ANNUAL UNAUDITED
SHORT REPORT

31 MARCH 2014

Franklin Templeton Funds

AN AUTHORISED OPEN-ENDED INVESTMENT COMPANY WITH VARIABLE CAPITAL

FRANKLIN TEMPLETON
INVESTMENTS

Contents

Franklin European Opportunities Fund

FUND FACTS

Launch Date: 8 September 2003
Benchmark: MSCI Europe ex-UK Index
Sector: IMA Europe Ex-UK
Ex Dates: 31 March & 30 September
Distribution Pay Dates: 31 May & 30 November

Investment Objective

The Fund aims to provide long-term capital growth by investing principally in European (excluding UK) equities.

Investment Policy

The Fund seeks to achieve its investment objective by investing principally in a focused portfolio of equity and/or equity-related securities of companies, of any market capitalisation, which are incorporated or have their principal business activities in European countries (excluding the UK).

In addition, at the ACD's discretion, the Fund may also invest a proportion of its portfolio in other transferable securities including (but not limited to) fixed interest and other debt related securities, cash and near cash, money market instruments and other collective investment schemes, subject to COLL.

It is not currently intended that derivatives will be used for any purpose other than the efficient portfolio management of the Fund. However, the Fund may, in the future and subject to the ACD giving not less than 60 days' notice to shareholders in the Fund, use derivatives in pursuit of its investment objective as well as for efficient portfolio management. When the Fund uses derivatives for the purposes of efficient portfolio management, it will comply with the restrictions set out in Appendix 2 of the Prospectus. It is not intended that the use of derivatives for efficient portfolio management will cause the Fund's existing risk profile to rise. Where the use of derivatives in pursuit of the Fund's investment objective may cause the Fund to have higher volatility or otherwise cause its existing risk profile to rise, a notification to that effect shall be included within the 60-day prior notice to be sent to shareholders in the Fund.

The base currency of the Fund is UK sterling.

Risk Profile

1	2	3	4	5	**6**	7

Lower risk
Potentially lower rewards

Higher risk
Potentially higher rewards

This indicator, disclosed in the Key Investor Information Document (KIID), provides a measure of the price movement of the Fund based on historical behaviour. Historical data may not be a reliable indication of the future risk profile of the Fund. The category shown is not guaranteed to remain unchanged and may shift over time. The lowest category does not mean risk free.

The Fund's investments are subject to general market and industry risk as well as currency exchange rate volatility.

The Franklin European Opportunities Fund may be appropriate for investors looking for long-term capital growth potential, by investing principally in European (excluding the UK) equities.

Investment Review

Performance

For the 12-month period ended 31 March 2014, Franklin European Opportunities Fund rose 19.94%, while the MSCI Europe ex-UK Index gained 17.98% (both returns in UK sterling).

Market Overview

European equities posted strong gains over the 12-month review period as growing optimism about the benefits of structural reforms and waning fears about the region's sovereign debt woes supported markets. Equity markets in peripheral eurozone countries such as Greece, Italy, Ireland and Spain were among the region's best performers during the period, followed by equity markets in Denmark and Finland. Equity markets in Norway and Austria advanced but lagged the broader index. Economic data has also continued to suggest a slow if uneven and fairly shaky economic recovery. The European Central Bank (ECB) responded by lowering interest rates 25 basis points to a record low of 0.25% in November 2013. On the political front, after a protracted period of inaction, European leaders finally agreed to a framework for a banking union, and a new government in Italy at the start of 2014 raised hopes that the country would finally undertake reforms to improve its competitiveness. We believe that reforms taken in Spain to improve competitiveness are already helping bolster the country's exports and increasing economic growth. With inflation still low and the euro remaining relatively strong, the ECB indicated it was prepared to take additional measures to bolster growth and stoke inflation if conditions warrant. At the end of the reporting period, concerns about the health of the global economy resurfaced, particularly given weaker growth in emerging markets, which could constrain earnings growth for European exporters, in our view. A resurgence of geopolitical uncertainty also increased volatility at the end of the period as the crisis in Ukraine made European investors somewhat more risk averse.

Significant Changes

Effective 30 September 2013, the name of Templeton Europe Fund changed to Franklin European Opportunities Fund and there were minor changes to the investment objective and investment policy of the Fund. In addition, the portfolio management team changed, moving from the Templeton Global Equity Group to the Franklin European Equity Group with a new portfolio manager line-up. Michael Clements became lead portfolio manager, while Claire Manson and Stephen Flynn were named back-up portfolio managers. As a result, most of the Fund's existing holdings were sold and new stocks were bought. Franklin Templeton bore all the trading costs that arose from these changes.

The new portfolio management team seek to construct a focused portfolio of typically around 25-45 stocks, regardless of size, sector or country, that the Franklin European Equity team's detailed company research indicates are fundamentally undervalued and have a sustainable competitive advantage. This means the portfolio can look very different to the benchmark or competitor Funds. The team believes that this approach will help them to achieve strong risk-adjusted returns over the long term.

Contributors and Detractors (31March 2013-30 September 2013)

The Fund delivered absolute gains and outperformed its benchmark during the six months ended 30 September 2013. Stock selection and an overweight in financials was the largest contributor to relative performance for the period. Two of the Fund's top stocks during the period hailed from the financials sector: Italian lender UniCredit and Dutch financial services group ING. Both of these stocks illustrate the progress being made in the European financials sector as companies cut costs to improve profitability and boost capital levels to comply with stricter regulatory requirements. UniCredit surged after earnings more than doubled as the firm reorganized its branch network, bought back debt and put its valuable credit unit up for strategic review. ING's reorganisation has been even more dramatic, dictated by the terms of its 2008 bailout agreement with the Dutch government. The company neared the end of its bailout commitments following more than 35 disposals that raised roughly €23 billion, and results highlighted the operational improvements achieved at ING's banking business as the company cut costs and improved margins. Like UniCredit and ING, many of our European financials holdings enjoy enhanced capital reserves and improved returns on equity. Given the current weak loan growth environment, these features should result in excess cash flows likely to be used for shareholder returns, in our view.

An underweight and stock selection in consumer staples also contributed to performance for the period, as did stock selection in consumer discretionary. In consumer discretionary, shares in Spanish broadcaster Atresmedia rose to their highest level in nearly six years as the firm beat earnings estimates and gained share in an advertising market showing encouraging signs of improvement. Over our long-term investment horizon, we believe Atresmedia stands to benefit from its oligopolistic position in Spanish broadcasting as industry consolidation results in better pricing and cheaper programming. Among consumer stocks, we have found fewer opportunities in the consumer staples sector, where highly commoditized products are sold by a crowded field of retailers facing intensive cost pressures. The portfolio benefited during the period from a cautious underweight in the sector, though stock selection also had a positive impact.

Stock selection in information technology was the largest detractor from relative performance for the period. Germany's Software AG, which offers database and middleware products, was a top detractor in the sector, impacted by macroeconomic uncertainty during the period. Over the longer term, we believe Software AG is a quality company that has demonstrated it can create value by consolidation of the middleware market and margin and cash flow improvements. Leading information technology companies have experienced a great deal of strategic reorganisation in recent years, and we remain patient as management teams restructure their business portfolios and optimise the prodigious cash flows generated by their valuable core operations.

Stock selection in telecommunication services also detracted, as did an underweight and stock selection in materials. The portfolio's telecommunication services positions were pressured by Italian incumbent operator Telecom Italia. We traded out of the stock to pursue more attractive values in the European telecommunications sector after the company's balance sheet deteriorated and increasing political and macroeconomic risks jeopardized the attainability of our investment thesis. The European telecommunications sector in general has been challenging as high dividend yields and cheap valuations have thus far failed to spur wider value recognition. However, an improving regulatory environment and nascent industry consolidation could create more rational economics and potentially unlock value for patient shareholders.

In materials, while a legacy of poor capital discipline and strategic mismanagement continues to preclude wholesale value in the metals and mining sector, we have found a few selective bargains among chemicals and building materials firms that navigated cyclical imbalances more rationally than their mining counterparts.

From a country perspective, stock selection in Switzerland, the Netherlands and Spain contributed to relative performance for the period. Holdings in Germany, Finland and Portugal detracted.

Contributors and Detractors (30 September 2013-31 March 2014)
During the six-month period under the new Fund management team, strong stock selection supported relative performance, while sector weightings hampered results.

A position in Italy-based Banca Generali, a private bank, was the leading contributor during the period as confidence in Italy continued to improve. We believe the bank is a structural winner in a weak Italian banking sector given its strong brand, prudent management and improving profitability.

Italy-based EI Towers, an information technology holding, also bolstered the Fund's relative performance given the increased optimism about the Italian economy and hopes for much-needed structural reforms to improve competitiveness. We believe EI Towers has a dominant position in the operation of communications infrastructure for the radio and television industries as well as for mobile and wireless Internet services providers. The company's long-term contracts have an inflation-linked pricing structure and high switching costs. Following the merger that formed EI Towers, significant improvements in operating margins are being delivered through on-going efficiency improvements, in our view. The company also has strong cash generation and a dividend policy that pays out 50% of the free cash flow generated.

Also in the information technology sector, a position in France-based Lectra supported relative returns over the six-month review period. The company is a manufacturer and distributor of computer systems used in fashion design and textile processing. Lectra dominates the niche industry for cutting machines used by soft textile manufacturers and has developed a leading market share through its industry-standard integrated software and hardware solution and its robust customer support network.

Two industrials stocks rounded out the top five largest contributors – Royal Boskalis Westminster and Tecnicas Reunidas. Boskalis is a Netherlands-based company operating in the dredging and earthmoving, maritime infrastructure and maritime services industries, while Tecnicas Reunidas is a Spain-based engineering and construction firm that primarily designs and constructs industrial sites and power plants. Boskalis benefited during the period from winning a number of new contracts in Asia.

Conversely, GfK, a Germany-based market research firm, was the primary detractor from the Fund's relative performance. Despite the recent headwinds for this consumer discretionary stock, we believe the company has a well-protected niche in panel-based research, where it should be able to take advantage of growing global research trends. Its custom research business is more cyclical and fragmented, however. While the company has some exposure to the economic cycle, we believe potential downturns are unlikely to severely curtail its business.

A weak capital spending cycle in the oil and gas industry weighed on the Fund's position in energy company Fugro, a Netherlands-based global leader in the collection and analysis of geological data. Nevertheless, we believe Fugro should be a beneficiary of the long-term need for increased oil and gas exploration globally. Moreover, we believe the company has technology, vessels and skills that are difficult to replicate, giving it a solid competitive advantage.

In materials, a position in Germany-based Aurubis was a detractor over the six-month review period. The company is engaged in the production of primary copper and precious metals, the recycling of secondary raw materials and the processing of copper into final products. We believe Aurubis should benefit from more favourable supply-demand dynamics in copper concentrate refining as well as a broader European economic recovery.

A position in Spain's largest television broadcaster Mediaset Espana Communicacion also weighed on relative returns as shares gave back some of their gains after a stronger performance earlier in 2013. With only two major players in the industry, we believe Mediaset is well-placed to benefit from an on-going economic recovery in Spain. Moreover, we believe the media company has the best cost control in the industry and the most flexible programming costs.

Finally, France-based industrials stock Nexans rounded out the top five detractors. The France-based company provides fibre-optic and copper cables and cable systems. We view the company as a world leader in high voltage and undersea electrical cables. It has continued to improve its earnings as demand for high voltage cables has increased.

Sector weightings, which result from our bottom-up stock selection process, had a negative impact on relative Fund performance. In particular, an underweight in financials and an overweight in consumer discretionary undermined relative returns. Underweights in consumer staples and materials were beneficial, however. Regionally, the Fund's overweights in Italy and Ireland bolstered relative performance, while a lack of exposure to Denmark and an overweight in the Netherlands were negative.

Outlook

We continue to be positive on European equities overall based on our optimism about the benefits from the structural reform taking place, and we see current market volatility mostly a result of investor concerns about events outside Europe. This volatility creates an opportunity to buy into an attractive long-term investment story, in our view. Specifically, we expect Europe to continue on a path of structural improvement. We see evidence that the crisis in the southern periphery is bottoming out – budget deficits have been reduced significantly and most countries are now showing a primary surplus. While Italy has lagged behind other countries in its efforts, we are encouraged that under a new government, the country is finally becoming more serious about structural reforms. If Italy indeed were to institute reforms, we would expect to see another strong upward move for the eurozone economy in the coming years. As a result, we are sticking to our thesis that Europe is in the early stages of a multi-year recovery, and we expect to see significant further upside in company profits in the years to come.

Michael Clements, CFA, Claire Manson & Stephen Michael Flynn
Fund Managers
23 May 2014

Share Class Performance

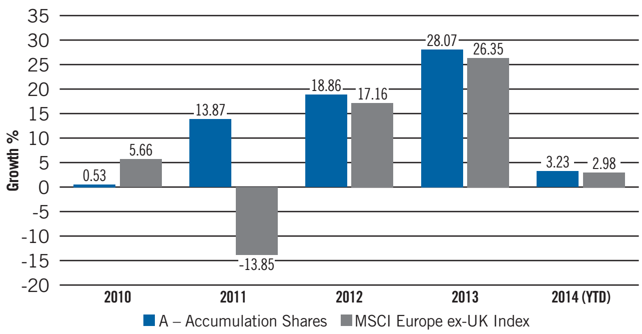
Share Class	Net Asset Value as at 31 March 2014 p	Net Asset Value as at 31 March 2013 p	% Movement
A – Income Shares	189.03	159.24	18.71
A – Accumulation Shares	221.23	183.23	20.74
W – Accumulation Shares	169.51	139.94	21.13
Z – Accumulation Shares	168.85	139.69	20.87

Share Price and Income History

	Calendar Year	Highest Price p	Lowest Price p	Net Income Per Share p
A – Income Shares	2010	155.08	128.38	1.86
	2011	163.92	113.24	2.67
	2012	147.61	114.35	2.37
	2013	185.63	148.35	1.65
	2014*	189.88	177.67	0.68
A – Accumulation Shares	2010	169.40	140.24	2.01
	2011	181.58	125.29	2.98
	2012	169.86	129.61	2.73
	2013	216.50	170.71	1.91
	2014*	221.42	207.19	0.79
W – Accumulation Shares	2012Ω	129.46	98.41	0.37
	2013	165.40	130.13	2.00
	2014*	169.65	158.56	1.35
Z – Accumulation Shares	2012Ω	129.31	98.41	0.30
	2013	164.89	129.98	1.92
	2014*	169.00	158.00	1.14

Ω Figures stated from launch date 31 May 2012.
* Figures to 31 March 2014.

Calendar Year Performance



Source: Franklin Templeton

All performance data shown is based in sterling using the NAV prices of the A accumulation shares and include reinvested dividends and are net of management fees. Sales charges and other commissions, taxes and other relevant costs paid by the investor are not included in the calculations.

The value of shares and the income therefrom may go down as well as up and is not guaranteed. Past performance is not necessarily a guide to future performance. In particular, some investments held may be designated in currencies other than sterling and so may rise and fall purely on account of exchange rate fluctuations. Investors should be aware of the risks associated with this type of investment and should take a medium to long-term view of returns.

Ongoing Charges Ratio

	As at	%
A – Income Shares	31 March 2013	1.75
	31 March 2014	1.75
A – Accumulation Shares	31 March 2013	1.75
	31 March 2014	1.75
W – Accumulation Shares	31 March 2013	1.05
	31 March 2014	1.05
Z – Accumulation Shares	31 March 2013	1.25
	31 March 2014	1.25

The Ongoing Charges Ratio is a figure representing all operating charges and expenses as a percentage of the Fund's average net assets during the year. Where ex-post expense information is not a fair representation of future operating costs and where 12 months of information is not available, an estimate is disclosed.

Distributions

For the period 1 April 2013 to 30 September 2013

Group 1 – Shares purchased prior to 1 April 2013

Group 2 – Shares purchased in the period 1 April 2013 to 30 September 2013

	Net Income p	Equalisation p	30 September 2013 Pence per Share p	30 September 2012 Pence per Share p
A – Income Shares				
Group 1	1.6522	–	1.6522	2.0530
Group 2	–	1.6522	1.6522	2.0530
A – Accumulation Shares				
Group 1	1.9122	–	1.9122	2.3891
Group 2	0.1966	1.7156	1.9122	2.3891
W – Accumulation Shares				
Group 1	1.7886	–	1.7886	0.3743
Group 2	–	1.7886	1.7886	0.3743
Z – Accumulation Shares				
Group 1	1.6852	–	1.6852	0.2995
Group 2	–	1.6852	1.6852	0.2995

For the period 1 October 2013 to 31 March 2014

Group 1 – Shares purchased prior to 1 October 2013

Group 2 – Shares purchased in the period 1 October 2013 to 31 March 2014

	Net Income p	Equalisation p	31 March 2014 Pence per Share p	31 March 2013 Pence per Share p
A – Income Shares				
Group 1	0.6823	–	0.6823	–
Group 2	–	0.6823	0.6823	–
A – Accumulation Shares				
Group 1	0.7909	–	0.7909	–
Group 2	0.0365	0.7544	0.7909	–
W – Accumulation Shares				
Group 1	1.3483	–	1.3483	0.2082
Group 2	0.0752	1.2731	1.3483	0.2082
Z – Accumulation Shares				
Group 1	1.1422	–	1.1422	0.2363
Group 2	0.0595	1.0827	1.1422	0.2363

PORTFOLIO INFORMATION

Classification of Investments

	31 March 2014 %	31 March 2013 %
France	23.70	21.45
Netherlands	14.73	11.44
Germany	12.61	20.92
Italy	10.68	7.70
Spain	8.43	5.68
Norway	6.57	6.56
Ireland	5.99	3.64
Switzerland	5.49	9.19
Belgium	4.07	0.97
Finland	2.24	1.83
Sweden	–	2.56
United Kingdom	–	2.23
Portugal	–	1.72
Luxembourg	–	1.15
Denmark	–	1.06
Net other assets	5.49	1.90
Net assets	100.00	100.00

Top 10 Holdings

	31 March 2014 %
TGS Nopec Geophysical Co. ASA	6.57
Fugro NV, IDR	5.26
Boskalis Westminster NV	5.06
Takkt AG	4.87
Tecnicas Reunidas SA	4.65
Legrand SA	4.59
Sanofi	4.56
Reed Elsevier NV	4.41
Lectra	4.29
Eutelsat Communications	4.21

Top 10 Holdings

	31 March 2013 %
Sanofi	4.21
Roche Holding AG	4.20
Bayer AG	3.86
Telenor ASA	3.27
Total SA, B	2.42
Swiss Re AG	2.38
Akzo Nobel NV	2.34
Merck KGaA	2.22
SAP AG	2.16
Muenchener Rueckversicherungs-Gesellschaft AG	2.05

Franklin Mutual Shares Fund

FUND FACTS

Launch Date: 8 September 2003
Benchmark: S&P 500 Index
Sector: IMA North America
Ex Dates: 31 March & 30 September
Distribution Pay Dates: 31 May & 30 November

Investment Objective

The Fund's primary objective is long-term capital appreciation by investing primarily in US equity and related debt securities. Income generation is a secondary consideration.

Investment Policy

The Fund will pursue these objectives primarily through investment in equity and debt securities of US corporate issuers that are listed or traded on Eligible Markets which the Investment Adviser believes are available at market prices less than their value based on certain recognised or objective criteria ("intrinsic value"). A significant portion of the debt securities in which the Fund invests is expected to be Sub Investment Grade debt or equivalent unrated securities.

Following this value-orientated strategy, the Fund primarily invests in:

(a) undervalued equities – common and preferred stock and securities convertible into common or preferred stock, trading at a discount to intrinsic value;

to a lesser extent, the Fund also invests in:

(b) merger arbitrage and companies undergoing restructuring – equity and debt securities of companies that are involved in restructurings such as mergers, acquisitions, consolidations, liquidations, spin-offs, or tender or exchange offers; and

(c) distressed securities – debt securities of companies that are, or are about to be, involved in reorganisations, financial restructurings or bankruptcy.

The Fund's investments in distressed companies typically involve the purchase of lower-rated (or comparable unrated) or defaulted debt securities or other indebtedness, such as syndicated bank debt, of such companies. The Fund generally invests in such debt instruments to achieve capital appreciation, rather than to seek income. Such investments may be made when the Investment Adviser determines that such securities might be subject to an exchange offer or a plan of reorganisation pursuant to which holders of the distressed securities could receive securities or assets in exchange for such securities. Generally, the Fund will invest in such securities at a price which represents a significant discount from the principal amount due at maturity. Investments by the Fund in distressed or defaulted debt securities shall be considered to be investments in securities which are not traded on Eligible Markets and shall therefore be subject to the restriction that such investments, together with other investments which fall into this category, may not exceed 10% of the net asset value of the Fund.

The Investment Adviser employs a research-driven fundamental value strategy for the Fund. In choosing equity investments, the Investment Adviser focuses on the market price of a company's securities relative to the Investment Adviser's own evaluation of the company's asset value, including an analysis of book value, cash flow potential, long-term earnings and multiples of earnings of comparable securities of both public and private companies. Value stock prices are considered "cheap" relative to the company's perceived value and are often out of favour with other investors. The prices of debt obligations of distressed companies also may be "cheap" relative to the value of the company's assets. The Fund invests in such securities if the Investment Adviser believes the market may have over-reacted to adverse developments or failed to appreciate positive changes. The Investment Adviser examines each investment separately and there are no set criteria as to specific value parameters, asset size, earnings or industry type. A portion of the assets of the Fund, which will generally be not more than 20% of its net asset value, may be invested in the securities of non-US issuers, including issuers in emerging markets.

The Fund will limit its investments in transferable securities which are not traded on one or more Eligible Markets to not more than 10% of its net asset value as of the time of investment.

In addition, at the ACD's discretion, the Fund may also invest a proportion of its portfolio in other types of transferable securities including (but not limited to) cash and near cash, money market instruments and other collective investment schemes, subject to COLL.

It is not currently intended that derivatives will be used for any purpose other than the efficient portfolio management of the Fund. However, the Fund may, in the future and subject to the ACD giving not less than 60 days' notice to shareholders in the Fund, use derivatives in pursuit of its investment objective as well as for efficient portfolio management. When the Fund uses derivatives for the purposes of efficient portfolio management, it will comply with the restrictions set out in Appendix 2 of the Prospectus. It is not intended that the use of derivatives for efficient portfolio management will cause the Fund's existing risk profile to rise. Where the use of derivatives in pursuit of the Fund's investment objective may cause the Fund to have higher volatility or otherwise cause its existing risk profile to rise, a notification to that effect shall be included within the 60-day prior notice to be sent to shareholders in the Fund.

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The Fund's investments in equity securities are subject to general market and industry risk as well as currency exchange rate volatility. The Fund's investments in debt securities are subject to interest rate risk, credit default risk and industry risk.

The Franklin Mutual Shares Fund may be appropriate for investors looking for capital growth potential over the long term by investing primarily in the US, the world's largest stock market.

Investment Review

Performance

Franklin Mutual Shares Fund increased by net 8.72% for the 12-month period ended 31 March 2014, while the Standard & Poor's® 500 Index, increased by 11.07% (both returns in UK sterling).

Overview

During the 12-month period ended 31 March 2014, especially in the second half of 2013, the US economy showed on-going signs of recovery. Despite abnormally cold weather that suppressed some economic activity beginning in January 2014, economic indicators were still broadly supportive of recovery at period-end. Historically low mortgage rates and improving sentiment aided the housing market recovery, evidenced by solid home sales, rising home prices, low inventories and multi-year lows in new foreclosures. Manufacturing activity expanded during the period under review, although adverse weather led to a slowdown in early 2014. Retail sales rose year-over-year and recorded particularly strong performance towards year-end 2013 but missed expected levels in 2014. The unemployment rate declined from 7.5% in March 2013 to 6.7% in March 2014, and inflation remained well below the US Federal Reserve Board's (Fed's) 2.0% target.

In October 2013, the federal government temporarily shut down after Congress reached a budget impasse. However, Congress passed a spending bill in January 2014 to fund the federal government through September 2014. Congress then approved suspension of the debt ceiling until March 2015. The Fed maintained its monthly bond purchases at US$85 billion until December 2013 but began reducing them starting in January 2014, based on continued positive economic and employment data. Although economic data in early 2014 were soft – due in part to severe winter weather – Fed Chair Janet Yellen kept the pace of asset-purchase tapering intact at the March meeting while raising the possibility of starting the Fed's rate-hike cycle sooner than the widely held market expectation of late 2015. The Fed also said it would adopt a more qualitative approach to rate-hike guidance. Despite volatility in US equity markets towards period-end arising from geopolitical risks in Ukraine, markets continued to advance as tensions eased.

