Franklin Mutual European Fund, Franklin Mutual Financial Services Fund, Franklin Mutual Global Discovery Fund, Franklin Mutual International Fund, Franklin Mutual Quest Fund, Franklin Mutual Shares Fund, Franklin Natural Resources Fund, Franklin New Jersey Tax-Free Income Fund, Franklin New York Intermediate-Term Tax-Free Income Fund, Franklin New York Tax-Free Income Fund, Franklin North Carolina Tax-Free Income Fund, Franklin Ohio Tax-Free Income Fund, Franklin Oregon Tax-Free Income Fund, Franklin Pelagos Commodities Strategy Fund, Franklin Pennsylvania Tax-Free Income Fund, Franklin Real Estate Securities Fund, Franklin Real Return Fund, Franklin Rising Dividends Fund, Franklin Small Cap Value Fund, Franklin Small-Mid Cap Growth Fund, Franklin Strategic Income Fund, Franklin Strategic Mortgage Portfolio, Franklin Tennessee Municipal Bond Fund, Franklin Total Return Fund, Franklin U.S. Government Securities Fund, Franklin Utilities Fund, Franklin Virginia Tax-Free Income Fund, Templeton China World Fund, Templeton Developing Markets Trust, Templeton Emerging Markets Balanced Fund, Templeton Emerging Markets Bond Fund, Templeton Emerging Markets Small Cap Fund, Templeton Foreign Fund, Templeton Global Balanced Fund, Templeton Global Bond Fund, Templeton Global Currency Fund, Templeton Global Smaller Companies Fund, Templeton Global Total Return Fund, Templeton Growth Fund, Inc., Templeton International Bond Fund and Templeton World Fund:

In addition, more information about sales charge discounts and waivers for purchases of shares through specific intermediaries is set forth in Appendix A – Intermediary Sales Charge Discounts and Waivers to the Fund’s prospectus.

III. For the Franklin Real Estate Securities Fund, references in the prospectus to the Fund being “non-diversified” are hereby deleted.

IV. For all Funds, as applicable, effective April 10, 2017, the following paragraph is added immediately before the “Sales Charges - Class A” sub-heading in the “Your Account – Choosing a Share Class” section of the prospectus:

The availability of certain sales charge waivers and discounts may depend on whether you purchase your shares directly from the Fund or through a financial intermediary. Different intermediaries may impose different sales charges (including potential reductions in or waivers of sales charges) other than those listed below. Such intermediary-specific sales charge variations are described in Appendix A to this prospectus, entitled “Intermediary Sales Charge Discounts and Waivers.” Appendix A is incorporated herein by reference (is legally a part of this prospectus).

In all instances, it is the purchaser’s responsibility to notify the Fund or the purchaser’s financial intermediary at the time of purchase of any relationship or other facts qualifying the purchaser for sales charge waivers or discounts. For waivers and discounts not available through a particular intermediary, shareholders will have to purchase Fund shares directly from the Fund or through another intermediary to receive these waivers or discounts.

V. For all Funds, the following replaces the category that begins “Clients of financial intermediaries who have entered...” under the “Your Account - Choosing a Share Class – Sales Charges - Class A – Sales Charge Waivers – Waivers for Certain Investors” section of the prospectus:

- Clients of financial intermediaries who have entered into an agreement with Distributors and have been approved by Distributors to offer Fund shares through a network, platform or self-directed investment brokerage account that may charge a transaction or other fee to customers.

VI. For all Funds, the following is added as an additional category under the “Your Account - Choosing a Share Class – Sales Charges - Class A – Sales Charge Waivers – Waivers for Certain Investors” section of the prospectus:

- Shareholders who purchase directly from the Funds and not through any financial intermediary (i.e., Distributors is the broker of record).

VII. For Emerging Markets Series, Foreign Smaller Companies Series, Global Equity Series and International Equity Series, the following is added as an additional category under the “Your Account - Qualified Investors” section of the prospectus:

- Purchases by a bank, trust company or thrift institution that is acting as a fiduciary exercising investment discretion.

VIII. For all Funds, the following are added as additional categories for purchasing Class R shares under the section “Your Account - Choosing a Share Class – Sales Charges - Class R – Retirement Plans:”

- Non-ERISA 403(b) plans;
- IRAs on financial intermediary platforms approved by Distributors; and
- Certain other retirement accounts held through financial intermediaries that have been approved by Distributors.

IX. For all Funds, the following replaces the category that begins “Clients of financial intermediaries who have entered...” under the “Your Account - Choosing a Share Class – Qualified Investors - Advisor Class” section of the prospectus:

- Clients of financial intermediaries who have entered into an agreement with Distributors and have been approved by Distributors to offer Fund shares through a network, platform or self-directed investment brokerage account that may charge a transaction or other fee to customers. Minimum initial investment \$100,000.

X. For all Funds, the following is added at the end of the “Your Account – Choosing a Share Class” section of the prospectus:

Waivers for Exchanges between Classes of the Same Fund

Financial Intermediary Exchanges between Classes of the Same Fund. Exchanges between Classes of the same Fund as described below generally will be tax-free for federal income tax purposes. You should also consult with your tax advisor regarding the state and local tax consequences of such an exchange of Fund shares. These exchange privileges are subject to termination and may be amended from time to time.

Advisory Programs Eligible for Advisor Class or Class Z shares. Class A and Class C shares purchased by accounts participating in certain programs sponsored by and/or controlled by financial intermediaries (“Advisory Programs”) may be exchanged by the financial intermediary on behalf of the shareholder for Advisor Class shares of the same Fund under certain circumstances, including such Advisory Program’s eligibility to purchase Advisor Class shares of the Fund. Such exchange will be on the basis of each Class’ NAV per share, without the imposition of any sales charge, fee or other charge. Unless otherwise permitted, any CDSC owed must be paid on Class A and C shares that you wish to exchange.

Financial Intermediary Exchanges from Class C Shares to Class A Shares. Class C shares purchased through financial intermediaries designated in Appendix A may be exchanged by the financial intermediary on behalf of the shareholder for Class A shares of the same Fund under certain circumstances. Such exchange will be on the basis of each Class’ NAV per share, without the imposition of any sales charge, fee or other charge.

XI. For all Funds, the section “Your Account – Buying Shares – Open an Account – By Phone/Online” is replaced with the following:

If you have another Franklin Templeton fund account with your bank account information on file, you may open a new identically registered account by phone. To make a same day investment, your phone order must be received and accepted by us prior to 1 p.m. Pacific time. You may open certain new accounts online at franklintempleton.com.

XII. For all Funds, the following is added to the end of the “Your Account – Exchanging Shares – Exchange Privilege” section:

Exchange of shares into shares of the same Fund. The exchange of shares of one class into another class of the same Fund is not taxable for federal income tax purposes. However, shareholders should consult their tax advisors regarding the state and local tax consequences of a conversion or exchange of shares.

XIII. For all Funds, the paragraph under “Your Account – Investor Services – Automatic Investment Plan” is replaced with the following:

This plan offers a convenient way for you to invest in the Fund by automatically transferring money from your checking or savings account each month to buy shares. To sign up, visit us online at franklintempleton.com or complete the appropriate section of your account application and send it to Investor Services. If you are opening a new account, please include your minimum initial investment with your application.

XIV. For all Funds, the third paragraph under the “Your Account – Investor Services- Telephone/Online Privileges” is replaced with the following:

As long as we follow reasonable security procedures and act on instructions we reasonably believe are genuine, we will not be responsible for any losses that may occur from unauthorized requests. We will request passwords or other information, and also may record calls. We have the right (but have no obligation) to refuse a telephone request if the caller is unable to provide the requested information or if we reasonably believe the caller is not an individual authorized to act on the account. To help safeguard your account, keep your password confidential, and verify the accuracy of your confirmation statements immediately after you receive them. Contact us immediately if you believe someone has obtained unauthorized access to your account or password. For transactions done over the Internet, we recommend the use of an Internet browser with 128-bit encryption. Certain methods of contacting us (such as by phone or by Internet) may be unavailable or delayed during periods of unusual market activity. *Of course, you can choose not to register for online privileges. Additionally, if you don't want telephone privileges, or want to discontinue telephone/online privileges at any time please contact us for instructions.* You may reinstate these privileges at any time in writing, including online registration with respect to online privileges.

XV. For all Funds, the paragraph under the “Your Account – Investor Services – System Withdrawal Plan” is replaced with the following:

This plan allows you to automatically sell your shares and receive regular payments from your account. A CDSC may apply to withdrawals that exceed certain amounts. Certain terms and minimums apply. To sign up, visit us online at franklintempleton.com or contact us for instructions.

XVI. For the Franklin U.S. Government Money Fund, the first paragraph under the “Your Account – Investor Services- Check Writing Privileges” is replaced with the following:

You may request redemption drafts (checks) free of charge. For an existing account, if the check writing privilege has already been added to your account, you may call our automated telephone system at any time to request drafts (checks). Check writing privileges allow you to write checks against your account and are available unless you hold share certificates. Checks presented for payment are instructions to the fund to redeem an equivalent number of shares in your account to cover the amount of the check. This check writing privilege does not create a checking or other bank account relationship with the Fund or any bank.

XVII. For all Funds, the following is added as the last bullet point under the “Your Account – Account Policies – Additional Policies” section:

For non-retirement accounts, if you are receiving a dividend, capital gains or a systematic withdrawal plan payment in cash, and at least three consecutive checks remain uncashed for at least six months, the Fund reserves the right to change your distribution option to reinvest future distributions or discontinue your systematic withdrawal plan.

XVIII. For Franklin Strategic Mortgage Portfolio, the following replaces the table under the heading “Your Account – Account Policies – Dealer Compensation” in the prospectus:

	Class A	Class A1	Class C
Commission (%)	--	--	1.00 ¹
Investment under \$100,000	4.00	4.00	--
\$100,000 but under \$250,000	2.80	2.80	--
\$250,000 but under \$500,000	2.00	2.00	--
\$500,000 but under \$1 million	1.60	1.60	--
\$1 million or more	up to 0.75	up to 0.75	--
12b-1 fee to dealer	0.25 ²	--	0.65 ³

XIX. For all Funds, as applicable, effective April 10, 2017, the following is added to the back cover of the prospectus:

Appendix A to the Prospectus – Intermediary Sales Charge Discounts and Waivers

Contains more information about specific sales charge discounts and waivers available for shareholders who purchase Fund shares through a specific financial intermediary. Appendix A is a separate document and is incorporated herein by reference (is legally a part of this prospectus).

XX. For all Funds, the following is included as Appendix A to the prospectus:

APPENDIX A INTERMEDIARY SALES CHARGE DISCOUNTS AND WAIVERS

Specific intermediaries may have different policies and procedures regarding the availability of front-end sales load (charge) waivers or CDSC waivers, which are discussed below. In all instances, it is the purchaser's responsibility to notify the Fund or the purchaser's financial intermediary at the time of purchase of any relationship or other facts qualifying the purchaser for

sales charge waivers or discounts. For waivers and discounts not available through a particular intermediary, shareholders will have to purchase Fund shares directly from the Fund or through another intermediary to receive such waivers or discounts. Please see the section entitled “Fund Details – Your Account – Choosing a Share Class – Class A, & C” for more information on sales charges and waivers available for different classes.

The information in this Appendix is part of, and incorporated into, the Fund’s prospectus.

CLASS A AND CLASS C PURCHASES THROUGH MERRILL LYNCH

Effective April 10, 2017, shareholders purchasing Fund shares through a Merrill Lynch platform or account will be eligible only for the following load waivers (front-end sales charge waivers and contingent deferred or back-end, sales charge waivers) and discounts, which may differ from those disclosed elsewhere in this Fund’s prospectus or SAI.

Front-end Sales Load Waivers on Class A Shares available at Merrill Lynch
Employer-sponsored retirement, deferred compensation and employee benefit plans (including health savings accounts) and trusts used to fund those plans, provided that the shares are not held in a commission-based brokerage account and shares are held for the benefit of the plan
Shares purchased by or through a 529 Plan
Shares purchased through a Merrill Lynch affiliated investment advisory program
Shares purchased by third party investment advisors on behalf of their advisory clients through Merrill Lynch’s platform
Shares of funds purchased through the Merrill Edge Self-Directed platform (if applicable)
Shares purchased through reinvestment of capital gains distributions and dividend reinvestment when purchasing shares of the same fund (but not any other fund within the fund family)
Shares exchanged from Class C (i.e. level-load) shares of the same fund in the month of or following the 10-year anniversary of the purchase date
Employees and registered representatives of Merrill Lynch or its affiliates and their family members
Directors or Trustees of the Fund, and employees of the Fund’s investment adviser or any of its affiliates, as described in the this prospectus
Shares purchased from the proceeds of redemptions within the same fund family, provided (1) the repurchase occurs within 90 days following the redemption, (2) the redemption and purchase occur in the same account, and (3) redeemed shares were subject to a front-end or deferred sales load (known as Rights of Reinstatement)
CDSC Waivers on A and C Shares available at Merrill Lynch
Death or disability of the shareholder
Shares sold as part of a systematic withdrawal plan as described in the Fund’s prospectus
Return of excess contributions from an IRA Account
Shares sold as part of a required minimum distribution for IRA and retirement accounts due to the shareholder reaching age 70½
Shares sold to pay Merrill Lynch fees but only if the transaction is initiated by Merrill Lynch
Shares acquired through a right of reinstatement
Shares held in retirement brokerage accounts, that are exchanged for a lower cost share class due to transfer to certain fee based accounts or platforms
Front-end load Discounts Available at Merrill Lynch: Breakpoints, Rights of Accumulation & Letters of Intent
Breakpoints as described in this prospectus.
Rights of Accumulation (ROA) which entitle shareholders to breakpoint discounts will be automatically calculated based on the aggregated holding of fund family assets held by accounts within the purchaser’s household at Merrill Lynch. Eligible fund family assets not held at Merrill Lynch may be included in the ROA calculation only if the shareholder notifies his or her financial advisor about such assets
Letters of Intent (LOI) which allow for breakpoint discounts based on anticipated purchases within a fund family, through Merrill Lynch, over a 13-month period of time (if applicable)

Please keep this supplement with your prospectus for future reference.

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Fund Summary

Investment Goal

Total return through a combination of current income, capital preservation and capital appreciation.

Fees and Expenses of the Fund

These tables describe the fees and expenses that you may pay if you buy and hold shares of the Fund. You may qualify for sales charge discounts in Class A if you and your family invest, or agree to invest in the future, at least \$50,000 in Franklin Templeton funds. More information about these and other discounts is available from your financial professional and under “Your Account” on page 51 in the Fund’s Prospectus and under “Buying and Selling Shares” on page 81 of the Fund’s Statement of Additional Information.

Shareholder Fees

(fees paid directly from your investment)

	Class A	Class C	Class R	Class R6	Advisor Class
Maximum Sales Charge (Load) Imposed on Purchases (as percentage of offering price)	5.75%	None	None	None	None
Maximum Deferred Sales Charge (Load) (as percentage of the lower of original purchase price or sale proceeds)	None ¹	1.00%	None	None	None

1. There is a 1% contingent deferred sales charge that applies to investments of \$1 million or more (see “Investments of \$1 Million or More” under “Choosing a Share Class”) and purchases by certain retirement plans without an initial sales charge.

Annual Fund Operating Expenses

(expenses that you pay each year as a percentage of the value of your investment)

	Class A	Class C	Class R	Class R6	Advisor Class
Management fees	2.05%	2.05%	2.05%	2.05%	2.05%
Distribution and service (12b-1) fees	0.25% ¹	1.00% ¹	0.50% ¹	None	None
Other Expenses					
Other expenses of the Fund	0.91%	0.91%	0.91%	0.90%	0.91%
Dividend expense and security borrowing fees for securities sold short	0.40%	0.40%	0.40%	0.40%	0.40%
Total annual Fund operating expenses	3.61%	4.36%	3.86%	3.35%	3.36%
Fee waiver and/or expense reimbursement ²	-1.01%	-1.01%	-1.01%	-1.01%	-1.01%
Total annual Fund operating expenses after fee waiver and/or expense reimbursement²	2.60%	3.35%	2.85%	2.34%	2.35%

1. Class A, C and R distribution and service (12b-1) fees have been restated to reflect the maximum annual rate approved by the board of trustees. Other expenses have been restated to reflect current fiscal year fees due to differences in operating expense during the fund’s initial year of operation.

2. The investment manager has contractually agreed to waive or assume certain expenses so that total annual Fund operating expenses (excluding Rule 12b-1 fees; acquired fund fees and expenses; expenses related to securities sold short; and certain non-routine expenses) for each class of the Fund do not exceed (and could be less than) 1.95% until September 30, 2017. In addition, the transfer agent has contractually agreed to waive or limit its transfer agency fees for Class R6 shares of the Fund so that transfer agency fees for that Class do not exceed 0.01% until September 30, 2017. The “Fee waiver and/or expense reimbursement” and “Total annual Fund operating expenses after fee waiver and/or expense reimbursement” line items have been restated to reflect the current fee waivers and/or expense reimbursements for the Fund for the upcoming fiscal year. Consequently, the Fund’s Total annual Fund operating expenses differ from the ratio of expenses to average net assets shown in the Financial Highlights. Contractual fee waiver and/or expense reimbursement agreements may not be changed or terminated during the time periods set forth above.

Example

This Example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds. The Example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your shares at the end of the period. The Example also assumes that your investment has a 5% return each year and that the Fund’s operating expenses remain the same. The Example reflects adjustments made to the Fund’s operating expenses due to the fee waivers and/or expense reimbursements by management as described above for the 1 Year numbers only. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

	1 Year	3 Years	5 Years	10 Years
Class A	\$823	\$1,530	\$2,256	\$4,162
Class C	\$438	\$1,230	\$2,133	\$4,443
Class R	\$288	\$1,086	\$1,902	\$4,024
Class R6	\$237	\$936	\$1,659	\$3,572
Advisor Class	\$238	\$939	\$1,664	\$3,581
If you do not sell your shares:				
Class C	\$338	\$1,230	\$2,133	\$4,443

Portfolio Turnover

The Fund pays transaction costs, such as commissions, when it buys and sells securities (or “turns over” its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in higher taxes when Fund shares are held in a taxable account. These costs, which are not reflected in annual Fund operating expenses or in the Example, affect the Fund’s performance. During the most recent fiscal year, the Fund’s portfolio turnover rate was 511.62% of the average value of its portfolio.

Principal Investment Strategies

The Fund seeks to achieve its investment goal by allocating its assets across multiple non-traditional or “alternative” strategies in the fixed-income and credit areas, including, but not limited to, some or all of the following: Credit Long Short, Structured Credit and Emerging Market Fixed Income, each of which is described below. The Fund is structured as a multi-manager fund (meaning the Fund’s assets are managed by multiple sub-advisors) and the Fund’s investment manager, K2/D&S Management Co., L.L.C. (doing business as K2 Advisors; “K2 Advisors” or the “Investment Manager”), has overall responsibility for the Fund’s investments. The Investment Manager allocates the Fund’s assets among multiple sub-advisors who, as of the date of this prospectus, are unaffiliated with K2 Advisors (Sub-Advisors).

Under normal market conditions, the Fund invests at least 80% of its net assets (plus the amount of any borrowings for investment purposes) in credit-related investments. For purposes of this 80% policy, “credit-related investments” include, but are not limited to: U.S. or foreign debt obligations of any credit quality, maturity or duration; all varieties of fixed income, variable rate and floating rate debt securities and investments; and derivatives, such as swap agreements, futures contracts and options, and other transactions and instruments that provide exposure

to credit-related investments. The Fund invests in a wide range of securities and other investments including, but not limited to: corporate bonds; mortgage-backed securities and asset-backed securities; U.S. Government and agency securities; collateralized debt and loan obligations; foreign government and supranational debt securities; loans and loan participations and derivatives with similar economic characteristics. The Fund may also invest in mortgage dollar rolls, repurchase agreements, reverse repurchase agreements, mortgage real estate investment trusts (REITs) and other similar transactions.

The Fund may invest in securities and other investments that are traded in the United States or in markets outside of the United States, including those located in emerging markets. Up to 15% of the Fund’s net assets may be invested in illiquid investments. The Fund may invest in debt securities of any credit quality or rating, including high yield (“junk”) bonds, distressed debt securities (securities of companies that are, or are about to be, involved in reorganizations, financial restructurings, or bankruptcy) and securities that are in default. The Fund may engage in active and frequent trading as part of its investment strategies.