Investor confidence grew as corporate profits rose and generally favourable economic data indicated continued recovery. However, brief sell-offs flared when markets reacted to the Fed's statements, US budget disputes, political instability in certain emerging markets and signs of slowing in China's economy. US stocks generated strong returns for the 12 months under review as the Standard & Poor's® 500 Index (S&P 500®) and Dow Jones Industrial Average reached all-time highs.

Significant Changes

Five of the Fund's largest purchases during the 12-month period under review were CBS Corp, Medtronic, Freeport-McMoRan Copper & Gold, Talisman Energy and Suntrust Bank. We had been previous investors in CBS when it was moving towards a dual revenue stream model (advertising and affiliate fees), which we believed would help drive earnings growth, multiple expansion and increased shareholder returns – both dividends and share buybacks. This time, we initiated our investment in CBS during the spin-off process of its outdoor advertising business. The initial public offering (IPO) of the new company, CBS Outdoor Americas, occurred in late March and CBS has expressed its intention to use the IPO proceeds for additional share buy-backs.

Early in the period under review, the Fund initiated a position in metals and mining company Freeport-McMoRan Copper & Gold (FCX). The stock appeared to be penalised for the company's acquisition of Plains Exploration, a US oil and gas company. From our perspective, the market did not like the commodity diversification aspect of the deal and was concerned about potential governance issues surrounding the transactions. We believed the share price decline was excessive, particularly if the company properly executed on its strategy in copper and energy. Investor distaste appeared to fade during the second half of 2013 but the company subsequently ran into some challenges, including further weakness in commodities prices, as well as new mining-related taxes and regulatory policies imposed by the government of Indonesia in January 2014. FCX has been working hard to find a mutually acceptable resolution with the government. In addition, management has begun to address shareholder corporate governance concerns and the company remains confident in the long-run outlook for copper, based on supply levels, continued demand from China, and the challenges involved in finding and extracting new supply.

During the second half of the period under review, we initiated a position in Canada-based Talisman Energy, a global exploration and production company. Our analysis showed limited downside risk and material mid-term upside potential, as the company is fully focused on improving operational performance and realizing value for shareholders, in part through a programme of sales meant to monetize a significant chunk of non-producing assets.

The Fund's five largest sales/trims during the fiscal year were CVS Caremark, Google, Pfizer, Merck & Co. and American International Group (AIG).

The Fund trimmed its position in CVS Caremark as the company hit its stride, the stock's valuation became less attractive to us and as the share price approached our estimate of fair value. Throughout the period, the US-based retail drug store operator and pharmacy benefit manager reported strong operating performance and management continued to execute on its promised US$4 billion share buy-back programme for fiscal year 2013. In addition, the company revised its long-term guidance in late 2013 due to market share gains, lower generic launches and changes introduced by the Affordable Care Act. At period-end, we continued to believe that an ageing US population, the expansion of health care coverage, and the trend of chain drugstores taking market share from independents are all favourable trends contributing to growth prospects for CVS Caremark.

Google's stock price rallied during the period with a particularly strong push in the fourth quarter of 2013. We originally invested in the company based on our analysis that showed the stock trading at a discount, while its internet search, YouTube and Android operating system businesses had the potential to be very significant profit sources. As a result, we believed the shares at that time were trading below the intrinsic value of the firm. As our investment thesis played out and the stock accelerated past our estimate of fair value, we correspondingly exited the position.

A series of positive events pushed shares of AIG higher and led us to trim our position in the US insurance company. Standard & Poor's upgraded its rating of AIG's property-casualty insurance business in May 2013. Then in August, the company announced a US$1 billion share buy-back plan and the initiation of a dividend. Investors also responded favourably to AIG's announced sale of its commercial jet leasing business. The deal enabled the company to improve its liquidity and credit profile through the sale of a non-core asset while also allowing AIG to focus on its insurance operations.

Positive/Negative Contributors

We examine each investment separately without set criteria for specific value parameters, asset size, earnings, geographic location or industry type. The discussion below focuses on a few of the Fund's largest contributors to performance and a few of its biggest detractors rather than broad discussions of sector, industry or geographic exposures.

Three of our largest contributors to performance for the fiscal year included Microsoft, Merck & Co. and Huntington Ingalls. Shares of global software firm Microsoft rose after chief executive officer (CEO) Steve Ballmer announced in August 2013 his intention to retire. Investors also responded favourably to the naming of Microsoft insider Satya Nadella as the new CEO in February 2014. We viewed the appointment of Mr. Nadella as positive given his technical background and track record of embracing other technologies. The March 2014 news that Microsoft Office will be available on the Apple iPad also helped boost the stock. The software is to be offered on a subscription basis, which we judged as a potentially significant way for Microsoft to create value.

Merck's stock performed particularly well in the final months of the period under review. In January 2014, the US pharmaceutical company announced a rolling submission to the US Food and Drug Administration for one of its key drug compounds to treat advanced melanoma. This filing timeline is substantially ahead of expectations. In February, the stock continued to move higher as a result of Merck's announcement of clinical collaboration agreements with three other pharmaceutical companies to further explore the potential of the molecule. Quarterly results released in February showed an operating profit that exceeded expectations, reflecting progress on its cost control measures. The company also said it plans to make decisions on asset divestitures, demonstrating that management is contemplating how to unlock value.

Huntington Ingalls builds nuclear submarines, aircraft carriers and amphibious assault ships for the US Navy, and it also provides ship support services. The company continued to show signs that its turnaround was underway, with a series of upbeat quarterly earnings results during the period under review. Signs of progress on its turnaround efforts at the Ingalls unit emerged and management reiterated its confidence in hitting the company's 2015 margin target. We believe 2013 was a potential inflection point for margins as the last of the problematic ships neared completion and the company focused on delivering new, higher-margin ships.

Three investments that did not perform as well as we expected during the 12-month period were Avon, Symantec and Transocean. Shares of international cosmetics company Avon Products declined sharply during the final quarter of 2013 and first quarter of 2014. In October, investors became concerned about the potential cost to settle a US government investigation examining payments made to foreign entities. The company provided weak guidance in February as a majority of its revenues are generated in emerging markets, many of which had been experiencing various economic and political challenges. Currency moves were also creating pricing problems as the company sets its marketing campaigns, brochures and prices three to four months in advance.

The security software company Symantec reported weaker-than-expected quarterly results with guidance revised downward in January, and then it fired its CEO in early March. The board was unhappy with the progress on new product development and organic revenue growth. However, the former CEO had made considerable progress with his cost-cutting plan, which included a needed reorganisation of the sales team, and the latest quarterly results showed some margin expansion despite revenue headwinds. We also increased the Fund's position in the company. We believed the stock price reflected overly pessimistic investor sentiment given how far along reorganisation plans had come, the attractive dividend yield and the amount of cash available for smart, small-scale acquisitions or share buy-backs.

Transocean, which owns the world's largest offshore drilling fleet, was dogged by planned and unplanned out-of-service time impacting profitability. In addition, the company suffered from downward pressure on the rates oil companies paid contractors for drilling, due in part to a negative supply-demand imbalance of rigs. Oil companies have been pushing back projects, leaving a number of new rigs un-contracted and increasing potential downtime between jobs for existing rigs.

Outlook

We anticipate the broad continuation of generally improving global financial and economic conditions during the course of the year. Nonetheless, as was evident in January and February, the path of improvement is unlikely to be straight, and we expect continued volatility in economic data. In such an environment, the most likely scenarios suggest equity market correlations will remain at lower levels, which should provide opportunities for uncovering individual under-priced securities.

Investors appear to be a little less optimistic about current US economic growth thanks to several factors, including the unusually harsh winter. However, belief that the US economic recovery is sustainable and that gross domestic product (GDP) growth may move incrementally higher going forward remains the consensus view. Nonetheless, in our view, US equity markets appear more expensive than they have been in the last few years as the 2013 equity market rally outpaced earnings, leading to price/earnings multiple expansions. We believe that such an environment places a greater emphasis on stock picking.

We are cognisant of potential speed bumps for global financial markets and the economy. Amongst possible issues is the Fed's continued tapering of monthly asset purchases and eventual decision to begin raising interest rates. We are also mindful of market jitters over political and economic risks amongst a number of emerging-market countries, including rising global tensions over Russia's presence in Ukraine, as well as events in Turkey, Thailand and Argentina. In the near term, we view any pullback in financial markets as a possible opportunity to initiate or increase positions in companies that end up trading at even more attractive valuations, by our analysis, as long as each also has individual catalysts necessary to help realise positive investment results in the future.

We continue to be encouraged about the prospects for Europe, as economic data appeared to show a general bottoming out of the economy in 2013, with the potential for improvement in the coming year. In our view, European stocks remain attractively valued relative to other developed markets despite the 2013 rally. Economic and financial conditions have steadily moved in a positive direction and appear poised to be a potentially positive factor for equities, rather than simply being less of a drag. We see attractive risk/reward profiles amongst companies with greater ties to the continent, particularly out-of-favour businesses working out their own structural challenges.

Peter Langerman & Deborah Turner, CFA
Fund Managers
23 May 2014

Share Class Performance

Share Class	Net Asset Value as at 31 March 2014 p	Net Asset Value as at 31 March 2013 p	% Movement
A – Income Shares	165.87	151.61	9.41
A – Accumulation Shares	172.54	157.22	9.74
I – Accumulation Shares	185.96	168.26	10.52
W – Accumulation Shares	141.81	128.31	10.52
Z – Accumulation Shares	141.29	128.10	10.30

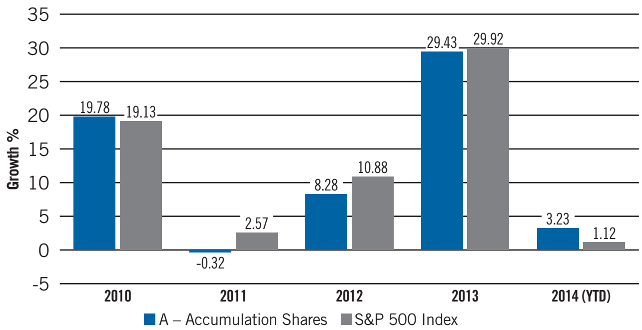
Share Price and Income History

	Calendar Year	Highest Price p	Lowest Price p	Net Income Per Share p
A – Income Shares	2010	119.69	95.33	0.14
	2011	123.36	99.39	0.41
	2012	130.75	115.91	0.43
	2013	166.08	127.82	0.32
	2014*	165.87	156.92	0.34
A – Accumulation Shares	2010	123.10	97.90	0.15
	2011	126.98	102.30	0.43
	2012	135.44	119.97	0.44
	2013	172.23	132.42	0.32
	2014*	172.20	162.91	0.34
I – Accumulation Shares	2010	129.71	102.49	0.96
	2011	134.24	108.24	1.26
	2012	144.47	127.34	1.42
	2013	184.76	141.45	1.49
	2014*	185.33	175.39	1.01
W – Accumulation Shares	2012Ω	110.21	98.05	0.29
	2013	140.89	107.90	1.14
	2014*	141.34	133.75	0.76
Z – Accumulation Shares	2012Ω	110.13	98.05	0.21
	2013	140.57	107.77	0.88
	2014*	140.87	133.30	0.63

Ω Figures stated from launch date 31 May 2012.

* Figures to 31 March 2014.

Calendar Year Performance



Source: Franklin Templeton

All performance data shown is based in sterling using the NAV prices of the A accumulation shares and include reinvested dividends and are net of management fees. Sales charges and other commissions, taxes and other relevant costs paid by the investor are not included in the calculations.

The value of shares and the income therefrom may go down as well as up and is not guaranteed. Past performance is not necessarily a guide to future performance. In particular, some investments held may be designated in currencies other than sterling and so may rise and fall purely on account of exchange rate fluctuations. Investors should be aware of the risks associated with this type of investment and should take a medium to long-term view of returns.

Ongoing Charges Ratio

	As at	%
A – Income Shares	31 March 2013	1.72
	31 March 2014	1.72
A – Accumulation Shares	31 March 2013	1.72
	31 March 2014	1.72
I – Accumulation Shares	31 March 2013	1.02
	31 March 2014	1.02
W – Accumulation Shares	31 March 2013	1.02
	31 March 2014	1.02
Z – Accumulation Shares	31 March 2013	1.22
	31 March 2014	1.22

The Ongoing Charges Ratio is a figure representing all operating charges and expenses as a percentage of the Fund's average net assets during the year. Where ex-post expense information is not a fair representation of future operating costs and where 12 months of information is not available, an estimate is disclosed.

Distributions

For the period 1 April 2013 to 30 September 2013

Group 1 – Shares purchased prior to 1 April 2013

Group 2 – Shares purchased in the period 1 April 2013 to 30 September 2013

	Net Income p	Equalisation p	30 September 2013 Pence per Share p	30 September 2012 Pence per Share p
A – Income Shares				
Group 1	0.1686	–	0.1686	0.1134
Group 2	0.1209	0.0477	0.1686	0.1134
A – Accumulation Shares				
Group 1	0.1768	–	0.1768	0.1153
Group 2	0.1190	0.0578	0.1768	0.1153
I – Accumulation Shares				
Group 1	0.7978	–	0.7978	0.6068
Group 2	0.5339	0.2639	0.7978	0.6068
W – Accumulation Shares				
Group 1	0.6267	–	0.6267	0.2852
Group 2	0.1860	0.4407	0.6267	0.2852
Z – Accumulation Shares				
Group 1	0.4837	–	0.4837	0.2142
Group 2	0.3501	0.1336	0.4837	0.2142

For the period 1 October 2013 to 31 March 2014

Group 1 – Shares purchased prior to 1 October 2013

Group 2 – Shares purchased in the period 1 October 2013 to 31 March 2014

	Net Income p	Equalisation p	31 March 2014 Pence per Share p	31 March 2013 Pence per Share p
A – Income Shares				
Group 1	0.3359	–	0.3359	0.1466
Group 2	0.0994	0.2365	0.3359	0.1466
A – Accumulation Shares				
Group 1	0.3385	–	0.3385	0.1466
Group 2	0.1873	0.1512	0.3385	0.1466
I – Accumulation Shares				
Group 1	1.0073	–	1.0073	0.6890
Group 2	0.5775	0.4298	1.0073	0.6890
W – Accumulation Shares				
Group 1	0.7622	–	0.7622	0.5169
Group 2	0.3588	0.4034	0.7622	0.5169
Z – Accumulation Shares				
Group 1	0.6283	–	0.6283	0.3936
Group 2	0.6283	–	0.6283	0.3936

PORTFOLIO INFORMATION

Classification of Investments

	31 March 2014 %	31 March 2013 %
United States	86.62	84.32
United Kingdom	4.58	5.18
Israel	1.06	0.31
Canada	0.88	–
Denmark	0.86	0.50
South Korea	0.37	0.10
Germany	–	0.58
France	–	0.56
Switzerland	–	0.35
Netherlands	–	0.20
Japan	–	0.06
Net other assets	5.63	7.84
Net assets	100.00	100.00

Top 10 Holdings

	31 March 2014 %
Microsoft Corp.	3.76
Merck & Co. Inc.	3.53
Medtronic Inc.	3.46
Apple Inc.	2.98
White Mountains Insurance Group Ltd.	2.81
PNC Financial Services Group Inc.	2.50
Cigna Corp.	2.37
Twenty-First Century Fox Inc., B	2.19
American International Group Inc.	2.09
Marathon Oil Corp.	2.02

Top 10 Holdings

	31 March 2013 %
Merck & Co. Inc.	3.56
White Mountains Insurance Group Ltd.	3.54
Microsoft Corp.	2.78
CVS Caremark Corp.	2.65
American International Group Inc.	2.38
News Corp., B	2.29
Apple Inc.	2.27
Marathon Oil Corp.	2.18
PNC Financial Services Group Inc.	2.01
Medtronic Inc.	1.97

Franklin UK Blue Chip Fund

FUND FACTS

Launch Date: 17 October 2011

Benchmark: FTSE All-Shares Index

Sector: IMA UK All Companies

Ex Dates: 31 March & 30 September

Distribution Pay Dates: 31 May & 30 November

Investment Objective

The Fund aims to achieve a total return (i.e. a combination of capital growth and income) exceeding that of the FTSE All-Share Index, over the medium to long term.

Investment Policy

The Fund will primarily invest in the equity securities of leading UK companies which are listed in the FTSE 100 Index or that are considered by the ACD to be "Blue Chip".

In addition, at the ACD's discretion, the Fund may also invest a proportion of its portfolio in other types of transferable securities including fixed interest and other debt related securities, cash and near cash, money market instruments and other collective investment schemes.

It is not currently intended that derivatives will be used for any purpose other than the efficient portfolio management of the Fund. However, the Fund may, in the future and subject to the ACD giving not less than 60 days' notice to shareholders in the Fund, use derivatives in pursuit of its investment objective as well as for efficient portfolio management. It is not intended that the use of derivatives for efficient portfolio management will cause the Fund's existing risk profile to rise. Where the use of derivatives in pursuit of the Fund's investment objective may cause the Fund to have higher volatility or otherwise cause its existing risk profile to rise, a notification to that effect shall be included within the 60-day prior notice to be sent to shareholders in the Fund.

The base currency of the Fund is UK sterling.

Risk Profile

1	2	3	4	**5**	6	7

Lower risk
Potentially lower rewards

Higher risk
Potentially higher rewards

This indicator, disclosed in the Key Investor Information Document (KIID), provides a measure of the price movement of the Fund based on historical behaviour. Historical data may not be a reliable indication of the future risk profile of the Fund. The category shown is not guaranteed to remain unchanged and may shift over time. The lowest category does not mean risk free.

The Fund's investment portfolio is exposed to market fluctuations that are monitored by the Manager in pursuance of the investment objective and policy as set out above.

The Franklin UK Blue Chip Fund may be appropriate for investors who want the potential to increase the value of their investment over the long-term by investing primarily in large UK companies. The Fund is generally more suited to investors with a medium- to long-term investment horizon who are willing to take some risk to their capital.

Investment Review

Performance

In the 12 months to 31 March 2014, Franklin UK Blue Chip Fund recorded a return of 10.01%, thus outpacing the FTSE All-Share Index, which returned 8.81% (both returns in UK sterling).

Overview

The UK equity market continued to forge ahead at the start of the financial year, even though valuations appeared increasingly stretched. The benchmark FTSE All-Share Index had extended its winning run to 12 consecutive months by the end of May 2013, but everything changed in June when the market suffered a peak-to-trough correction of more than 10%. The trigger for the market setback was the reversal of the downward trend in bond yields as speculation mounted that the US Federal Reserve (Fed) was about to begin to taper the monthly asset purchases it made as part of its quantitative easing (QE) programme. Bond yields on both sides of the Atlantic had been rising steadily throughout May but this process accelerated in June as the rumours intensified. A 100 basis point move in 10-year US Treasury yields from 1.6% to 2.6% in a little over six weeks rattled policymakers and became the defining moment of the year. Fearful that such a sharp move would put the brakes on economic recovery, US policymakers tried to keep the yield curve in check by emphasising that short-term rates would remain low for a prolonged period. From an equity perspective, however, the cat was out of the bag and although the market bounced back strongly in July, investors had to wait until January 2014 for the market to break convincingly through its May high point.

The second half of the Fund's financial year was characterised by a series of short, sharp fluctuations in the equity market. It began with politicians in Washington, D.C. conspiring to remind us just how dysfunctional they can be by failing to agree a federal budget and pushing the US government into a partial shutdown. Ultimately, the dispute over the budget proved to be a non-event and markets were back on a rising trend as winter took hold, even though the Fed finally ended months of speculation by starting to taper its monthly asset purchases. The UK market had only just broken through to a new all-time high in January 2014 when the re-emergence of currency volatility in emerging markets served a timely reminder that the path to a normalised monetary environment is unlikely to be an entirely smooth one. Once again, however, the UK equity market quickly regained its poise only to end the year under review on a weak note in March as President Putin intervened in dramatic fashion in Ukraine.

We stated 12 months ago that, given the valuation starting point, we felt that the rate of upward progress in equity prices was unlikely to be maintained, and this has proved to be the case. From an economic perspective, the real positives over the past year have been the acceleration in growth in the UK economy and the slow rehabilitation in the eurozone. On the other hand, growth in emerging markets has disappointed and the rise in long-term interest rates has acted as a drag on the US economy, as indeed has the recent severe winter weather.

The relative outperformance of the UK economy manifested itself as the year progressed in a stronger exchange rate for sterling, particularly against the US dollar. Together with the relative economic weakness of resource-reliant countries, sterling's rise has been extremely helpful in bringing down inflation faster than expected. It has, however, led to collateral damage for earnings forecasts, as quoted UK companies have a high level of overseas earnings, which have suffered from the exchange effect.

The main feature of the UK equity market over the financial year was the continued outperformance of higher-beta mid- and small-cap stocks over their larger counterparts, as could be expected during a bull market for equities in general, with the FTSE 100 Index recording a return of 6.7% while the FTSE Small-Cap Index returned 20.4%. Nonetheless, the larger-cap end of the market put in a decent, perhaps more sustainable performance during the year with the long-awaited disposal of Vodafone's stake in Verizon Wireless the stock event of the year, ensuring that telecoms were the best-performing sector over the year on the FTSE All-Share Index. By contrast, the mining sector had a bad year, with poor stock performances from the likes of Anglo-American and Glencore Xstrata, as did the banking sector, with falls in the market price of HSBC and Standard Chartered, for example.

Significant Changes

Some of the most significant changes to the Fund in the opening six months of the financial year occurred in June with the purchase of new positions in Severn Trent, Smiths Group and Wolseley and the disposal of holdings in ITV, Tesco and Glencore Xstrata. Severn Trent was purchased following a sharp fall in its share price as investors overreacted, we think, to the rejection by management of a bid approach from a consortium of investors. The rationale behind the Wolseley acquisition was our wish to gain exposure to recovering construction markets in the US. Other important purchases in the year included a stake in Rexam, Rexam was acquired following the company's decision to sell its health care business, return the cash to shareholders and focus exclusively on being a can manufacturer. ITV was sold on valuation grounds following an upward re-rating of the stock. Meanwhile, we had become concerned that Tesco's sales performance was not responding to the high levels of investment in upgrading its UK stores. The decision to sell Tesco proved timely as the retailer's subsequent performance has been woeful.

The other significant changes over the remainder of the first half of the financial year were the sale of the Fund's holding in motor insurer Esure Group following a disappointing trading update and the purchase of a new holding in Rolls Royce. We were attracted to Rolls Royce because of the growth prospects of the group's civil aerospace business given its strong position in the aero engine market.

In autumn 2013, political interference in UK utilities caused us to reconsider the Fund's exposure to this sector, resulting in a significant reduction in our holding of Centrica and our booking of profits in Severn Trent. Stake built up in Royal Mail prior to its flotation was sold at a profit and other sales transactions involved Shire and Legal & General. Other changes in the second half of the financial year included the sale of the Fund's investments in Weir Group and Premier Oil along with its residual position in Kingfisher, as well as the purchase of new positions in WPP and Rexam. Weir Group was sold on concerns about the outlook for capital spending in the oil and mining industries. Premier Oil was disposed of following a series of disappointing updates. The Fund booked a tidy profit on its remaining holding in Kingfisher. WPP was purchased to ensure the Fund had exposure to the beneficial effects the global economic recovery will likely have on marketing expenditure. Rexam was acquired following the company's decision to sell its health care business, return the cash to shareholders and focus exclusively on being a can manufacturer.

Positive/Negative Contributors

The largest contributors to the Fund's relative returns over the financial year were closely clustered in terms of their total effect. The joint largest contributors (by a whisker) to relative performance were St. James's Place and Shire. The share price of fund manager St. James's Place proved strongly geared to the upturn in the equity market, which inflated the value of funds under management and encouraged clients to let St James's Place manage more of their money. The company's shares also became more liquid as Lloyds Bank sold down its 60% stake in the company. Shire's market price benefitted from renewed takeover speculation as well as the group's investor-friendly strategy to focus on building up its business in carefully selected specialist areas, such as rare diseases. The next-best contributors were Next and Royal Mail. Retailer Next, whose share price rose 56% in the 12 months to end March, benefited from the upturn in consumer spending in the UK, with the group issuing strong trading updates and announcing the development of a capital return strategy that will include special dividends. Royal Mail's market price rose substantially following its flotation in October as part of perhaps the most ambitious privatization in the UK since that of British Rail in the early 1990s.

Among stocks held in the portfolio, the largest detractor from relative returns was Esure Group, which suffered from regulatory changes in the car insurance industry, resulting in a marked fall in premium car insurance rates. These changes hit Esure Group's bottom line in the year under review. John Wood Group was the second-largest detractor from relative returns. John Wood Group's share price suffered towards the end of 2013 as the company's challenging operating environment caused it to issue a weak trading update. The next-largest detractors were Pearson, WPP and Centrica. The latter's share price was hurt by proposals from politicians to place a cap on energy bills as well as by a wide-ranging investigation by regulators into the UK energy market that could open the way for a break-up of the big energy supply companies, including Centrica. WPP's share price suffered in the early months of 2014 after it missed its target for full-year operating margins and trimmed its forecast for the profitability benchmark for this year, while Pearson's transition to an all-digital education business has proved more problematic than envisaged.