In pursuing its investment goal, the Fund takes long and/or short positions in a wide range of asset classes, including credit, fixed income, and currencies, among others. The Fund may gain long or short exposure to select instruments by utilizing derivatives, engaging in short sales or entering into a series of purchase and sale contracts or repurchase agreements. Long positions benefit from an increase in the price of the underlying instrument, while short positions benefit from a decrease in that price. In a short sale, the Fund borrows or purchases the instrument from a counterparty, such as a bank, broker or other institution. After selling a borrowed or purchased instrument, the Fund “covers” the short sale by buying the instrument and returning it to the counterparty at a later date. If the instrument has appreciated in value, the Fund will realize a loss. If the instrument has depreciated in value, the Fund will realize a gain.

Utilizing short sales, repurchase agreements or certain derivative instruments may involve costs and create leverage in the Fund’s portfolio. The Fund may also engage in reverse repurchase agreements with brokers, dealers, banks or other financial institutions, which would also create leverage in the Fund’s portfolio. In a reverse repurchase agreement, the Fund sells a security and agrees to repurchase it at a mutually agreed upon date and price, reflecting the interest rate effective for the term of the agreement. The Fund then invests the proceeds of the reverse repurchase agreement in other instruments to generate profits. The use of leverage exaggerates the effect of any increase or decrease in the market price of securities in the Fund’s portfolio.

The Fund may also use derivatives for both hedging and non-hedging (investment) purposes, although no Sub-Advisor is required to hedge any of the Fund's positions or to use derivatives. The Fund's derivative investments may include, among other instruments: (i) forward currency contracts; (ii) futures contracts (including interest rate/bond futures, credit index, currency and currency index futures) and options thereon; (iii) put and call options on currencies, securities, indices and exchange-traded funds; and (iv) swaps (including total return, credit default, currency and interest rate swaps) and options thereon. The use of these derivative transactions may allow the Fund to obtain net long or short exposures to select instruments, currencies, interest rates, countries, duration or credit risks. These derivatives may be used to enhance Fund returns, increase liquidity, gain exposure to certain instruments or markets in a more efficient or less expensive way and/or hedge risks associated with its other portfolio investments. The results of such transactions may also represent, from time to time, a material component of the Fund's investment returns. As a result of the Fund's use of derivatives, the Fund may have economic leverage, which means the sum of the Fund's investment exposures through its use of derivatives may significantly exceed the amount of assets invested in the Fund, although these exposures may vary over time.

The Investment Manager may from time to time use derivatives to adjust the Fund's exposure to certain asset classes in a manner consistent with its conditional risk overlay strategy (CRO Strategy).

Investment Management

The Investment Manager is responsible for allocating and re-allocating the Fund's assets among the Sub-Advisors, for managing any portion of the Fund's assets not otherwise allocated to a Sub-Advisor and for cash management. The Investment Manager's quantitative and qualitative oversight of the Fund's investment program aims to allocate assets among various strategies and select Sub-Advisors that it believes are well-positioned to capture unique investment opportunities while preserving capital.

The Investment Manager allocates among various investment strategies utilizing a top-down approach, generating the Fund's strategy weightings by taking into account market conditions, risk factors, diversification, liquidity, transparency, and availability of various Sub-Advisors and other investment options, among other things. The Investment Manager allocates the Fund's assets to specific Sub-Advisors utilizing a bottom-up approach, selecting Sub-Advisors and their weighting within the Fund's portfolio by taking into account their correlation to various markets and to each other, risk profiles and their return expectations. From

time to time, the Fund may have little or no assets allocated to any one particular strategy or Sub-Advisor in light of economic or other conditions, as determined by the Investment Manager in its sole discretion.

The Investment Manager intends to primarily allocate the Fund's assets to Sub-Advisors that implement some or all of the following strategies:

Credit Long Short. Credit Long Short strategies are designed to profit from pricing inefficiencies in corporate fixed income and related securities. The strategies focus on total return through current income, capital preservation, and capital appreciation. Sub-Advisors take long and/or short positions in debt securities and other related instruments based on a fundamental analysis of the creditworthiness of a specific issuer or sector. By utilizing both long and short investments, Sub-Advisors seek to isolate issuer-specific exposure while limiting general market risks. A Sub-Advisor that employs this strategy may attempt to profit from investing in all aspects of a company's capital structure or by investing in securities of companies undergoing corporate events through both long and short positions.

Structured Credit. Structured Credit strategies are designed to profit from trading in structured credit and other related securities. Investments include interest-rate sensitive securities such as residential and commercial mortgage-backed securities including agency residential mortgage-backed securities, REITS, credit default swaps on various indices, including tranches thereof, collateralized loan obligations and asset-backed securities (including those backed by student loans and aircraft operating leases).

Sub-Advisors attempt to take advantage of pricing inefficiencies in specific securities through both primary and secondary markets. Sub-Advisors employ both fundamental and technical analysis in identifying mispricings. These strategies typically feature long positions in individual securities and short positions in index products, which are intended to hedge out some portion of the broad market risk.

Emerging Market Fixed Income. Emerging Market Fixed Income strategies invest in corporate and/or sovereign securities in emerging markets countries with a focus on fixed income. Investments may also include foreign exchange and interest-rate sensitive securities, such as interest rate futures, swaps and swaptions. Sub-Advisors combine top-down country analysis with security-specific financial and legal analysis to identify mispriced assets. These strategies aim to manage and exploit the increased volatility characteristic of emerging markets.

Principal Risks

You could lose money by investing in the Fund. Mutual fund shares are not deposits or obligations of, or guaranteed or endorsed by, any bank, and are not insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board, or any other agency of the U.S. government.

Multi-Manager Approach The Fund's performance depends on the skill of the Investment Manager in selecting, overseeing, and allocating Fund assets to the Sub-Advisors. The Sub-Advisors' investment styles may not always be complementary. Sub-Advisors make investment decisions independently of one another, and may make decisions that conflict with each other. Moreover, the Fund's multi-manager approach may result in the Fund investing a significant percentage of its assets in certain types of securities, which could be beneficial or detrimental to the Fund's performance depending on the performance of those securities and the overall market environment. The Sub-Advisors may underperform the market generally or underperform other investment managers that could have been selected for the Fund.

Some Sub-Advisors may have little or no experience managing the assets of a registered investment company which, unlike the private investment funds these Sub-Advisors have been managing, are subject to daily inflows and outflows of investor cash and are subject to certain legal and tax-related restrictions on their investments and operations.

Management and Asset Allocation The Fund is actively managed and could experience losses if the Investment Manager's and Sub-Advisors' judgment about markets, future volatility, interest rates, industries, sectors and regions or the attractiveness, relative values, liquidity, effectiveness or potential appreciation of particular investments made for the Fund's portfolio prove to be incorrect. The Investment Manager's allocation of Fund assets among different asset classes, Sub-Advisors and direct investments may not prove beneficial in light of subsequent market events. There can be no guarantee that these techniques or the Investment Manager's and Sub-Advisors' investment decisions will produce the desired results.

Credit An issuer of debt securities may fail to make interest payments or repay principal when due, in whole or in part. Changes in an issuer's financial strength or in a security's credit rating may affect a security's value.

High-Yield Debt Securities Issuers of lower-rated or "high-yield" debt securities (also known as "junk bonds") are not as strong financially as those issuing higher credit quality debt securities. High-yield debt securities are generally

considered predominantly speculative by the applicable rating agencies as their issuers are more likely to encounter financial difficulties and are more vulnerable to changes in the relevant economy, such as a recession or a sustained period of rising interest rates, that could affect their ability to make interest and principal payments when due. The prices of high-yield debt securities generally fluctuate more than those of higher credit quality. High-yield debt securities are generally more illiquid (harder to sell) and harder to value.

Floating Rate Corporate Investments The senior secured corporate loans and corporate debt securities in which the Fund invests may be rated below investment grade and are often issued in connection with highly leveraged transactions. Such transactions include leveraged buyout loans, leveraged recapitalization loans, and other types of acquisition financing. Loan investments issued in such transactions are subject to greater credit risks than other investments including a greater possibility that the borrower may default or enter bankruptcy. Although loan investments are generally subject to certain restrictive covenants in favor of the investors, many of these loans may from time to time be "covenant lite" loans which generally entail higher risk, since they tend to have fewer or no financial maintenance covenants and restrictions that would normally serve as early warning signs of a borrower's financial troubles.

Liquidity From time to time, the trading market for a particular security or type of security or other investments in which the Fund invests may become less liquid or even illiquid. Reduced liquidity will have an adverse impact on the Fund's ability to sell such securities or other investments when necessary to meet the Fund's liquidity needs or in response to a specific economic event and will also generally lower the value of a security or other investments. Market prices for such securities or other investments may be volatile.

Interest Rate When interest rates rise, debt security prices generally fall. The opposite is also generally true: debt security prices rise when interest rates fall. Interest rate changes are influenced by a number of factors, including government policy, monetary policy, inflation expectations, perceptions of risk, and supply and demand of bonds. In general, securities with longer maturities or durations are more sensitive to interest rate changes.

Variable Rate Securities Variable rate securities (which include floating rate debt securities) generally are less price sensitive to interest rate changes than fixed rate debt securities. However, the market value of variable rate debt securities may decline or not appreciate as quickly as expected when prevailing interest rates rise if the interest rates of the variable rate securities do not rise as much, or as quickly, as interest rates in general. Conversely, variable rate securities will not generally

increase in market value if interest rates decline. However, when interest rates fall, there may be a reduction in the payments of interest received by the Fund from its variable rate securities.

Derivative Instruments The performance of derivative instruments depends largely on the performance of an underlying currency, security or index, and such instruments often have risks similar to their underlying instrument, in addition to other risks. Derivatives involve costs and can create economic leverage in the Fund's portfolio which may result in significant volatility and cause the Fund to participate in losses (as well as gains) in an amount that exceeds the Fund's initial investment. Certain derivatives have the potential for unlimited loss, regardless of the size of the initial investment. Other risks include illiquidity, mispricing or improper valuation of the derivative instrument, and imperfect correlation between the value of the derivative and the underlying instrument so that the Fund may not realize the intended benefits. When used for hedging, the change in value of the derivative may also not correlate specifically with the currency, security or other risk being hedged. With over-the-counter derivatives, there is the risk that the other party to the transaction will fail to perform.

Borrowing and Leverage Borrowing for investment purposes and leverage exaggerates the effect of any increase or decrease in the market price of securities in the Fund's portfolio and may increase the volatility of the Fund. Increased operating costs, including the financing cost associated with any leverage, may reduce the Fund's total return. Unless the income and capital appreciation, if any, on securities acquired with borrowed funds exceed the cost of borrowing, the use of leverage will diminish the investment performance of the Fund. The use of leverage increases the risk of loss in the Fund and, in some cases, may be theoretically unlimited.

Short Sales Short sales involve the risk that the Fund will incur a loss by subsequently buying a security at a higher price than the price at which the Fund previously sold the security short. This would occur if the securities lender or counterparty to a repurchase agreement required the Fund to deliver the securities the Fund had borrowed/agreed to sell at the commencement of the short sale and the Fund was unable to either purchase the security at a favorable price or to borrow the security from another securities lender. Because the Fund's loss on a short sale arises from increases in the value of the security sold short, such loss, like the price of the security sold short, is theoretically unlimited. Also, engaging in short sales strategies subjects the Fund to additional credit risk if a party to the short sale fails to honor its contractual terms, causing a loss to the Fund.

Reverse Repurchase Agreements Entering into reverse repurchase agreements creates leverage and may be viewed as the borrowing of money by the Fund. If the Fund reinvests the proceeds of a reverse repurchase agreement in securities that are at a rate lower than the cost of the reverse repurchase agreement, the Fund will experience a loss. Reverse repurchase agreements also involve the risk that the market value of the debt obligation that is the subject of the reverse repurchase agreement could decline significantly below the price at which the Fund is obligated to repurchase the security. In addition, reverse repurchase agreements involve the risk that a buyer of securities will become subject to bankruptcy or other insolvency proceedings.

Foreign Securities Investing in foreign securities typically involves more risks than investing in U.S. securities, and includes risks associated with: (i) internal and external political and economic developments – e.g., the political, economic and social policies and structures of some foreign countries may be less stable and more volatile than those in the U.S. or some foreign countries may be subject to trading restrictions or economic sanctions; (ii) trading practices – e.g., government supervision and regulation of foreign securities and currency markets, trading systems and brokers may be less than in the U.S.; (iii) availability of information – e.g., foreign issuers may not be subject to the same disclosure, accounting and financial reporting standards and practices as U.S. issuers; (iv) limited markets – e.g., the securities of certain foreign issuers may be less liquid (harder to sell) and more volatile; and (v) currency exchange rate fluctuations and policies. The risks of foreign investments may be greater in developing or emerging market countries.

Emerging Market Countries The Fund's investments in emerging market countries are subject to all of the risks of foreign investing generally, and have additional heightened risks due to a lack of established legal, political, business and social frameworks to support securities markets, including: delays in settling portfolio securities transactions; currency and capital controls; greater sensitivity to interest rate changes; pervasiveness of corruption and crime; currency exchange rate volatility; and inflation, deflation or currency devaluation.

Distressed Companies Debt obligations of distressed companies typically are unrated, lower-rated, in default or close to default and are generally more likely to become worthless than the securities of more financially stable companies.

Prepayment Prepayment risk occurs when a debt security can be repaid in whole or in part prior to the security's maturity and the Fund must reinvest the proceeds it receives, during periods of declining interest rates, in securities that pay a lower

rate of interest. Also, if a security has been purchased at a premium, the value of the premium would be lost in the event of prepayment. Prepayments generally increase when interest rates fall.

Mortgage Dollar Rolls In a mortgage dollar roll, the Fund takes the risk that: the market price of the mortgage-backed securities will drop below their future purchase price; the securities that it repurchases at a later date will have less favorable market characteristics; the other party to the agreement will not be able to perform; the roll adds leverage to the Fund's portfolio; and, it increases the Fund's sensitivity to interest rate changes. In addition, investment in mortgage dollar rolls may increase the portfolio turnover rate for the Fund.

Portfolio turnover The Investment Manager and/or the Sub-Advisors will sell a security or enter into or close out of a derivative position when they believe it is appropriate to do so, regardless of how long the Fund has held the instrument. These activities increase the Fund's portfolio turnover and may increase the Fund's transaction costs.

Income Because the Fund can only distribute what it earns, the Fund's distributions to shareholders may decline when prevailing interest rates fall or when the Fund experiences defaults on debt securities it holds.

Mortgage-Backed and Asset-Backed Securities Mortgage-backed securities differ from conventional debt securities because principal is paid back periodically over the life of the security rather than at maturity. The Fund may receive unscheduled payments of principal due to voluntary prepayments, refinancings or foreclosures on the underlying mortgage loans. Because of prepayments, mortgage-backed securities may be less effective than some other types of debt securities as a means of "locking in" long-term interest rates and may have less potential for capital appreciation during periods of falling interest rates. A reduction in the anticipated rate of principal prepayments, especially during periods of rising interest rates, may increase or extend the effective maturity of mortgage-backed securities, making them more sensitive to interest rate changes, subject to greater price volatility, and more susceptible than some other debt securities to a decline in market value when interest rates rise.

Issuers of asset-backed securities may have limited ability to enforce the security interest in the underlying assets, and credit enhancements provided to support the securities, if any, may be inadequate to protect investors in the event of default. Like mortgage-backed securities, asset-backed securities are subject to prepayment and extension risks.

REITs Mortgage REITs typically invest in residential and commercial mortgages and mortgage-backed securities and therefore are subject to the same risks as mortgage- and asset-backed securities including interest rate, credit and prepayment risk. In addition, a REIT's performance depends on the types, values and locations of the properties for which it holds the mortgages. A REIT may be more susceptible to adverse developments affecting a market segment than more broadly diversified investments.

Collateralized Debt Obligations (CDOs) The risks of an investment in a CDO depend largely on the type of collateral held by the special purpose entity (SPE) and the tranche of the CDO in which the Fund invests and may be affected by the performance of a CDO's collateral manager. CDOs may be deemed to be illiquid securities and are subject to the risks of: lower investor protection than other securities; considerable price declines; the potential inadequacy of collateral securities; and subordination to other classes of the CDO.

Market The market values of securities or other investments owned by the Fund will go up or down, sometimes rapidly or unpredictably. The market value of a security or other investment may be reduced by market activity or other results of supply and demand unrelated to the issuer. This is a basic risk associated with all investments. When there are more sellers than buyers, prices tend to fall. Likewise, when there are more buyers than sellers, prices tend to rise.

Illiquid Securities Certain securities are illiquid due to a limited trading market, financial weakness of the issuer, legal or contractual restrictions on resale or transfer, or are otherwise illiquid in the sense that they cannot be sold within seven days at approximately the price at which the Fund values them. Securities that are illiquid involve greater risk than securities with more liquid markets, including increased volatility. Illiquidity may have an adverse impact on market price and the Fund's ability to sell particular securities when necessary to meet the Fund's liquidity needs or in response to a specific economic event.

Extension The market value of some debt securities (such as certain asset-backed and mortgage-backed securities) will be adversely affected when bond calls or prepayments on underlying mortgages or other assets are less or slower than anticipated. When that occurs, the effective maturity date of the Fund's investment is extended, resulting in an increase in interest rate sensitivity to that of a longer-term instrument.

Impairment of Collateral The value of the collateral of the Fund's senior secured corporate loans and corporate debt securities may decline after the Fund invests and there is a risk that the value of the collateral may not be sufficient

to cover the amount owed to the Fund. Other risks include limited access to the collateral by the Fund in the event of a bankruptcy and difficulties liquidating the collateral.

Performance

Because the Fund does not yet have a full calendar year of performance, annual total return information is not available and therefore is not presented. You can obtain updated performance information at franklintempleton.com or by calling (800) DIAL BEN/342-5236.

Investment Manager

K2/D&S Management Co., L.L.C. (doing business as K2 Advisors)

Portfolio Managers

Charmaine Chin

Managing Director of K2 Advisors and portfolio manager of the Fund since inception (2015).

Jeff Schmidt

Managing Director of Portfolio Construction of K2 Advisors and portfolio manager of the Fund since inception (2015).

Robert Christian

Senior Managing Director, Head of Research of K2 Advisors and portfolio manager of the Fund since inception (2015).

David C. Saunders

Founding Managing Director and Chief Executive Officer of K2 Advisors and portfolio manager of the Fund since inception (2015).

Purchase and Sale of Fund Shares

You may purchase or redeem shares of the Fund on any business day online through our website at franklintempleton.com, by mail (Franklin Templeton Investor Services, P.O. Box 997151, Sacramento, CA 95899-7151), or by telephone at (800) 632-2301. For Class A, C and R, the minimum initial purchase for most accounts is \$1,000 (or \$50 under an automatic investment plan). Class R6 and Advisor Class are only available to certain qualified investors and the minimum initial investment will vary depending on the type of qualified investor,

as described under “Your Account — Choosing a Share Class — Qualified Investors — Class R6” and “— Advisor Class” in the Fund’s prospectus. There is no minimum investment for subsequent purchases.

Taxes

The Fund’s distributions are generally taxable to you as ordinary income, capital gains, or some combination of both, unless you are investing through a tax-deferred arrangement, such as a 401(k) plan or an individual retirement account, in which case your distributions would generally be taxed when withdrawn from the tax-deferred account.

Payments to Broker-Dealers and Other Financial Intermediaries

If you purchase shares of the Fund through a broker-dealer or other financial intermediary (such as a bank), the Fund and its related companies may pay the intermediary for the sale of Fund shares and related services. These payments may create a conflict of interest by influencing the broker-dealer or other intermediary and your salesperson to recommend the Fund over another investment. Ask your financial advisor or visit your financial intermediary’s website for more information.

Fund Details

Investment Goal

The Fund's goal is to seek total return over a complete market cycle through a combination of current income, capital preservation and capital appreciation. The Fund's investment goal is non-fundamental, which means it may be changed by the board of trustees without shareholder approval. Shareholders will be given at least 60 days' advance notice of any change to the Fund's investment goal.

Principal Investment Policies and Practices

The Fund seeks to achieve its investment goal by allocating its assets across multiple non-traditional or "alternative" strategies in the fixed-income and credit areas, including, but not limited to, some or all of the following: Credit Long Short, Structured Credit and Emerging Market Fixed Income, each of which is described below. The Fund is structured as a multi-manager fund (meaning the Fund's assets are managed by multiple sub-advisors) and the Fund's investment manager, K2/D&S Management Co., L.L.C. (K2 Advisors or the Investment Manager), has overall responsibility for the Fund's investments.