Sector wise, the best contribution to relative returns over the financial year came from the pharmaceutical & biotech sector (which includes top contributor Shire). Further strong performances were registered in the life insurance and mining sectors, whereas nonlife insurance (including Esure Group), utilities (Centrica) and oil equipment & services (John Wood Group) were the largest detractors from relative performance.

Outlook and Strategy

The global economy did not move forward at the rate we might have expected in 2013, with growth projections revised significantly lower as the year progressed. Growth in the US faded towards the end of the year as the housing market slowed and many emerging markets did not recover to the extent forecasters expected. Japan briefly flattered to deceive, so it was left to the UK economy to provide the upside surprise. The UK government's decision to target the housing market as a conduit to deliver a pre-election boost to the economy worked and left the UK as one of the world's fastest-growing major economies in 2013.

These trends appear to have continued into the opening months of 2014. In the April 2014 issue of its *World Economic Outlook,* the International Monetary Fund (IMF) forecast global growth of 3.6% for 2014, compared to the 3% final outcome for 2013, with most of the pick-up in growth coming from advanced economies.[1] The IMF forecasts the UK to achieve growth of 2.9%, but the Bank of England is even more optimistic, lifting its own forecast for growth to 3.4% in 2014. There are even some encouraging signs that a long-awaited and very necessary pick-up in investment spending is underway in the UK.

We know, however, that the performance of the economy and the performance of the stock market are not always positively correlated in the short term. Equities enjoyed a dramatic upward re-rating from May 2012 to May 2013 in anticipation of better economic times ahead, but the earnings growth required to fully justify this move has not yet materialized. At the same time the US 10 year-Treasury yield, which effectively sets the global cost of capital, has moved higher.

We believe 2014 is the year in which earnings growth has to accelerate to justify current valuations. Another year of earnings disappointments will leave the market vulnerable to further steps towards monetary normalisation. With the path towards the ending of the Fed's QE programme now well understood, attention has switched to the short-term interest rate cycle and the timing of the first upward move in base rates. Current expectations are that rates will begin to be tightened in spring 2015 on both sides of the Atlantic.

The current good news on inflation means that policy makers are still relatively relaxed regarding short-term rates, but this can quickly change. In a normal cycle, UK short-term rates would be increasing already given the current rates of growth, but the Bank of England is signalling that it does not believe the UK economic recovery has yet reached a sustainable level and needs a greater contribution from investment and net trade. The policy makers at the Bank of England

1. Source: International Monetary Fund, World Economic Outlook, April 2014. © 2014 By International Monetary Fund. All Rights Reserved.

appear very sensitive to the impact of even small moves in interest rates on highly indebted consumers but oblivious to the suffering of savers.

In terms of valuation, by early April 2014, the UK equity market was trading significantly above its long-term average. Given that expectations for earnings growth are still falling, we remain cautious in aggregate, and it is notable that UK stocks failed to make any real headway in the early months of 2014. In our view, the outlook for the remainder of the year is as difficult to predict as ever, with many conflicting forces at play, although blue-chip stocks could well regain their composure once global growth gets back on an even keel. The Fund's strategy going forward remains unchanged: we will work hard to identify interesting new stock ideas while continuing to take advantage of any periods of volatility to add to quality names in the portfolio.

Colin Morton, Ben Russon, CFA & Mark Hall

Fund Managers
23 May 2014

Share Class Performance

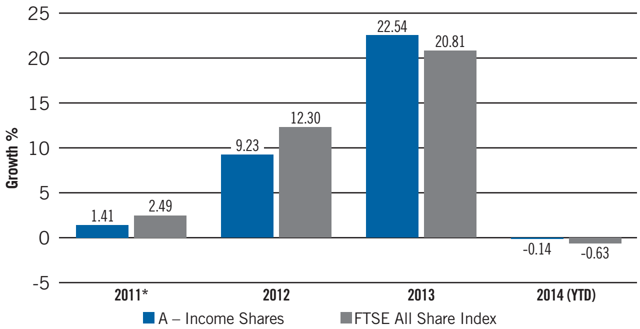
Share Class	Net Asset Value as at 31 March 2014 p	Net Asset Value as at 31 March 2013 p	% Movement
A – Income Shares	415.85	385.62	7.84
W – Accumulation Shares	137.08	123.73	10.79
Z – Accumulation Shares	136.57	123.51	10.57

Share Price and Income History

	Calendar Year	Highest Price p	Lowest Price p	Net Income Per Share p
A – Income Shares	2011µ	334.02	304.11	–
	2012	353.96	315.33	7.36
	2013	421.76	356.79	7.49
	2014*	430.24	404.41	3.58
W – Accumulation Shares	2012Ω	112.51	98.70	0.93
	2013	137.61	113.44	3.23
	2014*	140.53	132.03	1.64
Z – Accumulation Shares	2012Ω	112.39	98.70	0.86
	2013	137.17	113.31	2.97
	2014*	140.03	131.58	1.50

µ Figures stated from launch date 17 October 2011.
Ω Figures stated from launch date 31 May 2012.
* Figures to 31 March 2014.

Calendar Year Performance



Source: Franklin Templeton

* From launch of the Fund on 17 October 2011.

All performance data shown is based in sterling using the NAV prices of the A income shares and include reinvested dividends and are net of management fees. Sales charges and other commissions, taxes and other relevant costs paid by the investor are not included in the calculations.

The value of shares and the income therefrom may go down as well as up and is not guaranteed. Past performance is not necessarily a guide to future performance. In particular, some investments held may be designated in currencies other than sterling and so may rise and fall purely on account of exchange rate fluctuations. Investors should be aware of the risks associated with this type of investment and should take a medium to long-term view of returns.

Ongoing Charges Ratio

	As at	%
A – Income Shares	31 March 2013	1.65
	31 March 2014	1.65
W – Accumulation Shares	31 March 2013	0.95
	31 March 2014	0.95
Z – Accumulation Shares	31 March 2013	1.15
	31 March 2014	1.15

The Ongoing Charges Ratio is a figure representing all operating charges and expenses as a percentage of the Fund's average net assets during the year. Where ex-post expense information is not a fair representation of future operating costs and where 12 months of information is not available, an estimate is disclosed.

Distributions

For the period 1 April 2013 to 30 September 2013

Group 1 – Shares purchased prior to 1 April 2013

Group 2 – Shares purchased in the period 1 April 2013 to 30 September 2013

	Net Income p	Equalisation p	30 September 2013 Pence per Share p	30 September 2012 Pence per Share p
A – Income Shares				
Group 1	4.5601	–	4.5601	3.9680
Group 2	2.4567	2.1034	4.5601	3.9680
W – Accumulation Shares				
Group 1	1.9076	–	1.9076	0.9306
Group 2	0.4592	1.4484	1.9076	0.9306
Z – Accumulation Shares				
Group 1	1.7833	–	1.7833	0.8612
Group 2	1.2122	0.5711	1.7833	0.8612

For the period 1 October 2013 to 31 March 2014

Group 1 – Shares purchased prior to 1 October 2013

Group 2 – Shares purchased in the period 1 October 2013 to 31 March 2014

	Net Income p	Equalisation p	31 March 2014 Pence per Share p	31 March 2013 Pence per Share p
A – Income Shares				
Group 1	3.5849	–	3.5849	2.9339
Group 2	2.0805	1.5044	3.5849	2.9339
W – Accumulation Shares				
Group 1	1.6393	–	1.6393	1.3217
Group 2	0.6909	0.9484	1.6393	1.3217
Z – Accumulation Shares				
Group 1	1.4979	–	1.4979	1.1900
Group 2	0.1344	1.3635	1.4979	1.1900

PORTFOLIO INFORMATION

Classification of Investments

	31 March 2014 %	31 March 2013 %
Oil & Gas Producers	12.09	13.39
Pharmaceuticals & Biotechnology	11.08	11.23
Tobacco	7.68	7.64
Media	7.00	5.72
Banks	5.95	7.79
Mining	5.28	5.73
Life Insurance	4.79	5.86
Travel & Leisure	4.32	3.34
General Industrials	4.17	1.26
Aerospace & Defence	3.37	2.10
Health Care Equipment & Services	3.22	1.69
Software & Computer Services	3.05	2.43
Food Producers	2.99	3.09
General Retailers	2.80	2.06
Fixed Line Telecommunications	2.76	2.59
Support Services	2.70	1.03
Household Goods & Home Construction	2.37	1.99
Mobile Telecommunications	2.25	3.94
Financial Services	2.02	2.45
Oil Equipment, Services & Distribution	1.75	1.15
Real Estate Investment Trusts	1.61	1.44
Beverages	1.58	2.58
Electricity	1.43	1.78
Gas, Water & Multiutilities	1.31	2.86
Industrial Engineering	–	0.80
Food & Drug Retailers	–	1.36
Nonlife Insurance	–	0.80
Net other assets	2.43	1.90
Net assets	100.00	100.00

Top 10 Holdings

	31 March 2014 %
Royal Dutch Shell PLC, A	5.11
GlaxoSmithKline PLC	5.02
British American Tobacco PLC	4.62
BP PLC	4.55
HSBC Holdings PLC	3.83
AstraZeneca PLC	3.48
Reed Elsevier PLC	3.34
Smith & Nephew PLC	3.22
Compass Group PLC	3.11
Imperial Tobacco Group PLC	3.06

Top 10 Holdings

	31 March 2013 %
HSBC Holdings PLC	5.36
Royal Dutch Shell PLC, A	5.10
GlaxoSmithKline PLC	4.92
British American Tobacco PLC	4.78
BP PLC	4.60
Vodafone Group PLC	3.94
AstraZeneca PLC	3.37
Reed Elsevier PLC	3.29
Unilever PLC	3.09
Shire PLC	2.94

Franklin UK Equity Income Fund

FUND FACTS

Launch Date: 17 October 2011
Benchmark: FTSE All-Shares Index
Sector: IMA UK Equity Income
Ex Dates: 31 March & 30 September
Distribution Pay Dates: 31 May & 30 November

Investment Objective

The Fund aims to provide a growing level of income which is higher than that of the FTSE All-Share Index, together with capital growth over the medium to long term.

Investment Policy

The Fund will primarily invest in the equity securities of UK companies listed on the London Stock Exchange. To a lesser extent it may also invest in fixed interest and other debt related securities and convertible stocks.

In addition, at the ACD's discretion, the Fund may also invest a proportion of its portfolio in other types of transferable securities, cash and near cash, money market instruments and other collective investment schemes.

It is not currently intended that derivatives will be used for any purpose other than the efficient portfolio management of the Fund. However, the Fund may, in the future and subject to the ACD giving not less than 60 days' notice to shareholders in the Fund, use derivatives in pursuit of its investment objective as well as for efficient portfolio management. It is not intended that the use of derivatives for efficient portfolio management will cause the Fund's existing risk profile to rise. Where the use of derivatives in pursuit of the Fund's investment objective may cause the Fund to have higher volatility or otherwise cause its existing risk profile to rise, a notification to that effect shall be included within the 60-day prior notice to be sent to shareholders in the Fund.

The base currency of the Fund is UK sterling.

Risk Profile

1	2	3	4	**5**	6	7

Lower risk
Potentially lower rewards

Higher risk
Potentially higher rewards

This indicator, disclosed in the Key Investor Information Document (KIID), provides a measure of the price movement of the Fund based on historical behaviour. Historical data may not be a reliable indication of the future risk profile of the Fund. The category shown is not guaranteed to remain unchanged and may shift over time. The lowest category does not mean risk free.

The Fund's investment portfolio is exposed to market fluctuations that are monitored by the Manager in pursuance of the investment objective and policy as set out above.

The Franklin UK Equity Income Fund may be appropriate for investors who want the potential of a regular income and to increase the value of their investment over the long term by investing primarily in UK companies. Investors should be prepared to make a medium- to long-term financial commitment, generally at least three to five years.

Investment Review

Performance

In the 12 months to 31 March 2014, Franklin UK Equity Income Fund made a net return of 10.91%, thus outpacing the FTSE All-Share Index, which returned 8.81% (both returns in UK sterling).

Overview

The UK equity market continued to forge ahead at the start of the financial year, even though valuations appeared increasingly stretched. The benchmark FTSE All-Share Index had extended its winning run to 12 consecutive months by the end of May 2013, but everything changed in June when the market suffered a peak-to-trough correction of more than 10%. The trigger for the market setback was the reversal of the downward trend in bond yields as speculation mounted that the US Federal Reserve (Fed) was about to begin to taper the monthly asset purchases it made as part of its quantitative easing (QE) programme. Bond yields on both sides of the Atlantic had been rising steadily throughout May but this process accelerated in June as the rumours intensified. A 100 basis point move in 10-year US Treasury yields from 1.6% to 2.6% in a little over six weeks rattled policymakers and became the defining moment of the year. Fearful that such a sharp move would put the brakes on economic recovery, US policymakers tried to keep the yield curve in check by emphasising that short-term rates would remain low for a prolonged period. From an equity perspective, however, the cat was out of the bag and although the market bounced back strongly in July, investors had to wait until January 2014 for the market to break convincingly through its May high point.

The second half of the Fund's financial year was characterised by a series of short, sharp fluctuations in the equity market. It began with politicians in Washington, D.C. conspiring to remind us just how dysfunctional they can be by failing to agree a federal budget and pushing the US government into a partial shutdown. Ultimately, the dispute over the budget proved to be a non-event and markets were back on a rising trend as winter took hold, even though the Fed finally ended months of speculation by starting to taper its monthly asset purchases. The UK market had only just broken through to a new all-time high in January 2014 when the re-emergence of currency volatility in emerging markets served a timely reminder that the path to a normalised monetary environment is unlikely to be an entirely smooth one. Once again, however, the UK equity market quickly regained its poise only to end the year under review on a weak note in March as President Putin intervened in dramatic fashion in Ukraine.

We stated 12 months ago that, given the valuation starting point, we felt that the rate of upward progress in equity prices was unlikely to be maintained, and this has proved to be the case. From an economic perspective, the real positives over the past year have been the acceleration in growth in the UK economy and the slow rehabilitation in the eurozone. On the other hand, growth in emerging markets has disappointed and the rise in long-term interest rates has acted as a drag on the US economy, as indeed has the recent severe winter weather.

The relative outperformance of the UK economy manifested itself as the year progressed in a stronger exchange rate for sterling, particularly against the US dollar. Together with the relative economic weakness of resource-reliant countries, UK sterling's rise has been extremely helpful in bringing down inflation faster than expected. It has, however, led to collateral damage for earnings forecasts, as quoted UK companies have a high level of overseas earnings, which have suffered from the exchange effect.

The main feature of the UK equity market over the financial year was the continued outperformance of higher-beta mid- and small-cap stocks over their larger counterparts, as could be expected during a bull market for equities in general, with the FTSE 100 Index recording a return of 6.7% while the FTSE Small-Cap Index returned 20.4%. The long-awaited disposal of Vodafone's stake in Verizon Wireless was the stock event of the year, ensuring that telecoms were the best-performing sector over the year on the FTSE All-Share Index. By contrast, the mining sector had a bad year, with poor stock performances from the likes of Anglo-American and Glencore

Xstrata, as did the banking sector, with falls in the market price of HSBC and Standard Chartered, for example.

Significant Changes

On 30 September 2013, a minor alteration was made to the Fund's investment objective to make it clearer for investors. There were no changes to the investment policy, management of the Fund or its risk profile.

The key changes in the opening six months of the year were the purchase of new positions in Aberdeen Asset Management, John Wood Group, Smiths Group and Rolls Royce and the disposal of holdings in Close Brothers, RPS and Tesco. Aberdeen was purchased on the back of the weakness in global equity markets, in particular emerging markets, following the Fed's decision to consider tapering. John Wood was acquired on valuation grounds and gave the portfolio exposure to the long-term spend required in the oil industry. We were attracted to Rolls Royce because of the growth prospects of the group's civil aerospace business given its strong position in the aero engine market. Close Brothers and RPS had, in our view, both reached pretty full valuations when we sold them at attractive profits, while we had become concerned that Tesco's sales performance was not responding to the high levels of investment in upgrading its UK stores. The decision to sell Tesco proved timely as the retailer's subsequent performance has been woeful. Other disposals included Diageo, HSBC and Verizon.

In autumn 2013, political interference in UK utilities caused us to reconsider the Fund's exposure to this sector, resulting in a significant reduction in our holdings in Centrica and SSE. Other changes in the second half of the year included the sale of holdings in RSA, esure, Premier Farnell, De La Rue, Aberdeen and Kingfisher. New additions to the portfolio were Rexam, Wolseley, Bodycote and Amlin.

RSA was disposed of following news of issues in the company's Irish subsidiary. Subsequent to our sale of RSA, the company's chief executive officer (CEO) resigned and a large rights issue was announced. Esure was disposed of once its share price rebounded from the effects of a disappointing trading update earlier in the financial year. The Fund made a decent profit from its position in Premier Farnell after the company issued a confusing trading statement. Security printing firm De la Rue was sold on the back of a further profit warning, while Aberdeen was sold at a time of rising turmoil in emerging markets. The proceeds were used to add to existing positions in Schroders and Jupiter Asset Management. An attractive profit was taken on the Fund's remaining holding in Kingfisher, whose stock rose in tandem with positive news flow.

Rexam was acquired following the company's decision to sell its health care business, return the cash to shareholders and focus exclusively on being a can manufacturer. The rationale behind the Wolseley acquisition was our wish to gain exposure to recovering construction markets in the US. Bodycote was purchased as a play on the global economic recovery and also to take advantage of the potential for cash returns to shareholders (subsequently realised). We bought into independent insurer Amlin because of the attractive and growing dividend yield it offered, by our analysis.

Positive/Negative Contributors

The three largest contributors to the Fund's relative returns over the financial year were Sage Group, Next and BT Group. Shares in Sage Group, a business software and services specialist, gained over 25% during the financial year, reflecting the market's growing appreciation of Sage's solid position in the provision of software to small- and medium-sized businesses in general and the company's announcement of new online services in particular. Retailer Next, whose share price rose 56% in the 12 months to end March, benefitted from the upturn in consumer spending in the UK, with the group issuing strong trading updates and announcing the development of a capital return strategy that will include special dividends. BT Group has benefitted from investor confidence in the company's ability to reposition itself away from being the leading provider of fixed-line telecom services to being one of the leading players in high-speed fibre-optic broadband in the UK, helped by the launch of BT Sport. The next-best contributions came from underweighted positions in weak performers Tesco and HSBC. Tesco's difficulties were described in the 'Significant Changes' section, while HSBC missed profit targets and investors grew anxious about the group's hefty exposure to emerging markets.

On the negative side, the largest detractor from the Fund's relative performance was Pearson, which issued a profit warning at the beginning of 2014, indicating that trading had been very challenging in late 2013 and providing a similarly downbeat assessment of prospects for the year ahead. Pearson is at the forefront of the structural transition from traditional print to digital provision in education markets, and it is evident that this process has been more disruptive than initially hoped. The next-largest detractors were Centrica, Vodafone and esure. The latter suffered from regulatory changes in the car insurance industry that resulted in a marked fall in premium car insurance rates, while Centrica was hurt by proposals from politicians to place a cap on energy bills as well as by a wide-ranging investigation by regulators into the UK energy market that could open the way for a break-up of the big energy supply companies, including Centrica. Relative performance was also hurt by an underweight position in Vodafone, whose share price rose substantially in the wake of the sale of its stake in Verizon Wireless.

Sector wise, the best contributions to relative returns over the financial year came from the beverages, mining and banking sectors, where the Fund had underweighted positions, whereas utilities (Centrica), media (Pearson) and household goods & home construction were the largest detractors from relative performance.

Outlook and Strategy

The global economy did not move forward at the rate we might have expected in 2013, with growth projections revised significantly lower as the year progressed. Growth in the US faded towards the end of the year as the housing market slowed and many emerging markets did not recover to the extent forecasters expected. Japan briefly flattered to deceive, so it was left to the UK economy to provide the upside surprise. The UK government's decision to target the housing market as a conduit to deliver a pre-election boost to the economy worked and left the UK as one of the world's fastest-growing major economies in 2013.

These trends appear to have continued into the opening months of 2014. In the April 2014 issue of its *World Economic Outlook,* the International Monetary Fund (IMF) forecast global growth of 3.6% for 2014, compared to the 3% final outcome for 2013, with most of the pick-up in growth coming from advanced economies.[1] The IMF forecasts the UK to achieve growth of 2.9%, but the Bank of England is even more optimistic, lifting its own forecast for growth to 3.4% in 2014. There are even some encouraging signs that a long-awaited and very necessary pick-up in investment spending is underway in the UK.

We know, however, that the performance of the economy and the performance of the stock market are not always positively correlated in the short term. Equities enjoyed a dramatic upward re-rating from May 2012 to May 2013 in anticipation of better economic times ahead, but the earnings growth required to fully justify this move has not yet materialized. At the same time the US 10 year-Treasury yield, which effectively sets the global cost of capital, has moved higher.

We believe 2014 is the year in which earnings growth has to accelerate to justify current valuations. Another year of earnings disappointments will leave the market vulnerable to further steps towards monetary normalisation. With the path towards the ending of the Fed's QE programme now well understood, attention has switched to the short-term interest rate cycle and the timing of the first upward move in base rates. Current expectations are that rates will begin to be tightened in spring 2015 on both sides of the Atlantic.

1. Source: International Monetary Fund, World Economic Outlook, April 2014. © 2014 By International Monetary Fund. All Rights Reserved.

The current good news on inflation means that policy makers are still relatively relaxed regarding short-term rates, but this can quickly change. In a normal cycle, UK short-term rates would be increasing already given the current rates of growth, but the Bank of England is signalling that it does not believe the UK economic recovery has yet reached a sustainable level and needs a greater contribution from investment and net trade. The policy makers at the Bank of England appear very sensitive to the impact of even small moves in interest rates on highly indebted consumers but oblivious to the suffering of savers.

In terms of valuation, by early April 2014, the UK equity market was trading significantly above its long-term average. Given that expectations for earnings growth are still falling, we remain cautious in aggregate, and it is notable that UK stocks failed to make any real headway in the early months of 2014. In our view, the outlook for the remainder of the year is as difficult to predict as ever, with many conflicting forces at play, although stocks could well regain their composure once global growth gets back on an even keel. The Fund's strategy going forward remains unchanged: we will work hard to identify interesting new stock ideas while continuing to take advantage of any periods of volatility to add to quality names in the portfolio.

Colin Morton, Ben Russon, CFA & Mark Hall
Fund Managers
23 May 2014

Share Class Performance

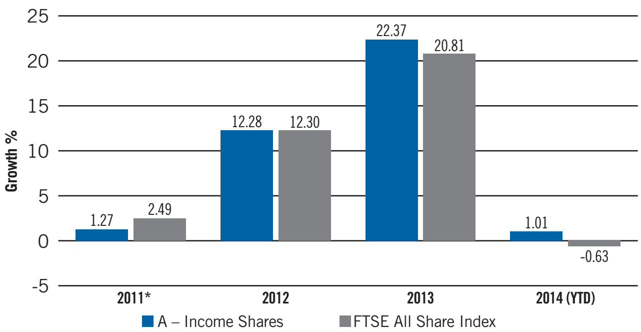
Share Class	Net Asset Value as at 31 March 2014 p	Net Asset Value as at 31 March 2013 p	% Movement
A – Income Shares	210.17	196.65	6.88
A – Accumulation Shares	140.19	126.22	11.07
W – Income Shares	133.00	123.52	7.67
W – Accumulation Shares	141.27	126.32	11.84
Z – Income Shares	131.82	122.66	7.47
Z – Accumulation Shares	140.77	126.13	11.61

Share Price and Income History

	Calendar Year	Highest Price p	Lowest Price p	Net Income Per Share p
A – Income Shares	2011µ	169.45	155.48	–
	2012	182.46	160.84	7.39
	2013	212.10	182.54	7.39
	2014*	217.49	204.96	3.45
A – Accumulation Shares	2011µ	102.80	94.32	–
	2012	114.63	99.44	3.30
	2013	139.20	115.47	4.96
	2014*	142.74	134.51	2.26
W – Income Shares	2012Ω	113.91	98.96	0.59
	2013	133.95	114.76	4.92
	2014*	137.52	129.53	2.15
W – Accumulation Shares	2012Ω	114.52	98.96	1.53
	2013	140.03	115.38	4.75
	2014*	143.76	135.41	2.24
Z – Income Shares	2012Ω	114.12	98.96	0.26
	2013	132.83	114.96	5.94
	2014*	136.33	128.42	2.13
Z – Accumulation Shares	2012Ω	114.39	98.96	1.53
	2013	139.61	115.24	4.75
	2014*	143.28	134.97	2.24

µ Figures stated from launch date 17 October 2011.
Ω Figures stated from launch date 31 May 2012.
* Figures to 31 March 2014.

Calendar Year Performance



Source: Franklin Templeton

* From launch of the Fund on 17 October 2011.

All performance data shown is based in sterling using the NAV prices of the A accumulation shares and include reinvested dividends and are net of management fees. Sales charges and other commissions, taxes and other relevant costs paid by the investor are not included in the calculations.

The value of shares and the income therefrom may go down as well as up and is not guaranteed. Past performance is not necessarily a guide to future performance. In particular, some investments held may be designated in currencies other than sterling and so may rise and fall purely on account of exchange rate fluctuations. Investors should be aware of the risks associated with this type of investment and should take a medium to long-term view of returns.

Ongoing Charges Ratio

	As at	%
A – Income Shares	31 March 2013	1.61
	31 March 2014	1.60
A – Accumulation Shares	31 March 2013	1.61
	31 March 2014	1.60
W – Income Shares	31 March 2013	0.91
	31 March 2014	0.90
W – Accumulation Shares	31 March 2013	0.91
	31 March 2014	0.90
Z – Income Shares	31 March 2013	1.11
	31 March 2014	1.10
Z – Accumulation Shares	31 March 2013	1.11
	31 March 2014	1.10

The Ongoing Charges Ratio is a figure representing all operating charges and expenses as a percentage of the Fund's average net assets during the year. Where ex-post expense information is not a fair representation of future operating costs and where 12 months of information is not available, an estimate is disclosed.

Distributions

For the period 1 April 2013 to 30 September 2013

Group 1 – Shares purchased prior to 1 April 2013

Group 2 – Shares purchased in the period 1 April 2013 to 30 September 2013

	Net Income p	Equalisation p	30 September 2013 Pence per Share p	30 September 2012 Pence per Share p
A – Income Shares				
Group 1	4.4843	–	4.4843	4.0646
Group 2	2.6851	1.7992	4.4843	4.0646
A – Accumulation Shares				
Group 1	2.8779	–	2.8779	2.2770
Group 2	1.5507	1.3272	2.8779	2.2770
W – Income Shares				
Group 1	2.7886	–	2.7886	0.5885
Group 2	1.2472	1.5414	2.7886	0.5885
W – Accumulation Shares				
Group 1	2.8517	–	2.8517	1.5304
Group 2	1.4104	1.4413	2.8517	1.5304
Z – Income Shares				
Group 1	2.7684	–	2.7684	0.2648
Group 2	0.9437	1.8247	2.7684	0.2648
Z – Accumulation Shares				
Group 1	2.8454	–	2.8454	1.5304
Group 2	1.2779	1.5675	2.8454	1.5304

For the period 1 October 2013 to 31 March 2014

Group 1 – Shares purchased prior to 1 October 2013

Group 2 – Shares purchased in the period 1 October 2013 to 31 March 2014

	Net Income p	Equalisation p	31 March 2014 Pence per Share p	31 March 2013 Pence per Share p
A – Income Shares				
Group 1	3.4493	–	3.4493	2.9032
Group 2	2.0592	1.3901	3.4493	2.9032
A – Accumulation Shares				
Group 1	2.2645	–	2.2645	2.0844
Group 2	1.2370	1.0275	2.2645	2.0844
W – Income Shares				
Group 1	2.1451	–	2.1451	2.1356
Group 2	1.1774	0.9677	2.1451	2.1356
W – Accumulation Shares				
Group 1	2.2432	–	2.2432	1.9003
Group 2	1.2510	0.9922	2.2432	1.9003
Z – Income Shares				
Group 1	2.1275	–	2.1275	3.1691
Group 2	1.3937	0.7338	2.1275	3.1691
Z – Accumulation Shares				
Group 1	2.2352	–	2.2352	1.9040
Group 2	1.9308	0.3044	2.2352	1.9040

PORTFOLIO INFORMATION

Classification of Investments

	31 March 2014 %	31 March 2013 %
Oil & Gas Producers	10.52	10.90
Pharmaceuticals & Biotechnology	9.50	9.24
Tobacco	8.09	7.85
Media	6.72	5.77
Life Insurance	5.40	5.45
Gas, Water & Multiutilities	5.36	6.31
General Industrials	5.26	1.84
Banks	4.40	5.78
Travel & Leisure	4.34	3.23
Mining	4.11	3.83
Food Producers	3.94	3.25
Aerospace & Defence	3.41	2.43
Financial Services	3.25	4.44
Support Services	3.23	4.51
Software & Computer Services	2.97	2.02
General Retailers	2.64	1.63
Fixed Line Telecommunications	2.62	2.67
Mobile Telecommunications	2.32	4.02
Household Goods & Home Construction	2.13	1.68
Real Estate Investment Trusts	1.86	2.00
Health Care Equipment & Services	1.55	0.92
Electricity	1.44	1.80
Nonlife Insurance	1.23	2.70
Industrial Engineering	1.12	–
Oil Equipment, Services & Distribution	0.98	–
Beverages	–	1.40
Food & Drug Retailers	–	1.28
Technology Hardware & Equipment	–	0.73
Net other assets	1.61	2.32
Net assets	100.00	100.00

Top 10 Holdings

	31 March 2014 %
British American Tobacco PLC	5.10
GlaxoSmithKline PLC	4.98
Royal Dutch Shell PLC, A	4.98
BP PLC	4.49
AstraZeneca PLC	3.67
HSBC Holdings PLC	3.54
Reed Elsevier PLC	3.17
Unilever PLC	3.08
Imperial Tobacco Group PLC	3.00
The Sage Group PLC	2.97

Top 10 Holdings

	31 March 2013 %
Royal Dutch Shell PLC, A	5.02
GlaxoSmithKline PLC	4.87
HSBC Holdings PLC	4.80
British American Tobacco PLC	4.75
BP PLC	4.55
Vodafone Group PLC	4.02
AstraZeneca PLC	3.47
Reed Elsevier PLC	3.29
Centrica PLC	3.10
Imperial Tobacco Group PLC	3.10

Franklin UK Managers' Focus Fund

FUND FACTS

Launch Date: 17 October 2011

Benchmark: FTSE All-Shares Index

Sector: IMA UK All Companies

Ex Dates: 31 March & 30 September

Distribution Pay Dates: 31 May & 30 November

Investment Objective

The Fund aims to achieve a total return (i.e. a combination of capital growth and income) exceeding that of the FTSE All-Share Index, over the medium to long term.

Investment Policy

The Fund will primarily invest in the equity securities of up to 50 small, medium and large UK companies.

In addition, at the ACD's discretion, the Fund may also invest a proportion of its portfolio in other types of transferable securities including fixed interest and other debt related securities, cash and near cash, money market instruments and other collective investment schemes.

It is not currently intended that derivatives will be used for any purpose other than the efficient portfolio management of the Fund. However, the Fund may, in the future and subject to the ACD giving not less than 60 days' notice to shareholders in the Fund, use derivatives in pursuit of its investment objective as well as for efficient portfolio management. It is not intended that the use of derivatives for efficient portfolio management will cause the Fund's existing risk profile to rise. Where the use of derivatives in pursuit of the Fund's investment objective may cause the Fund to have higher volatility or otherwise cause its existing risk profile to rise, a notification to that effect shall be included within the 60-day prior notice to be sent to shareholders in the Fund.

The base currency of the Fund is UK sterling.

Risk Profile

1	2	3	4	**5**	6	7

Lower risk
Potentially lower rewards

Higher risk
Potentially higher rewards

This indicator, disclosed in the Key Investor Information Document (KIID), provides a measure of the price movement of the Fund based on historical behaviour. Historical data may not be a reliable indication of the future risk profile of the Fund. The category shown is not guaranteed to remain unchanged and may shift over time. The lowest category does not mean risk free.

The Fund's investment portfolio is exposed to market fluctuations that are monitored by the Manager in pursuance of the investment objective and policy as set out above.

The Franklin UK Managers' Focus Fund may be appropriate for investors who want the potential for their investment to increase in value over the long term by investing primarily in a small number of UK companies of different sizes. The Fund is generally more suited to investors with a medium- to long-term investment horizon who are willing to take some risk to their capital and are prepared to accept the possibility of greater volatility (compared to Funds with a large number of holdings) for the potential of stronger returns.

Investment Review

Performance

In the 12 months to 31 March 2014, Franklin UK Managers' Focus Fund made a net return of 30.22%, well in excess of the FTSE All-Share Index, which returned 8.81% (both returns in UK sterling).

Overview

The UK equity market continued to forge ahead at the start of the financial year, even though valuations appeared increasingly stretched, even though valuations appeared increasingly stretched. The benchmark FTSE All-Share Index had extended its winning run to 12 consecutive months by the end of May 2013, but everything changed in June when the market suffered a peak-to-trough correction of more than 10%. The trigger for the market setback was the reversal of the downward trend in bond yields as speculation mounted that the US Federal Reserve (Fed) was about to begin to taper the monthly asset purchases it made as part of its quantitative easing (QE) programme. Bond yields on both sides of the Atlantic had been rising steadily throughout May but this process accelerated in June as the rumours intensified. A 100 basis point move in 10-year US Treasury yields from 1.6% to 2.6% in a little over six weeks rattled policymakers and became the defining moment of the year. Fearful that such a sharp move would put the brakes on economic recovery, US policymakers tried to keep the yield curve in check by emphasising that short-term rates would remain low for a prolonged period. From an equity perspective, however, the cat was out of the bag and although the market bounced back strongly in July, investors had to wait until January 2014 for the market to break convincingly through its May high point.

The second half of the Fund's financial year was characterised by a series of short, sharp fluctuations in the equity market. It began with politicians in Washington, D.C. conspiring to remind us just how dysfunctional they can be by failing to agree a federal budget and pushing the US government into a partial shutdown. Ultimately, the dispute over the budget proved to be a non-event and markets were back on a rising trend as winter took hold, even though the Fed finally ended months of speculation by starting to taper its monthly asset purchases. The UK market had only just broken through to a new all-time high in January 2014 when the re-emergence of currency volatility in emerging markets served a timely reminder that the path to a normalised monetary environment is unlikely to be an entirely smooth one. Once again, however, the UK equity market quickly regained its poise only to end the year under review on a weak note in March as President Putin intervened in dramatic fashion in Ukraine.

We stated 12 months ago that, given the valuation starting point, we felt that the rate of upward progress in equity prices was unlikely to be maintained, and this has proved to be the case. From an economic perspective, the real positives over the past year have been the acceleration in growth in the UK economy and the slow rehabilitation in the eurozone. On the other hand, growth in emerging markets has disappointed and the rise in long-term interest rates has acted as a drag on the US economy, as indeed has the recent severe winter weather.

The relative outperformance of the UK economy manifested itself as the year progressed in a stronger exchange rate for sterling, particularly against the US dollar. Together with the relative economic weakness of resource-reliant countries, sterling's rise has been extremely helpful in bringing down inflation faster than expected. It has, however, led to collateral damage for earnings forecasts, as quoted UK companies have a high level of overseas earnings, which have suffered from the exchange effect.

The main feature of the UK equity market over the financial year was the continued re-rating of mid- and small-cap stocks relative to their larger counterparts. Together with their superior earnings growth, this meant another year of substantial outperformance for mid- and small-caps. Franklin UK Managers' Focus Fund, with its inherent structural bias towards these areas of the market, benefited from this trend. At the sector level, the major story of the year was the underperformance of banks (HSBC and Standard Chartered had a particularly poor year) and the outperformance of telecoms, with the long-awaited disposal of Vodafone's stake in Verizon Wireless the stock event of the year.

Significant Changes

For a variety of reasons, it was quite an intense year in terms of activity within Franklin UK Managers' Focus Fund. In the early part of the year, Ben Russon took over from Mark Hall as the lead manager on the multi-cap element of the Fund, resulting in a number of changes to the portfolio. Over a three-month period, holdings in Paragon, DS Smith, Premier Oil and Rio Tinto were sold to make way for new positions in Carphone Warehouse, Intermediate Capital, John Wood Group and BHP Billiton.

In the mid-cap element of the Fund, some of the activity was dictated by stocks being promoted to the FTSE 100 Index, which resulted in the sale of Persimmon and the Fund's holdings in Ashtead and St James's Place moving to other segments of the portfolio. Changes also arose from takeover activity, with Invensys being bid for by Schneider. The Fund purchased Bovis to replace Persimmon and to maintain its house-building exposure; Spectris replaced Invensys as a projected beneficiary of the eventual upturn in investment spending; and Jupiter Fund Management replaced St James's Place to maintain exposure to the long-term savings theme. Other important new additions to this segment of the portfolio during the year included SuperGroup, Bodycote, Regus, Thomas Cook, and Inchcape, Smiths Group, most recently, Drax. Sales of BTG, Laird and IG Group realised attractive profits for the Fund as they hit their price targets. Cairn Energy provided a rare black mark and was sold as the investment case changed after an investigation by the Indian tax authorities. Pearson and Royal Mail were also sold.

In the small-cap part of the Fund, significant new additions were Workspace, Sportech and LSL Property Services in the first half of the financial year and Restore and Lavendon in the second half. Disposals generally involved underperforming stocks such as RPS Group, IQE and Anite, but we also sold the Fund's position in Xaar. Although Xaar had been a significant contributor to relative returns, its valuation had simply become too stretched, in our view.

Finally, in the blue-chip part of the Fund, activity was more restrained, with seven of the 10 stocks in the fund at the end of the previous financial year end still in the fund a year later. The missing names are Centrica, as political interference in the utilities sector changed the investment thesis, Schroders, which we sold during the summer on valuation grounds, and Kingfisher. The new blue-chip additions were Rexam, St James's Place and Compass.

Positive/Negative Contributors

A large number of stocks performed extremely well for the Fund during the financial year, but by far the largest contributor to relative returns was Xaar, whose market price more than doubled in the period under review. Xaar's profit forecasts were revised dramatically higher during the course of the year on the back of faster-than-expected conversion of the Chinese ceramic tile market to digital printing. Topps Tiles' share price also more than doubled during the financial year, as the tile distributor reported sharper-than-expected improvements in sales, in tandem with a revival of the UK housing market. The next-best contributors -SuperGroup, St. James's Place and Royal Mail – all saw substantial share price increase in a range from almost 50% to over 60%. Strong increases in operating results enhanced the credibility of a newly-appointed and well-regarded management team at SuperGroup. The share price of fund manager St. James's Place proved strongly geared to the upturn in the equity market, which has inflated the value of funds under management and encouraged clients to let St James's Place manage more of their money. The company's shares also became more liquid as Lloyds Bank sold down its 60% stake in the company. Royal Mail's market price rose substantially following its privatisation in October, considered the most ambitious in the UK since the flotation of British Rail in the early 1990s.

The largest detractor from the Fund's annual returns was Just Retirement Group, whose shares fell heavily in the last month of the financial year after changes announced in the UK Budget effectively removed the requirement for retirees to buy pension annuities. Cairn Energy's share price dropped significantly in the 12 months under review. Cairn became embroiled in a tax dispute with the Indian government, which, towards the end of the year, forced it to suspend a projected share buy-back. RPS Group and Pearson also disappointed during the financial year. Pearson's transition to an all-digital education business has proved more problematic than envisaged, while RPS Group, an environmental engineering consultancy, provided trading updates that showed renewed weakness in the group's exposure to major resource projects in Australia.

Sector wise, the best contributions to relative returns over the financial year came from stock selection in industrial goods & services (a sector that includes Xaar and Royal Mail), followed by personal & household goods (SuperGroup) and retail (Topps Tiles). The largest detractor from relative performance was telecommunications, where the Fund had no exposure to a strongly performing sector, followed by insurance.

Outlook and Strategy

The global economy did not move forward at the rate we might have expected in 2013, with growth projections revised significantly lower as the year progressed. Growth in the US faded towards the end of the year as the housing market slowed and many emerging markets did not recover to the extent forecasters expected. Japan briefly flattered to deceive, so it was left to the UK economy to provide the upside surprise. The UK government's decision to target the housing market as a conduit to deliver a pre-election boost to the economy worked and left the UK as one of the world's fastest growing major economies in 2013.

These trends appear to have continued into the opening months of 2014. In the April 2014 issue of its *World Economic Outlook*, the International Monetary Fund (IMF) forecast global growth of 3.6% for 2014, compared to the 3% final outcome for 2013, with most of the pick-up in growth coming from advanced economies.[1] The IMF forecasts the UK to achieve growth of 2.9%, but the Bank of England is even more optimistic, lifting its own forecast for growth to 3.4% in 2014. There are even some encouraging signs that a long-awaited and very necessary pick-up in investment spending is underway in the UK.

We know, however, that the performance of the economy and the performance of the stock market are not always positively correlated in the short term. Equities enjoyed a dramatic upward re-rating from May 2012 to May 2013 in anticipation of better economic times ahead, but the earnings growth required to fully justify this move has not yet materialized. At the same time the US 10 year-Treasury yield, which effectively sets the global cost of capital, has moved higher.

We believe 2014 is the year in which earnings growth has to accelerate to justify current valuations. Another year of earnings disappointments will leave the market vulnerable to further steps towards monetary normalisation. With the path towards the ending of the Fed's QE programme now well understood, attention has switched to the short-term interest rate cycle and the timing of the first upward move in base rates. Current expectations are that rates will begin to be tightened in spring 2015 on both sides of the Atlantic.

The current good news on inflation means that policy makers are still relatively relaxed regarding short-term rates, but this can quickly change. In a normal cycle, UK short-term rates would be increasing already given the current rates of growth, but the Bank of England is signalling that it does not believe the UK economic recovery has yet reached a sustainable level and needs a greater contribution from investment and net trade. The policy makers at the Bank of England

1. Source: International Monetary Fund, World Economic Outlook, April 2014. © 2014 By International Monetary Fund. All Rights Reserved.

appear very sensitive to the impact of even small moves in interest rates on highly indebted consumers but oblivious to the suffering of savers.

In terms of valuation, by early April 2014, the UK equity market was trading significantly above its long-term average. Given that expectations for earnings growth are still falling, we remain cautious in aggregate. The Fund's strategy going forward remains unchanged: we will work hard to identify interesting new stock ideas while continuing to take advantage of any periods of volatility to add to quality names in the portfolio. This stance served the Fund extraordinarily well in the 12 months under review, although we would caution that we do not expect this performance to be repeated given the upward re-rating of small and mid-cap stocks that has already occurred.

Colin Morton, Ben Russon, CFA, Mark Hall, Paul Spencer & Richard Bullas
Fund Managers
23 May 2014

Share Class Performance

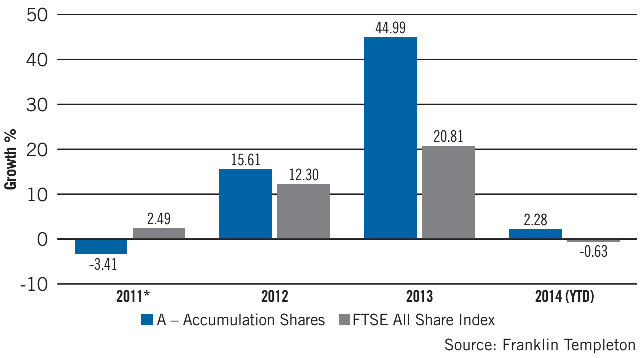
Share Class	Net Asset Value as at 31 March 2014 p	Net Asset Value as at 31 March 2013 p	% Movement
A – Accumulation Shares	187.24	144.24	29.81
W – Accumulation Shares	167.47	128.13	30.70
Z – Accumulation Shares	166.87	127.90	30.47

Share Price and Income History

	Calendar Year	Highest Price p	Lowest Price p	Net Income Per Share p
A – Accumulation Shares	2011µ	117.80	105.55	–
	2012	128.50	110.70	0.88
	2013	183.81	129.14	0.61
	2014*	193.19	180.80	0.11
W – Accumulation Shares	2012Ω	113.15	97.79	0.26
	2013	164.12	114.54	1.41
	2014*	172.70	161.51	0.62
Z – Accumulation Shares	2012Ω	113.01	97.79	0.23
	2013	163.61	114.40	1.17
	2014*	172.11	160.99	0.45

µ Figures stated from launch date 17 October 2011.
Ω Figures stated from launch date 31 May 2012.
* Figures to 31 March 2014.

Calendar Year Performance



* From launch of the Fund on 17 October 2011.

All performance data shown is based in sterling using the NAV prices of the A accumulation shares and include reinvested dividends and are net of management fees. Sales charges and other commissions, taxes and other relevant costs paid by the investor are not included in the calculations.

The value of shares and the income therefrom may go down as well as up and is not guaranteed. Past performance is not necessarily a guide to future performance. In particular, some investments held may be designated in currencies other than sterling and so may rise and fall purely on account of exchange rate fluctuations. Investors should be aware of the risks associated with this type of investment and should take a medium to long-term view of returns.

Ongoing Charges Ratio

	As at	%
A – Accumulation Shares	31 March 2013	1.65
	31 March 2014	1.65
W – Accumulation Shares	31 March 2013	0.95
	31 March 2014	0.95
Z – Accumulation Shares	31 March 2013	1.15
	31 March 2014	1.15

The Ongoing Charges Ratio is a figure representing all operating charges and expenses as a percentage of the Fund's average net assets during the year. Where ex-post expense information is not a fair representation of future operating costs and where 12 months of information is not available, an estimate is disclosed.

Distributions

For the period 1 April 2013 to 30 September 2013

Group 1 – Shares purchased prior to 1 April 2013
Group 2 – Shares purchased in the period 1 April 2013 to 30 September 2013

	Net Income p	Equalisation p	30 September 2013 Pence per Share p	30 September 2012 Pence per Share p
A – Accumulation Shares				
Group 1	0.4564	–	0.4564	0.5808
Group 2	0.1769	0.2795	0.4564	0.5808
W – Accumulation Shares				
Group 1	0.8758	–	0.8758	0.2627
Group 2	0.3630	0.5128	0.8758	0.2627
Z – Accumulation Shares				
Group 1	0.7665	–	0.7665	0.2319
Group 2	0.3735	0.3930	0.7665	0.2319

For the period 1 October 2013 to 31 March 2014

Group 1 – Shares purchased prior to 1 October 2013
Group 2 – Shares purchased in the period 1 October 2013 to 31 March 2014

	Net Income p	Equalisation p	31 March 2014 Pence per Share p	31 March 2013 Pence per Share p
A – Accumulation Shares				
Group 1	0.1138	–	0.1138	0.1499
Group 2	0.0953	0.0185	0.1138	0.1499
W – Accumulation Shares				
Group 1	0.6222	–	0.6222	0.5348
Group 2	0.1980	0.4242	0.6222	0.5348
Z – Accumulation Shares				
Group 1	0.4527	–	0.4527	0.4053
Group 2	0.3689	0.0838	0.4527	0.4053

PORTFOLIO INFORMATION

Classification of Investments

	31 March 2014 %	31 March 2013 %
Support Services	12.14	8.42
Pharmaceuticals & Biotechnology	7.50	11.05
General Retailers	7.41	6.16
Travel & Leisure	7.27	–
Oil & Gas Producers	5.29	10.66
Tobacco	5.21	5.99
General Industrials	4.97	2.28
Personal Goods	4.78	1.81
Software & Computer Services	4.54	8.91
Real Estate Investment & Services	4.49	2.23
Industrial Engineering	2.83	–
Mining	2.73	1.82
Electronic & Electrical Equipment	2.69	3.49
Household Goods & Home Construction	2.64	3.72
Financial Services	2.63	8.79
Oil Equipment, Services & Distribution	2.54	–
Media	2.53	2.99
Life Insurance	2.49	3.18
Health Care Equipment & Services	2.49	1.59
Electricity	2.46	–
Aerospace & Defence	2.37	4.46
Chemicals	2.23	2.13
Real Estate Investment Trusts	2.14	–
Gas, Water & Multiutilities	–	3.07
Technology Hardware & Equipment	–	3.94
Net other assets	3.63	3.31
Net assets	100.00	100.00

Top 10 Holdings

	31 March 2014 %
Bodycote PLC	2.83
Inchcape PLC	2.83
BG Group PLC	2.77
Thomas Cook Group PLC	2.76
BHP Billiton PLC	2.73
GlaxoSmithKline PLC	2.72
Spectris PLC	2.69
Regus PLC	2.66
Imperial Tobacco Group PLC	2.65
Bovis Homes Group PLC	2.64

Top 10 Holdings

	31 March 2013 %
Ashtead Group PLC	4.08
Persimmon PLC	3.72
Xaar PLC	3.49
BP PLC	3.36
IG Group Holdings PLC	3.34
GlaxoSmithKline PLC	3.21
British American Tobacco PLC	3.19
St. James's Place Capital PLC	3.18
Centrica PLC	3.07
Shire PLC	3.07

Franklin UK Mid Cap Fund

FUND FACTS

Launch Date: 17 October 2011
Benchmark: FTSE 250 ex Investments Trusts Index
Sector: IMA UK All Companies
Ex Dates: 31 March & 30 September
Distribution Pay Dates: 31 May & 30 November

Investment Objective

The Fund aims to achieve capital growth exceeding that of the FTSE 250 Index (excluding investment company stocks) over the medium to long term.