The Investment Manager allocates the Fund's assets among multiple sub-advisors. The sub-advisors are, as of the date of this prospectus, unaffiliated with K2 Advisors (Sub-Advisors). The Sub-Advisors will invest the portion of the Fund's assets for which they are responsible directly in securities and other investments. Fund assets which are not allocated to Sub-Advisors may be managed by the Investment Manager although the Investment Manager does not expect to manage a material portion of the Fund's assets directly other than for cash management purposes. Each Sub-Advisor is responsible for the day-to-day investment decisions for the portion of the Fund allocated to it, although the Investment Manager may, in its sole discretion, develop performance benchmarks and investment guidelines with the Sub-Advisors. The allocations to the Sub-Advisors are determined by the Investment Manager in its sole discretion and assets managed by a Sub-Advisor may be reallocated by the Investment Manager, in its sole discretion, to any other Sub-Advisor or to itself.

Under normal market conditions, the Fund invests at least 80% of its net assets (plus the amount of any borrowings for investment purposes) in credit-related investments. For purposes of this 80% policy, "credit-related investments" include, but are not limited to: U.S. or foreign debt obligations of any credit quality, maturity or duration; all varieties of fixed income, variable rate and floating rate debt securities and investments; and derivatives, such as swap agreements, futures

contracts and options, and other transactions and instruments that provide exposure to credit-related investments. Shareholders will be given at least 60 days' advance written notice of any change to the 80% policy. The Fund invests in a wide range of securities and other investments including, but not limited to: corporate bonds; mortgage-backed securities and asset-backed securities; U.S. Government and agency securities; collateralized debt and loan obligations; foreign government and supranational debt securities; loans and loan participations, and derivatives with similar economic characteristics. The Fund may also invest in mortgage dollar rolls, repurchase agreements, reverse repurchase agreements, mortgage REITs and other similar transactions.

The Fund may invest in securities and other investments that are traded in the United States or in markets outside of the United States, including those located in emerging markets, of any capitalization size. Up to 15% of the Fund's net assets may be invested in illiquid investments. The Fund may invest in debt securities of any credit quality or rating, including sovereign debt, high yield ("junk") bonds, distressed debt securities (securities of companies that are, or are about to be, involved in reorganizations, financial restructurings, or bankruptcy) and securities that are in default. The Fund may engage in active and frequent trading as part of its investment strategies.

In pursuing its investment goal, the Fund takes long and/or short positions in a wide range of asset classes, including credit, fixed income, equities and currencies, among others. The Fund may gain long or short exposure to select instruments by utilizing derivatives, engaging in short sales or entering into a series of purchase and sale contracts or repurchase agreements. Long positions benefit from an increase in the price of the underlying instrument, while short positions benefit from a decrease in that price. In a short sale, the Fund borrows or purchases the instrument from a counterparty, such as a bank, broker or other institution. After selling a borrowed or purchased instrument, the Fund "covers" the short sale by buying the instrument and returning it to the counterparty at a later date. If the instrument has appreciated in value, the Fund will realize a loss. If the instrument has depreciated in value, the Fund will realize a gain.

Utilizing short sales, repurchase agreements or certain derivative instruments may involve costs and create leverage in the Fund's portfolio. The Fund may also engage in reverse repurchase agreements with brokers, dealers, banks or other financial institutions, which would also create leverage in the Fund's portfolio. In a reverse repurchase agreement, the Fund sells a security and agrees to repurchase it at a mutually agreed upon date and price, reflecting the interest rate effective for the term of the agreement. The Fund then invests the proceeds of the reverse

repurchase agreement in other instruments to generate profits. The use of leverage exaggerates the effect of any increase or decrease in the market price of securities in the Fund's portfolio.

The Fund may also use derivatives for both hedging and non-hedging (investment) purposes, although no Sub-Advisor is required to hedge any of the Fund's positions or to use derivatives. The Fund's derivative investments may include, among other instruments: (i) forward currency contracts; (ii) futures contracts (including equity, interest rate/bond futures, credit index, currency and currency index futures) and options thereon; (iii) put and call options on currencies, securities, indices and exchange-traded funds; and (iv) swaps (including total return, credit default, currency and interest rate swaps) and options thereon. The use of these derivative transactions may allow the Fund to obtain net long or short exposures to select instruments, currencies, interest rates, countries, duration or credit risks. These derivatives may be used to enhance Fund returns, increase liquidity, gain exposure to certain instruments or markets in a more efficient or less expensive way and/or hedge risks associated with its other portfolio investments. The results of such transactions may also represent, from time to time, a material component of the Fund's investment returns. As a result of the Fund's use of derivatives, the Fund may have economic leverage, which means the sum of the Fund's investment exposures through its use of derivatives may significantly exceed the amount of assets invested in the Fund, although these exposures may vary over time.

A currency forward contract is an obligation to purchase or sell a specific foreign currency at an agreed exchange rate (price) at a future date. Currency forwards are typically individually negotiated and privately traded by currency traders and their customers in the interbank market. A cross currency forward is a forward contract to sell a specific foreign currency in exchange for another foreign currency and may be used when the Fund believes that the price of one of those foreign currencies will experience a substantial movement against the other foreign currency. A cross currency forward will tend to reduce or eliminate exposure to the currency that is sold, and increase exposure to the currency that is purchased, similar to when the Fund sells a security denominated in one currency and purchases a security denominated in another currency. When used for hedging purposes, a cross currency forward will protect the Fund against losses resulting from a decline in the hedged currency, but will cause the Fund to assume the risk of fluctuations in the value of the currency it purchases.

A futures contract is a standard binding agreement that trades on an exchange to buy or sell a specified quantity of an underlying instrument or asset at a specified price at a specified later date. A "sale" of a futures contract means the acquisition of a contractual obligation to deliver the underlying instrument called for by the

contract at a specified price on a specified date. A "purchase" of a futures contract means the acquisition of a contractual obligation to acquire a specified quantity of the underlying instrument called for by the contract at a specified price on a specified date. The purchase or sale of a futures contract will allow the Fund to increase or decrease its exposure to the underlying instrument or asset. Although most futures contracts used by the Fund allow for a cash payment of the net gain or loss on the contract at maturity in lieu of delivery of the underlying instruments, some require the actual delivery or acquisition of the underlying instrument or asset. The Fund may buy and sell futures contracts that trade on U.S. and foreign exchanges.

Swap agreements, such as total return, credit default and interest rate swaps, are contracts between the Fund and another party (the swap counterparty) involving the exchange of payments on specified terms over periods ranging from a few days to multiple years. In general, a swap agreement may be negotiated bilaterally and traded over-the-counter (OTC) between the two parties (for an uncleared swap) or, in some instances, must be transacted through a futures commission merchant (FCM) and cleared through a clearinghouse that serves as a central counterparty (for a cleared swap). In a basic swap transaction, the Fund agrees with the swap counterparty to exchange the returns (or differentials in rates of return) and/or cash flows 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.

For credit default swaps, the "buyer" of the credit default swap agreement is obligated to pay the "seller" a periodic stream of payments over the term of the agreement in return for a payment by the "seller" that is contingent upon the occurrence of a credit event with respect to an underlying reference debt obligation. A buyer of the credit default swap is purchasing the obligation of its counterparty to offset losses if there was such a credit event. Generally, a credit event means bankruptcy, failure to timely pay interest or principal, obligation acceleration or default, or repudiation or restructuring of the reference debt obligation. The contingent payment by the seller generally is either the par amount of the reference debt obligation in exchange for the physical delivery of the reference debt obligation or a cash payment equal to the decrease in market value of the reference debt obligation following the occurrence of the credit event.

An interest rate swap is an agreement between two parties to exchange interest rate payment obligations. Typically, one rate is based on an interest rate fixed to maturity while the other is based on an interest rate that changes in accordance with changes in a designated benchmark (for example, LIBOR, prime, commercial paper, or other benchmarks).

A total return swap is an agreement between two parties, pursuant to which one pays (and the other receives) an amount equal to the total return of an underlying reference asset (e.g., a security, group of securities or securities index) in exchange for a regular payment, at a floating rate based on LIBOR, or alternatively at a fixed rate or the total rate of return on another financial instrument. The Fund may take either position in a total return swap (i.e., the Fund may receive or pay the total return on the underlying reference asset).

A currency swap is generally a contract between two parties to exchange one currency for another currency at the start of the contract and then exchange periodic floating or fixed rates during the term of the contract based upon the relative value differential between the two currencies. Unlike other types of swaps, currency swaps typically involve the delivery of the entire principal (notional) amounts of the two currencies at the time the swap is entered into. At the end of the swap contract, the parties receive back the principal amounts of the two currencies.

Credit index futures are exchange-traded contracts whereby the Fund agrees to buy or sell a specified quantity of an underlying credit default swap on an index at a specified price at a specified later date. Although some futures contracts by their terms require the actual delivery or acquisition of the underlying reference asset, credit index futures require cash settlement at maturity. The purchase or sale of credit index futures can therefore allow the Fund to obtain long or short exposure to credit default swaps on indices without having to enter into the underlying swap agreements. Credit index futures generally have the same uses and are subject to the same risks as futures contracts and credit default swaps, described above.

A call option gives the purchaser of the option, upon payment of a premium, the right to buy, and the seller the obligation to sell, the underlying instrument at the exercise price. Conversely, a put option gives the purchaser of the option, upon payment of a premium, the right to sell, and the seller of the option the obligation to buy, the underlying instrument at the exercise price. A currency option is a contract, typically negotiated bilaterally and traded OTC between two parties, that grants the holder the right, but not the obligation, to buy or sell a specific currency at a specified exchange rate, called the “strike price,” during a specified period of time. Generally, upon exercise, a currency option triggers a spot foreign exchange

transaction at the strike price, meaning the parties actually exchange currencies. However, some currency options are U.S. dollar-settled, in which case no delivery or receipt of foreign currency occurs.

Under recent financial reforms, certain types of swaps are, and others eventually are expected to be, required to be cleared through a central counterparty. Central clearing is designed to reduce counterparty credit risk and increase liquidity compared to OTC swaps, but it does not eliminate those risks completely. With cleared swaps, there is also a risk of loss by the Fund of its initial and variation margin deposits in the event of bankruptcy of the FCM with which the Fund has an open position in a swap contract. With cleared swaps, the Fund may not be able to obtain as favorable terms as it would be able to negotiate for a bilateral, uncleared swap. In addition, an FCM may unilaterally amend the terms of its agreement with the Fund, which may include the imposition of position limits or additional margin requirements with respect to the Fund’s investment in certain types of swaps. The regulation of cleared and uncleared swaps, as well as other derivatives, is a rapidly changing area of law and is subject to modification by government and judicial action. In addition, the SEC, CFTC and the exchanges are authorized to take extraordinary actions in the event of a market emergency. It is not possible to predict fully the effects of current or future regulation. The Investment Manager or Sub-Advisor considers various factors, such as availability and cost, in deciding whether to use a particular derivative instrument or strategy. Moreover, investors should bear in mind that the Fund is not obligated to actively engage in any derivative transactions.

Investment Management

The Investment Manager is responsible for: (i) the hiring and termination of Sub-Advisors, subject to the Board’s oversight and approval; (ii) monitoring the overall investment performance of the Sub-Advisors; (iii) allocating and re-allocating the Fund’s assets among the Sub-Advisors; (iv) managing any portion of the Fund’s assets not otherwise allocated to a Sub-Advisor; and (v) cash management. The Investment Manager’s quantitative and qualitative oversight of the Fund’s investment program aims to allocate assets among various strategies and select Sub-Advisors that it believes are well-positioned to capture unique investment opportunities while preserving capital.

The Investment Manager allocates among various investment strategies utilizing a top-down approach, generating the Fund’s strategy weightings by taking into account market conditions, risk factors, diversification, liquidity, transparency, and availability of various Sub-Advisors and other investment options, among other things. The Investment Manager allocates the Fund’s assets to specific

Sub-Advisors utilizing a bottom-up approach, selecting Sub-Advisors and their weighting within the Fund's portfolio by taking into account their correlation to various markets and to each other, risk profiles and their return expectations.

With regard to its allocations to Sub-Advisors, the Investment Manager identifies, evaluates and selects appropriate Sub-Advisors based on its investment due diligence process, which includes, but is not limited to, evaluation of a prospective Sub-Advisor's strategy and people, investment process, risk-return profiles, and operational and compliance processes. From time to time, the Fund may have little or no assets allocated to any one particular strategy or Sub-Advisor in light of economic or other conditions (including the availability of Sub-Advisors), as determined by the Investment Manager in its sole discretion.

From time to time, the Investment Manager may implement its CRO Strategy, which seeks to neutralize certain market sensitivities that may exist in the Fund. The CRO Strategy involves investing in derivatives or other instruments in an effort to provide a hedge against negative market events. When implemented, the CRO Strategy will reduce the Fund's ability to benefit from positive market movements.

The Investment Manager intends to primarily allocate the Fund's assets to Sub-Advisors that implement some or all of the strategies discussed below. The descriptions of such investment strategies are subjective, are not complete descriptions of any strategy and may differ from classifications made by other investment firms that implement similar investment strategies. The Investment Manager may also determine to allocate the Fund's assets to one or more Sub-Advisors that employ a wide variety of other fixed income and credit strategies not described herein.

Credit Long Short. Credit Long Short strategies are designed to profit from pricing inefficiencies in corporate fixed income and related securities. The strategies focus on total return through current income, capital preservation, and capital appreciation. Sub-Advisors take long and/or short positions in debt securities and other related instruments based on a fundamental analysis of the creditworthiness of a specific issuer or sector. By utilizing both long and short investments, Sub-Advisors seek to isolate issuer-specific exposure while limiting general market risks. A Sub-Advisor that employs this strategy may attempt to profit from investing in all aspects of a company's capital structure or by investing in securities of companies undergoing corporate events through both long and short positions.

Structured Credit. Structured Credit strategies are designed to profit from trading in structured credit and other related securities. Investments include residential and commercial mortgage mortgage-backed securities, REITS, credit default swaps on

various indices, including tranches thereof, collateralized loan obligations, asset-backed securities (including those backed by student loans and aircraft operating leases), and interest-rate sensitive securities, such as agency residential mortgage-backed securities. Sub-Advisors attempt to take advantage of pricing inefficiencies in specific securities through both primary and secondary markets. Sub-Advisors employ both fundamental and technical analysis in identifying mispricings. These strategies typically feature long positions in individual securities and short positions in index products, which are intended to hedge out some portion of the broad market risk.

Emerging Market Fixed Income. Emerging Market Fixed Income strategies invest in corporate and/or sovereign securities in emerging markets countries with a focus on fixed income. Investments may also include foreign exchange and interest-rate sensitive securities, such as interest rate futures, swaps and swaptions. Sub-Advisors combine top-down country analysis with security-specific financial and legal analysis to identify mispriced assets. These strategies aim to manage and exploit the increased volatility characteristic of emerging markets.

The identity and number of Sub-Advisors employed by the Investment Manager, and the amount of asset allocated among them, will change over time.

When the Investment Manager believes market or economic conditions are unfavorable for investors, the Investment Manager may invest up to 100% of the Fund's assets in a temporary defensive manner by holding all or a substantial portion of its assets in cash, cash equivalents or other high quality short-term investments. Temporary defensive investments generally may include short-term U.S. government securities, commercial paper, short-term bank time deposits, bankers' acceptances and money market fund shares (including shares of an affiliated money market fund), or derivative instruments. In these circumstances, the Fund may be unable to achieve its investment goal.

Principal Risks

Multi-Manager Approach

The Fund's performance depends on the skill of the Investment Manager in selecting, overseeing, and allocating Fund assets to the Sub-Advisors. The Sub-Advisors' investment styles may not always be complementary. Sub-Advisors make investment decisions independently of one another, and may make decisions that conflict with each other. For example, it is possible that a Sub-Advisor may purchase a security for the Fund at the same time that another Sub-Advisor sells the same security, resulting in higher expenses without accomplishing any net investment result; or that several Sub-Advisors purchase the same security at the

same time, without aggregating their transactions, resulting in higher expenses. Moreover, the Fund's multi-manager approach may result in the Fund investing a significant percentage of its assets in certain types of securities, which could be beneficial or detrimental to the Fund's performance depending on the performance of those securities and the overall market environment. The Sub-Advisors may underperform the market generally or underperform other investment managers that could have been selected for the Fund.

Some Sub-Advisors may have little or no experience managing the assets of a registered investment company which, unlike the private investment funds these Sub-Advisors have been managing, are subject to daily inflows and outflows of investor cash and are subject to certain legal and tax-related restrictions on their investments and operations. In addition, the Sub-Advisors may manage other investment accounts with performance-based fees, which could create a conflict of interest for the portfolio managers in managing the Fund and such other accounts. Subject to the overall supervision of the Fund's investment program by the Investment Manager, each Sub-Advisor is responsible, with respect to the portion of the Fund's assets it manages, for compliance with the Fund's investment strategies and applicable law and for the prevention of conflicts of interest.

Management and Asset Allocation

The Fund is actively managed and could experience losses if the Investment Manager's and Sub-Advisors' judgment about markets, future volatility, interest rates, industries, sectors and regions or the attractiveness, relative values, liquidity, effectiveness or potential appreciation of particular investments made for the Fund's portfolio prove to be incorrect. The Investment Manager's allocation of Fund assets among different strategies, Sub-Advisors, and direct investments may not prove beneficial in light of subsequent market events. There can be no guarantee that these techniques or the Investment Manager's and Sub-Advisors' investment decisions will produce the desired results. Additionally, legislative, regulatory, or tax developments may affect the investment techniques available to the Investment Manager and Sub-Advisors in connection with managing the Fund and may also adversely affect the ability of the Fund to achieve its investment goal.

Credit

The Fund could lose money on a debt security if an issuer or borrower is unable or fails to meet its obligations, including failing to make interest payments and/or to repay principal when due. Changes in an issuer's financial strength, the market's perception of the issuer's financial strength or in a security's credit rating, which reflects a third party's assessment of the credit risk presented by a particular issuer, may affect debt securities' values. The Fund may incur substantial losses on debt

securities that are inaccurately perceived to present a different amount of credit risk by the market, the Investment Manager, the Sub-Advisors or the rating agencies than such securities actually do. Debt obligations of distressed companies typically are unrated, lower-rated, in default or close to default and are generally more likely to become worthless than the securities of more financially stable companies.

High-Yield Debt Securities

High-yield debt securities (including loans) and unrated securities of similar credit quality (high-yield debt instruments or junk bonds) involve greater risk of a complete loss of the Fund's investment, or delays of interest and principal payments, than higher-quality debt securities or loans. Issuers of high-yield debt instruments are not as strong financially as those issuing securities of higher credit quality. High-yield debt instruments are generally considered predominantly speculative by the applicable rating agencies as these issuers are more likely to encounter financial difficulties and are more vulnerable to changes in the relevant economy, such as a recession or a sustained period of rising interest rates, that could affect their ability to make interest and principal payments when due. If an issuer stops making interest and/or principal payments, payments on the securities may never resume. These instruments may be worthless and the Fund could lose its entire investment.

The prices of high-yield debt instruments generally fluctuate more than higher-quality securities. Prices are especially sensitive to developments affecting the issuer's business or operations and to changes in the ratings assigned by rating agencies. In addition, the entire high-yield debt market can experience sudden and sharp price swings due to changes in economic conditions, stock market activity, large sustained sales by major investors, a high-profile default, or other factors. Prices of corporate high-yield debt instruments often are closely linked with the company's stock prices and typically rise and fall in response to factors that affect stock prices.

High-yield debt instruments are generally less liquid than higher-quality securities. Many of these securities are not registered for sale under the federal securities laws and/or do not trade frequently. When they do trade, their prices may be significantly higher or lower than expected. At times, it may be difficult to sell these securities promptly at an acceptable price, which may limit the Fund's ability to sell securities in response to specific economic events or to meet redemption requests. As a result, high-yield debt instruments generally pose greater illiquidity and valuation risks.

Substantial declines in the prices of high-yield debt instruments can dramatically increase the yield of such bonds or loans. The decline in market prices generally reflects an expectation that the issuer(s) may be at greater risk of defaulting on the obligation to pay interest and principal when due. Therefore, substantial increases in yield may reflect a greater risk by the Fund of losing some or part of its investment rather than reflecting any increase in income from the higher yield that the debt security or loan may pay to the Fund on its investment.

Floating Rate Corporate Investments

The senior secured corporate loans and corporate debt securities in which the Fund invests are often issued in connection with highly leveraged transactions. Such transactions include leveraged buyout loans, leveraged recapitalization loans, and other types of acquisition financing. Loan investments issued in such transactions are subject to greater credit risks than other investments including a greater possibility that the borrower may default or enter bankruptcy. Such floating rate securities may be rated below investment grade (i.e., also known as “junk bonds”). Although loan investments are generally subject to certain restrictive covenants in favor of the investors, many of these loans may from time to time be reissued or offered as “covenant lite” loans, which may entail potentially increased risk, because they may have fewer or no financial maintenance covenants or restrictions that would normally allow for early intervention and proactive mitigation of credit risk.