Investment Policy

The Fund will primarily invest in the equity securities of UK companies listed in the FTSE 250 Index.

In addition, at the ACD's discretion, the Fund may also invest a proportion of its portfolio in other types of transferable securities including fixed interest and other debt related securities, cash and near cash, money market instruments and other collective investment schemes.

It is not currently intended that derivatives will be used for any purpose other than the efficient portfolio management of the Fund. However, the Fund may, in the future and subject to the ACD giving not less than 60 days' notice to shareholders in the Fund, use derivatives in pursuit of its investment objective as well as for efficient portfolio management. It is not intended that the use of derivatives for efficient portfolio management will cause the Fund's existing risk profile to rise. Where the use of derivatives in pursuit of the Fund's investment objective may cause the Fund to have higher volatility or otherwise cause its existing risk profile to rise, a notification to that effect shall be included within the 60-day prior notice to be sent to shareholders in the Fund.

The base currency of the Fund is UK sterling.

Risk Profile

1	2	3	4	5	**6**	7

Lower risk — Higher risk
Potentially lower rewards — Potentially higher rewards

This indicator, disclosed in the Key Investor Information Document (KIID), provides a measure of the price movement of the Fund based on historical behaviour. Historical data may not be a reliable indication of the future risk profile of the Fund. The category shown is not guaranteed to remain unchanged and may shift over time. The lowest category does not mean risk free.

The Fund's investment portfolio is exposed to market fluctuations that are monitored by the Manager in pursuance of the investment objective and policy as set out above.

The Franklin UK Mid Cap Fund may be appropriate for investors who want the potential for their investment to increase in value over the medium to long term by investing primarily in medium sized UK companies. The Fund is generally more suited to investors with a medium- to long-term investment horizon who are willing to take some risk to their capital.

Investment Review

Performance

For the year ended 31 March 2014, Franklin UK Mid Cap Fund made a net return of 22.39%, largely in line with the FTSE 250 Index (excluding investment trusts) Index's 22.12% (both returns in UK sterling).

Overview

The UK equity market continued to forge ahead at the start of the financial year, even though valuations appeared increasingly stretched. The benchmark FTSE All-Share Index had extended its winning run to 12 consecutive months by the end of May 2013, but everything changed in June when the market suffered a peak to trough correction of more than 10%. The trigger for the market setback was the reversal of the downward trend in bond yields as speculation mounted that the US Federal Reserve (Fed) was about to begin to taper the monthly asset purchases it made as part of its quantitative easing (QE) programme. Bond yields on both sides of the Atlantic had been rising steadily throughout May but this process accelerated in June as the rumours intensified. A 100 basis point move in 10 year US Treasury yields from 1.6% to 2.6% in a little over six weeks rattled policymakers and became the defining moment of the year. Fearful that such a sharp move would put the brakes on economic recovery, US policymakers tried to keep the yield curve in check by emphasising that short-term rates would remain low for a prolonged period. From an equity perspective, however, the cat was out of the bag and although the market bounced back strongly in July, investors had to wait until January 2014 for the market to break convincingly through its May high point.

The second half of the Fund's financial year was characterised by a series of short, sharp fluctuations in the equity market. It began with politicians in Washington, D.C. conspiring to remind us just how dysfunctional they can be by failing to agree a federal budget and pushing the US government into a partial shutdown. Ultimately, the dispute over the budget proved to be a non-event and markets were back on a rising trend as winter took hold, even though the Fed finally ended months of speculation by starting to taper its monthly asset purchases. The UK market had only just broken through to a new all-time high in January 2014 when the re-emergence of currency volatility in emerging markets served a timely reminder that the path to a normalised monetary environment is unlikely to be an entirely smooth one. Once again, however, the UK equity market quickly regained its poise only to end the year under review on a weak note in March as President Putin intervened in a dramatic fashion in Ukraine.

We stated 12 months ago that, given the valuation starting point, we felt that the rate of upward progress in equity prices was unlikely to be maintained, and this has proved to be the case. From an economic perspective, the real positives over the past year have been the acceleration in growth in the UK economy and the slow rehabilitation in the eurozone. On the other hand, growth in emerging markets has disappointed and the rise in long-term interest rates has acted as a drag on the US economy, as indeed has the recent severe winter weather.

The relative outperformance of the UK economy manifested itself as the year progressed in a stronger exchange rate for sterling, particularly against the US dollar. Together with the relative economic weakness of resource reliant countries, sterling's rise has been extremely helpful in bringing down inflation faster than expected. It has, however, led to collateral damage for earnings forecasts, as quoted UK companies have a high level of overseas earnings, which have suffered from the exchange effect.

The main feature of the UK equity market over the financial year was the continued re-rating of mid and small cap stocks relative to their larger counterparts. Together with their superior earnings growth, this meant another year of substantial outperformance for mid and small caps, with the FTSE 250 Index's 22.12% return far ahead of the FTSE 100 Index's 6.7%.

Taking their relative weighting on the index into account, the best contributions to the FTSE 250 Index's performance came, in order, from support services, financial services, household goods & construction and travel & leisure. Very few sectors reported outright negative returns over the 12 months under review. The mining and oil & gas producer sectors were notably weak, with falling commodity prices, funding issues and geo-political unrest causing considerable deterioration across all the constituent companies.

At the stock level, SuperGroup, Ocado Group, Greencore, Telecom Plus and Thomas Cook Group were amongst the stand-out performers on the FTSE 250 Index. A number of companies with extremely weak share prices were ejected from the Index during the year. Of those remaining, stocks that saw the sharpest declines included Petropavlovsk, Ophir Energy, Cairn Energy and Ladbrokes.

Significant Changes

During the period under review, three of the Fund's long-standing investments – Persimmon, Travis Perkins and Ashtead Group, were promoted to the FTSE 100 Index. In order to maintain the Fund's core FTSE 250 credentials, these highly successful positions were sold. So as to maintain our exposure to the house-building and builders merchant sectors, we made new investments in Bellway and SIG instead.

Following agreed cash bid approaches to Invensys from Schneider Electric and to AZ Electronics from Merck we viewed the chances of any additional upside as being very remote and consequently disposed of our entire investments in both Invensys and AZ Electronic Materials.

In order to build up our exposure to the UK consumer, we introduced new holdings in mobile electronic device retailer Carphone Warehouse Group, travel agent and tour operator Thomas Cook Group, and fashion retailer SuperGroup. We also switched from an investment in Mitchells & Butlers to one in Restaurant Group, which offers similar exposure to the dining-out market but with a considerably more attractive risk-reward profile, in our view. Concerns about the outlook for oil and gas capital expenditure provided a rare window of opportunity to buy a holding in Rotork, and we were able to build a position in Croda International following its "demotion" from the FTSE 100 Index to the FTSE 250 Index after a period of weakness.

Other new additions to the portfolio over the course of the year included office rental firm Regus, precision instrumentation company Spectris, software solutions specialist Micro Focus International, specialist lender International Personal Finance, power generator Drax Group and specialist financial publisher Euromoney Institutional Investor.

Our exposure to the oil & gas sector proved to be a bitter disappointment so that, after assessing the impact of a series of self-inflicted wounds at Premier Oil and unwanted interference from the Indian tax authorities at Cairn Energy, we were driven to bite the bullet and sell both these investments. High valuations prompted us to dispose of specialist financial services provider Close Brothers Group, Lloyds Banking Group's insurer Hiscox, London focused house-builder Berkeley Group, aerospace & defence component manufacturer Cobham and motor insurance company Esure. Disappointment at the pace of profit recovery at SDL, Spirent and Premier Farnell also prompted us to dispose of our investments in those companies. The promotion of St. James's Place to the FTSE 100 meant that stock also exited the portfolio.

At a main sector level, the Fund was significantly overweight industrials and oil & gas stocks at the end of the financial year, while, as it was a year before, the Fund was underweight consumer services and basic materials. In terms of sub-sector positioning, the largest overweight positions at end-March were in support services, technology hardware and financial services. The biggest underweight positions were in real estate investment trusts and nonlife insurance.

Positive/Negative Contributors

The largest contributors to relative performance were SuperGroup, Grainger, Bodycote, Invensys, St James's Place, Thomas Cook Group, BTG and Howden Joinery Group.

SuperGroup performed particularly well following strong trading and growing recognition of its international rollout potential. Grainger's share price responded well to the positive impact of house-price inflation on its substantial residential rental property portfolio. Bodycote continued to defy entrenched views regarding the cyclicality of its business model with another year of excellent operational performance, while Invensys was boosted by the bid from France's Schneider Electric during the summer. St James's Place's sustained success at asset gathering allied to rising equity markets led to a strong rise in its share price and its eventual promotion to the FTSE 100 Index. Thomas Cook Group continued to impress the market with its cost-cutting and profit-improvement programme. BTG finally announced it had received approval from the US Food and Drug Administration for its Varisolve treatment for varicose veins, while Howden Joinery Group performed well on the back of a recovery in consumer spending and a pick-up in housing transactions.

The largest negative impacts on relative returns came from our positions in Spirent, Just Retirement Group, Cairn Energy and Premier Oil.

Spirent weakened after disappointing results and a subdued outlook for telecom spending. Just Retirement Group fell materially in the last month of the financial year following changes announced in the UK Budget that effectively removed the requirement for retirees to buy pension annuities. We were fully aware of the government's disquiet about low annuity rates, which, it has to be said, partially result from QE policies, but we had expected any changes to benefit individual annuity underwriters such as Just Retirement Group. We had believed there would be greater emphasis in future on the "open market option" as a way of ensuring a better deal for pensioners and also a potential cap on cash-free lump sums. Instead, the UK market witnessed the biggest shake up to pensions in almost 100 years and we experienced a painful blow to one of our holdings.

Cairn Energy was hurt by a decision by the Indian tax authorities to retrospectively apply new tax legislation to corporate actions undertaken by Cairn Energy in 2006. The group's US$1 billion holding in Cairn India has been frozen while both parties "negotiate" a possible capital gains settlement that could run into several hundred million US dollars. Premier Oil suffered from further downgrades to production estimates and growing discontent with the company's recently acquired exposure to reserves around the Falkland Islands.

Sector wise, our absence from the basic resources sector was a very positive allocation decision for the Fund, but oil & gas exposure was a considerable drag.

Outlook and Strategy

The global economy did not move forward at the rate we might have expected in 2013, with growth projections revised significantly lower as the year progressed. Growth in the US faded towards the end of the year as the housing market slowed and many emerging markets did not recover to the extent forecasters expected. Japan briefly flattered to deceive, so it was left to the UK economy to provide the upside surprise. The UK government's decision to target the housing market as a conduit to deliver a pre-election boost to the economy worked and left the UK as one of the world's fastest growing major economies in 2013.

These trends appear to have continued into the opening months of 2014. In the April 2014 issue of its *World Economic Outlook*, the International Monetary Fund (IMF) forecast global growth of 3.6% for 2014, compared to the 3% final outcome for 2013, with most of the pick-up in growth coming from the advanced economies.[1] The IMF forecasts the UK to achieve growth of 2.9%, but the Bank of England is even more optimistic, lifting its own forecast for growth to 3.4% in 2014. There are even some encouraging signs that a long-awaited and very necessary pick-up in investment spending is underway in the UK.

We know, however, that the performance of the economy and the performance of the stock market are not always positively correlated in the short term. Equities enjoyed a dramatic upward rerating from May 2012 to May 2013 in anticipation of better economic times ahead, but the earnings growth required to fully justify this move has

1. Source: International Monetary Fund, World Economic Outlook, April 2014. © 2014 By International Monetary Fund. All Rights Reserved.

not yet materialized. At the same time the US 10 year Treasury yield, which effectively sets the global cost of capital, has moved higher.

We believe 2014 is the year in which earnings growth has to accelerate to justify current valuations. Another year of earnings disappointments will leave the market vulnerable to further steps towards monetary normalisation. With the path towards the ending of the Fed's QE programme now well understood, attention has switched to the short-term interest rate cycle and the timing of the first upward move in base rates. Current expectations are that rates will begin to be tightened in spring 2015 on both sides of the Atlantic.

The current good news on inflation means that policymakers are still relatively relaxed regarding short-term rates, but this can quickly change. In a normal cycle, UK short-term rates would be increasing already given the current rates of growth, but the Bank of England is signalling that it does not believe the UK economic recovery has yet reached a sustainable level and needs a greater contribution from investment and net trade. The policymakers at the Bank of England appear very sensitive to the impact of even small moves in interest rates on highly indebted consumers but oblivious to the suffering of savers.

In terms of valuation, we believe multiples are significantly above their long-term average. Given that expectations for earnings growth are still falling, we remain cautious in aggregate and intend to maintain our strategy of building a high-conviction portfolio. Our strategy going forward remains unchanged: we will work hard to identify interesting new stock ideas while continuing to take advantage of any periods of volatility to add to quality names in the portfolio. This stance served the Fund extraordinarily well in the 12 months under review, although we would caution that we do not expect this performance to be repeated in the near term given the upward re-rating of small and mid-cap stocks that has already occurred.

Paul Spencer, Mark Hall & Richard Bullas

Fund Managers
23 May 2014

Share Class Performance

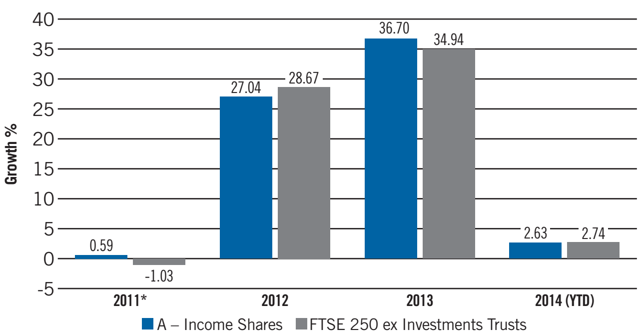
Share Class	Net Asset Value as at 31 March 2014 p	Net Asset Value as at 31 March 2013 p	% Movement
A – Income Shares	482.93	396.18	21.90
W – Income Shares	143.56	117.73	21.94
W – Accumulation Shares	167.20	135.70	23.21
Z – Accumulation Shares	166.60	135.48	22.97

Share Price and Income History

	Calendar Year	Highest Price p	Lowest Price p	Net Income Per Share p
A – Income Shares	2011µ	286.70	258.17	–
	2012	347.76	275.41	2.87
	2013	470.54	353.54	1.38
	2014*	500.33	460.69	0.27
W – Income Shares	2012β	103.37	97.31	–
	2013	140.31	105.11	0.87
	2014*	149.38	137.45	0.78
W – Accumulation Shares	2012Ω	118.90	97.48	0.50
	2013	162.54	120.89	1.02
	2014*	173.04	159.22	0.88
Z – Accumulation Shares	2012Ω	118.77	97.48	0.45
	2013	162.04	120.76	0.80
	2014*	172.44	158.70	0.66

µ Figures stated from launch date 17 October 2011.
β Figures stated from launch date 21 September 2012.
Ω Figures stated from launch date 31 May 2012.
* Figures to 31 March 2014.

Calendar Year Performance



Source: Franklin Templeton

* From launch of the Fund on 17 October 2011.

All performance data shown is based in sterling using the NAV prices of the A accumulation shares and include reinvested dividends and are net of management fees. Sales charges and other commissions, taxes and other relevant costs paid by the investor are not included in the calculations.

The value of shares and the income therefrom may go down as well as up and is not guaranteed. Past performance is not necessarily a guide to future performance. In particular, some investments held may be designated in currencies other than sterling and so may rise and fall purely on account of exchange rate fluctuations. Investors should be aware of the risks associated with this type of investment and should take a medium to long-term view of returns.

Ongoing Charges Ratio

	As at	%
A – Income Shares	31 March 2013	1.58
	31 March 2014	1.57
W – Income Shares	31 March 2013	0.88
	31 March 2014	0.87
W – Accumulation Shares	31 March 2013	0.88
	31 March 2014	0.87
Z – Accumulation Shares	31 March 2013	1.08
	31 March 2014	1.07

The Ongoing Charges Ratio is a figure representing all operating charges and expenses as a percentage of the Fund's average net assets during the year. Where ex-post expense information is not a fair representation of future operating costs and where 12 months of information is not available, an estimate is disclosed.

Distributions

For the period 1 April 2013 to 30 September 2013

Group 1 – Shares purchased prior to 1 April 2013

Group 2 – Shares purchased in the period 1 April 2013 to 30 September 2013

	Net Income p	Equalisation p	30 September 2013 Pence per Share p	30 September 2012 Pence per Share p
A – Income Shares				
Group 1	1.3764	–	1.3764	2.8377
Group 2	–	1.3764	1.3764	2.8377
W – Income Shares				
Group 1	0.6246	–	0.6246	–
Group 2	–	0.6246	0.6246	–
W – Accumulation Shares				
Group 1	0.7278	–	0.7278	0.5031
Group 2	–	0.7278	0.7278	0.5031
Z – Accumulation Shares				
Group 1	0.6479	–	0.6479	0.4483
Group 2	–	0.6479	0.6479	0.4483

For the period 1 October 2013 to 31 March 2014

Group 1 – Shares purchased prior to 1 October 2013

Group 2 – Shares purchased in the period 1 October 2013 to 31 March 2014

	Net Income p	Equalisation p	31 March 2014 Pence per Share p	31 March 2013 Pence per Share p
A – Income Shares				
Group 1	0.2699	–	0.2699	–
Group 2	–	0.2699	0.2699	–
W – Income Shares				
Group 1	0.7799	–	0.7799	0.2499
Group 2	0.0215	0.7584	0.7799	0.2499
W – Accumulation Shares				
Group 1	0.8838	–	0.8838	0.2876
Group 2	0.0251	0.8587	0.8838	0.2876
Z – Accumulation Shares				
Group 1	0.6624	–	0.6624	0.1562
Group 2	–	0.6624	0.6624	0.1562

PORTFOLIO INFORMATION

Classification of Investments

	31 March 2014 %	31 March 2013 %
Financial Services	13.99	15.88
Support Services	12.26	16.18
Travel & Leisure	8.51	4.84
Industrial Engineering	7.31	3.09
General Retailers	7.19	2.89
Household Goods & Home Construction	5.94	7.04
Real Estate Investment & Services	5.27	4.21
Personal Goods	4.15	–
Media	3.93	2.69
Electronic & Electrical Equipment	3.22	–
Oil Equipment, Services & Distribution	3.19	3.12
Electricity	3.19	–
Software & Computer Services	3.08	4.52
General Industrials	3.00	2.80
Technology Hardware & Equipment	2.78	4.95
Real Estate Investment Trusts	2.74	2.41
Aerospace & Defence	2.49	4.66
Chemicals	2.36	3.47
Pharmaceuticals & Biotechnology	2.01	2.51
Life Insurance	1.40	2.92
Oil & Gas Producers	–	5.53
Nonlife Insurance	–	5.02
Net other assets	1.99	1.27
Net assets	100.00	100.00

Top 10 Holdings

	31 March 2014 %
Bodycote PLC	4.86
Inchcape PLC	4.19
Thomas Cook Group PLC	4.17
SuperGroup PLC	4.15
Regus PLC	4.08
Bellway PLC	3.46
Spectris PLC	3.22
Hunting PLC	3.19
Drax Group PLC	3.19
Micro Focus International PLC	3.08

Top 10 Holdings

	31 March 2013 %
Ashtead Group PLC	3.56
IG Group Holdings PLC	3.41
Invensys PLC	3.14
Hunting PLC	3.12
Bodycote PLC	3.09
Hiscox Ltd.	3.00
St. James's Place Capital PLC	2.92
Howden Joinery Group PLC	2.90
Inchcape PLC	2.89
DS Smith PLC	2.80

Franklin UK Opportunities Fund

FUND FACTS

Launch Date: 17 October 2011
Benchmark: FTSE All-Share Index
Sector: IMA UK All Companies Sector
Ex Dates: 31 March & 30 September
Distribution Pay Dates: 31 May & 30 November

Investment Objective

The Fund aims to achieve a total return (i.e. a combination of capital growth and income) exceeding that of the FTSE All-Share Index, over the medium to long term.

Investment Policy

The Fund will primarily invest in a portfolio of equity securities issued by UK companies of any size or industry sector. The Fund may also hold European equity securities if the Manager considers this to be of potential advantage to investors.

In addition, at the ACD's discretion, the Fund may also invest a proportion of its portfolio in other types of transferable securities including fixed interest and other debt related securities, cash and near cash, money market instruments and other collective investment schemes.

It is not currently intended that derivatives will be used for any purpose other than the efficient portfolio management of the Fund. However, the Fund may, in the future and subject to the ACD giving not less than 60 days' notice to shareholders in the Fund, use derivatives in pursuit of its investment objective as well as for efficient portfolio management. It is not intended that the use of derivatives for efficient portfolio management will cause the Fund's existing risk profile to rise. Where the use of derivatives in pursuit of the Fund's investment objective may cause the Fund to have higher volatility or otherwise cause its existing risk profile to rise, a notification to that effect shall be included within the 60-day prior notice to be sent to shareholders in the Fund.

The base currency of the Fund is UK sterling.

Risk Profile

1	2	3	4	**5**	6	7

Lower risk
Potentially lower rewards

Higher risk
Potentially higher rewards

This indicator, disclosed in the Key Investor Information Document (KIID), provides a measure of the price movement of the Fund based on historical behaviour. Historical data may not be a reliable indication of the future risk profile of the Fund. The category shown is not guaranteed to remain unchanged and may shift over time. The lowest category does not mean risk free.

The Fund's investment portfolio is exposed to market fluctuations that are monitored by the Manager in pursuance of the investment objective and policy as set out above.

The Franklin UK Opportunities Fund may be appropriate for investors who want the potential for their investment to increase in value over the medium to long term by investing primarily in UK companies, regardless of their size or industry sector. The Fund is generally more suited to investors with a medium- to long-term investment horizon who are willing to take some risk to their capital.

Investment Review

Performance

For the year ended 31 March 2014, Franklin UK Opportunities Fund made a net return of 9.16%, outperforming the FTSE All-Share Index, which returned 8.81% (both returns in UK sterling).

Overview

The UK equity market continued to forge ahead at the start of the financial year, even though valuations appeared increasingly stretched. The benchmark FTSE All-Share Index had extended its winning run to 12 consecutive months by the end of May 2013, but everything changed in June when the market suffered a peak to trough correction of more than 10%. The trigger for the market setback was the reversal of the downward trend in bond yields as speculation mounted that the US Federal Reserve (Fed) was about to begin to taper the monthly asset purchases it made as part of its quantitative easing (QE) programme. Bond yields on both sides of the Atlantic had been rising steadily throughout May but this process accelerated in June as the rumours intensified. A 100 basis point move in 10 year US Treasury yields from 1.6% to 2.6% in a little over six weeks rattled policymakers and became the defining moment of the year. Fearful that such a sharp move would put the brakes on economic recovery, US policymakers tried to keep the yield curve in check by emphasising that short-term rates would remain low for a prolonged period. From an equity perspective, however, the cat was out of the bag and although the market bounced back strongly in July, investors had to wait until January 2014 for the market to break convincingly through its May high point.

The second half of the Fund's financial year was characterised by a series of short, sharp fluctuations in the equity market. It began with politicians in Washington, D.C. conspiring to remind us just how dysfunctional they can be by failing to agree a federal budget and pushing the US government into a partial shutdown. Ultimately, the dispute over the budget proved to be a non-event and markets were back on a rising trend as winter took hold, even though the Fed finally ended months of speculation by starting to taper its monthly asset purchases. The UK market had only just broken through to a new all-time high in January 2014 when the re-emergence of currency volatility in emerging markets served a timely reminder that the path to a normalised monetary environment is unlikely to be an entirely smooth one. Once again, however, the UK equity market quickly regained its poise only to end the year under review on a weak note in March as President Putin intervened in a dramatic fashion in Ukraine.

We stated 12 months ago that, given the valuation starting point, we felt that the rate of upward progress in equity prices was unlikely to be maintained, and this has proved to be the case. From an economic perspective, the real positives over the past year have been the acceleration in growth in the UK economy and the slow rehabilitation in the eurozone. On the other hand, growth in emerging markets has disappointed and the rise in long-term interest rates has acted as a drag on the US economy, as indeed has the recent severe winter weather.

The relative outperformance of the UK economy manifested itself as the year progressed in a stronger exchange rate for sterling, particularly against the US dollar. Together with the relative economic weakness of resource reliant countries, sterling's rise has been extremely helpful in bringing down inflation faster than expected. It has, however, led to collateral damage for earnings forecasts, as quoted UK companies have a high level of overseas earnings, which have suffered from the exchange effect.