Liquidity

Liquidity risk exists when the markets for particular securities or types of securities or other investments are or become relatively illiquid so that the Fund is unable, or it becomes more difficult for the Fund, to sell the security or other investment at the price at which the Fund has valued the security. Illiquidity may result from political, economic or issuer specific events; supply/demand imbalances; changes in a specific market’s size or structure, including the number of participants; or overall market disruptions. Securities or other investments with reduced liquidity or that become illiquid may involve greater risk than securities with more liquid markets. Market prices or quotations for illiquid securities may be volatile, and there may be large spreads between bid and ask prices. Reduced liquidity may have an adverse impact on market price and the Fund’s ability to sell particular securities when necessary to meet the Fund’s liquidity needs or in response to a specific economic event. To the extent that the Fund and its affiliates hold a significant portion of an issuer’s outstanding securities, the Fund may be subject to greater liquidity risk than if the issuer’s securities were more widely held.

Interest Rate

Interest rate changes can be sudden and unpredictable, and are influenced by a number of factors, including government policy, monetary policy, inflation expectations, perceptions of risk, and supply and demand of bonds. Changes in government monetary policy, including changes in tax policy or changes in a central bank’s implementation of specific policy goals, may have a substantial impact on interest rates. There can be no guarantee that any particular government or central bank policy will be continued, discontinued or changed, nor that any such policy will have the desired effect on interest rates. Debt securities generally tend to lose market value when interest rates rise and increase in value when interest rates fall. A rise in interest rates also has the potential to cause investors to rapidly move out of fixed income securities. A substantial increase in interest rates may also have an adverse impact on the liquidity of a security, especially those with longer maturities or durations. Securities with longer maturities or durations or lower coupons or that make little (or no) interest payments before maturity tend to be more sensitive to interest rate changes.

Variable Rate Securities

Variable rate securities (which include floating rate debt securities) generally are less price sensitive to interest rate changes than fixed rate debt securities. However, the market value of variable rate debt securities may decline or not appreciate as quickly as expected when prevailing interest rates rise if the interest rates of the variable rate securities do not rise as much, or as quickly, as interest rates in general. Conversely, variable rate securities will not generally increase in market value if interest rates decline. However, when interest rates fall, there may be a reduction in the payments of interest received by the Fund from its variable rate securities.

Derivative Instruments

The performance of derivative instruments depends largely on the performance of an underlying instrument, such as a currency, security, index or other reference asset, and derivative instruments often have risks similar to the underlying instrument, in addition to other risks. Derivative instruments involve costs and can create economic leverage in the Fund’s portfolio which may result in significant volatility and cause the Fund to participate in losses (as well as gains) in an amount that significantly exceeds the Fund’s initial investment. Certain derivatives have the potential for unlimited loss, regardless of the size of the initial investment. The use of leverage may cause the Fund to liquidate portfolio positions to satisfy its obligations or to meet asset segregation requirements when it may not be advantageous to do so. Other risks include illiquidity, mispricing or improper valuation of the derivative instrument, and imperfect correlation between the value

of the derivative and the underlying instrument so that the Fund may not realize the intended benefits. Their successful use will usually depend on the Investment Manager's or Sub-Advisors' ability to accurately forecast movements in the market relating to the underlying instrument. Should a market or markets, or prices of particular classes of investments move in an unexpected manner, especially in unusual or extreme market conditions, the Fund may not achieve the anticipated benefits of the transaction, and it may realize losses, which could be significant. If the Investment Manager or Sub-Advisor is not successful in using such derivative instruments, the Fund's performance may be worse than if the Investment Manager or Sub-Advisor did not use such derivative instruments at all. To the extent that the Fund uses such instruments for hedging purposes, there is the risk of imperfect correlation between movements in the value of the derivative instrument and the value of the underlying instrument or other asset being hedged. There is also the risk, especially under extreme market conditions, that an instrument, which usually would operate as a hedge, provides no hedging benefits at all.

Use of these instruments could also result in a loss if the counterparty to the transaction (particularly with respect to over-the-counter (OTC) instruments, such as certain swap agreements and forward currency contracts) does not perform as promised, including because of such counterparty's bankruptcy or insolvency. This risk may be heightened during volatile market conditions. Other risks include the inability to close out a position because the trading market becomes illiquid (particularly in the OTC markets) or the availability of counterparties becomes limited for a period of time. In addition, the presence of speculators in a particular market could lead to price distortions. To the extent that the Fund is unable to close out a position because of market illiquidity, the Fund may not be able to prevent further losses of value in its derivatives holdings and the Fund's liquidity may be impaired to the extent that it has a substantial portion of its otherwise liquid assets marked as segregated to cover its obligations under such derivative instruments. The Fund may also be required to take or make delivery of an underlying instrument that the Investment Manager or Sub-Advisor would otherwise have attempted to avoid. Some derivatives can be particularly sensitive to changes in interest rates or other market prices. Investors should bear in mind that, while the Fund intends to use derivative strategies on a regular basis, it is not obligated to actively engage in these transactions, generally or in any particular kind of derivative, if the Investment Manager or Sub-Advisor elects not to do so due to availability, cost or other factors.

The use of derivative strategies may also have a tax impact on the Fund. The timing and character of income, gains or losses from these strategies could impair the ability of the Investment Manager or Sub-Advisor to utilize derivatives when it wishes to do so.

Borrowing and Leverage

Borrowing for investment purposes and leverage exaggerates the effect of any increase or decrease in the market price of securities in the Fund's portfolio and may increase the volatility of the Fund. Increased operating costs, including the financing cost associated with any leverage, may reduce the Fund's total return. Unless the income and capital appreciation, if any, on securities acquired with borrowed funds exceed the cost of borrowing, the use of leverage will diminish the investment performance of the Fund. The use of leverage increases the risk of loss in the Fund and, in some cases, the risk of loss may be theoretically unlimited.

Short Sales

There are certain unique risks associated with the use of short sales strategies. When selling a security short, the Fund will sell a security it does not own or is obligated to sell in the future at the then-current market price and then borrow/purchase the security to deliver to the buyer. The Fund is then obligated to buy the security on a later date so it can return the security to the lender. Short sales therefore involve the risk that the Fund will incur a loss by subsequently buying a security at a higher price than the price at which the Fund previously sold the security short. This would occur if the securities lender or counterparty to a repurchase agreement required the Fund to deliver the securities the Fund had borrowed/purchased at the commencement of the short sale and the Fund was unable to either purchase the security at a favorable price or to borrow the security from another securities lender. If this occurs at a time when other short sellers of the security also want to close out their positions, a "short squeeze" can occur. A short squeeze occurs when demand is greater than supply for the security sold short. Moreover, short selling involves a form of financial leverage that may exaggerate any losses realized by the Fund. Because the Fund's loss on a short sale arises from increases in the value of the security sold short, such loss, like the price of the security sold short, is theoretically unlimited. By contrast, the Fund's loss on a long position arises from decreases in the value of the security and therefore is limited by the fact that a security's value cannot drop below zero. It is possible that the Fund's securities held long will decline in value at the same time that the value of the securities sold short increases, thereby increasing the potential for loss. The use of leverage may cause the Fund to liquidate portfolio positions when it would not be advantageous to do so in order to satisfy its obligations or to meet

segregation requirements. Also, engaging in short sales strategies subjects the Fund to additional credit risk if a party to the short sale fails to honor its contractual terms, causing a loss to the Fund.

Reverse Repurchase Agreements

Entering into reverse repurchase agreements creates leverage and may be viewed as the borrowing of money by the Fund. If the Fund reinvests the proceeds of a reverse repurchase agreement in securities that are at a rate lower than the cost of the reverse repurchase agreement, the Fund will experience a loss. Reverse repurchase agreements also involve the risk that the market value of the debt obligation that is the subject of the reverse repurchase agreement could decline significantly below the price at which the Fund is obligated to repurchase the security. In addition, reverse repurchase agreements involve the risk that a buyer of securities will become subject to bankruptcy or other insolvency proceedings.

Foreign Securities

Investing in foreign securities, including sovereign debt securities, typically involves more risks than investing in U.S. securities. Certain of these risks also may apply to securities of U.S. companies with significant foreign operations.

Sovereign debt securities. A foreign country may be unwilling or unable to repay the principal and/or interest on its sovereign debt because of insufficient foreign reserves, the relative size of the debt service burden to the economy as a whole, the government's policy towards supranational agencies such as the International Monetary Fund, or the political constraints to which the government may be subject. If a foreign country defaults (or threatens to default) on its sovereign debt obligations, the indebtedness may be restructured. Restructuring may include obtaining additional credit to finance outstanding obligations, reduction and rescheduling of payments of interest and principal, or negotiation of new or amended credit agreements. In the event of a default on sovereign debt, the Fund may have limited legal recourse against the defaulting government. In certain cases, remedies must be pursued in the courts of the defaulting country itself, which may further limit the Fund's ability to obtain recourse.

Currency exchange rates. Foreign securities may be issued and traded in foreign currencies. As a result, their market values in U.S. dollars may be affected by changes in exchange rates between such foreign currencies and the U.S. dollar, as well as between currencies of countries other than the U.S. For example, if the value of the U.S. dollar goes up compared to a foreign currency, an investment traded in that foreign currency will go down in value because it will be worth fewer U.S. dollars. The Fund accrues additional expenses when engaging in currency

exchange transactions, and valuation of the Fund's foreign securities may be subject to greater risk because both the currency (relative to the U.S. dollar) and the security must be considered.

Currency management strategies. Currency management strategies may substantially change the Fund's exposure to currency exchange rates and could result in losses to the Fund if currencies do not perform as the Investment Manager or a Sub-Advisor expects. In addition, currency management strategies, to the extent that they reduce the Fund's exposure to currency risks, may also reduce the Fund's ability to benefit from favorable changes in currency exchange rates. There is no assurance that the Investment Manager's or a Sub-Advisor's use of currency management strategies will benefit the Fund or that they will be, or can be, used at appropriate times. Furthermore, there may not be perfect correlation between the amount of exposure to a particular currency and the amount of securities in the portfolio denominated in that currency. Investing in foreign currencies for purposes of gaining from projected changes in exchange rates, as opposed to hedging currency risks applicable to the Fund's holdings, further increases the Fund's exposure to foreign investment losses.

Political and economic developments. The political, economic and social policies or structures of some foreign countries may be less stable and more volatile than those in the United States. Investments in these countries may be subject to greater risks of internal and external conflicts, expropriation, nationalization of assets, foreign exchange controls (such as suspension of the ability to transfer currency from a given country), restrictions on removal of assets, political or social instability, military action or unrest, diplomatic developments, currency devaluations, foreign ownership limitations, and punitive or confiscatory tax increases. It is possible that a government may take over the assets or operations of a company or impose restrictions on the exchange or export of currency or other assets. Some countries also may have different legal systems that may make it difficult or expensive for the Fund to vote proxies, exercise shareholder rights, and pursue legal remedies with respect to its foreign investments. Diplomatic and political developments could affect the economies, industries, and securities and currency markets of the countries in which the Fund is invested. These developments include rapid and adverse political changes; social instability; regional conflicts; sanctions imposed by the United States, other nations or other governmental entities, including supranational entities; terrorism; and war. In addition, such developments could contribute to the devaluation of a country's currency, a downgrade in the credit ratings of issuers in such country, or a decline in the value and liquidity of securities of issuers in that country. An imposition of sanctions upon certain issuers in a country could result in an immediate freeze

of that issuer's securities, impairing the ability of the Fund to buy, sell, receive or deliver those securities. These factors would affect the value of the Fund's investments and are extremely difficult, if not impossible, to predict and take into account with respect to the Fund's investments.

Trading practices. Brokerage commissions, withholding taxes, custodial fees, and other fees generally are higher in foreign markets. The policies and procedures followed by foreign stock exchanges, currency markets, trading systems and brokers may differ from those applicable in the United States, with possibly negative consequences to the Fund. The procedures and rules governing foreign trading, settlement and custody (holding of the Fund's assets) also may result in losses or delays in payment, delivery or recovery of money or other property. Foreign government supervision and regulation of foreign securities markets and trading systems may be less than or different from government supervision in the United States, and may increase the Fund's regulatory and compliance burden and/or decrease the Fund's investor rights and protections.

Availability of information. Foreign issuers may not be subject to the same disclosure, accounting, auditing and financial reporting standards and practices as U.S. issuers. Thus, there may be less information publicly available about foreign issuers than about most U.S. issuers.

Limited markets. Certain foreign securities may be less liquid (harder to sell) and their prices may be more volatile than many U.S. securities. Illiquidity tends to be greater, and valuation of the Fund's foreign securities may be more difficult, due to the infrequent trading and/or delayed reporting of quotes and sales.

Regional. Adverse conditions in a certain region or country can adversely affect securities of issuers in other countries whose economies appear to be unrelated. To the extent that the Fund invests a significant portion of its assets in a specific geographic region or a particular country, the Fund will generally have more exposure to the specific regional or country economic risks. In the event of economic or political turmoil or a deterioration of diplomatic relations in a region or country where a substantial portion of the Fund's assets are invested, the Fund may experience substantial illiquidity or reduction in the value of the Fund's investments.

Emerging market countries. The Fund's investments in emerging market countries are subject to all of the risks of foreign investing generally, and have additional heightened risks due to a lack of established legal, political, business and social frameworks to support securities markets. Some of the additional significant risks include:

- less social, political and economic stability;

- a higher possibility of the devaluation of a country's currency, a downgrade in the credit ratings of issuers in such country, or a decline in the value and liquidity of securities of issuers in that country if the United States, other nations or other governmental entities (including supranational entities) impose sanctions on issuers that limit or restrict foreign investment, the movement of assets or other economic activity in the country due to political, military or regional conflicts or due to terrorism or war;
- smaller securities markets with low or non-existent trading volume and greater illiquidity and price volatility;
- more restrictive national policies on foreign investment, including restrictions on investment in issuers or industries deemed sensitive to national interests;
- less transparent and established taxation policies;
- less developed regulatory or legal structures governing private and foreign investment or allowing for judicial redress for injury to private property, such as bankruptcy;
- less familiarity with a capital market structure or market-oriented economy and more widespread corruption and fraud;
- less financial sophistication, creditworthiness and/or resources possessed by, and less government regulation of, the financial institutions and issuers with which the Fund transacts;
- less government supervision and regulation of business and industry practices, stock exchanges, brokers and listed companies than in the U.S.;
- greater concentration in a few industries resulting in greater vulnerability to regional and global trade conditions;
- higher rates of inflation and more rapid and extreme fluctuations in inflation rates;
- greater sensitivity to interest rate changes;
- increased volatility in currency exchange rates and potential for currency devaluations and/or currency controls;
- greater debt burdens relative to the size of the economy;
- more delays in settling portfolio transactions and heightened risk of loss from share registration and custody practices; and
- less assurance that when favorable economic developments occur, they will not be slowed or reversed by unanticipated economic, political or social events in such countries.

Because of the above factors, the Fund's investments in emerging market countries may be subject to greater price volatility and illiquidity than investments in developed markets.

Distressed Companies

Debt obligations of distressed companies typically are unrated, lower-rated, in default or close to default and are generally more likely to become worthless than the securities of more financially stable companies.

Prepayment

Debt securities are subject to prepayment risk when the issuer can "call" the security, or repay principal, in whole or in part, prior to the security's maturity. When the Fund reinvests the prepayments of principal it receives, it may receive a rate of interest that is lower than the rate on the existing security, potentially lowering the Fund's income, yield and its distributions to shareholders. Securities subject to prepayment may offer less potential for gains during a declining interest rate environment and have greater price volatility. Prepayment risk is greater in periods of falling interest rates.

Mortgage Dollar Rolls

In a mortgage dollar roll, the Fund takes the risk that the market price of the mortgage-backed securities will drop below their future purchase price. The Fund also takes the risk that the mortgage-backed securities that it repurchases at a later date will have less favorable market characteristics than the securities originally sold (e.g., greater prepayment risk). When the Fund uses a mortgage dollar roll, it is also subject to the risk that the other party to the agreement will not be able to perform. Mortgage dollar rolls add leverage to the Fund's portfolio and increase the Fund's sensitivity to interest rate changes. In addition, investment in mortgage dollar rolls may increase the Fund's portfolio turnover rate.

Portfolio turnover

The Investment Manager and/or the Sub-Advisors will sell a security or enter into or close out of a derivative position when they believe it is appropriate to do so, regardless of how long the Fund has held the instrument. These activities increase the Fund's portfolio turnover and may increase the Fund's transaction costs.

Income

Because the Fund can only distribute what it earns, the Fund's distributions to shareholders may decline when prevailing interest rates fall, when dividend income from investments in stocks decline, or when the Fund experiences defaults on debt securities it holds. The Fund's income generally declines during periods of falling

interest rates because the Fund must reinvest the proceeds it receives from existing investments (upon their maturity, prepayment, amortization, call or buy-back) at a lower rate of interest or return.

Mortgage-Backed Securities and Asset-Backed Securities

Mortgage-backed securities differ from conventional debt securities because principal is paid back over the life of the security rather than at maturity. The Fund may receive unscheduled prepayments of principal due to voluntary prepayments, refinancing or foreclosure on the underlying mortgage loans. To the Fund this means a loss of anticipated interest, and a portion of its principal investment represented by any premium the Fund may have paid. Mortgage prepayments generally increase when interest rates fall. Because of prepayments, mortgage-backed securities may be less effective than some other types of debt securities as a means of "locking in" long-term interest rates and may have less potential for capital appreciation during periods of falling interest rates. When the Fund reinvests the prepayments of principal it receives, it may receive a rate of interest that is lower than the rate on the existing security.

Mortgage-backed securities also are subject to extension risk. An unexpected rise in interest rates could reduce the rate of prepayments on mortgage-backed securities and extend their life. This could cause the price of the mortgage-backed securities and the Fund's share price to fall and would make the mortgage-backed securities more sensitive to interest rate changes.

In September 2008, the Federal Housing Finance Agency (FHFA), an agency of the U.S. government, placed Fannie Mae and Freddie Mac into conservatorship, a statutory process with the objective of returning the entities to normal business operations. FHFA acts as the conservator to operate Fannie Mae and Freddie Mac until they are stabilized. It is unclear how long the conservatorship will last or what effect this conservatorship will have on the securities issued or guaranteed by Fannie Mae or Freddie Mac for the long-term.

Issuers of asset-backed securities may have limited ability to enforce the security interest in the underlying assets, and credit enhancements provided to support the securities, if any, may be inadequate to protect investors in the event of default. Like mortgage-backed securities, asset-backed securities are subject to prepayment and extension risks.

REITs

Mortgage REITs typically invest in residential and commercial mortgages and mortgage-backed securities and therefore are subject to the same risks as mortgage- and asset-backed securities including interest rate, credit and prepayment risk. In addition, a REIT's performance depends on the types, values and locations of the

properties for which it holds the mortgages. A REIT may be more susceptible to adverse developments affecting a market segment than more broadly diversified investments.

Collateralized Debt Obligations (CDOs)

The risks of an investment in a CDO depend largely on the type of collateral held by the special purpose entity (SPE) and the tranche of the CDO in which the Fund invests. Investment risk may also be affected by the performance of a CDO's collateral manager (the entity responsible for selecting and managing the pool of collateral securities held by the SPE trust), especially during a period of market volatility. CDOs may be deemed to be illiquid securities and subject to the Fund's restrictions on investments in illiquid securities. The Fund's investment in CDOs will not receive the same investor protection as an investment in registered securities. In addition, prices of CDO tranches can decline considerably.

In addition to the normal risks associated with debt securities and asset backed securities (e.g., interest rate risk, credit risk and default risk), CDOs carry additional risks including, but not limited to: (i) the possibility that distributions from collateral securities will not be adequate to make interest or other payments; (ii) the quality of the collateral may decline in value or quality or go into default or be downgraded; (iii) the Fund may invest in tranches of a CDO that are subordinate to other classes; and (iv) the complex structure of the security may not be fully understood at the time of investment and may produce disputes with the issuer, difficulty in valuing the security or unexpected investment results.

Market

The market values of securities or other investments owned by the Fund will go up or down, sometimes rapidly or unpredictably. Securities or other investments may decline in value due to factors affecting individual issuers, markets generally or sectors within the markets. The value of a security or other investment may go up or down due to general market conditions which are not specifically related to a particular issuer, such as real or perceived adverse economic conditions, changes in interest rates or exchange rates, or adverse investor sentiment generally. The value may also go up or down due to factors that affect an individual issuer or a particular sector. During a general downturn in the securities markets, multiple asset classes may decline in value. When markets perform well, there can be no assurance that securities or other investments held by the Fund will participate in or otherwise benefit from the advance.

Stock prices tend to go up and down more dramatically than those of debt securities. A slower-growth or recessionary economic environment could have an adverse effect on the prices of the various stocks held by the Fund.

Illiquid Securities

Certain securities are illiquid due to a limited trading market, financial weakness of the issuer, legal or contractual restrictions on resale or transfer, or are otherwise illiquid in the sense that they cannot be sold within seven days at approximately the price at which the Fund values them. Securities that are illiquid involve greater risk than securities with more liquid markets. Market quotations for such securities may be volatile and/or subject to large spreads between bid and ask prices. Illiquidity may have an adverse impact on market price and the Fund's ability to sell particular securities when necessary to meet the Fund's liquidity needs or in response to a specific economic event.

Extension

The market value of some debt securities (such as certain asset-backed and mortgage-backed securities) will be adversely affected when bond calls or prepayments on underlying mortgages or other assets are less or slower than anticipated, particularly when interest rates rise. When that occurs, the effective maturity date of the Fund's investment may be extended, resulting in an increase in interest rate sensitivity to that of a longer-term instrument. Such extension may also effectively lock-in a below market interest rate and reduce the value of the debt security.

Impairment of Collateral

The terms of the senior secured corporate loans and corporate debt securities in which the Fund typically invests require that collateral and/or cash flow generating capacity be maintained to support payment of the obligation. Generally, the collateral for a secured corporate loan or corporate debt security has a fair market value at least equal to 100% of the amount of such corporate loan or corporate debt security when initially syndicated. However, the value of the collateral and/or the cash flow generating capacity may decline after the Fund invests and there is a risk that the value of the collateral may not be sufficient to cover the amount owed to the Fund. In addition, collateral securing a loan may be found invalid, may be used to pay other outstanding obligations of the borrower under applicable law or more senior claims under applicable credit agreements, or may be difficult to sell.

In the event that a borrower defaults, the Fund's access to the collateral may be limited by bankruptcy and other insolvency laws. There is also the risk that the collateral may be difficult to liquidate, or that a majority of the collateral may be illiquid. As a result, the Fund might not receive payments to which it is entitled.

More detailed information about the Fund, its policies and risks can be found in the Fund's Statement of Additional Information (SAI).

A description of the Fund's policies and procedures regarding the release of portfolio holdings information is also available in the Fund's SAI. Portfolio holdings information can be viewed online at franklintempleton.com.

Management

K2/D&S Management Co., L.L.C. (K2 Advisors), 300 Atlantic Street, 12th Floor, Stamford, CT 06901, is the Fund's investment manager. K2 Advisors is a majority-owned subsidiary of Franklin Resources, Inc. Together, K2 Advisors and its affiliates manage, as of August 31, 2016, over \$740 billion in assets. K2 Advisors has been in the investment management business since 1994.

Under a separate agreement with K2 Advisors, each of the following Sub-Advisors serves as a sub-advisor to the Fund and manages a portion of the Fund's portfolio:

Name of Sub-Advisor	Strategy	Address of Sub-Advisor
Apollo Credit Management LLC	Credit Long Short	9 West 57th Street, 43rd Floor New York, New York 10019
Chatham Asset Management, LLC	Credit Long Short	26 Main Street, Suite 204 Chatham, New Jersey 07928
Logan Circle Partners, L.P.	Credit Long Short	1717 Arch Street, Suite 1500 Philadelphia, Pennsylvania 19103
Candlewood Investment Group, L.P.	Structured Credit	555 Theodore Fremd Avenue, Suite C-303 Rye, New York 10580
Ellington Global Asset Management, L.L.C.	Structured Credit	53 Forest Avenue Old Greenwich, Connecticut 06870
Emso Asset Management Limited	Emerging Markets Fixed Income	Iron Trades House 21 Grosvenor Place London, SW1X 7HN United Kingdom

The Fund is managed by a team of dedicated professionals focused on investments in non-traditional and alternative investment strategies. The portfolio managers of the team are as follows:

Charmaine Chin Managing Director of K2 Advisors

Ms. Chin has been a portfolio manager of the Fund since inception, providing research and advice on the evaluation of and portfolio allocations to Sub-Advisors, and portfolio risk assessment. She joined K2 Advisors in 2008.

Jeff Schmidt Managing Director of Portfolio Construction of K2 Advisors

Mr. Schmidt has been a portfolio manager of the Fund since inception, providing research and advice on the evaluation of and portfolio allocations to Sub-Advisors, and portfolio risk assessment. He joined K2 Advisors in 2013. Prior to joining K2 Advisors, Mr. Schmidt was the head of Client Solutions, North America for InfraHedge Limited, a subsidiary of State Street Corporation.

Robert Christian Senior Managing Director and Head of Research of K2 Advisors

Mr. Christian has been a portfolio manager of the Fund since inception, providing research and advice on the evaluation of and portfolio allocations to Sub-Advisors, and portfolio risk assessment. He joined K2 Advisors in 2010.

David C. Saunders Founding Managing Director and Chief Executive Officer of K2 Advisors

Mr. Saunders has been a portfolio manager of the Fund since inception, providing research and advice on the evaluation of and portfolio allocations to Sub-Advisors and portfolio risk assessment. He founded K2 Advisors in 1994.

The portfolio managers of the Fund are jointly and primarily responsible for the day-to-day management of the Fund's portfolio. They have equal authority over all aspects of the Fund's investment portfolio, including but not limited to, the evaluation of and portfolio allocations to sub-advisors, portfolio risk assessment, and the management of daily cash balances in accordance with anticipated investment management requirements. The degree to which each portfolio manager may perform these functions, and the nature of these functions, may change from time to time.

The Fund's SAI provides additional information about portfolio manager compensation, other accounts that they manage and their ownership of Fund shares.

The Fund pays K2 Advisors a fee for managing the Fund's assets, including investment advisory services and Fund administration services. The fee is equal to an annual rate of 2.05% of the average daily net assets of the Fund.

K2 Advisors compensates each Sub-Advisor for providing investment advice and analysis and for managing its respective portion of the Fund's assets allocated to it from time to time by K2 Advisors.

The Investment Manager has agreed to waive or limit its fees and to assume as its own certain expenses otherwise payable by the Fund so that expenses (excluding Rule 12b-1 fees; acquired fund fees; expenses related to securities sold short; and certain non-routine expenses or costs (including those relating to litigation,

indemnification, reorganizations and liquidations)) for each class of the Fund do not exceed (and could be less than) 1.95% until September 30, 2017. Under this fee and expense waiver, fees and expenses of the Fund (including management and custody fees) will be waived equally among all classes and, to the extent necessary, transfer agency fees will be waived equally among all classes, except with respect to Class R6, for which its class-specific transfer agency fees may be waived in a different amount. The management fees before and after such waiver were 2.05% and 0.78%, respectively.

A discussion regarding the basis for the board of trustees approving the investment management and sub-advisory contracts of the Fund is available in the Fund's initial semi-annual report to shareholders for the period ended November 30.

Manager of Managers Structure

The Investment Manager and the Trust have received an exemptive order from the SEC that allows the Fund to operate in a "manager of managers" structure whereby K2 Advisors, as the Fund's investment manager, can appoint and replace both wholly-owned and unaffiliated sub-advisors, and enter into, amend and terminate sub-advisory agreements with such sub-advisors, each subject to board approval but without obtaining prior shareholder approval (the "Manager of Managers Structure"). The Fund will, however, inform shareholders of the hiring of any new sub-advisor within 90 days after the hiring. The SEC exemptive order provides the Fund with greater efficiency and without incurring the expense and delays associated with obtaining shareholder approval of sub-advisory agreements with such sub-advisors.

The use of the Manager of Managers Structure with respect to the Fund is subject to certain conditions that are set forth in the SEC exemptive order. Under the Manager of Managers Structure, K2 Advisors has the ultimate responsibility, subject to oversight by the Fund's board of trustees, to oversee sub-advisors and recommend their hiring, termination and replacement. K2 Advisors will also, subject to the review and approval of the Fund's board of trustees: set the Fund's overall investment strategy; evaluate, select and recommend sub-advisors to manage all or a portion of the Fund's assets; and implement procedures reasonably designed to ensure that each sub-advisor complies with the Fund's investment goal, policies and restrictions. Subject to review by the Fund's board of trustees, K2 Advisors will allocate and, when appropriate, reallocate the Fund's assets among sub-advisors and monitor and evaluate the sub-advisors' performance.

Exclusion of Investment Manager from Commodity Pool Operator Definition

With respect to the Fund, the investment manager has claimed an exclusion from the definition of "commodity pool operator" (CPO) under the Commodity Exchange Act (CEA) and the rules of the Commodity Futures Trading Commission (CFTC) and, therefore, is not subject to CFTC registration or regulation as a CPO. In addition, with respect to the Fund, the investment manager is relying upon a related exclusion from the definition of "commodity trading advisor" (CTA) under the CEA and the rules of the CFTC.

The terms of the CPO exclusion require the Fund, among other things, to adhere to certain limits on its investments in commodity futures, commodity options and swaps, which in turn include non-deliverable currency forward contracts, as further described in the Fund's Statement of Additional Information. Because the investment manager and the Fund intend to comply with the terms of the CPO exclusion, the Fund may, in the future, need to adjust its investment strategies, consistent with its investment goal, to limit its investments in these types of instruments. The Fund is not intended as a vehicle for trading in the commodity futures, commodity options, or swaps markets. The CFTC has neither reviewed nor approved the investment manager's reliance on these exclusions, or the Fund, its investment strategies or this prospectus.

Distributions and Taxes

Income and Capital Gain Distributions

As a regulated investment company, the Fund generally pays no federal income tax on the income and gains it distributes to you. The Fund intends to pay income dividends at least annually from its net investment income. Capital gains, if any, may be paid at least annually. The Fund may distribute income dividends and capital gains more frequently, if necessary, in order to reduce or eliminate federal excise or income taxes on the Fund. The amount of any distribution will vary, and there is no guarantee the Fund will pay either income dividends or capital gain distributions. Your income dividends and capital gain distributions will be automatically reinvested in additional shares at net asset value (NAV) unless you elect to receive them in cash.

Annual statements. After the close of each calendar year, you will receive tax information from the Fund with respect to the federal income tax treatment of the Fund's distributions and any taxable sales or exchanges of Fund shares occurring during the prior calendar year. If the Fund finds it necessary to reclassify its distributions or adjust the cost basis of any shares sold or exchanged after you receive your tax information, the Fund will send you revised tax information.

Distributions declared in December to shareholders of record in such month and paid in January are taxable as if they were paid in December. Additional tax information about the Fund's distributions is available at franklintempleton.com.

Avoid "buying a dividend." At the time you purchase your Fund shares, the Fund's net asset value may reflect undistributed income, undistributed capital gains, or net unrealized appreciation in the value of the portfolio securities held by the Fund. For taxable investors, a subsequent distribution to you of such amounts, although constituting a return of your investment, would be taxable. Buying shares in the Fund just before it declares an income dividend or capital gain distribution is sometimes known as "buying a dividend."

Tax Considerations

If you are a taxable investor, Fund distributions are generally taxable to you as ordinary income, capital gains or some combination of both. This is the case whether you reinvest your distributions in additional Fund shares or receive them in cash.

Dividend income. Income dividends are generally subject to tax at ordinary rates. Income dividends reported by the Fund to shareholders as qualified dividend income may be subject to tax by individuals at reduced long-term capital gains tax rates provided certain holding period requirements are met. Because the Fund invests primarily in debt securities, it is expected that either none or only a small portion of the Fund's income dividends may be qualified dividends. A return-of-capital distribution is generally not taxable but will reduce the cost basis of your shares, and will result in a higher capital gain or a lower capital loss when you later sell your shares.

Capital gains. Fund distributions of short-term capital gains are also subject to tax at ordinary rates. Fund distributions of long-term capital gains are taxable at the reduced long-term capital gains rates no matter how long you have owned your Fund shares. For individuals in the 10% and 15% tax brackets, the long-term capital gains tax rate is 0%. For individuals in higher tax brackets, the long-term capital gains rate is 15% (20% for certain high income taxpayers). An additional 3.8% Medicare tax may also be imposed as discussed below.

Sales of Fund shares. When you sell your shares in the Fund, or exchange them for shares of a different Franklin Templeton fund, you will generally recognize a taxable capital gain or loss. If you have owned your Fund shares for more than one year, any net long-term capital gains will qualify for the reduced rates of taxation on long-term capital gains. An exchange of your shares in one class of the Fund for shares of another class of the same Fund is not taxable and no gain or loss will be reported on the transaction.

Cost basis reporting. If you acquire shares in the Fund, generally referred to as "covered shares," and sell or exchange them, the Fund is generally required to report cost basis information to you and the IRS annually. The Fund will compute the cost basis of your covered shares using the average cost method, the Fund's "default method," unless you contact the Fund to select a different method, or choose to specifically identify your shares at the time of each sale or exchange. If your account is held by your financial advisor or other broker-dealer, that firm may select a different default method. In these cases, please contact the firm to obtain information with respect to the available methods and elections for your account. Shareholders should carefully review the cost basis information provided by the Fund and make any additional basis, holding period or other adjustments that are required when reporting these amounts on their federal and state income tax returns. Additional information about cost basis reporting is available at franklintempleton.com/costbasis.

Medicare tax. An additional 3.8% Medicare tax is imposed on certain net investment income (including ordinary dividends and capital gain distributions received from the Fund and net gains from redemptions or other taxable dispositions of Fund shares) of U.S. individuals, estates and trusts to the extent that such person's "modified adjusted gross income" (in the case of an individual) or "adjusted gross income" (in the case of an estate or trust) exceeds a threshold amount. Any liability for this additional Medicare tax is reported on, and paid with, your federal income tax return.

Backup withholding. A shareholder may be subject to backup withholding on any distributions of income, capital gains, or proceeds from the sale or exchange of Fund shares if the shareholder has provided either an incorrect tax identification number or no number at all, is subject to backup withholding by the IRS for failure to properly report payments of interest or dividends, has failed to certify that the shareholder is not subject to backup withholding, or has not certified that the shareholder is a U.S. person (including a U.S. resident alien). The backup withholding rate is currently 28%. State backup withholding may also apply.

State, local and foreign taxes. Distributions of ordinary income and capital gains, and gains from the sale of your Fund shares, are generally subject to state and local taxes. If the Fund qualifies, it may elect to pass through to you as a foreign tax credit or deduction any foreign taxes that it pays on its investments.

Investment in foreign currency contracts. The Fund may realize gains from the sale or other disposition of foreign currencies (including but not limited to gains from options, futures or forward contracts) derived from investing in securities or foreign currencies. The Treasury Department is authorized to issue regulations that exclude from the definition of qualifying income such foreign currency gains

which may cause the Fund, as a result of its realization of such foreign currency gains, to fail to qualify as a regulated investment company. If for any taxable year the Fund does not qualify as a regulated investment company, all of its taxable income (including its net capital gain) would be subject to tax at regular corporate income tax rates without any deduction for dividends paid to shareholders, and the dividends would be taxable to shareholders as ordinary income (possibly as qualified dividend income) to the extent of the Fund's current or accumulated earnings and profits. As of the date of this document, no regulations have been issued pursuant to this authorization. It is possible, however, that such regulations may be issued in the future. Additionally, the IRS has not issued any guidance on how to apply the asset diversification test applicable to regulated investment companies to such foreign currency positions. Thus, the IRS's determination as to how to treat such foreign currency positions for purposes of satisfying the asset diversification test might differ from that of the Fund, resulting in the Fund's failure to qualify as a regulated investment company. In lieu of disqualification, the Fund is permitted to pay a tax for certain failures to satisfy the asset diversification or income requirements, which, in general, are limited to those due to reasonable cause and not to willful neglect.

Non-U.S. investors. Non-U.S. investors may be subject to U.S. withholding tax at 30% or a lower treaty rate on Fund dividends of ordinary income. Non-U.S. investors may be subject to U.S. estate tax on the value of their shares. They are subject to special U.S. tax certification requirements to avoid backup withholding, claim any exemptions from withholding and claim any treaty benefits. Exemptions from U.S. withholding tax are provided for capital gain dividends paid by the Fund from long-term capital gains, interest-related dividends paid by the Fund from its qualified net interest income from U.S. sources, and short-term capital gain dividends. However, notwithstanding such exemptions from U.S. withholding tax at source, any such dividends and distributions of income and capital gains will be subject to backup withholding at a rate of 28% if you fail to properly certify that you are not a U.S. person.

Other reporting and withholding requirements. Payments to a shareholder that is either a foreign financial institution (FFI) or a non-financial foreign entity (NFFE) within the meaning of the Foreign Account Tax Compliance Act (FATCA) may be subject to a 30% withholding tax on (a) income dividends, and (b) after December 31, 2018, certain capital gain distributions, return-of-capital distributions and the gross proceeds from the redemption or exchange of Fund shares paid by the Fund. FATCA withholding tax generally can be avoided by an FFI, subject to any applicable intergovernmental agreement or other exemption, if it enters into a valid agreement with the IRS to, among other requirements,

report required information about certain direct and indirect ownership of foreign financial accounts held by U.S. persons with the FFI, and by an NFFE, if it certifies that it has no substantial U.S. persons as owners or if it does have such owners, reports information relating to them to the withholding agent, which will, in turn, report that information to the IRS. The Fund may be required to report the information that it receives from its shareholders to the IRS, non-U.S. taxing authorities or other parties as necessary to comply with FATCA. Withholding also may be required if a foreign entity that is a shareholder of the Fund fails to provide the Fund with appropriate certifications or other documentation concerning its status under FATCA.

Other tax information. This discussion of "Distributions and Taxes" is for general information only and is not tax advice. You should consult your own tax advisor regarding your particular circumstances, and about any federal, state, local and foreign tax consequences before making an investment in the Fund. Additional information about the tax consequences of investing in the Fund may be found in the SAI.

Financial Highlights

The Financial Highlights present the Fund's financial performance for the past five years or since its inception. Certain information reflects financial results for a single Fund share. The total returns represent the rate that an investor would have earned or lost on an investment in the Fund assuming reinvestment of dividends and capital gains. This information has been derived from the financial statements audited by Ernst & Young LLP, an independent registered public accounting firm, whose report, along with the Fund's financial statements, are included in the annual report, which is available upon request.

Class A
Period Ended May 31,

	2016 ^a
Per share operating performance (for a share outstanding throughout the period)	
Net asset value, beginning of period	\$10.00
Income from investment operations: ^b	
Net investment income ^c	0.21
Net realized and unrealized gains (losses)	0.08
Total from investment operations	0.29
Less distributions from:	
Net investment income	(0.08)
Net realized gains	(0.06)
Total distributions	(0.14)
Net asset value, end of period	\$10.15
Total return ^d	2.99%
Ratios to average net assets ^e	
Expenses before waiver, payments by affiliates and expense reduction ^{f,g}	3.37%
Expenses net of waiver, payments by affiliates and expense reduction ^{f,h}	2.30%
Expenses incurred in connection with securities sold short	0.40%
Net investment income	2.85%
Supplemental data	
Net assets, end of period (000's)	\$28,198
Portfolio turnover rate	511.62%

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

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

c. Based on average daily shares outstanding.

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

e. Ratios are annualized for periods less than one year.

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

g. Ratios are adjusted to exclude the effects of annualization for non-recurring expenses.

h. Benefit of expense reduction rounds to less than 0.01%.

Class C
Period Ended May 31,

	2016 ^a
Per share operating performance (for a share outstanding throughout the period)	
Net asset value, beginning of period	\$10.00
Income from investment operations: ^b	
Net investment income ^c	0.09
Net realized and unrealized gains (losses)	0.12
Total from investment operations	0.21
Less distributions from:	
Net investment income	(0.08)
Net realized gains	(0.06)
Total distributions	(0.14)
Net asset value, end of period	\$10.07
Total return ^d	2.20%
Ratios to average net assets ^e	
Expenses before waiver, payments by affiliates and expense reduction ^{f,g}	3.62%
Expenses net of waiver, payments by affiliates and expense reduction ^{f,h}	2.55%
Expenses incurred in connection with securities sold short	0.40%
Net investment income	2.60%
Supplemental data	
Net assets, end of period (000's)	\$270
Portfolio turnover rate	511.62%

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

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

c. Based on average daily shares outstanding.

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

e. Ratios are annualized for periods less than one year.

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

g. Ratios are adjusted to exclude the effects of annualization for non-recurring expenses.

h. Benefit of expense reduction rounds to less than 0.01%.