The main feature of the UK equity market over the financial year was the continued re-rating of mid and small cap stocks relative to their larger counterparts. Together with their superior earnings growth, this meant another year of substantial outperformance for mid and small caps. At the sector level, the major story of the year was the underperformance of banks (HSBC and Standard Chartered had a particularly poor year) and the outperformance of telecoms, with the long awaited disposal of Vodafone's stake in Verizon Wireless the stock event of the year.

Significant Changes

There were a series of noteworthy changes in the first half of the financial year. Along with the name change from Franklin UK Select Growth Fund to Franklin UK Opportunities Fund, the most significant development was the change in lead manager, with Ben Russon taking on this role in June 2013. The change in manager has resulted in a subtle shift in the Fund's investment style, characterised by a reduction in the number of holdings and consequent increase in the minimum unit holding size. Understandably, there was a short-term increase in turnover in the Fund to reflect this transition, but it is important to note that the overall style and thematic positioning of the portfolio remained broadly consistent. This consistency is demonstrated by the fact that the Fund's previous lead Manager, Mark Hall, remains a key element of the investment team.

The transition towards a more concentrated portfolio resulted in a heightened level of portfolio disposals during the early part of the year. In many cases, the decision to sell positions was helped by the very strong performance of the equity market, which had left several holdings fairly priced, in our view. Good examples include the excellent capital gains achieved through the sales of shares in companies such as Filtrona, ITV, Elementis and Premier Farnell. This measured rationalisation and consolidation of the portfolio was reflective of the investment themes running through the portfolio. By way of example, with regards to holdings with a long-term savings theme, the Fund's investment in St James's Place was increased, Standard Life was introduced to the Fund, and Legal & General was sold. Similarly, among stocks exposed to construction and building materials, SIG and Travis Perkins were sold and a new holding was established in Wolseley. Certain core holdings that are aligned to structural growth trends had their portfolio weightings increased. Thus, among large cap names, we increased exposure to Compass Group, Whitbread, Sage and SSE. Further down the market capitalisation scale, we raised our holdings of stocks such as Cranswick and Unite Group. A new position was established in Carphone Warehouse Group. Finally, holdings that did not fit with the investment strategy going forward were disposed of, including HSBC Holdings, Barclays and Tesco).

With the initial re-positioning completed, there was a more "normal" level of trading activity in the second half of the financial year. New holdings were established in companies such as Smiths Group and British Sky Broadcasting Group, both well managed and cash generative businesses whose valuations we felt offered upside. By contrast, disposals could be broken down into three broad categories: stocks where we thought valuations had become too stretched (Cobham, Howden Joinery Group, Invensys following the bid by Schneider Electric); disposals that reflected the push to cut fund exposure to financials (Close Brothers Group, IG Group); and trades that were motivated by a desire to reduce political risk (reducing both SSE and Centrica, selling out of Severn Trent and cutting our participation in Centrica (which had been added to the portfolio earlier in the financial year)).

Electricity generation company Drax Group was introduced to the Fund at the start of calendar year 2014. The business is in the process of converting a proportion of its capacity from coal fired to biomass fuelled furnaces, which has a material impact on the revenue profile and financial structure of the group. The Fund also participated in Unite Group's cash raising. Unite Group, a specialist student accommodation provider, continues to see attractive opportunities to deploy capital expenditure. We completed our disposal of motor insurance company Esure Group, and we also disposed of Ultra Electronics Holdings after full-year results showed that trading conditions for the company remain tough.

Positive/Negative Contributors

In keeping with the general underperformance of the banking sector, by far the largest contribution to the Fund's relative returns during the financial year came from a large underweight position in HSBC Holdings. The next best contributions came from overweight positions in St. James's Place, Whitbread, Next and Ashtead Group. The share price of fund manager St. James's Place proved strongly geared to the upturn in the equity market, which has inflated the value of funds under management and encouraged clients to let St James's Place manage more of their money. The company's shares also became more liquid as Lloyds Banking Group sold down its 60% stake in the company. Whitbread has been a vibrant performer in the leisure sector, its shares enjoying a 65% rise in the 12 months under review as all the group's divisions benefitted from the significant improvement in the British domestic economy. Retailer Next, whose share price rose 56% in the 12 months to end March, similarly benefited from the economic upturn, issuing strong trading updates and announcing the development of a capital return strategy that will include special dividends. Like Next, Ashtead Group, a construction equipment rental business, put in an operating performance that surpassed market expectations and pushed its share price 64% higher over the year.

Among stocks in the portfolio, the largest detractor from relative performance was Just Retirement Group. This company's shares fell heavily in the last month of the financial year after changes announced in the UK Budget effectively removed the requirement for retirees to buy pension annuities. Centrica was the next largest detractor. Its share price was hurt by proposals from politicians to place a cap on energy bills as well as by a wide ranging investigation by regulators into the UK energy market that could open the way for a break-up of the big energy supply companies, including Centrica. Oil services company John Wood Group saw its share price decline by more than 10% as a consequence of a decline in earnings at some of its business units. Pearson and Esure were the next largest detractors: Pearson's transition to an all digital education business has proved more problematic than envisaged, while Esure suffered from regulatory changes in the car insurance industry, resulting in a marked fall in premium car insurance rates that hit Esure's bottom line.

Sector wise, relative returns over the financial year were strongly supported by stock selection in retail (a sector that includes Next) and technology as well as an underweight allocation to banks. The largest detractors were financial services, utilities (Centrica) and insurance (Just Retirement and Esure).

Outlook and Strategy

The global economy did not move forward at the rate we might have expected in 2013, with growth projections revised significantly lower as the year progressed. Growth in the US faded towards the end of the year as the housing market slowed and many emerging markets did not recover to the extent forecasters expected. Japan briefly flattered to deceive, so it was left to the UK economy to provide the upside surprise. The UK government's decision to target the housing market as a conduit to deliver a pre-election boost to the economy worked and left the UK as one of the world's fastest growing major economies in 2013.

These trends appear to have continued into the opening months of 2014. In the April 2014 issue of its *World Economic Outlook*, the International Monetary Fund (IMF) forecast global growth of 3.6% for 2014, compared to the 3% final outcome for 2013, with most of the pick-up in growth coming from advanced economies.[1] The IMF forecasts the UK to achieve growth of 2.9%, but the Bank of England is even more optimistic, lifting its own forecast for growth to 3.4% in 2014. There are even some encouraging signs that a long awaited and very necessary pick-up in investment spending is underway in the UK.

We know, however, that the performance of the economy and the performance of the stock market are not always positively correlated in the short term. Equities enjoyed a dramatic upward re-rating from May 2012 to May 2013 in anticipation of better economic times

1. Source: International Monetary Fund, World Economic Outlook, April 2014.

ahead, but the earnings growth required to fully justify this move has not yet materialised. At the same time the US 10 year Treasury yield, which effectively sets the global cost of capital, has moved higher.

We believe 2014 is the year in which earnings growth has to accelerate to justify current valuations. Another year of earnings disappointments will leave the market vulnerable to further steps towards monetary normalisation. With the path towards the ending of the Fed's QE programme now well understood, attention has switched to the short-term interest rate cycle and the timing of the first upward move in base rates. Current expectations are that rates will begin to be tightened in spring 2015 on both sides of the Atlantic.

The current good news on inflation means that policymakers are still relatively relaxed regarding short-term rates, but this can quickly change. In a normal cycle, UK short-term rates would be increasing already given the current rates of growth, but the Bank of England is signalling that it does not believe the UK economic recovery has yet reached a sustainable level and needs a greater contribution from investment and net trade. The policymakers at the Bank of England appear very sensitive to the impact of even small moves in interest rates on highly indebted consumers but oblivious to the suffering of savers.

In terms of valuation, by early April 2014, the UK equity market was trading significantly above its long-term average. Given that expectations for earnings growth are still falling, we remain cautious in aggregate. The Fund's strategy going forward remains unchanged: we will work hard to identify interesting new stock ideas while continuing to take advantage of any periods of volatility to add to quality names in the portfolio.

Ben Russon, CFA, Mark Hall & Colin Morton

Fund Managers
23 May 2014

Share Class Performance

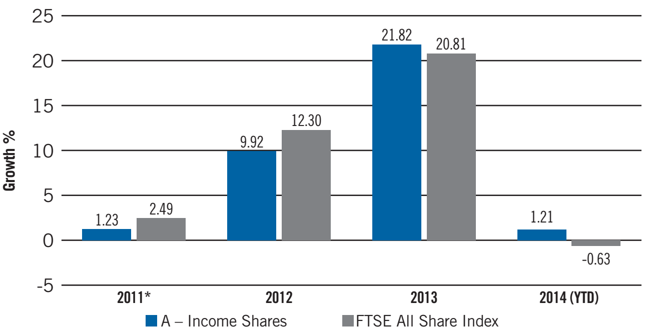
Share Class	Net Asset Value as at 31 March 2014 p	Net Asset Value as at 31 March 2013 p	% Movement
A – Income Shares	320.17	299.49	6.91
W – Accumulation Shares	138.37	126.03	9.79
Z – Accumulation Shares	137.87	125.82	9.58

Share Price and Income History

	Calendar Year	Highest Price p	Lowest Price p	Net Income Per Share p
A – Income Shares	2011µ	254.38	232.14	–
	2012	272.19	239.08	4.81
	2013	320.44	272.97	5.45
	2014*	330.79	308.42	2.72
W – Accumulation Shares	2012Ω	112.55	98.42	0.87
	2013	137.09	113.92	3.04
	2014*	141.69	132.04	1.64
Z – Accumulation Shares	2012Ω	112.41	98.42	0.79
	2013	136.66	113.77	2.84
	2014*	141.20	131.60	1.49

µ Figures stated from launch date 17 October 2011.
Ω Figures stated from launch date 31 May 2012.
* Figures to 31 March 2014.

Calendar Year Performance



Source: Franklin Templeton

* From launch of the Fund on 17 October 2011.

All performance data shown is based in sterling using the NAV prices of the A income shares and include reinvested dividends and are net of management fees. Sales charges and other commissions, taxes and other relevant costs paid by the investor are not included in the calculations.

The value of shares and the income therefrom may go down as well as up and is not guaranteed. Past performance is not necessarily a guide to future performance. In particular, some investments held may be designated in currencies other than sterling and so may rise and fall purely on account of exchange rate fluctuations. Investors should be aware of the risks associated with this type of investment and should take a medium to long-term view of returns.

Ongoing Charges Ratio

	As at	%
A – Income Shares	31 March 2013	1.59
	31 March 2014	1.59
W – Accumulation Shares	31 March 2013	0.89
	31 March 2014	0.89
Z – Accumulation Shares	31 March 2013	1.09
	31 March 2014	1.09

The Ongoing Charges Ratio is a figure representing all operating charges and expenses as a percentage of the Fund's average net assets during the year. Where ex-post expense information is not a fair representation of future operating costs and where 12 months of information is not available, an estimate is disclosed.

Distributions

For the period 1 April 2013 to 30 September 2013

Group 1 – Shares purchased prior to 1 April 2013

Group 2 – Shares purchased in the period 1 April 2013 to 30 September 2013

	Net Income p	Equalisation p	30 September 2013 Pence per Share p	30 September 2012 Pence per Share p
A – Income Shares				
Group 1	3.4307	–	3.4307	2.5210
Group 2	1.6452	1.7855	3.4307	2.5210
W – Accumulation Shares				
Group 1	1.8418	–	1.8418	0.8690
Group 2	0.9849	0.8569	1.8418	0.8690
Z – Accumulation Shares				
Group 1	1.7646	–	1.7646	0.7947
Group 2	0.7144	1.0502	1.7646	0.7947

For the period 1 October 2013 to 31 March 2014

Group 1 – Shares purchased prior to 1 October 2013

Group 2 – Shares purchased in the period 1 October 2013 to 31 March 2014

	Net Income p	Equalisation p	31 March 2014 Pence per Share p	31 March 2013 Pence per Share p
A – Income Shares				
Group 1	2.7152	–	2.7152	2.0228
Group 2	1.7201	0.9951	2.7152	2.0228
W – Accumulation Shares				
Group 1	1.6360	–	1.6360	1.1966
Group 2	0.9033	0.7327	1.6360	1.1966
Z – Accumulation Shares				
Group 1	1.4946	–	1.4946	1.0767
Group 2	0.8225	0.6721	1.4946	1.0767

PORTFOLIO INFORMATION

Classification of Investments

	31 March 2014 %	31 March 2013 %
Oil & Gas Producers	11.63	12.10
Tobacco	8.47	7.93
Pharmaceuticals & Biotechnology	8.34	6.72
Media	7.76	4.55
Mining	5.68	4.96
Travel & Leisure	5.68	3.26
Support Services	5.32	10.07
General Retailers	5.20	2.60
Food Producers	5.14	4.14
Life Insurance	4.43	2.17
Gas, Water & Multiutilities	3.72	2.56
Software & Computer Services	3.56	1.55
Household Goods & Home Construction	3.54	2.86
Beverages	3.01	2.92
Mobile Telecommunications	3.00	3.77
Electricity	2.82	–
Real Estate Investment & Services	2.45	2.29
Banks	2.29	8.53
General Industrials	1.99	0.82
Oil Equipment, Services & Distribution	1.77	1.97
Financial Services	1.47	4.59
Aerospace & Defence	–	3.24
Property & Casualty Insurance	–	–
Chemicals	–	1.63
Food & Drug Retailers	–	1.34
Industrial Engineering	–	1.34
Nonlife Insurance	–	0.86
Personal Goods	–	0.62
Net other assets	2.73	0.61
Net assets	100.00	100.00

Top 10 Holdings

	31 March 2014 %
British American Tobacco PLC	5.21
Royal Dutch Shell PLC, A	4.88
GlaxoSmithKline PLC	4.83
BP PLC	4.47
Reed Elsevier PLC	3.75
The Sage Group PLC	3.56
AstraZeneca PLC	3.51
Compass Group PLC	3.44
Unilever PLC	3.31
BHP Billiton PLC	3.28

Top 10 Holdings

	31 March 2013 %
HSBC Holdings PLC	4.88
British American Tobacco PLC	4.80
BP PLC	4.42
Royal Dutch Shell PLC, A	4.30
GlaxoSmithKline PLC	3.83
Vodafone Group PLC	3.77
Unilever PLC	3.14
Imperial Tobacco Group PLC	3.13
Diageo PLC	2.92
Rio Tinto PLC	2.89

Franklin UK Smaller Companies Fund

FUND FACTS
Launch Date: 17 October 2011
Benchmark: Numis Smaller Companies ex-Investment Trusts Index
Sector: IMA UK Smaller Companies
Ex Dates: 31 March & 30 September
Distribution Pay Dates: 31 May & 30 November

Investment Objective

The Fund aims to achieve capital growth exceeding that of the Numis Smaller Companies Index over the medium to long term.

Investment Policy

The Fund will primarily invest in the equity securities of smaller UK companies. Smaller companies are defined as those which are quoted on a regulated market and which, have a market capitalisation no greater than the largest company in the Numis Smaller Companies Index.

In addition, at the ACD's discretion, the Fund may also invest a proportion of its portfolio in other types of transferable securities including fixed interest and other debt related securities, cash and near cash, money market instruments and other collective investment schemes.

It is not currently intended that derivatives will be used for any purpose other than the efficient portfolio management of the Fund. However, the Fund may, in the future and subject to the ACD giving not less than 60 days' notice to shareholders in the Fund, use derivatives in pursuit of its investment objective as well as for efficient portfolio management. It is not intended that the use of derivatives for efficient portfolio management will cause the Fund's existing risk profile to rise. Where the use of derivatives in pursuit of the Fund's investment objective may cause the Fund to have higher volatility or otherwise cause its existing risk profile to rise, a notification to that effect shall be included within the 60-day prior notice to be sent to shareholders in the Fund.

The base currency of the Fund is UK sterling.

Risk Profile

1	2	3	4	5	**6**	7

Lower risk — Higher risk
Potentially lower rewards — Potentially higher rewards

This indicator, disclosed in the Key Investor Information Document (KIID), provides a measure of the price movement of the Fund based on historical behaviour. Historical data may not be a reliable indication of the future risk profile of the Fund. The category shown is not guaranteed to remain unchanged and may shift over time. The lowest category does not mean risk free.

The Fund's investment portfolio is exposed to market fluctuations that are monitored by the Manager in pursuance of the investment objective and policy as set out above.

The Franklin UK Smaller Companies Fund may be appropriate for investors who want the potential for their investment to increase in value over the medium to long term by investing primarily in UK companies, regardless of their size or industry sector. Smaller Companies shares are inherently less liquid and more volatile than the shares of larger companies, therefore the Fund is generally more suited to seasoned investors with a long-term time horizon, who are prepared to take a greater degree of risk for the potential of higher long-term investment returns.

Investment Review

Performance

In the 12 months to 31 March 2014, the Franklin UK Smaller Companies Fund recorded a net return of 40.86%, far outperforming the 26.15% registered by the benchmark Numis Smaller Companies Index (both returns in UK sterling).

Overview

The UK equity market continued to forge ahead at the start of the financial year, even though valuations appeared increasingly stretched. The benchmark FTSE All-Share Index had extended its winning run to 12 consecutive months by the end of May 2013, but everything changed in June when the market suffered a peak-to-trough correction of more than 10%. The trigger for the market setback was the reversal of the downward trend in bond yields as speculation mounted that the US Federal Reserve (Fed) was about to begin to taper the monthly asset purchases it made as part of its quantitative easing (QE) programme. Bond yields on both sides of the Atlantic had been rising steadily throughout May but this process accelerated in June as the rumours intensified. A 100 basis point move in 10-year US Treasury yields from 1.6% to 2.6% in a little over six weeks rattled policymakers and became the defining moment of the year. Fearful that such a sharp move would put the brakes on economic recovery, US policymakers tried to keep the yield curve in check by emphasising that short-term rates would remain low for a prolonged period. From an equity perspective, however, the cat was out of the bag and although the market bounced back strongly in July, investors had to wait until January 2014 for the market to break convincingly through its May high point.

The second half of the Fund's financial year was characterised by a series of short, sharp fluctuations in the equity market. It began with politicians in Washington, D.C. conspiring to remind us just how dysfunctional they can be by failing to agree a federal budget and pushing the US government into a partial shutdown. Ultimately, the dispute over the budget proved to be a non-event and markets were back on a rising trend as winter took hold, even though the Fed finally ended months of speculation by starting to taper its monthly asset purchases. The UK market had only just broken through to a new all-time high in January 2014 when the re-emergence of currency volatility in emerging markets served a timely reminder that the path to a normalised monetary environment is unlikely to be an entirely smooth one. Once again, however, the UK equity market quickly regained its poise only to end the year under review on a weak note in March as President Putin intervened in dramatic fashion in Ukraine.

We stated 12 months ago that, given the valuation starting point, we felt that the rate of upward progress in equity prices was unlikely to be maintained, and this has proved to be the case. From an economic perspective, the real positives over the past year have been the acceleration in growth in the UK economy and the slow rehabilitation in the eurozone. On the other hand, growth in emerging markets has disappointed and the rise in long-term interest rates has acted as a drag on the US economy, as indeed has the recent severe winter weather.

The relative outperformance of the UK economy manifested itself as the year progressed in a stronger exchange rate for sterling, particularly against the US dollar. Together with the relative economic weakness of resource-reliant countries, sterling's rise has been extremely helpful in bringing down inflation faster than expected. It has, however, led to collateral damage for earnings forecasts, as quoted UK companies have a high level of overseas earnings, which have suffered from the exchange effect.

Business and consumer confidence rose on the back of the improving UK economy, refocusing investors' attention on domestically oriented companies. The continued re-rating of mid- and small-cap stocks relative to their larger counterparts together with superior earnings growth ensured that they enjoyed another year of substantial outperformance.

Significant Changes
Early in the reporting period, we added new investments in Workspace Group (a London-focused property group), SIG (a specialist builders merchant) and LSL Property Services (an estate-agency network). In May 2013, we also added engineering-services group Bodycote to the portfolio and exited two investments that had proved disappointing – semiconductor company IQE and specialist translation services company SDL.

Between June and September, we were fairly active in adding holdings to the portfolio, including a variety of quality-growth, undervalued/overlooked and cyclical/recovery investments. We added six new positions in all and sold only one during this three-month period. The new investments were Hunting (an oil-equipment company), Telford Homes (a London-focused housing developer), Ricardo (a world-leading automotive technology company), Sportech (an online gambling and entertainment company) and specialist engineering firms WYG and Keller. The sole security disposed of was Dechra Pharmaceuticals.

Towards the end of 2013, we repositioned the portfolio somewhat due to strength in the small-cap market and the corresponding increase in the share price of some stocks, which meant a number of our cyclical and recovery-type investments that had performed exceptionally well were starting to show stretched valuations, in our view. We thus sold out of Howden Joinery Group (a kitchen manufacturer to the trade), SIG, and Hill & Smith (a diversified engineering business), all of which had contributed handsomely to the Fund's performance. We also sold out of Secure Trust due to a relatively high valuation after recent outperformance, and ECO Animal Health, given our concerns regarding supply constraints on the company's main product. New positions were established during this time in what we considered more attractively valued stocks such as SuperGroup (owner of the Super Dry clothing brand) and DotDigital (a software marketing business).

During the same three-month period, we also started to reduce our weighting of the house-building sector. The UK housing market improved substantially, as could be seen in increased housing transactions and mortgage approvals, with the government's Help-to-Buy scheme providing an added boost, but the house-building sector continued to re-rate to levels where we felt the upside had become more limited. We reduced our exposure through two methods: first, although overall fund assets grew, we did not necessarily add to our existing house-builder positions, causing them to naturally reduce in weighting; second, we sold out of our holding in house builder Crest Nicholson. We observed better value in second-derivative housing stocks – namely those that we thought were well placed to benefit from the pick-up in housing activity in the broadest sense. We thus increased our weightings in Topps Tiles and LSL Property Services.

As we moved into 2014, the small-cap market became increasingly active, with a sharp rise in the number of smaller companies looking to float on the market through initial public offerings (IPOs) and to raise additional funds through equity share placings. We have not participated in any IPOs as we have not come across the right quality of businesses offering attractive valuation multiples, but we did find a number of new opportunities when existing quoted companies raised additional equity for varying reasons. These new investments included Mckay Securities (a London and Southeast-focussed property company), EKF Diagnostics (a medical diagnostic equipment manufacturer) and Regenersis (an outsourcing after-market service provider to consumer electronics companies). The Fund still held only small positions in the latter two as we will receive the majority of the acquired stock during mid-April. We also established new positions in what we felt were two attractively valued opportunities – Low & Bonar (a manufacturer of high-performance technical fabrics) and Restore (a document storage and office relocation specialist).

We sold our position in Xaar towards the end of the financial year. This stock has been a superb performer for the Fund over the past year, but its on-going re-rating has left the group trading on a relatively high valuation multiple for a company set for a period of more modest growth, in our view. Although we still see the group as a long-term winner in its chosen markets, we had a few concerns about the maturing of the Chinese ceramic tile market and the timing and scale of the longer-term opportunities available to the group. We also sold our holding in Faroe Petroleum given our on-going concerns about some of the company's key producing wells and its ability to deliver exploration success. Finally, we sold Just Retirement Group toward the end of the financial year on foot of changes in regulations governing the UK annuities market.

One of the main features of the past financial year was the growth of assets in the Fund, which grew from about £20 million at end-March 2013 to around £164 million 12 months later. But the flow of funds has been quite steady and consistent over the period, making the investment of new monies quite manageable and allowing us to remain disciplined in our investment approach. We have thus been able to stick to our well-proven investment strategy and process without compromising on the quality or type of investments we seek out.

Positive/Negative Contributors
Franklin UK Smaller Companies Fund's very successful financial year was driven by some highly rewarding stock selections. It is also fair to say that an absence of any macro shocks and an improving domestic UK economy created a positive environment for UK smaller companies in general and in particular, for a fund like ours focussed on bottom-up stock selection within this universe.

The best single contribution to the Fund's outperformance came from Xaar, whose market price more than doubled in the 12 months under review. Xaar's profit forecasts were revised dramatically higher during the course of the year on the back of faster-than-expected conversion of the Chinese ceramic tile market to digital printing. The next-best contributor was Topps Tiles, which has 328 tile stores across the UK. Shares of Topps Tiles rallied sharply in the second half of 2013 on evidence of an improved trading outlook. Asset manager Polar Capital was the third-best contributor to relative returns. Its share price rose steadily in the first nine months of the reporting period, then spiked in January 2014 after the investment boutique announced that assets under management had surged by 80% in the previous nine months. However, Polar's market performance subsequently tailed off as a result of profit-taking and due to a fall in the Japanese market. Fashion chain Ted Baker not only benefited from the recovery in consumer spending in the domestic UK market, but also reaped the benefits of its recent international expansion in Europe and Asia, which gave a significant boost to profits.