Class R
Period Ended May 31,

	2016 ^a
Per share operating performance (for a share outstanding throughout the period)	
Net asset value, beginning of period	\$10.00
Income from investment operations: ^b	
Net investment income ^c	0.08
Net realized and unrealized gains (losses)	0.16
Total from investment operations	0.24
Less distributions from:	
Net investment income	(0.08)
Net realized gains	(0.06)
Total distributions	(0.14)
Net asset value, end of period	\$10.10
Total return ^d	2.48%
Ratios to average net assets ^e	
Expenses before waiver, payments by affiliates and expense reduction ^{f,g}	3.37%
Expenses net of waiver, payments by affiliates and expense reduction ^{f,h}	2.30%
Expenses incurred in connection with securities sold short	0.40%
Net investment income	2.85%
Supplemental data	
Net assets, end of period (000's)	\$12
Portfolio turnover rate	511.62%

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

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

c. Based on average daily shares outstanding.

d. Total return is not annualized for periods less than one year.

e. Ratios are annualized for periods less than one year.

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

g. Ratios are adjusted to exclude the effects of annualization for non-recurring expenses.

h. Benefit of expense reduction rounds to less than 0.01%.

Class R6
Period Ended May 31,

	2016 ^a
Per share operating performance (for a share outstanding throughout the period)	
Net asset value, beginning of period	\$10.00
Income from investment operations: ^b	
Net investment income ^c	0.23
Net realized and unrealized gains (losses)	0.06
Total from investment operations	0.29
Less distributions from:	
Net investment income	(0.08)
Net realized gains	(0.06)
Total distributions	(0.14)
Net asset value, end of period	\$10.15
Total return ^d	3.01%
Ratios to average net assets ^e	
Expenses before waiver, payments by affiliates and expense reduction ^{f,g}	3.35%
Expenses net of waiver, payments by affiliates and expense reduction ^{f,h}	2.28%
Expenses incurred in connection with securities sold short	0.40%
Net investment income	2.87%
Supplemental data	
Net assets, end of period (000's)	\$12,384
Portfolio turnover rate	511.62%

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

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

c. Based on average daily shares outstanding.

d. Total return is not annualized for periods less than one year.

e. Ratios are annualized for periods less than one year.

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

g. Ratios are adjusted to exclude the effects of annualization for non-recurring expenses.

h. Benefit of expense reduction rounds to less than 0.01%.

Advisor Class

Period Ended May 31,

2016^a

Per share operating performance (for a share outstanding throughout the period)	
Net asset value, beginning of period	\$10.00
Income from investment operations: ^b	
Net investment income ^c	0.20
Net realized and unrealized gains (losses)	0.09
Total from investment operations	0.29
Less distributions from:	
Net investment income	(0.08)
Net realized gains	(0.06)
Total distributions	(0.14)
Net asset value, end of period	\$10.15
Total return ^d	2.99%
Ratios to average net assets ^e	
Expenses before waiver, payments by affiliates and expense reduction ^{f,g}	3.36%
Expenses net of waiver, payments by affiliates and expense reduction ^h	2.29%
Expenses incurred in connection with securities sold short	0.40%
Net investment income	2.86%
Supplemental data	
Net assets, end of period (000's)	\$23,058
Portfolio turnover rate	511.62%

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

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

c. Based on average daily shares outstanding.

d. Total return is not annualized for periods less than one year.

e. Ratios are annualized for periods less than one year.

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

g. Ratios are adjusted to exclude the effects of annualization for non-recurring expenses.

h. Benefit of expense reduction rounds to less than 0.01%.

Your Account

Choosing a Share Class

Each class has its own sales charge and expense structure, allowing you to choose the class that best meets your situation. Your investment representative (financial advisor) can help you decide. Investors may purchase Class C or Class R shares only for Fund accounts on which they have appointed an investment representative (financial advisor) of record. Investors who have not appointed an investment representative (financial advisor) to existing Class C or Class R share Fund accounts may not make additional purchases to those accounts but may exchange their shares for shares of a Franklin Templeton fund that offers Class C or Class R shares. Dividend and capital gain distributions may continue to be reinvested in existing Class C or Class R share Fund accounts. These provisions do not apply to Employer Sponsored Retirement Plans.

Class A	Class C	Class R	Class R6	Advisor Class
Initial sales charge of 5.75% or less	No initial sales charge	No initial sales charge	See "Qualified Investors - Class R6" below	See "Qualified Investors - Advisor Class" below
Deferred sales charge of 1% on purchases of \$1 million or more sold within 18 months	Deferred sales charge of 1% on shares you sell within 12 months	Deferred sales charge is not applicable		
Lower annual expenses than Class C or R due to lower distribution fees	Higher annual expenses than Class A due to higher distribution fees	Higher annual expenses than Class A due to higher distribution fees (lower than Class C)		

Class A, C & R**Sales Charges - Class A**

when you invest this amount	the sales charge makes up this % of the offering price ¹	which equals this % of your net investment ¹
Under \$50,000	5.75	6.10
\$50,000 but under \$100,000	4.50	4.71
\$100,000 but under \$250,000	3.50	3.63
\$250,000 but under \$500,000	2.50	2.56
\$500,000 but under \$1 million	2.00	2.04

1. The dollar amount of the sales charge is the difference between the offering price of the shares purchased (which factors in the applicable sales charge in this table) and the net asset value of those shares. Since the offering price is calculated to two decimal places using standard rounding criteria, the number of shares purchased and the dollar amount of the sales charge as a percentage of the offering price and of your net investment may be higher or lower depending on whether there was a downward or upward rounding.

Sales Charge Reductions

Quantity discounts. We offer two ways for you to combine your current purchase of Class A Fund shares with other existing Franklin Templeton fund share holdings that might enable you to qualify for a lower sales charge with your current purchase. You can qualify for a lower sales charge when you reach certain “sales charge breakpoints.” This quantity discount information is also available free of charge at www.franklintempleton.com/quantity-discounts. This web page can also be reached at franklintempleton.com by clicking the “Products & Planning” tab and then choosing “Quantity Discounts for Class A Shares” under “Fund Resources.”

1. Cumulative quantity discount - lets you combine certain existing holdings of Franklin Templeton fund shares - referred to as “cumulative quantity discount eligible shares” - with your current purchase of Class A shares to determine if you qualify for a sales charge breakpoint.

Cumulative quantity discount eligible shares are Franklin Templeton fund shares registered to (or held by a financial intermediary for):

- You, individually;
- Your “family member,” defined as your spouse or domestic partner, as recognized by applicable state law, and your children under the age of 21;
- You jointly with one or more family members;
- You jointly with another person(s) who is (are) not family members if that other person has not included the value of the jointly-owned shares as cumulative quantity discount eligible shares for purposes of that person’s separate investments in Franklin Templeton fund shares;

- A Coverdell Education Savings account for which you or a family member is the identified responsible person;
- A trustee/custodian of an IRA (which includes a Roth IRA and an employer sponsored IRA such as a SIMPLE IRA) or your non-ERISA covered 403(b) plan account, if the shares are registered/recorded under your or a family member’s Social Security number;
- A 529 college savings plan over which you or a family member has investment discretion and control;
- Any entity over which you or a family member has (have) individual or shared authority, as principal, has investment discretion and control (for example, an UGMA/UTMA account for a child on which you or a family member is the custodian, a trust on which you or a family member is the trustee, a business account [not to include retirement plans] for your solely owned business [or the solely owned business of a family member] on which you or a family member is the authorized signer);
- A trust established by you or a family member as grantor.

Franklin Templeton fund shares held through an administrator or trustee/custodian of an Employer Sponsored Retirement Plan (see definition below) such as a 401(k) plan do not qualify for a cumulative quantity discount.

Franklin Templeton fund assets held in multiple Employer Sponsored Retirement Plans may be combined in order to qualify for sales charge breakpoints at the plan level if the plans are sponsored by the same employer.

If you believe there are cumulative quantity discount eligible shares that can be combined with your current purchase to achieve a sales charge breakpoint (for example, shares held in a different broker-dealer’s brokerage account or with a bank or an investment advisor), it is your responsibility to specifically identify those shares to your financial advisor at the time of your purchase (including at the time of any future purchase). It may be necessary for you to provide your financial advisor with information and records (including account statements) of all relevant accounts invested in the Franklin Templeton funds. If you have not designated a financial advisor associated with your Franklin Templeton fund shares, it is your responsibility to specifically identify any cumulative quantity discount eligible shares to the Fund’s transfer agent at the time of any purchase.

If there are cumulative quantity discount eligible shares that would qualify for combining with your current purchase and you do not tell your financial advisor or the Franklin Templeton funds' transfer agent at the time of any purchase, you may not receive the benefit of a reduced sales charge that might otherwise be available since your financial advisor and the Fund generally will not have that information.

The value of cumulative quantity discount eligible shares equals the cost or current value of those shares, whichever is higher. The current value of shares is determined by multiplying the number of shares by their highest current public offering price. It is your responsibility to retain any records necessary to substantiate historical share costs because neither your current financial advisor nor the Franklin Templeton funds may have or maintain this information.

An "Employer Sponsored Retirement Plan" is a Qualified Retirement Plan, ERISA covered 403(b) plan and certain non-qualified deferred compensation arrangements that operate in a similar manner to a Qualified Retirement Plan, such as 457 plans and executive deferred compensation arrangements, but not including employer sponsored IRAs. A "Qualified Retirement Plan" is an employer sponsored pension or profit sharing plan that qualifies under section 401(a) of the Internal Revenue Code, including 401(k), money purchase pension, profit sharing and defined benefit plans.

2. Letter of intent (LOI) - expresses your intent to buy a stated dollar amount of "cumulative quantity discount eligible shares" (as defined in the "Cumulative quantity discount" section above) over a 13-month period and lets you receive the same sales charge as if all shares had been purchased at one time. We will reserve 5% of your total intended purchase in Class A shares registered in your name until you fulfill your LOI to cover any additional sales charge that may apply if you do not buy the amount stated in your LOI. It is your responsibility to tell your financial advisor when you believe you have fulfilled your LOI with sufficient cumulative quantity discount eligible shares. If you have not designated a financial advisor associated with your Franklin Templeton fund shares, it is your responsibility to tell the Fund's transfer agent when you believe you have fulfilled your LOI with sufficient cumulative quantity discount eligible shares. Please refer to the SAI for more LOI details.

To sign up for these programs, complete the appropriate section of your account application.

Franklin Templeton funds include all of the U.S. registered mutual funds of Franklin Templeton. They do not include the funds in the Franklin Templeton Variable Insurance Products Trust.

Sales Charge Waivers

Class A shares may be purchased without an initial sales charge or contingent deferred sales charge (CDSC) by certain investors. If you would like information about available sales charge waivers, call your investment representative or call Shareholder Services at (800) 632-2301.

Waivers for certain investors. The following investors or investments qualify to buy Class A shares without an initial sales charge or CDSC due to anticipated economies in sales efforts and expenses, including:

- Current employees of securities dealers that have executed a selling agreement with Franklin Templeton Distributors, Inc. (Distributors) and their affiliates and their family members, as allowed by the internal policies of their employer.
- Assets held in accounts managed by a subsidiary of Franklin Resources, Inc.: (1) under an advisory agreement (including sub-advisory agreements); and/or (2) as trustee of an inter vivos or testamentary trust.
- Group annuity separate accounts offered to retirement plans.
- Purchases by a bank, trust company or thrift institution that is acting as a fiduciary exercising investment discretion.
- Advisory Fee Programs. Shares acquired by an investor in connection with a comprehensive fee or other advisory fee arrangement between the investor and a registered broker-dealer, investment advisor, trust company, bank, or other financial intermediary (referred to as the "Sponsor") in which the investor pays that Sponsor a fee for investment advisory services and the Sponsor or a broker-dealer through whom the shares are acquired has an agreement with Distributors authorizing the sale of Fund shares. No minimum initial investment.
- Clients of financial intermediaries who have entered into an agreement with Distributors and have been approved by Distributors to offer Fund shares through a network, platform or self-directed investment brokerage account that may charge a transaction fee to customers. Minimum initial investment \$100,000.

Retirement plans. Provided that Franklin Templeton Investor Services, LLC is notified, Class A shares at NAV are available for:

- Employer Sponsored Retirement Plans ("Plans" or individually, "Plan") that invest through a record-keeper platform or third party retirement platform; or
- Any investors who purchases shares with proceeds from an IRA for which Fiduciary Trust International of the South (FTIOS) is trustee.

Investments of \$1 Million or More

If you invest \$1 million or more, either as a lump sum or through our cumulative quantity discount or letter of intent programs, you can buy Class A shares without an initial sales charge. However, there is a 1% CDSC on any shares you sell within 18 months of purchase. The way we calculate the CDSC is the same for each class (please see “Contingent Deferred Sales Charge (CDSC) - Class A & C”).

Distribution and Service (12b-1) Fees

Class A has a distribution plan, sometimes known as a Rule 12b-1 plan, which allows the Fund to pay distribution fees of up to 0.25% per year to those who sell and distribute Class A shares and provide other services to shareholders. Because these fees are paid out of Class A’s assets on an ongoing basis, over time these fees will increase the cost of your investment and may cost you more than paying other types of sales charges.

We calculate the amount of these fees over a 12-month period that may differ from the Fund’s fiscal year. Therefore, the amount shown from time to time in the Fund’s fee table (which is based upon the Fund’s fiscal year) may differ from the amount set forth in the Rule 12b-1 plan due to timing differences.

Sales Charges - Class C

With Class C shares, there is no initial sales charge.

We place any investment of \$1 million or more in Class A shares, since Class A’s annual expenses are lower.

CDSC

There is a 1% CDSC on any Class C shares you sell within 12 months of purchase. The way we calculate the CDSC is the same for each class (please see “Contingent Deferred Sales Charge (CDSC) - Class A & C”).

Distribution and Service (12b-1) Fees

Class C has a distribution plan, sometimes known as a Rule 12b-1 plan, which allows the Fund to pay distribution and other fees of up to 1% per year for the sale of Class C shares and for services provided to shareholders. Because these fees are paid out of Class C’s assets on an ongoing basis, over time these fees will increase the cost of your investment and may cost you more than paying other types of sales charges.

Sales Charges - Class R

With Class R shares, there is no initial sales charge.

Retirement Plans

Class R shares are available to the following investors:

- Employer Sponsored Retirement Plans
- Health Reimbursement Accounts and Health Savings Accounts, either as a direct investment or as a separate or managed account.

Distribution and Service (12b-1) Fees

Class R has a distribution plan, sometimes known as a Rule 12b-1 plan, which allows the Fund to pay distribution and other fees of up to 0.50% per year for the sale of Class R shares and for services provided to shareholders. Because these fees are paid out of Class R’s assets on an ongoing basis, over time these fees will increase the cost of your investment and may cost you more than paying other types of sales charges.

Contingent Deferred Sales Charge (CDSC) - Class A & C

The CDSC for each class is based on the current value of the shares being sold or their net asset value when purchased, whichever is less. There is no CDSC on shares you acquire by reinvesting your dividends or capital gain distributions.

To keep your CDSC as low as possible, each time you place a request to sell shares we will first sell any shares in your account that are not subject to a CDSC. If there are not enough of these to meet your request, we will sell the shares in the order they were purchased. We will use this same method if you exchange your shares into another Franklin Templeton fund (please see “Exchanging Shares”).

The **holding period for the CDSC** begins on the day you buy your shares. Your shares will age one month on that same date the next month and each following month. For example, if you buy shares on the 18th of the month, they will age one month on the 18th day of the next month and each following month.

Reinstatement Privilege

If you sell any class of shares of a Franklin Templeton Investments fund, you may reinvest all or a portion of the proceeds from that sale within 90 days within the same share class without an initial sales charge. If at the time of investment your shares are registered directly with the Fund’s transfer agent: Class C or Class R shares will be reinvested in Class A shares if the account does not have an investment representative of record; and, proceeds from the earlier sale of Class Z shares from another fund may also be reinvested in Class A shares.

This reinstatement privilege does not apply to: (i) a purchase of Fund shares made through a regularly scheduled automatic investment plan such as a purchase by a regularly scheduled payroll deduction or transfer from a bank account, or (ii) a purchase of Fund shares with proceeds from the sale of Franklin Templeton fund shares that were held indirectly through a non-Franklin Templeton individual or employer sponsored IRA.

In order to take advantage of this reinstatement privilege, you must inform your investment representative or the Fund's transfer agent of this privilege at the time of your investment.

Generally, if you paid a CDSC when you sold your Class A or Class C shares, Distributors will credit back to you the CDSC paid on the amount you are reinvesting within 90 days of the sale by adding it to the amount of your reinvestment. For Class A shares reinvested with a CDSC credit, a new CDSC will apply and the CDSC holding period will begin again. For Class C shares reinvested with a CDSC credit in Class A shares, you will not receive a CDSC credit in the new Class A shares and your reinvestment will not be subject to any otherwise applicable CDSC.

Qualified Investors - Class R6

Class R6 shares are available to the following investors:

- Employer Sponsored Retirement Plans where plan level or omnibus accounts are held on the books of Franklin Templeton Investor Services.
- Endowments; foundations; local, city and state governmental institutions; corporations; non-profit organizations that are organized as corporations; and insurance companies, (collectively "institutional investors") when purchasing directly from a Fund. The minimum initial investment for institutional investors is \$1,000,000 per Fund.
- Unaffiliated U.S. registered mutual funds, including those that operate as "fund of funds."
- Other Franklin Templeton funds and funds for which Franklin Templeton investment managers provide advisory or subadvisory services.

Qualified Investors - Advisor Class

The following investors or investments qualify to buy Advisor Class shares of the Fund:

- Advisory Fee Programs. Shares acquired by an investor in connection with a comprehensive fee or other advisory fee arrangement between the investor and a registered broker-dealer, investment advisor, trust company, bank, or other financial intermediary (referred to as the "Sponsor") in which the investor pays that Sponsor a fee for investment advisory services and the Sponsor or a broker-dealer through whom the shares are acquired has an agreement with Distributors authorizing the sale of Fund shares. No minimum initial investment.

- Governments, municipalities, and tax-exempt entities that meet the requirements for qualification under section 501 of the Internal Revenue Code when purchasing direct from the Fund.
- Current employees of securities dealers that have executed a selling agreement with Distributors and their affiliates and their family members, as allowed by the internal policies of their employer.
- Current and former officers, trustees, directors, and full-time employees (and, in each case, their family members) of Franklin Templeton Investments or Franklin Templeton funds (including any foundation, trust or benefit plan maintained, owned, controlled, or established by or for any such person), consistent with our then-current policies. Minimum initial investment: \$1,000 (\$50 for accounts with an automatic investment plan).
- Assets held in accounts managed by a subsidiary of Franklin Resources, Inc.: (1) under an advisory agreement (including sub-advisory agreements); and/or (2) as trustee of an inter vivos or testamentary trust.
- Employer Sponsored Retirement Plans ("Plans" or individually, "Plan") that invest through a record-keeper or third party retirement platform.
- Plans with aggregate plan assets of \$1 million or more invested directly with Franklin Templeton Investments funds.
- Purchases by a bank, trust company or thrift institution that is acting as a fiduciary exercising investment discretion.
- Any trust or plan established as part of a qualified tuition program under Section 529 of the Internal Revenue Code.
- An individual or entity associated with a current customer of Franklin Templeton Institutional, LLC (FTI, LLC) if approved by FTI, LLC in consultation with its customers.
- Unaffiliated U.S. registered mutual funds, including those that operate as "fund of funds."
- Assets held in accounts under the recommendation of an investment consultant provided that (1) assets are held with a firm unaffiliated with the investment consultant's firm; (2) the investment consultant is under a retainer or other similar fee arrangement with its clients; (3) the client is not an individual; and (4) a subsidiary of Franklin Resources, Inc. approves the investment.

- Clients of financial intermediaries who have entered into an agreement with Distributors and have been approved by Distributors to offer Fund shares through a network, platform, or self-directed investment brokerage account that may charge a transaction fee to customers. Minimum initial investment \$100,000.

Buying Shares

Minimum Investments - Class A, C & R

	Initial
Regular accounts, UGMA/UTMA accounts, current and former full-time employees, officers, trustees and directors of Franklin Templeton entities, and their family members	\$1,000
Automatic investment plans	\$50
Employer Sponsored Retirement Plans, SIMPLE-IRAs, SEP-IRAs, SARSEPs or 403(b) plan accounts	no minimum
IRAs, IRA rollovers, Coverdell Education Savings Plans or Roth IRAs	\$250
Broker-dealer sponsored wrap account programs	no minimum

Please note that you may only buy shares (including the purchase side of an exchange) of a fund eligible for sale in your state or jurisdiction. The Fund and other Franklin Templeton funds are intended for sale to residents of the United States, and, with very limited exceptions, are not registered or otherwise offered for sale in other jurisdictions.

In particular, the Fund is not registered in any provincial or territorial jurisdiction in Canada, and shares of the Fund have not been qualified for sale in any Canadian jurisdiction. The shares offered by this prospectus may not be directly or indirectly offered or sold in any provincial or territorial jurisdiction in Canada or to or for the benefit of residents thereof. Prospective investors may be required to declare that they are not Canadian residents and are not acquiring shares on behalf of any Canadian residents. Similarly, the Fund is not registered, and shares of the Fund have not been qualified for distribution, in any member country of the European Union (EU) or European Economic Area (EEA), and may not be directly or indirectly offered or distributed in any such country. If an investor becomes a Canadian, EU or EEA resident after purchasing shares of the Fund, the investor will not be able to purchase any additional shares of the Fund (other than reinvestment of dividends and capital gains) or exchange shares of the Fund for other U.S. registered Franklin Templeton funds.

Account Application

If you are opening a new account, please complete and sign the enclosed account application. Make sure you indicate the share class you have chosen. If you do not indicate a class, we will place your purchase in Class A shares. To save time, you can sign up now for services you may want on your account by completing the appropriate sections of the application (see “Investor Services”). For example, if you would like to link one of your bank accounts to your Fund account so that you may use electronic funds transfer to and from your bank account to buy and sell shares, please complete the bank information section of the application. We will keep your bank information on file for future purchases and redemptions. We do not accept cash, credit card convenience checks, non-bank money orders, travelers checks or checks drawn on foreign banks as forms of payment to purchase shares.

Franklin Templeton Investor Services
P.O. Box 997151
Sacramento, CA 95899-7151
Call toll-free: (800) 632-2301
or visit us online 24 hours a day,
7 days a week, at franklintempleton.com

Buying Shares

		Opening an account	Adding to an account
Through your investment representative		Contact your investment representative	Contact your investment representative
By Phone/Online (800) 632-2301 franklintempleton.com <i>Note: certain account types are not available for online account access.</i>		If you have another Franklin Templeton fund account with your bank account information on file, you may open a new identically registered account by phone. At this time, a new account may not be opened online. To make a same day investment, your phone order must be received and accepted by us prior to 1:00 p.m. Pacific time or the close of the New York Stock Exchange, whichever is earlier.	Before requesting a telephone or online purchase into an existing account, please make sure we have your bank account information on file. If we do not have this information, you will need to send written instructions with your bank's name and address and a voided check or savings account deposit slip. All bank and Fund account owners must sign the request. If the bank and Fund accounts do not have at least one common owner, each individual must also have his or her signature notarized. To make a same day investment, your phone or online order must be received and accepted by us prior to 1:00 p.m. Pacific time or the close of the New York Stock Exchange, whichever is earlier.
	By Mail	Make your check payable to the Fund. Mail the check and your signed application to Investor Services.	Make your check payable to the Fund. Include your account number on the check. Fill out the deposit slip from your account statement. If you do not have a slip, include a note with your name, the Fund name, and your account number. Mail the check and deposit slip or note to Investor Services.
	By Wire (800) 632-2301 or (650) 312-2000 collect	Call to receive a wire control number and wire instructions. Wire the funds and mail your signed application to Investor Services. Please include the wire control number or your new account number on the application. To make a same day wire investment, the wired funds must be received and accepted by us prior to 1:00 p.m. Pacific time or the close of the New York Stock Exchange, whichever is earlier.	Call to receive a wire control number and wire instructions. To make a same day wire investment, the wired funds must be received and accepted by us prior to 1:00 p.m. Pacific time or the close of the New York Stock Exchange, whichever is earlier.
	By Exchange franklintempleton.com	Call Shareholder Services at (800) 632-2301, or send signed written instructions. You also may place an online exchange order. (Please see “Exchanging Shares” for more information on exchanges.)	Call Shareholder Services at (800) 632-2301, or send signed written instructions. You also may place an online exchange order. (Please see “Exchanging Shares” for more information on exchanges.)

Investor Services

Automatic Investment Plan

This plan offers a convenient way for you to invest in the Fund by automatically transferring money from your checking or savings account each month to buy shares. To sign up, visit us online at franklintempleton.com or complete the appropriate section of your account application and mail it to Investor Services. If you are opening a new account, please include your minimum initial investment with your application.

Automated Telephone System

Our automated system offers around-the-clock access to information about your account or any Franklin Templeton fund. This service is available by dialing any of the following numbers from a touch-tone phone:

Shareholder Services	(800) 632-2301
Advisor Services	(800) 524-4040
Retirement Services	(800) 527-2020

Distribution Options

You may reinvest distributions you receive from the Fund in an existing account in the same share class* of the Fund or another Franklin Templeton fund. Initial sales charges and CDSCs will not apply to reinvested distributions. You also can have your distributions deposited in a bank account, or mailed by check. Deposits to a bank account may be made by electronic funds transfer.

*Class C shareholders may reinvest their distributions in Class A shares of any Franklin Templeton money fund. Advisor Class shareholders may reinvest in Advisor Class or Class A shares of another Franklin Templeton fund. To reinvest your distributions in Advisor Class shares of another Franklin Templeton fund, you must be a current shareholder in Advisor Class or otherwise qualify to buy that fund's Advisor Class shares.

If you received a distribution and chose to return it to purchase additional shares in Class A shares of another Franklin Templeton fund, you will not be charged an initial sales charge if you invest the distribution within 90 days of the distribution date.

Please indicate on your application the distribution option you have chosen, otherwise we will reinvest your distributions in the same share class of the Fund.

Retirement Plans

Franklin Templeton Investments offers a variety of retirement plans for individuals and businesses. These plans require separate applications, may require special forms for redemptions, and their policies and procedures may be different

than those described in this prospectus. For more information, including a free retirement plan brochure or application, please call Retirement Services at (800) 527-2020.

Telephone/Online Privileges

You will automatically receive telephone/online privileges when you open your account, allowing you to obtain or view your account information, and conduct a number of transactions by phone or online, including: buy, sell, or exchange shares of most funds; use electronic funds transfer to buy or sell shares of most funds; change your address; and add or change account services (including distribution options, systematic withdrawal plans and automatic investment plans).

To view your account information or request online transactions, you will first need to register for these services at the shareholder section of our website at franklintempleton.com. You will be asked to accept the terms of an online agreement(s) and establish a password for online services. If you are registered for online services, you may enroll online in Franklin Templeton's electronic delivery program for your shareholder documents. This will allow you to receive electronic delivery (through our website) of most Franklin Templeton funds' prospectuses, annual/semiannual reports to shareholders, and proxy statements, as well as your account(s) statements and trade confirmations, and discontinue receiving your paper copies through the U.S. mail. Using our shareholder website means you are consenting to sending and receiving personal financial information over the Internet, so you should be sure you are comfortable with the risks.

As long as we follow reasonable security procedures and act on instructions we reasonably believe are genuine, we will not be responsible for any losses that may occur from unauthorized requests. We will request passwords or other information, and also may record calls. We have the right (but have no obligation) to refuse a telephone request if the caller is unable to provide the requested information or if we reasonably believe the caller is not an individual authorized to act on the account. To help safeguard your account, keep your password confidential, and verify the accuracy of your confirmation statements immediately after you receive them. Contact us immediately if you believe someone has obtained unauthorized access to your account or password. For transactions done over the Internet, we recommend the use of an Internet browser with 128-bit encryption. Certain methods of contacting us (such as by phone or by Internet) may be unavailable or delayed during periods of unusual market activity. *Of course, you can decline telephone buy, sell, or exchange privileges on your account application, or choose not to register for online privileges. If you have telephone/online privileges on your*

account and want to discontinue them, please contact us for instructions. You may reinstate these privileges at any time in writing, including online registration with respect to online privileges.

Note: We discourage you from including confidential or sensitive information in any Internet communication to us. If you do choose to send email (encrypted or not) to us over the Internet, you are accepting the associated risks of lack of confidentiality (such as the possibility that your personal information may be stolen or sold to others by third parties).

Systematic Withdrawal Plan

This plan allows you to automatically sell your shares and receive regular payments from your account. A CDSC may apply to withdrawals that exceed certain amounts. Certain terms and minimums apply. To sign up, visit us online at franklintempleton.com or complete the appropriate section of your application.

Franklin Templeton VIP Services®

You may be eligible for Franklin Templeton VIP Services® if you are currently eligible for the \$500,000 sales charge breakpoint based solely on shares registered directly with the Franklin Templeton funds' transfer agent and excluding shares held indirectly through brokerage accounts. Franklin Templeton VIP Services® shareholders enjoy enhanced service and transaction capabilities. Please contact Shareholder Services at (800) 632-2301 for additional information on this program.

Selling Shares

You can sell your shares at any time. Please keep in mind that a contingent deferred sales charge (CDSC) may apply.

Selling Shares in Writing

Generally, requests to sell \$100,000 or less can be made over the phone, online, or with a simple letter. Sometimes, however, to protect you and the Fund we will need written instructions signed by all registered owners, with a signature guarantee for each owner, if:

- you are selling more than \$100,000 worth of shares
- you want your proceeds paid to someone who is not a registered owner
- you want to send your proceeds somewhere other than the address of record, or preauthorized bank or brokerage firm account

We also may require a signature guarantee when: we receive instructions from an agent, not the registered owners; you want to send your proceeds to a bank account that was added or changed on your account without a signature guarantee within the last 15 days; you want to send proceeds to your address that was changed without a signature guarantee within the last 15 days; or we believe it would protect the Fund against potential claims based on the instructions received.

The amount may be higher for members of Franklin Templeton VIP Services®. Please see "Franklin Templeton VIP Services®" above for more information regarding eligibility.

A **signature guarantee** helps protect your account against fraud. You can obtain a signature guarantee at most banks and securities dealers.

A notary public CANNOT provide a signature guarantee.

Selling Recently Purchased Shares

If you sell shares recently purchased, we may delay sending you the proceeds until your check, draft or wire/electronic funds transfer has cleared, which may take seven business days.

Redemption Proceeds

Your redemption check will be sent within seven days after we receive your request in proper form. We are not able to receive or pay out cash in the form of currency.

Retirement Plans

You may need to complete additional forms to sell shares in a FTIOS retirement plan. For participants under the age of 59½, tax penalties may apply. Call Retirement Services at (800) 527-2020 for details.

Selling Shares

To sell some or all of your shares

Through your investment representative

Contact your investment representative

By Mail

Send written instructions and endorsed share certificates (if you hold share certificates) to Investor Services. Corporate, partnership or trust accounts may need to send additional documents.

Specify the Fund, the account number and the dollar value or number of shares you wish to sell. Be sure to include all necessary signatures and any additional documents, as well as signature guarantees if required.

A check will be mailed to the name(s) and address on the account, or otherwise according to your written instructions.

By Phone/Online

(800) 632-2301
franklintempleton.com

As long as your transaction is for \$100,000 or less and you do not hold share certificates, you can sell your shares by phone or online. The amount may be higher for members of Franklin Templeton VIP Services*. Please see "Franklin Templeton VIP Services" above for more information regarding eligibility.

A check will be mailed to the name(s) and address on the account, or a pre-authorized secondary address. Written instructions, with a signature guarantee, are required to send the check to another address or to make it payable to another person.

If you have changed your address within the last 15 days without a signature guarantee, requests to sell your shares and mail the check to the name(s) and address on the account must be in writing and we may require a signature guarantee. Requests to sell your shares and send the proceeds to a pre-

authorized secondary address may be requested by phone or online.

By Electronic Funds Transfer (ACH)

You can call, write, or visit us online to have redemption proceeds sent to a bank account. See the policies at left for selling shares by mail, phone, or online.

Before requesting to have redemption proceeds sent to a bank account, please make sure we have your bank account information on file. If we do not have this information, you will need to send written instructions with your bank's name and a voided check or savings account deposit slip. All bank and Fund account owners must sign the request. If the bank and Fund accounts do not have at least one common owner, each individual must also have his or her signature notarized.

If the bank account was added or changed without a signature guarantee within the last 15 days, you may be required to provide written instructions signed by all Fund account owners, with a signature guarantee for each Fund account owner.

If we receive your request in proper form prior to 1:00 p.m. Pacific time, proceeds sent by ACH generally will be available within two to three business days.

By Exchange

Obtain a current prospectus for the fund you are considering. Prospectuses are available online at franklintempleton.com.

Call Shareholder Services at the number below or send signed written instructions. You also may place an exchange order online. See the policies at left for selling shares by mail, phone, or online.

If you hold share certificates, you will need to return them to the Fund before your exchange can be processed.

Exchanging Shares

Exchange Privilege

Class A, C & R

You can exchange shares between most Franklin Templeton funds within the same class,* generally without paying any additional sales charges. If you exchange shares from a money fund and those shares were not charged a sales charge previously, however, a sales charge may apply.

*Class Z shareholders of Franklin Mutual Series Funds may exchange into Class A without any sales charge. Advisor Class shareholders of another Franklin Templeton fund also may exchange into Class A without any sales charge. If you exchange into Class A shares and you later decide you would like to exchange into a fund that offers an Advisor Class or Class Z, you may exchange your Class A shares for Advisor Class or Class Z shares if you are a current shareholder in Advisor Class or Class Z or you otherwise qualify to buy the fund's Advisor Class or Class Z shares.

Any CDSC will continue to be calculated from the date of your initial investment and will not be charged at the time of the exchange. The purchase price for determining a CDSC on exchanged shares will be the price you paid for the original shares.

Class R6

You can exchange your Class R6 shares for Class R6 shares of other Franklin Templeton funds. You also may exchange your Class R6 shares for Advisor Class shares of a fund that does not currently offer Class R6 shares.

Advisor Class

You can exchange your Advisor Class shares for Advisor Class shares of other Franklin Templeton funds. You also may exchange your Advisor Class shares for Class A shares of a fund that does not currently offer an Advisor Class (without any sales charge)* or for Class Z shares of Franklin Mutual Series Funds.

*If you exchange into Class A shares and you later decide you would like to exchange into a fund that offers an Advisor Class, you may exchange your Class A shares for Advisor Class shares if you are a current shareholder in Advisor Class or you otherwise qualify to buy the fund's Advisor Class shares.

All Classes

The remainder of the "Exchanging Shares" section applies to all classes.

Generally exchanges may only be made between identically registered accounts, unless you send written instructions with a signature guarantee.

An **exchange** is really two transactions: a sale of one fund and the purchase of another. In general, the same policies that apply to purchases and sales also apply to exchanges, including minimum investment amounts (except exchanges of an entire account balance). Exchanges also generally have the same tax consequences as ordinary sales and purchases.

Franklin Templeton Investor Services

P.O. Box 997151

Sacramento, CA 95899-7151

Call toll-free: (800) 632-2301

or visit us online 24 hours a day, 7 days a week, at franklintempleton.com

Rejected exchanges. If the Fund rejects an exchange request involving the sale of Fund shares, the rejected exchange request will also mean rejection of the request to purchase shares of another fund with the proceeds of the sale. Of course, you may generally redeem shares of the Fund at any time.

Exchanges through financial intermediaries. If you are investing indirectly in the Fund through a financial intermediary such as a broker-dealer, a bank, an insurance company separate account, an investment advisor, an administrator or trustee of an IRS-recognized tax-deferred savings plan such as a 401(k) retirement plan and a 529 college savings plan that maintains a master account (an Omnibus Account) with the Fund for trading on behalf of its customers, different exchange and/or transfer limit guidelines and restrictions may apply. The financial intermediary through whom you are investing may choose to adopt different trading restrictions designed to discourage short-term or excessive trading. Consult with your financial intermediary (or in the case of a 401(k) retirement plan, your plan sponsor) to determine what trading restrictions, including exchange/transfer limitations, may be applicable to you.

Fund exchange privilege changes/waiver. The Fund may terminate or modify (temporarily or permanently) this exchange privilege in the future. You will receive at least 60 days' notice of any material changes, unless otherwise provided by law.

Other funds' exchange privileges. If there is a conflict between the exchange privileges of two funds involved in an exchange transaction, the stricter policy will apply to the transaction. Other Franklin Templeton funds may have different exchange restrictions. Check each fund's prospectus for details.

Frequent Trading Policy

The Fund's board of trustees has adopted the following policies and procedures with respect to frequent trading in Fund shares (Frequent Trading Policy).

The Fund does not intend to accommodate short-term or frequent purchases and redemptions of Fund shares that may be detrimental to the Fund. For example, this type of trading activity could interfere with the efficient management of the Fund's portfolio or materially increase the Fund's transaction costs, administrative costs or taxes.

In addition, since the Fund may invest in foreign securities, it may be vulnerable to a form of short-term trading that is sometimes referred to as "time-zone arbitrage." Time-zone arbitrage occurs when an investor seeks to take advantage of delays between changes in the value of a mutual fund's portfolio holdings and the reflection of those changes in the Fund's net asset value per share. These delays are more likely to occur in the case of foreign investments, due to differences between

the times during which the Fund's international portfolio securities trade on foreign markets and the time as of which the Fund's NAV is calculated (generally as of the close of the NYSE - please see "Account Policies - Calculating Share Price"). Time-zone arbitrage traders seek to purchase or redeem shares of a fund based on events occurring after foreign market closing prices are established, but before calculation of the fund's NAV. This can result in the value of the Fund's shares being diluted. One of the objectives of the Fund's fair value pricing procedures is to minimize the possibility of this type of arbitrage (please see "Account Policies - Security Valuation - Foreign Securities - Potential Impact of Time Zones and Market Holidays"); however, there can be no assurance that the Fund's valuation procedures will be successful in eliminating it.

Since the Fund may invest in securities that are, or may be, restricted, unlisted, traded infrequently, thinly traded, or relatively illiquid ("relatively illiquid securities"), it may be particularly vulnerable to arbitrage short-term trading. Such arbitrage traders may seek to take advantage of a possible differential between the last available market prices for one or more of those relatively illiquid securities that are used to calculate the Fund's NAV and the latest indications of market values for those securities. One of the objectives of the Fund's fair value pricing procedures is to minimize the possibilities of this type of arbitrage (please see "Account Policies - Fair Valuation - Individual Securities"); however, there can be no assurance that the Fund's valuation procedures will be successful in eliminating it.

Through its transfer agent, the Fund performs ongoing monitoring of shareholder trading in shares of the Fund and other Franklin Templeton funds in order to try and identify shareholder trading patterns that suggest an ongoing short-term trading strategy. If shareholder trading patterns identified by the transfer agent through monitoring or from other information regarding the shareholder's trading activity in non-Franklin Templeton funds leads the transfer agent to reasonably conclude that such trading may be detrimental to the Fund as described in this Frequent Trading Policy, the transfer agent, on behalf of the Fund, may temporarily or permanently bar future purchases into the Fund or, alternatively, may limit the amount, number or frequency of any future purchases and/or the method by which you may request future purchases and redemptions (including purchases and/or redemptions by an exchange or transfer between the Fund and any other mutual fund).

In considering an investor's trading patterns, the Fund may consider, among other factors, the investor's trading history both directly and, if known, through financial intermediaries, in the Fund, in other Franklin Templeton funds, in non-Franklin Templeton mutual funds, or in accounts under common control or ownership

(see, for example, “Buying and Selling Shares - Investment by asset allocators and large shareholders” in the SAI). The transfer agent may also reject any purchase or redemption request, whether or not it represents part of any ongoing trading pattern, if the Fund’s investment manager or transfer agent reasonably concludes that the amount of the requested transaction may disrupt or otherwise interfere with the efficient management of the Fund’s portfolio. In determining what actions should be taken, the Fund’s transfer agent may consider a variety of factors, including the potential impact of such remedial actions on the Fund and its shareholders. If the Fund is a “fund of funds,” the Fund’s transfer agent may take into account the impact of the trading activity and of any proposed remedial action on both the Fund and the underlying funds in which the Fund invests.

Frequent trading through financial intermediaries. You are an investor subject to this Frequent Trading Policy whether you are a direct shareholder of the Fund or you are investing indirectly in the Fund through a financial intermediary, such as a broker-dealer, bank, trust company, insurance company product such as an annuity contract, investment advisor, or an administrator or trustee of an IRS-recognized tax-deferred savings plan such as a 401(k) retirement plan and a 529 college savings plan.

Some financial intermediaries maintain master accounts with the Fund on behalf of their customers (“omnibus accounts”). The Fund has entered into “information sharing agreements” with these financial intermediaries, which permit the Fund to obtain, upon request, information about the trading activity of the intermediary’s customers that invest in the Fund. If the Fund’s transfer agent identifies omnibus account level trading patterns that have the potential to be detrimental to the Fund, the transfer agent may, in its sole discretion, request from the financial intermediary information concerning the trading activity of its customers. Based upon its review of the information, if the transfer agent determines that the trading activity of any customer may be detrimental to the Fund, it may, in its sole discretion, request the financial intermediary to restrict or limit further trading in the Fund by that customer. There can be no assurance that the transfer agent’s monitoring of omnibus account level trading patterns will enable it to identify all short-term trading by a financial intermediary’s customers.