Among stocks held in the portfolio during the financial year, the top detractors from relative returns were Faroe Petroleum, Anite, ECO Animal Health Group and IQE. The results of Faroe Petroleum's exploration efforts during the year were disappointing for investors, and the company also witnessed production declines due to problems with some of its established wells. Anite, a software supplier to the wireless and travel industries, issued a material downgrade to profit expectations in the middle of the financial year, reflecting disappointing sales figures, in part as a result of the disruption in customer spending and investment plans such as that caused by the sale of Nokia and doubts over the survival of Blackberry. IQE, a semiconductor company, was hurt by the growing perception that its business was vulnerable to silicon-based competition.

Sector wise, the best contributions to relative returns over the financial year came from industrial goods & services (a sector that includes Xaar), followed by financial services (including Polar Capital) and chemicals. The sectors that detracted most from relative performance were health care, travel & leisure and construction & materials.

Outlook and Strategy

The global economy did not move forward at the rate we might have expected in 2013, with growth projections revised significantly lower as the year progressed. Growth in the US faded towards the end of the year as the housing market slowed and many emerging markets did not recover to the extent forecasters expected. Japan briefly flattered to deceive, so it was left to the UK economy to provide the upside surprise. The UK government's decision to target the housing market as a conduit to deliver a pre-election boost to the economy worked and left the UK as one of the world's fastest-growing major economies in 2013.

These trends appear to have continued into the opening months of 2014, although in the April 2014 issue of its *World Economic Outlook*, the International Monetary Fund (IMF) forecast global growth of 3.6% for 2014, compared to the 3% final outcome for 2013, with most of the pick-up in growth coming from the advanced economies.[1] The IMF forecasts the UK to achieve growth of 2.9%, but the Bank of England is even more optimistic, lifting its own forecast for growth to 3.4% in 2014. There are even some encouraging signs that a long-awaited and very necessary pick-up in investment spending is underway in the UK.

We know, however, that the performance of the economy and the performance of the stock market are not always positively correlated in the short term. Equities enjoyed a dramatic upward rerating from May 2012 to May 2013 in anticipation of better economic times ahead, but the earnings growth required to fully justify this move has not yet materialized. At the same time the US 10 year-Treasury yield, which effectively sets the global cost of capital, has moved higher.

We believe 2014 is the year in which earnings growth has to accelerate to justify current valuations. Another year of earnings disappointments will leave the market vulnerable to further steps towards monetary normalisation. With the path towards the ending of the Fed's QE programme now well understood, attention has switched to the short-term interest rate cycle and the timing of the first upward move in base rates. Current expectations are that rates will begin to be tightened in spring 2015 on both sides of the Atlantic.

The current good news on inflation means that policymakers are still relatively relaxed regarding short-term rates, but this can quickly change. In a normal cycle, UK short-term rates would be increasing already given the current rates of growth, but the Bank of England is signalling that it does not believe the UK economic recovery has yet reached a sustainable level and needs a greater contribution from investment and net trade. The policymakers at the Bank of England appear very sensitive to the impact of even small moves in interest rates on highly indebted consumers but oblivious to the suffering of savers.

In terms of valuation, by early April 2014, the UK equity market was trading significantly above its long-term average. Given that expectations for earnings growth are still falling, we remain cautious in aggregate. The Fund's strategy going forward remains unchanged: we will work hard to identify interesting new stock ideas while continuing to take advantage of any periods of volatility to add to quality names in the portfolio. This stance served the Fund extraordinarily well in the 12 months under review, although we would caution that we do not expect this performance to be repeated given the upward re-rating of small-cap stocks that has already occurred.

Paul Spencer, Richard Bullas & Mark Hall
Fund Managers
23 May 2014

[1] Source: International Monetary Fund, World Economic Outlook, April 2014. © 2014 By International Monetary Fund. All Rights Reserved.

Share Class Performance

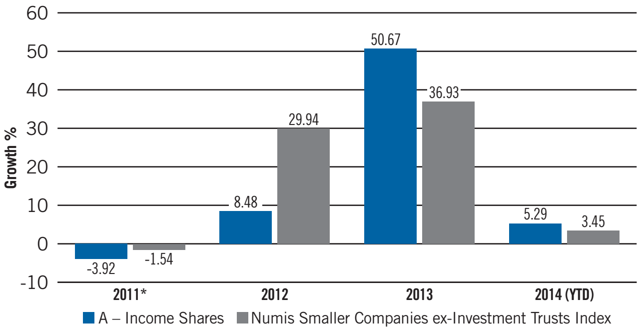
Share Class	Net Asset Value as at 31 March 2014 p	Net Asset Value as at 31 March 2013 p	% Movement
A – Income Shares	815.99	582.57	40.07
W – Accumulation Shares	175.21	124.09	41.20
Z – Accumulation Shares	174.55	123.86	40.93

Share Price and Income History

	Calendar Year	Highest Price p	Lowest Price p	Net Income Per Share p
A – Income Shares	2011µ	506.27	469.88	–
	2012	555.46	453.96	1.64
	2013	777.10	524.10	0.93
	2014*	843.33	776.80	–
W – Accumulation Shares	2012Ω	109.81	95.88	0.28
	2013	166.57	111.45	0.61
	2014*	181.00	166.52	0.83
Z – Accumulation Shares	2012Ω	109.66	95.85	0.19
	2013	166.03	111.30	0.39
	2014*	180.34	165.97	0.60

µ Figures stated from launch date 17 October 2011.
Ω Figures stated from launch date 31 May 2012.
* Figures to 31 March 2014.

Calendar Year Performance



Source: Franklin Templeton

* From launch of the Fund on 17 October 2011.

All performance data shown is based in sterling using the NAV prices of the A income shares and include reinvested dividends and are net of management fees. Sales charges and other commissions, taxes and other relevant costs paid by the investor are not included in the calculations.

The value of shares and the income therefrom may go down as well as up and is not guaranteed. Past performance is not necessarily a guide to future performance. In particular, some investments held may be designated in currencies other than sterling and so may rise and fall purely on account of exchange rate fluctuations. Investors should be aware of the risks associated with this type of investment and should take a medium to long-term view of returns.

Ongoing Charges Ratio

	As at	%
A – Income Shares	31 March 2013	1.70
	31 March 2014	1.63
W – Accumulation Shares	31 March 2013	1.00
	31 March 2014	0.93
Z – Accumulation Shares	31 March 2013	1.20
	31 March 2014	1.13

The Ongoing Charges Ratio is a figure representing all operating charges and expenses as a percentage of the Fund's average net assets during the year. Where ex-post expense information is not a fair representation of future operating costs and where 12 months of information is not available, an estimate is disclosed.

Distributions

For the period 1 April 2013 to 30 September 2013

Group 1 – Shares purchased prior to 1 April 2013

Group 2 – Shares purchased in the period 1 April 2013 to 30 September 2013

	Net Income p	Equalisation p	30 September 2013 Pence per Share p	30 September 2012 Pence per Share p
A – Income Shares				
Group 1	0.9327	–	0.9327	1.6397
Group 2	–	0.9327	0.9327	1.6397
W – Accumulation Shares				
Group 1	0.4078	–	0.4078	0.2779
Group 2	–	0.4078	0.4078	0.2779
Z – Accumulation Shares				
Group 1	0.3390	–	0.3390	0.1924
Group 2	0.0045	0.3345	0.3390	0.1924

For the period 1 October 2013 to 31 March 2014

Group 1 – Shares purchased prior to 1 October 2013

Group 2 – Shares purchased in the period 1 October 2013 to 31 March 2014

	Net Income p	Equalisation p	31 March 2014 Pence per Share p	31 March 2013 Pence per Share p
A – Income Shares				
Group 1	–	–	–	–
Group 2	–	–	–	–
W – Accumulation Shares				
Group 1	0.8324	–	0.8324	0.1989
Group 2	0.1736	0.6588	0.8324	0.1989
Z – Accumulation Shares				
Group 1	0.5985	–	0.5985	0.0478
Group 2	0.1076	0.4909	0.5985	0.0478

PORTFOLIO INFORMATION

Classification of Investments

	31 March 2014 %	31 March 2013 %
Support Services	20.03	16.36
Software & Computer Services	8.75	10.74
Travel & Leisure	6.58	5.35
Real Estate Investment Trusts	6.18	2.04
Aerospace & Defence	5.49	5.94
General Retailers	4.89	6.09
Real Estate Investment & Services	4.69	2.69
Financial Services	4.59	7.26
Chemicals	4.50	3.98
Personal Goods	4.35	2.62
Construction Materials	4.33	–
Media	4.19	4.89
Household Goods & Home Construction	3.50	5.33
Technology Hardware & Equipment	3.40	6.37
Industrial Engineering	2.57	1.49
Electronic & Electrical Equipment	2.41	7.10
Oil Equipment, Services & Distribution	2.33	–
Food Producers	2.08	1.89
Health Care Equipment & Services	0.70	–
Oil & Gas Producers	–	2.11
Pharmaceuticals & Biotechnology	–	3.88
Net other assets	4.44	3.87
Net assets	100.00	100.00

Top 10 Holdings

	31 March 2014 %
Lavendon Group PLC	3.33
Avon Rubber PLC	3.20
Restore PLC	2.87
RWS Holdings PLC	2.68
Topps Tiles PLC	2.63
Bodycote PLC	2.58
Advanced Computer Software Group PLC	2.52
Sportech PLC	2.43
Scapa Group PLC	2.42
Gooch & Housego PLC	2.42

Top 10 Holdings

	31 March 2013 %
Xaar PLC	4.62
RWS Holdings PLC	3.71
Avon Rubber PLC	3.65
Topps Tiles PLC	3.64
Bovis Homes Group PLC	3.56
Lavendon Group PLC	3.44
Polar Capital Holdings PLC	2.91
Restaurant Group PLC	2.81
Paragon Group Cos. PLC	2.80
Advanced Computer Software Group PLC	2.76

Franklin US Opportunities Fund

FUND FACTS
Launch Date: 30 January 2009
Benchmark: Russell 3000 Growth Index
Sector: IMA North America
Ex Date: 31 March
Distribution Pay Date: 31 May

Investment Objective

The Fund aims to provide capital appreciation in the long term through investment in US equities.

Investment Policy

The investment policy, and the general nature of the portfolio, is to invest primarily in equity securities of US issuers demonstrating accelerating growth, increasing profitability, or above-average growth or growth potential as compared with the overall economy. Equity securities generally entitle the holder to participate in a company's general operating results. They include common stocks, convertible securities and warrants on securities.

In choosing equity investments, the Investment Adviser will focus on sectors that have exceptional growth potential and fast growing, innovative companies with solid management and sound financial records. Although the Investment Adviser will search for investments across a large number of sectors, the Fund may from time to time hold a significant proportion of its portfolio in a limited number of sectors.

In addition, at the ACD's discretion, the Fund may also invest a proportion of its portfolio in other types of transferable securities including (but not limited to) fixed interest and other debt related securities, cash and near cash, money market instruments and other collective investment schemes, subject to COLL.

When appropriate, the Fund may use futures, options and other derivatives for the purposes of efficient portfolio management and will comply with the restrictions set out in Appendix 2 of the Prospectus.

The base currency of the Fund is UK sterling.

Risk Profile

1	2	3	4	5	**6**	7

Lower risk
Potentially lower rewards

Higher risk
Potentially higher rewards

This indicator, disclosed in the Key Investor Information Document (KIID), provides a measure of the price movement of the Fund based on historical behaviour. Historical data may not be a reliable indication of the future risk profile of the Fund. The category shown is not guaranteed to remain unchanged and may shift over time. The lowest category does not mean risk free.

The Fund's investments in equity securities are subject to general market and industry risk as well as currency exchange rate volatility.

The Franklin US Opportunities Fund may be appropriate for investors seeking the potential for high capital growth over the long term by investing primarily in US equities.

Investment Review

Performance

For the one-year period ended 31 March 2014, Franklin US Opportunities Fund returned 12.37% while its benchmark, the Russell 3000® Growth Index,[1] returned 12.60%, (both returns in UK sterling).

Overview

During the 12-month period ended 31 March 2014, especially in the second half of 2013, the US economy showed ongoing signs of recovery. Despite abnormally cold weather that suppressed some economic activity beginning in January, economic indicators were still broadly supportive of recovery at period-end. Historically low mortgage rates and improving sentiment aided the housing market recovery, evidenced by solid home sales, rising home prices, low inventories and multi-year lows in new foreclosures. Manufacturing activity expanded during the period under review, although adverse weather led to a slowdown in early 2014. Retail sales rose year-over-year and recorded particularly strong performance towards year-end 2013 but missed analysts' expected levels in 2014. The unemployment rate declined to 6.7% in March 2014 from 7.5% in March 2013, and inflation remained well below the US Federal Reserve Board's (Fed's) 2.0% target.

In October 2013, the federal government temporarily shut down after Congress reached a budget impasse. However, Congress passed a spending bill in January 2014 to fund the federal government through September 2014. Congress then approved suspension of the debt ceiling until March 2015. The Fed maintained its monthly bond purchases at US$85 billion until January 2014, when it began reducing them based on continued positive economic and employment data. Although economic data in early 2014 were soft resulting from severe winter weather, Fed Chair Janet Yellen kept the pace of asset-purchase tapering intact in the Fed's March meeting while quickening the expected pace of the central bank's rate-hike cycle and adopting a more qualitative approach to rate-hike guidance. Despite volatility in US equity markets towards period-end arising from geopolitical risks in Ukraine, markets continued to advance as tensions eased.

Investor confidence grew as corporate profits rose and generally favourable economic data indicated continued recovery. However, brief sell-offs flared when markets reacted to the Fed's statements, US budget disputes, political instability in certain emerging markets and China's slowing economy. US stocks generated strong returns for the 12 months under review as the Standard & Poor's® 500 Index (S&P 500®) and Dow Jones Industrial Average reached all-time highs.

Significant Changes

For the one-year period ended 31 March 2014, the portfolio's weighting notably increased in the consumer discretionary sector. We have been interested in the US consumer segment and believe it is potentially well positioned for growth given a number of indicators, including a rise in consumer savings, a decline in debt service ratios and an improving job market. We see these developments reflected in US consumer spending, which neared all-time highs. Therefore, we have been identifying what we view as attractive opportunities in the consumer discretionary sector. In addition, our health care sector weighting ticked up. Within the sector, we have been focusing on companies we believe are innovative and/or can lower costs. In particular, biotechnology has high levels of innovation, in our view, and offers the possibility of raising the standards of care and treatment for patients.

As far as significant reductions in sector weightings, allocations were notably decreased in the energy, information technology, materials and telecommunication services sectors. These changes reflected a combination of performance by existing holdings as well as purchases and sales. The information technology sector continued to be the Fund's largest area of investment over the period, although it was underweight relative to the benchmark index. Lastly, the Fund's cash position increased.

1. Russell® is a trademark/servicemark of the Frank Russell Company.

2. STANDARD & POOR'S®, S&P® and S&P 500® are registered trademarks of Standard & Poor's Financial Services LLC.

The top five purchases for the Fund during the one-year reporting period were Google, Amazon.com, Gilead Sciences, Priceline.com and Las Vegas Sands.

Google is a technology company that maintains an index of Web sites and other online content for users, advertisers, and Google network members and other content providers. In our view, Google's focus on its core business, supported by its continued search for creative ways to attract internet traffic and leverage the shift to online advertising, could translate into further revenue and earnings growth. We believe Android's market-share gains could extend Google's competitive advantages into the growing mobile world. While the recent new share class issuance has been received unfavourably in the news, we do not believe it will lead to a deterioration of the share price. We continue to be encouraged by the innovative culture, original vision and strong execution of Google's management team. Amazon.com is an emerging leader in the global online shopping marketplace. We believe Amazon has the potential to continue taking share from other global retailers. In particular, we think Amazon is potentially well positioned to consolidate e-commerce market share and benefit from the transition of retail cash online, as it continues leveraging its scale to provide what we view as an unmatchable customer experience. High growth potential comes from the addition of fulfillment centers, new prime memberships and continued efforts in cloud computing. Gilead Sciences is a biopharmaceutical company engaged in the discovery, development and commercialisation of treatments for life-threatening diseases worldwide, with a focus on human immunodeficiency virus/AIDS, liver diseases such as hepatitis B virus and hepatitis C virus, serious cardiovascular/metabolic and respiratory conditions. In our view, the company has potential to grow revenue through its HIV treatment programmes, which we believe are progressing positively. Despite recent headline concerns, we believe Gilead's competitive position in the hepatitis C treatment market should further support the firm's revenue. Priceline.com is an online travel company that offers hotel room reservations worldwide through the Booking.com, priceline.com, and Agoda brands. The company also offers other travel services, including the purchase of airline tickets, car rental reservations, holiday packages, cruises and destination services. Priceline has seen an upwards trending return on equity, a strong financial record and has exhibited accelerating overall growth. Las Vegas Sands owns, operates and manages casino gaming operations, resort hotel facilities and riverboat casinos. It develops destination properties that feature premium accommodations, gaming and entertainment, convention and exhibition facilities, celebrity chef restaurants and many other amenities. The company has displayed positive growth characteristics. We believe it may continue to experience a healthy earnings growth rate.

The top five sales during the one-year reporting period were Celgene, Allergan, F5 Networks, Medivation and eBay.

Celgene is a biopharmaceutical company involved in the discovery, development and commercialisation of therapies designed to treat cancer and immune and inflammatory-related diseases. The company's core product has been facing meaningful legal risks, therefore we chose to reduce our position. Allergan is a global health care company that develops and commercialises specialty pharmaceutical products. The company has grown strongly over the past decade and investors seem to have developed high expectations for management's execution. We reduced our exposure over the period as we viewed the company was facing potential near-term pipeline setbacks (including a possible generic version of Allergan's Restasis for macular degeneration once its patent expires), which could lead to a weakening growth profile. F5 Networks is a technology company that provides products that help manage growing network traffic, application complexity and security concerns. We have concerns about the sustainability of the company's revenue growth given pricing and competitive pressures. As such, we exited our position and reinvested the proceeds into higher growth areas. Medivation is a biopharmaceutical company focused on the development of small molecule drugs to treat serious diseases for which there are limited treatment options. We reduced our exposure as the stock was showing excessive volatility on concerns regarding the company's new drugs data. eBay provides online marketplaces for the sale of goods and services, as well as other online commerce, platforms and payment solutions, to a diverse community of individuals and businesses. We exited our position because, in our view, eBay had not kept pace with some of its faster-growing e-commerce peers, leading to a slowing growth profile.

Contributors and Detractors

For the one-year reporting period ended 31 March 2014, the Fund outperformed its benchmark with strong relative performance in the consumer staples and health care sectors. Stock selection in the consumer discretionary, information technology, telecommunication services and financials sectors also proved favourable for relative returns. In contrast, the energy, materials and industrials sectors detracted from relative results.

Stock selection and an underweighting in the beverages industry benefitted relative performance in the consumer staples sector. In the health care sector, various holdings in the pharmaceuticals and biotechnology industries contributed to returns, especially generic drugmaker Actavis in the pharmaceuticals industry, which reported three consecutive quarters of solid results and raised guidance to reflect better-than-expected margins on its business. In addition, the acquisition of a specialty pharmaceutical company during the period – a deal said to be highly accretive for Actavis earnings – also supported the shares. Other sector contributors included Jazz Pharmaceuticals, Gilead Sciences, Celldex Therapeutics and Celgene. Positions in Allergan, ARIAD Pharmaceuticals and Amarin, however, pressured relative returns.

Several holdings in the consumer discretionary sector also boosted relative performance, including Under Armour and Chipotle Mexican Grill. Shares of athletic apparel company Under Armour have been benefiting from healthy growth in the company's apparel business as its brand strength evolves. An increase in comparable store sales and traffic gains benefitted shares of restaurant franchise Chipotle. Hindering consumer discretionary sector relative performance were Tile Shop Holdings and Lululemon Athletica.

In the information technology sector, positions in payment processor MasterCard and social networking site Facebook proved favourable. Transaction volume growth benefitted shares of MasterCard, while advertising revenue acceleration drove returns for Facebook. An underweight position in International Business Machines also helped the Fund's relative performance as its shares declined during the period. Conversely, holdings in Equinix and Semtech detracted from relative returns.

Stock selection in the energy sector weighed most on the Fund's relative performance for the one-year reporting period. Deepwater oil exploration company Cobalt International Energy announced disappointing results of a discovery off the coast of Angola that contained lower oil reserves than it expected – news that negatively impacted the stock. In the materials sector, chlorovinyl chemicals manufacturer Axiall curbed relative returns, while shares of railroad company Kansas City Southern pressured results in the industrials sector.

Outlook

The period under review was characterised by improving economic growth in the United States along with some market volatility and sector rotation in the market. Over the short term, we have seen some rotation out of traditional growth companies into lower-growth, higher-yielding segments of the market. Sectors such as telecommunication services, financials and consumer staples outperformed higher-growth segments such as information technology, health care and consumer discretionary. This style shift comes on the heels of comments from the Fed regarding improving economic growth in 2014 and market expectations for higher interest rates at some point in the future. From our perspective, while these types of sentiment shifts may create volatility in the short term, they do not change our fundamental view that a disciplined strategy of investing in high-quality growth companies with strong three- to five-year outlooks can deliver strong risk adjusted returns over the long term.

With our focus on investing in high quality growth companies we believe that businesses that embrace innovation, and that turn new ideas into transformative ways of doing business, have the power to drive profit growth and wealth creation regardless of waxing and waning business cycles. This is consistent with our strategy of searching and investing in quality companies with strong and improving competitive positions in attractive markets. We continue to look for opportunities in the energy, health care, technology and media markets to invest in well-managed and well-capitalised companies with clear drivers of growth.

In energy, new horizontal drilling technologies have opened up natural gas production opportunities in shale beds that previously were not economical to develop. The US has seen resurgent growth in its oil supply by applying these new drilling and completion technologies to tight shale rock in North Dakota, south Texas and Colorado. The abundant supply of natural gas from these shale formations is leading to pockets of innovation and growth in the capital goods sector. New technologies are quickly evolving that can compress or liquefy natural gas and use it to power an engine, which is a development being applied to fleets of trucks. The result has been cost savings, along with reduced emissions due to cleaner burning fuel, and it is also generating demand for the build-out of support infrastructure.

In health care, pressures in the US to contain expenditures are leading to innovation designed to better link the quality of health care with its cost. In the current system, consumers have little incentive to seek out the best value for their health care dollar. We believe fundamental changes are occurring which will give patients and providers the incentive to select treatment options that yield better outcomes at a lower overall cost. Companies that adapt to these changes are likely to have an opportunity for growth, even in a cost-constrained health care environment. We also remain positive on the biotechnology industry as we believe that recent clinical trial successes across programmes spanning a myriad of serious diseases with meaningful unmet need underscore unprecedented potential for innovation. These dramatic, industry-wide improvements in treatment modalities could drive robust, long-term earnings growth even in the face of potential global pricing and utilisation pressures.

The electronic technology that businesses and consumers interact with every day in the form of connected, “smart” devices reflects another area of growth potential for well-positioned companies. Devices with embedded sensors and wireless connectivity are currently generating massive amounts of useful digital data that can increase bandwidth, security, storage and analytic needs. This rapidly expanding market of disparate products now includes wearable fitness devices, smart meters, lighting, security cameras, automobiles, parking meters, hotel door locks, vending machines and sprinkler systems. As the installed base of these products, known as the “Internet of things,” continues to multiply, we see the likelihood of increased economic value reaching numerous industries, including manufacturing, agriculture, security, automotive and health care.

Similarly, in entertainment, on-demand streaming of video to TVs, tablets and handsets is causing a change in the type of content consumers are demanding. Premium networks, cable networks and streaming services are now all competing for serialised content that did not work as well in a linear television world when missing one week’s episode might alienate an audience. As the demand for new series, as well as a syndication market for this content, has emerged, content owners and creators are getting paid more for new shows and for their library while also seeing an influx of talent shift away from movies and towards TV. These are just a few examples of how innovation can lead to profit growth and wealth creation for various companies, with the potential to benefit patient investors.

We remain focused on our strategy of investing in innovative, fast-growing companies that are leaders or emerging leaders in their industry, particularly those demonstrating increasing profitability or growth potential relative to the overall economy. We look for companies that meet our growth, quality and valuation criteria with the potential for sustainable earnings growth, strong financial records, solid management, and a current price that offers significant upside relative to the business and financial risks of the company. We believe these strong business models may potentially perform well in a variety of market and economic situations.