Revocation of trades. While the Fund reserves the right to reject any purchase order for any reason, the Fund may also revoke executed purchase orders that the transfer agent reasonably concludes in its sole discretion may have been contrary to the objectives of the Fund’s Frequent Trading Policy.

Account Policies

Calculating Share Price

Class A & C

When you buy shares, you pay the “offering price” for the shares. The “offering price” is determined by dividing the NAV per share by an amount equal to 1 minus the sales charge applicable to the purchase (expressed in decimals), calculated to two decimal places using standard rounding criteria. The number of Fund shares you will be issued will equal the amount invested divided by the applicable offering price for those shares, calculated to three decimal places using standard rounding criteria. For example, if the NAV per share is \$10.25 and the applicable sales charge for the purchase is 5.75%, the offering price would be calculated as follows: $10.25 \div (1.00 - 0.0575)$ [10.25/0.9425] equals 10.87533, which, when rounded to two decimal points, equals 10.88. The offering price per share would be \$10.88.

When you sell shares, you receive the NAV minus any applicable CDSC.

All Classes

The value of a mutual fund is determined by deducting the fund’s liabilities from the total assets of the portfolio. The NAV per share is determined by dividing the total net asset value of each fund’s share class by the applicable number of shares outstanding per share class.

The Fund calculates the NAV per share each business day as of 1 p.m. Pacific time which normally coincides with the close of trading on the New York Stock Exchange (NYSE). The Fund does not calculate the NAV on days the NYSE is closed for trading, which include New Year’s Day, Martin Luther King Jr. Day, President’s Day, Good Friday, Memorial Day, Independence Day, Labor Day, Thanksgiving Day and Christmas Day. If the NYSE has a scheduled early close or unscheduled early close, the Fund’s share price would still be determined as of 1 p.m. Pacific time/4 p.m. Eastern time. The Fund’s NAV per share for each class is readily available online at www.franklintempleton.com/performance.

Requests to buy and sell shares are processed at the NAV next calculated after we or an approved financial intermediary receive your request in proper form.

When determining its NAV, the Fund values cash and receivables at their realizable amounts, and records interest as accrued and dividends on the ex-dividend date. The Fund generally utilizes two independent pricing services to assist in determining a current market value for each security. If market quotations are readily available for portfolio securities listed on a securities exchange, the Fund values those securities at the last quoted sale price or the official closing price of the day, respectively, or, if there is no reported sale, within the range of the

most recent quoted bid and ask prices. The Fund values over-the-counter portfolio securities within the range of the most recent bid and ask prices. If portfolio securities trade both in the over-the-counter market and on a stock exchange, the Fund values them according to the broadest and most representative market.

Generally, trading in corporate bonds, U.S. government securities and money market instruments is substantially completed each day at various times before the close of the NYSE. The value of these securities used in computing the NAV is determined as of such times. Occasionally, events affecting the values of these securities may occur between the times at which they are determined and the close of the NYSE that will not be reflected in the computation of the NAV. The Fund relies on third-party pricing vendors to provide evaluated prices that reflect current fair market value at the close of the NYSE.

Fair Valuation – Individual Securities

Since the Fund may invest in securities that are restricted, unlisted, traded infrequently, thinly traded, or relatively illiquid, there is the possibility of a differential between the last available market prices for one or more of those securities and the latest indications of market values for those securities. The Fund has procedures, approved by the board of trustees, to determine the fair value of individual securities and other assets for which market prices are not readily available (such as certain restricted or unlisted securities and private placements) or which may not be reliably priced (such as in the case of trade suspensions or halts, price movement limits set by certain foreign markets, and thinly traded or illiquid securities). Some methods for valuing these securities may include: fundamental analysis (earnings multiple, etc.), matrix pricing, discounts from market prices of similar securities, or discounts applied due to the nature and duration of restrictions on the disposition of the securities. The board of trustees oversees the application of fair value pricing procedures.

The application of fair value pricing procedures represents a good faith determination based upon specifically applied procedures. There can be no assurance that the Fund could obtain the fair value assigned to a security if it were able to sell the security at approximately the time at which the Fund determines its NAV per share.

Security Valuation – Pass-Through Securities, CMO, ABS, MBS

Mortgage pass-through securities (such as Ginnie Mae, Fannie Mae and Freddie Mac), other mortgage-backed securities (MBS), collateralized mortgage obligations (CMOs) and asset-backed securities (ABS) generally trade in the over-the-counter market rather than on a securities exchange. The Fund may value these portfolio securities by utilizing quotations from bond dealers, information with

respect to bond and note transactions and may rely on independent pricing services. The Fund's pricing services use valuation models or matrix pricing to determine current value. In general, they use information with respect to comparable bond and note transactions, quotations from bond dealers or by reference to other securities that are considered comparable in such characteristics as rating, interest rate, maturity date, option adjusted spread models, prepayment projections, interest rate spreads and yield curves. Matrix pricing is considered a form of fair value pricing.

Security Valuation – Corporate Debt Securities

Corporate debt securities generally trade in the over-the-counter market rather than on a securities exchange. The Fund may value these portfolio securities by utilizing quotations from bond dealers, information with respect to bond and note transactions and may rely on independent pricing services to assist in determining a current market value for each security. The Fund's pricing services may utilize independent quotations from bond dealers and bond market activity to determine current value.

Security Valuation – Senior Secured Corporate Loans

Senior secured corporate loans with floating or variable interest rates generally trade in the over-the-counter market rather than on a securities exchange. The Fund may value these portfolio securities by utilizing quotations from loan dealers and other financial institutions, information with respect to bond and note transactions and may rely on independent pricing services to assist in determining a current market value for each security. These pricing services use independent market quotations from loan dealers or financial institutions and may incorporate valuation methodologies that incorporate multiple bond characteristics. These characteristics may include dealer quotes, issuer type, coupon, maturity, weighted average maturity, interest rate spreads and yield curves, cash flow and credit risk/quality analysis.

Security Valuation – Options

The Fund values traded call options at their market price as determined above. The current market value of any option the Fund holds is its last sale price on the relevant exchange before the Fund values its assets. If there are no sales that day or if the last sale price is outside the bid and ask prices, the Fund values options within the range of the current closing bid and ask prices if the Fund believes the valuation fairly reflects the contract's market value.

Security Valuation – Foreign Securities – Computation of U.S. Equivalent Value

The Fund generally determines the value of a foreign security as of the close of trading on the foreign stock exchange on which the security is primarily traded, or as of the close of trading on the NYSE, if earlier. The value is then converted into its U.S. dollar equivalent at the foreign exchange rate in effect at the close of the NYSE (generally 1:00 p.m. Pacific time) on the day that the value of the foreign security is determined. If no sale is reported at that time, the foreign security will be valued within the range of the most recent quoted bid and ask prices. Occasionally events (such as repatriation limits or restrictions) 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 of trustees.

Security Valuation – Foreign Securities – Potential Impact of Time Zones and Market Holidays

Trading in securities on foreign securities stock exchanges and over-the-counter markets, such as those in Europe and Asia, may be completed well before the close of business on the NYSE on each day that the NYSE is open. Occasionally, events occur between the time at which trading in a foreign security is completed and the close of the NYSE that might call into question the availability (including the reliability) of the value of a foreign portfolio security held by the Fund. As a result, the Fund may be susceptible to what is referred to as “time-zone arbitrage.” Certain investors in the Fund may seek to take advantage of discrepancies in the value of the Fund’s portfolio securities as determined by the foreign market at its close and the latest indications of value attributable to the portfolio securities at the time the Fund’s NAV is computed. Trading by these investors, often referred to as “arbitrage market timers,” may dilute the value of the Fund’s shares, if such discrepancies in security values actually exist. To attempt to minimize the possibilities for time-zone arbitrage, and in accordance with procedures established and approved by the Fund’s board of trustees, the investment manager monitors price movements following the close of trading in foreign stock markets through a series of country specific market proxies (such as baskets of American Depositary Receipts, futures contracts and exchange traded funds).

These price movements are measured against established trigger thresholds for each specific market proxy to assist in determining if an event has occurred that might call into question the availability (including the reliability) of the values of foreign securities between the times at which they are determined and the close of the NYSE. If such an event occurs, the foreign securities may be valued using fair value procedures established and approved by the board of trustees. In

certain circumstances these procedures include the use of independent pricing services. The intended effect of applying fair value pricing is to compute an NAV that accurately reflects the value of the Fund’s portfolio at the time that the NAV is calculated, to discourage potential arbitrage market timing in Fund shares, to mitigate the dilutive impact of such attempted arbitrage market timing and to be fair to purchasing, redeeming and existing shareholders. However, the application of fair value pricing procedures may, on occasion, worsen rather than mitigate the potential dilutive impact of shareholder trading.

In addition, trading in foreign portfolio securities generally, or in securities markets in a particular country or countries, may not take place on every NYSE business day. Furthermore, trading takes place in various foreign markets on days that are not business days for the NYSE, and on which the Fund’s NAV is not calculated (in which case, the net asset value of the Fund’s shares may change on days when shareholders will not be able to purchase or redeem Fund shares). Thus, the calculation of the Fund’s NAV does not take place contemporaneously with the determination of the prices of many of the foreign portfolio securities used in the calculation. If events affecting the last determined values of these foreign securities occur (determined through the monitoring process described above), the securities will be valued at fair value determined in good faith in accordance with the Fund’s fair value procedures established and approved by the board of trustees.

Accounts with Low Balances

If your account has been open for more than one year and its value falls below \$500, we will mail you a notice asking you to bring the account back up to its applicable minimum investment amount. If you choose not to do so within 30 days, we will close your account and mail the proceeds to the address of record. You will not be charged a CDSC if your account is closed for this reason. This policy does not apply to: (1) certain broker-controlled accounts established through the National Securities Clearing Corporation’s Networking system; (2) Class A accounts established pursuant to a conversion from Class B; (3) tax-deferred retirement plan accounts; (4) active automatic investment plan accounts; (5) broker-dealer sponsored separately managed accounts (wrap accounts); (6) accounts held through a 529 college savings program; and (7) Coverdell Education Savings Plan accounts.

Redemptions in Kind

If your redemption requests during any 90-day period exceed \$250,000 (or 1% of the value of the Fund’s net assets, if less), the Fund reserves the right to make payments in whole or in part in securities or other assets of the Fund. You should

expect to incur transaction costs upon the disposition of the securities received in the distribution. In addition, you will bear the market risk of the securities you hold until the securities are sold.

Statements, Reports and Prospectuses

You will receive quarterly account statements that show all your account transactions during the quarter. You also will receive written notification after each transaction affecting your account (except for distributions and transactions made through automatic investment or withdrawal programs, which will be reported on your quarterly statement). Upon receipt, review all account statements and written notifications after each transaction affecting your account and notify us immediately if there is a discrepancy.

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

If you choose, you may receive your statements, financial reports and prospectuses through electronic delivery (please see "Investor Services - Telephone/Online Privileges").

Investment Representative Account Access

If there is a dealer or other investment representative of record on your account, he or she will be able to obtain your account information, conduct transactions for your account, and also will receive copies of all notifications and statements and other information about your account directly from the Fund.

Street or Nominee Accounts

You may transfer your shares from the street or nominee name account of one dealer to another, as long as both dealers have an agreement with Distributors. We will process the transfer after we receive authorization in proper form from your delivering securities dealer.

Joint Accounts

Unless you specify a different registration, shares issued to two or more owners are registered as "joint tenants with rights of survivorship" (shown as "Jt Ten" on your account statement). To make any ownership changes to jointly owned shares, or to sever a joint tenancy in jointly owned shares, all owners must agree in writing.

Joint Account Risk with Telephone/Online Privileges

You will automatically receive telephone/online privileges when you open your account. If your account has more than one registered owner, telephone/online privileges allow the Fund to accept online registration for online services (including electronic delivery of shareholder documents) and transaction instructions online or by telephone from only one registered owner. This means that *any one registered owner on your account, acting alone and without the consent of any other registered owner*, may give the Fund instructions by telephone, online or in writing (subject to any limitations in telephone or online privileges) to:

- Exchange shares from a jointly registered Fund account requiring all registered owner signatures into an identically registered money fund account that only requires one registered owner's signature to redeem shares;
- Redeem Fund shares and direct the redemption proceeds to a pre-established bank account that may or may not be owned by you and, if owned by you jointly with someone else, only requires one person to withdraw funds by check or otherwise; and
- Purchase Fund shares by debiting a pre-established bank account that may be owned by you.

If you do NOT want another registered owner on your account to be able to issue these kinds of instructions to the Fund without your consent, you must instruct the Fund to deny/terminate online privileges and the ability to issue such instructions by telephone so that these types of instructions will only be accepted in writing signed by all account owners. This decision will apply to any other fund into which you may exchange your jointly owned Fund shares. Any later decision to permit these types of instructions by telephone and/or online will need to be given to the Fund in a written instruction signed by all registered owners.

Additional Policies

Please note that the Fund maintains additional policies and reserves certain rights, including:

- The Fund may restrict, reject or cancel any purchase orders, including an exchange request.
- The Fund may modify, suspend, or terminate telephone/online privileges at any time.
- The Fund may make material changes to or discontinue the exchange privilege on 60 days' notice or as otherwise provided by law.

- The Fund may stop offering shares completely or may offer shares only on a limited basis, for a period of time or permanently.
- Normally, redemptions are processed by the next business day, but may take up to seven days to be processed if making immediate payment would adversely affect the Fund.
- In unusual circumstances, we may temporarily suspend redemptions or postpone the payment of proceeds, as allowed by federal securities laws.
- For redemptions over a certain amount, the Fund may pay redemption proceeds in securities or other assets rather than cash if the investment manager determines it is in the best interest of the Fund, consistent with applicable law. Investors should expect to incur transaction costs upon the disposition of the securities received in the distribution.
- You may only buy shares of a fund (including the purchase side of an exchange) eligible for sale in your state or jurisdiction.
- To permit investors to obtain the current price, dealers are responsible for transmitting all orders to the Fund promptly.

Dealer Compensation

Class A, C & R

Qualifying dealers who sell Fund shares may receive sales commissions and other payments. These are paid by Distributors from sales charges received from purchasing or redeeming shareholders, from distribution and service (12b-1) fees from the Fund and from Distributors' other financial resources. Dealers may also receive shareholder servicing fees for servicing investors who indirectly hold Franklin Templeton fund shares through dealer-maintained brokerage accounts as more fully described under "Shareholder servicing and transfer agent" of the "Management and Other Services" section in the SAI. These fees are paid by the Fund's transfer agent from payments it receives under its agreement with the Fund.

No dealer commission will be paid on Class A NAV purchases by Employer Sponsored Retirement Plans.

If any dealer commissions are paid in connection with a purchase which is subsequently rejected or results in any trading restriction placed on the purchaser as a result of a determination by the Fund's investment manager or transfer agent that the purchase may be connected with trading activity that may be detrimental to the Fund as described in the Fund's "Frequent Trading Policy," the dealer shall, upon demand, refund such commissions to Distributors.

	Class A	Class C	Class R
Commission (%)	—	1.00 ¹	—
Investment under \$50,000	5.00	—	—
\$50,000 but under \$100,000	3.75	—	—
\$100,000 but under \$250,000	2.80	—	—
\$250,000 but under \$500,000	2.00	—	—
\$500,000 but under \$1 million	1.60	—	—
\$1 million or more	up to 1.00	—	—
12b-1 fee to dealer	0.25 ^{2,3}	1.00 ⁴	0.50

1. Commission includes advance of the first year's 0.25% 12b-1 service fee. Distributors may pay a prepaid commission. However, Distributors does not pay a prepaid commission on any purchases by Employer Sponsored Retirement Plans.

2. For purchases at NAV where Distributors paid a prepaid commission, dealers may start to receive the 12b-1 fee in the 13th month after purchase. For purchases at NAV where Distributors did not pay a prepaid commission, dealers may start to receive the 12b-1 fee at the time of purchase.

3. Under the Distribution Plan for Class A, the Fund may pay up to 0.30% to Distributors or others, out of which 0.05% generally will be retained by Distributors for its distribution expenses. As set by the board of trustees (until further notice), the Fund currently may pay up to 0.25% under the Plan.

4. Dealers may be eligible to receive up to 0.25% at the time of purchase and may be eligible to receive 1% starting in the 13th month. During the first 12 months, the full 12b-1 fee will be paid to Distributors to partially offset the commission and the prepaid service fee paid at the time of purchase. For purchases at NAV where Distributors did not pay a prepaid commission, dealers may start to receive the 12b-1 fee at the time of purchase.

Other dealer and financial intermediary compensation. Distributors may make payments (a portion of which may be reimbursable under the terms of the Fund's Rule 12b-1 distribution plans) to certain dealers who have sold shares of Franklin Templeton mutual funds. In the case of any one dealer, marketing support payments will generally not exceed 0.05% of the total assets of Franklin Templeton mutual funds attributable to that dealer, on an annual basis. For a dealer exceeding \$50 billion in total assets of Franklin Templeton mutual funds, Distributors may agree to marketing support payments up to 0.06% of such assets, on an annual basis. Marketing support payments made to organizations located outside the U.S., with respect to investments in the Fund by non-U.S. persons, may exceed this limitation. Distributors makes these payments in connection with the qualifying dealers' efforts to educate financial advisors about Franklin Templeton funds. Any assets held on behalf of Employer Sponsored Retirement Plans for which payment is made to a financial intermediary pursuant to the following paragraph will be excluded from the calculation of marketing support payments pursuant to this paragraph.

Distributors and/or its affiliates may also make payments (a portion of which may be reimbursable under the terms of the Fund's Rule 12b-1 distribution plans) to certain financial intermediaries in connection with their activities that are intended to assist in the sale of shares of Franklin Templeton mutual funds, directly or indirectly, to certain Employer Sponsored Retirement Plans. In the case of any one

financial intermediary, such payments will not exceed 0.10% of the total assets of Franklin Templeton mutual funds held, directly or indirectly, by such Employer Sponsored Retirement Plans, on an annual basis.

A number of factors will be considered in determining these payments, including the qualifying dealer or financial intermediary’s sales, assets and redemption rates, the nature and quality of any servicing provided by the financial intermediary, and the quality of the dealer or financial intermediary’s relationship with Distributors. Distributors will, on an annual basis, determine the advisability of continuing these payments. These payments may be in addition to any shareholder servicing fees paid by the Fund’s transfer agent from payments it receives under its agreement with the Fund.

To the extent permitted by SEC and Financial Industry Regulatory Authority rules and other applicable laws and regulations, Distributors may pay or allow other promotional incentives or payments to dealers.

Sales of Fund shares, as well as shares of other funds in Franklin Templeton Investments, is not considered a factor in the selection of broker-dealers to execute the Fund’s portfolio transactions. Accordingly, the allocation of portfolio transactions for execution by broker-dealers that sell Fund shares is not considered marketing support payments to such broker-dealers.

You can find further details in the SAI about the payments made by Distributors and the services provided by your financial advisor. Your financial advisor may charge you additional fees or commissions other than those disclosed in this prospectus. You should ask your financial advisor for information about any payments it receives from Distributors and any services it provides, as well as about fees and/or commissions it charges.

Questions

If you have any questions about the Fund or your account, you can write to us at P.O. Box 997151, Sacramento, CA 95899-7151. You also can call us at one of the following numbers. For your protection and to help ensure we provide you with quality service, all calls may be monitored or recorded.

Department Name	Telephone Number
Shareholder Services	(800) 632-2301
Fund Information	(800) DIAL BEN (800) 342-5236
Retirement Services	(800) 527-2020
Advisor Services	(800) 524-4040
Hearing Impaired Assistance	For hearing impaired assistance, please contact us via a Relay Service.
Automated Telephone System	(800) 632-2301 (800) 524-4040 (800) 527-2020

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FOR MORE INFORMATION

You can learn more about the Fund in the following documents:

Annual/Semiannual Report to Shareholders

Includes a discussion of recent market conditions and Fund strategies that significantly affected Fund performance during its last fiscal year, financial statements, detailed performance information, portfolio holdings and, in the annual report only, the independent registered public accounting firm's report.

Statement of Additional Information (SAI)

Contains more information about the Fund, its investments and policies. It is incorporated by reference (is legally a part of this prospectus).

For a free copy of the current annual/semiannual report or the SAI, please contact your investment representative or call us at the number below. You also can view the current annual/semiannual report and the SAI online through franklintempleton.com.

You also can obtain information about the Fund by visiting the SEC's Public Reference Room in Washington, DC (phone (202) 551-8090) or the EDGAR Database on the SEC's Internet site at <http://www.sec.gov>. You can obtain copies of this information, after paying a duplicating fee, by writing to the SEC's Public Reference Section, Washington, DC 20549-1520 or by electronic request at the following email address: publicinfo@sec.gov.



FRANKLIN TEMPLETON
INVESTMENTS

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 10% Total Recycled Fiber

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