Grant Bowers, Conrad Herrmann, CFA
Fund Managers
23 May 2014

Share Class Performance

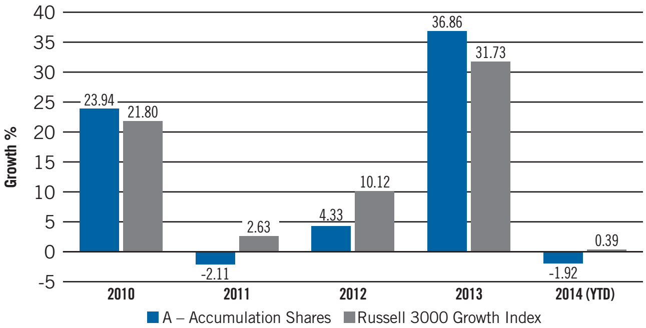
Share Class	Net Asset Value as at 31 March 2014 p	Net Asset Value as at 31 March 2013 p	% Movement
A – Accumulation Shares	224.02	197.56	13.39
I – Accumulation Shares	231.95	203.13	14.19
W – Accumulation Shares	136.55	119.61	14.16
Z – Accumulation Shares	229.53	201.41	13.96

Share Price and Income History

	Calendar Year	Highest Price p	Lowest Price p	Net Income per Share p
A – Accumulation Shares	2010	163.57	124.04	–
	2011	170.70	130.91	–
	2012	180.02	156.45	–
	2013	227.89	167.01	–
	2014*	236.59	219.38	–
I – Accumulation Shares	2010	165.56	124.79	–
	2011	173.43	133.12	–
	2012	183.80	159.45	–
	2013	235.51	171.42	–
	2014*	244.84	226.87	–
W – Accumulation Shares	2012Ω	104.55	96.88	–
	2013	138.66	100.95	–
	2014*	144.15	133.57	–
Z – Accumulation Shares	2010	164.91	124.53	–
	2011	172.57	132.42	–
	2012	182.62	158.50	–
	2013	233.18	170.06	–
	2014*	242.31	224.58	–

Ω Figures stated from launch date 31 May 2012.
* Figures to 31 March 2014.

Calendar Year Performance



Source: Franklin Templeton

All performance data shown is based in sterling using the NAV prices of the A accumulation shares and include reinvested dividends and are net of management fees. Sales charges and other commissions, taxes and other relevant costs paid by the investor are not included in the calculations.

The value of shares and the income therefrom may go down as well as up and is not guaranteed. Past performance is not necessarily a guide to future performance. In particular, some investments held may be designated in currencies other than sterling and so may rise and fall purely on account of exchange rate fluctuations. Investors should be aware of the risks associated with this type of investment and should take a medium to long-term view of returns.

Ongoing Charges Ratio

	As at	%
A – Accumulation Shares	31 March 2013	1.64
	31 March 2014	1.62
I – Accumulation Shares	31 March 2013	0.94
	31 March 2014	0.92
W – Accumulation Shares	31 March 2013	0.94
	31 March 2014	0.92
Z – Accumulation Shares	31 March 2013	1.14
	31 March 2014	1.12

The Ongoing Charges Ratio is a figure representing all operating charges and expenses as a percentage of the Fund's average net assets during the year. Where ex-post expense information is not a fair representation of future operating costs and where 12 months of information is not available, an estimate is disclosed.

Distributions

No distributions have been made during the year ended 31 March 2014.

PORTFOLIO INFORMATION

Classification of Investments

	31 March 2014 %	31 March 2013 %
Biotechnology	7.91	9.15
Internet Software & Services	7.84	7.78
Pharmaceuticals	6.79	4.13
Internet Retail	5.73	3.39
Data Processing & Outsourced Services	4.72	5.19
Aerospace & Defence	3.43	3.75
Casinos & Gaming	3.29	1.45
Restaurants	3.01	3.39
Application Software	2.95	3.73
Apparel, Accessories & Luxury Goods	2.84	3.15
Industrial Machinery	2.70	1.01
Wireless Telecommunication Services	2.54	3.88
Oil & Gas Equipment & Services	2.44	4.14
Asset Management & Custody Banks	2.33	2.72
Broadcasting	1.86	–
Communications Equipment	1.81	4.19
Oil & Gas Exploration & Production	1.58	2.02
Diversified Banks	1.54	–
Systems Software	1.37	–
Cable & Satellite	1.36	0.51
Airlines	1.32	0.89
Electronic Manufacturing Services	1.30	0.92
Movies & Entertainment	1.25	0.34
Technology Hardware, Storage & Peripherals	1.24	–
Footwear	1.20	1.50
Research & Consulting Services	1.16	1.55
Electrical Components & Equipment	1.16	0.98
Railroads	1.13	1.77
Consumer Electronics	1.09	–
Regional Banks	1.09	1.05
Specialized Finance	1.07	–
Trading Companies & Distributors	1.01	1.84
Home Improvement Retail	0.90	–
Life Sciences Tools & Services	0.88	–
Semiconductors	0.87	1.30
Commodity Chemicals	0.82	1.73
Insurance Brokers	0.81	–
Soft Drinks	0.80	0.78
Packaged Foods & Meats	0.65	0.75
Industrial Gases	0.61	0.97
Health Care Supplies	0.58	0.74
Fertilizers & Agricultural Chemicals	0.56	1.27
General Merchandise Stores	0.51	0.74
Construction & Farm Machinery & Heavy Trucks	0.48	0.98
Brewers	0.47	0.67
Human Resource & Employment Services	0.46	–
Real Estate Services	0.44	0.86
Health Care Technology	0.33	–
Other Diversified Financial Services	–	2.25
Computer Hardware	–	2.43
Specialty Stores	–	0.53
Specialty Chemicals	–	1.89
Health Care Equipment	–	0.49
Health Care Services	–	1.95
Auto Parts & Equipment	–	0.97
Computer Storage & Peripherals	–	0.91
Air Freight & Logistics	–	0.73
IT Consulting & Other Services	–	0.52
Net other assets	7.77	2.12
Net assets	100.00	100.00

Top 10 Holdings

	31 March 2014 %
Google Inc., A	3.88
Gilead Sciences Inc.	3.64
Amazon.com Inc.	2.78
MasterCard Inc., A	2.74
SBA Communications Corp.	2.54
Precision Castparts Corp.	2.27
Actavis PLC	2.20
Priceline.com Inc.	2.17
Las Vegas Sands Corp.	2.16
Visa Inc., A	1.97

Top 10 Holdings

	31 March 2013 %
MasterCard Inc., A	3.63
Google Inc., A	3.29
SBA Communications Corp.	3.27
Gilead Sciences Inc.	2.89
Apple Inc.	2.43
Celgene Corp.	2.40
Allergan Inc.	2.36
QUALCOMM Inc.	2.28
Precision Castparts Corp.	2.19
BlackRock Inc.	1.94

Templeton Global Emerging Markets Fund

FUND FACTS

Launch Date: 15 March 2004
Benchmark: MSCI Emerging Markets Index
Sector: IMA Global Emerging Markets
Ex Date: 31 March
Distribution Pay Date: 31 May

Investment Objective

The Fund aims to provide long-term capital growth by investing primarily in emerging market equities.

Investment Policy

The investment policy, and the general nature of the portfolio, is to invest primarily in the equity or equity related securities of companies domiciled in emerging nations and/or companies which derive a significant proportion of their revenues or profits from, or have a significant portion of their assets in emerging economies that the Investment Adviser has identified as trading at a significant discount to an estimate of their long-term underlying worth.

In addition, at the ACD's discretion, the Fund may also invest a proportion of its portfolio in other transferable securities including (but not limited to) fixed interest and other debt related securities, cash and near cash, money market instruments and other collective investment schemes, subject to COLL.

It is not currently intended that derivatives will be used for any purpose other than the efficient portfolio management of the Fund. However, the Fund may, in the future and subject to the ACD obtaining and maintaining the requisite permissions from the FCA and on giving not less than 60 days' notice to shareholders in the Fund, use derivatives in pursuit of its investment objective as well as for efficient portfolio management. When the Fund uses derivatives for the purposes of efficient portfolio management, it will comply with the restrictions set out in Appendix 2 of the Prospectus. It is not intended that the use of derivatives for efficient portfolio management will cause the Fund's existing risk profile to rise. Where the use of derivatives in pursuit of the Fund's investment objective may cause the Fund to have higher volatility or otherwise cause its existing risk profile to rise, a notification to that effect shall be included within the 60-day prior notice to be sent to shareholders in the Fund.

The base currency of the Fund is UK sterling.

Risk Profile

1 2 3 4 5 **6** 7

Lower risk
Potentially lower rewards

Higher risk
Potentially higher rewards

This indicator, disclosed in the Key Investor Information Document (KIID), provides a measure of the price movement of the Fund based on historical behaviour. Historical data may not be a reliable indication of the future risk profile of the Fund. The category shown is not guaranteed to remain unchanged and may shift over time. The lowest category does not mean risk free.

The Fund's investments in emerging markets are subject to all the risks of foreign investing generally, and have additional risks due to a lack of established legal, political, business and social frameworks to support securities markets. Some of the additional significant risks include political and social uncertainty and currency exchange rate volatility.

The Templeton Global Emerging Markets Fund may be appropriate for an investor who has a portfolio invested in a number of different asset classes and is now looking to take a higher risk with some of their investments, in return for the higher long term growth potential and greater portfolio diversification available from an investment in emerging market companies from around the world.

Investment Review

Performance

For the year ended 31 March 2014, Templeton Global Emerging Markets Fund fell by 16.41% while the MSCI Emerging Markets Index fell by 9.89% (both returns in UK sterling).

Overview

Emerging markets saw subdued performances in sterling terms during the year under review as investors reacted to changes in US monetary policy. In particular, concerns about plans by the US Federal Reserve (Fed) to rein in its quantitative easing (QE) programme triggered outflows from emerging markets that had previously received strong inflows. The switch in sentiment affected most emerging markets, but especially pressured those seen as vulnerable to interruptions in foreign investment flows due to weak current account positions or low foreign reserves. For local equity investors, the impact was somewhat muted as share prices responded to the improved competitiveness arising from exchange rate moves, as in many cases, currency exchange rates bore the brunt of the market adjustments.

Local drivers meant that performances varied sharply from country to country within emerging markets. At the core of the emerging markets universe, China finished flat in local currency terms and modestly lower in sterling, as benefits from a revival in growth in the second half of 2013 and news of a large reform programme announced at the end of 2013 dissipated as growth concerns re-emerged. Among better performers, Pakistan advanced very strongly over the year as elections in mid-2013 returned a stable government committed to reform. An agreement with the International Monetary Fund (IMF) later in the year provided much needed financial support and committed the Pakistan government to substantial market reforms. Taiwan achieved solid local currency gains and a small gain in sterling terms, helped by links into recovering developed markets, local reforms and stimulus, and a solid year for its substantial technology sector. India struggled severely with current account concerns and weakening growth in the first half of the period under review, but recovered very strongly in the second half on more effective monetary policy prescriptions and hopes that a reformist government would be elected. A large local currency gain translated into a small fall in sterling terms. Similarly, in South Africa, severe currency weakness diluted local currency gains made as businesses saw their competitive positions improved.

Turkish equities as well as the lira came under notable pressure on concerns about balance of payment issues and political unrest due to corruption scandals, though shares rallied at the period's end. Latin American markets such as Brazil and Chile struggled under the impact of QE concerns and commodity weakness caused by subdued Chinese economic growth data. Thailand faced severe currency pressures, with political unrest also impacting equity prices. Russia's aggressive response to political changes in Ukraine in early 2014 led to the imposition of sanctions and selling by international investors, with the rouble moving significantly lower.

Significant Changes

We added a number of new positions to the Fund over the period under review as our investment metrics suggested the availability of solid long-term value. We acquired a position in Saudi Dairy & Foodstuffs, which we believe holds a strong position in buoyant Middle Eastern markets. South Korean clothing retailer LG Fashion appears to us to be well managed and poised to take a solid domestic retail operation into export markets. Brazilian shoe manufacturer Grendene represented, in our view, an attractively valued means to address rising consumer spending in Latin America. We took the opportunity offered by share price weakness in Turkey to acquire a position in supermarket and shopping mall operator Migros Ticaret at what we believed was an appealing entry price. We also added to an existing holding in South African mining firm Impala Platinum Holdings after industrial action had depressed the price. In order to provide funds for investment and to meet redemptions, we reduced positions in Russian gas producer and distributor Gazprom, Brazilian iron ore miner Vale, Pakistani bank MCB Bank, South Korean house builder and construction company Hyundai Development, and Chilean copper miner Antofagasta, among other stocks.

Positive/Negative Contributors

The Fund's performance in absolute terms was adversely impacted by positions in the energy sector, due to a number of factors. Coal mining companies were hurt by a fall in prices during the year as additional supply entered a market affected by uncertain demand trends from steel and utilities businesses, as well as pressure from low gas prices. Chinese coal businesses saw additional pressure from tightened environmental regulation and anticipation of further developments on that front. Positions in two Chinese coal businesses, Inner Mongolia Yitai Coal and Yanzhou Coal Mining, saw double-digit declines in sterling terms during the year. Brazilian energy business Petrobras weakened as investors became disillusioned at government policy that forced the business to sell fuel to the domestic market at a loss, pressuring its financial position, while Russian energy stocks were caught up in the Ukraine crisis. In the materials sector, Brazilian iron ore business Vale and South African mining firm Impala Platinum Holdings both retreated, offsetting gains from Russian nickel miner Norilsk Nickel, which benefited from supply restrictions arising from an Indonesian ban on exports of unprocessed nickel ore. Indian mining business Sesa Sterlite also contributed as a long-awaited corporate reorganisation took effect. Chinese food retailer Dairy Farm International struggled, outweighing a contribution from a Turkish peer, Migros Ticaret, and depressing the return from consumer staples, while local market weakness pressured Brazilian and Thai banks in the financials sector.

In contrast, Pakistani bank MCB Bank was the largest individual contributor to absolute performance, helped by positive reactions to successful elections and the negotiation by the new Pakistani government of an IMF support package. In sector terms, consumer discretionary was the largest contributor to absolute performance as Brilliance China Automotive Holdings, a producer of German luxury cars under licence, enjoyed very strong sales and earnings growth, boosted by new model introductions and political tensions that dimmed the appeal of Japanese alternatives in the affordable luxury car market. A Brazilian shoe manufacturer, Grendene, which was acquired during the year in review, also contributed to the relative sector return. Fund holdings within the industrials sector produced some solid contributions. South Korean construction and house building stock Hyundai Development reacted to measures to stimulate South Korea's economy through housing subsidies, while a Chinese waste management business enjoyed a strong market debut.

Regionally, the Fund saw the largest negative impacts on absolute returns from positions in Brazil and China in particular, with Russia, Hong Kong and South Africa also notably lower. Pakistan was the only market to make a major contribution, though positions in South Korea, Turkey and India, among others, made some ground.

Outlook

As long-term investors, we attempt to look past short-term market turbulence to identify long-term value in emerging market equities. We place little weight on transient news flow, unless we believe that developments could have long-term consequences. For instance, for us, factors such as demographic changes, development in technology and infrastructure, and improvements in education can all boost the growth potential of emerging markets. Further, economic growth itself has an important secondary effect in creating larger groups of middle class consumers that can expand domestic demand to augment growth from investment and exports. We also seek companies with strong management and transparent financials, and we believe that countries that move to root out corruption and protect investors can create conditions for stronger economic growth and improved corporate profitability.

In the short term, political difficulties in Russia, Thailand and Turkey may dominate news media, while month-by-month analysis of Chinese economic data could continue to produce volatile swings in investor sentiment. However, we think tremendous opportunities could be created over time through several factors, including major economic restructuring under way in China and South Korea, the potential for economic reform in Ukraine and recovery in Russian asset prices if the Russian and Ukrainian governments behave in a statesmanlike manner and relations between the two parties and between Russia and the West normalise, the rising focus on corruption in many markets including Turkey and Nigeria, and the emergence of market friendly economic policies and investment across much of South and Southeast Asia.

Mark Mobius, PhD
Fund Manager
23 May 2014

Share Class Performance

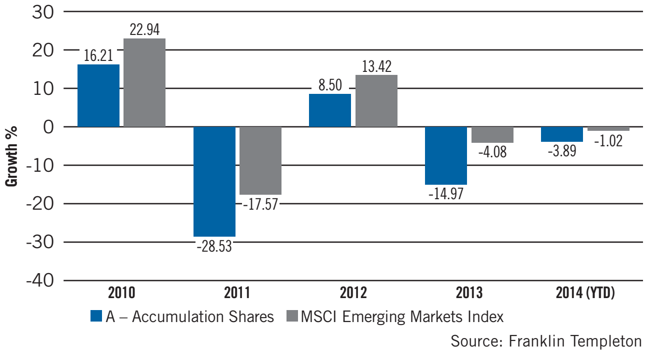
Share Class	Net Asset Value as at 31 March 2014 p	Net Asset Value as at 31 March 2013 p	% Movement
A – Accumulation Shares	187.94	223.81	-16.03
W – Accumulation Shares	92.28	109.25	-15.53
Z – Accumulation Shares	92.12	109.16	-15.61

Share Price and Income History

	Calendar Year	Highest Price P	Lowest Price P	Net Income Per Share P
A – Accumulation Shares	2010	295.96	233.80	1.09
	2011	303.10	196.12	1.05
	2012	253.81	201.03	1.83
	2013	240.89	185.23	2.19
	2014*	195.16	176.48	2.56
W – Accumulation Shares	2012Ω	112.00	99.16	–
	2013	117.51	90.54	1.25
	2014*	95.69	86.63	1.84
Z – Accumulation Shares	2012Ω	111.95	99.17	–
	2013	117.43	90.45	1.16
	2014*	95.55	86.48	1.73

Ω Figures stated from launch date 31 May 2012.
* Figures to 31 March 2014.

Calendar Year Performance



All performance data shown is based in sterling using the NAV prices of the A accumulation shares and include reinvested dividends and are net of management fees. Sales charges and other commissions, taxes and other relevant costs paid by the investor are not included in the calculations.

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Ongoing Charges Ratio

	As at	%
A – Accumulation Shares	31 March 2013	1.95
	31 March 2014	1.95
W – Accumulation Shares	31 March 2013	1.35
	31 March 2014	1.35
Z – Accumulation Shares	31 March 2013	1.45
	31 March 2014	1.45

The Ongoing Charges Ratio is a figure representing all operating charges and expenses as a percentage of the Fund's average net assets during the year. Where ex-post expense information is not a fair representation of future operating costs and where 12 months of information is not available, an estimate is disclosed.

Distributions

For the period 1 April 2013 to 31 March 2014

Group 1 – Shares purchased prior to 1 April 2013

Group 2 – Shares purchased in the period 1 April 2013 to 31 March 2014

	Net Income p	Equalisation p	31 March 2014 Pence per Share p	31 March 2013 Pence per Share p
A – Accumulation Shares				
Group 1	2.5629	–	2.5629	2.1919
Group 2	0.6593	1.9036	2.5629	2.1919
W – Accumulation Shares				
Group 1	1.8443	–	1.8443	1.2478
Group 2	0.1761	1.6682	1.8443	1.2478
Z – Accumulation Shares				
Group 1	1.7332	–	1.7332	1.1621
Group 2	0.3567	1.3765	1.7332	1.1621

PORTFOLIO INFORMATION

Classification of Investments

	31 March 2014 %	31 March 2013 %
Russia	16.10	21.19
China	15.46	17.80
Brazil	13.36	21.61
South Korea	8.50	7.48
Pakistan	7.19	5.73
India	5.76	5.15
South Africa	5.63	3.76
Hong Kong	5.29	6.13
Saudia Arabia	2.57	–
United Kingdom	2.05	3.63
Chile	1.95	4.29
Thailand	1.90	1.90
Turkey	1.15	–
Nigeria	0.63	–
Belgium	0.52	–
Taiwan	–	1.16
Net other assets	11.94	0.17
Net assets	100.00	100.00

Top 10 Holdings

	31 March 2014 %
Brilliance China Automotive Holdings Ltd.	8.19
MCB Bank Ltd.	7.19
Dairy Farm International Holdings Ltd.	5.29
Impala Platinum Holdings Ltd.	5.05
Sesa Sterlite Ltd.	5.00
Hyundai Development Co.	4.58
Mining and Metallurgical Co. Norilsk Nickel, ADR	4.12
Vale SA, ADR, pfd., A	3.90
Gazprom OAO, ADR	3.72
LUKOIL Holdings, ADR	3.70

Top 10 Holdings

	31 March 2013 %
Gazprom, ADR	8.25
Vale SA, ADR, pfd., A	8.04
Dairy Farm International Holdings Ltd.	6.13
MCB Bank Ltd.	5.73
Hyundai Development Co.	5.32
Banco Bradesco SA, ADR, pfd.	5.26
Inner Mongolia Yitai Coal Co. Ltd., B	5.00
Brilliance China Automotive Holdings Ltd.	4.95
Itau Unibanco Holding SA, ADR	4.80
Sesa Goa Ltd.	4.55

Templeton Global Total Return Bond Fund

FUND FACTS

Launch Date: 2 June 2008
Benchmark: Barclays Capital (BC) Multiverse Index
Sector: IMA Global Bond
Ex Dates: 31 March, 30 June, 30 September & 31 December
Distribution Pay Dates: 31 May, 31 August, 30 November & 28 February

Investment Objective

The Fund aims to achieve a total return, over the long-term, from a combination of income, capital growth and currency gains.

Investment Policy

The Fund intends to achieve its objective by investing primarily in a portfolio of fixed income securities and related derivatives selected from across a broad spectrum of sectors, issuers, countries, currencies and related markets.

The Fund's investment portfolio may include fixed and floating rate debt securities and debt obligations of governments, government-related supranational and corporate entities worldwide. These may be investment grade and non-investment grade securities (including securities in default).

In addition, the Fund may purchase mortgage and asset-backed securities, convertible bonds and may invest in securities or structured products where the security is linked to or derives its value from another security or is linked to assets or currencies of any nation.

The Fund may also make use of permitted debt and currency related derivatives (including, but not limited to, options, futures, forward currency contracts, credit default swaps, interest rate swaps, total return swaps and contracts for difference) and other derivatives to vary exposure to currencies, bond markets, interest rates, sectors, individual securities and/or individual issuers in order to enhance capital return, limit downside volatility and/or preserve capital. The Fund may take long and short positions in currencies, debt related markets, securities, groups of securities and indices through derivative and forward currency contracts. Total net derivatives exposure may not exceed the limits in COLL.

In addition, at the ACD's discretion, the Fund may also invest a proportion of its portfolio in other assets, including but not limited to, other transferable securities, cash and near cash, money market instruments and other collective investment schemes, subject to COLL.

The base currency of the Fund is UK sterling.

Risk Profile

1 2 3 **4** 5 6 7

Lower risk
Potentially lower rewards

Higher risk
Potentially higher rewards

This indicator, disclosed in the Key Investor Information Document (KIID), provides a measure of the price movement of the Fund based on historical behaviour. Historical data may not be a reliable indication of the future risk profile of the Fund. The category shown is not guaranteed to remain unchanged and may shift over time. The lowest category does not mean risk free.

The Fund's investments in debt securities are subject to interest rate risk, credit default risk and industry risk.

The Templeton Global Total Return Bond Fund may be appropriate for investors who want to receive a positive total return over the long term, by investing in a range of global fixed income securities and currencies. By diversifying fixed income investments across a number of countries, currencies and sectors the Fund seeks to reduce some of the risks associated with a more concentrated portfolio.

Investment Review

Performance

For the 12-month period ended 31 March 2014, Templeton Global Total Return Bond Fund returned -8.94% while the Barclays Capital (BC) Multiverse Index returned -6.92% (both returns in UK sterling).

Overview

The global economic recovery was mixed during the period under review. The recovery in emerging markets moderated after many economies had previously returned to and exceeded pre-crisis activity levels. Although some developed economies, such as those of Australia and Scandinavia, also have enjoyed relatively strong recoveries in the aftermath of the global financial crisis, the G3 (i.e., the United States, the eurozone and Japan) continued to experience growth that was slow by the standards of recoveries from previous recessions. As fears surrounding the issues of sovereign debt in Europe, the possibility of another recession in the United States and a potential "hard landing" in China eased, financial market performance was positive. Improving sentiment, relatively strong fundamentals and continued provision of global liquidity supported risk assets as equity markets generally performed well. Policymakers in the largest developed economies adjusted their unprecedented efforts to supply liquidity. Actions elsewhere in the world were mixed, with some policymakers less willing to reverse previous tightening efforts in response to the external environment.

Global financial market volatility increased during the period as the US federal government partially shut down and the US Treasury approached its debt ceiling. As the government shutdown ended and the debt ceiling was raised, market volatility quickly subsided. Later in the period, investors became concerned with geopolitical issues surrounding rising tensions between Russia and Ukraine.

Fears of a reduction in stimulative government policy led periods of risk aversion, when credit spreads widened and assets perceived as risky sold off, to alternate with periods of heightened risk appetite, when spreads narrowed and investors again favoured risk assets. Against this backdrop, extensive liquidity creation continued, in particular from the Bank of Japan's commitment to increase inflation, as well as from the European Central Bank's interest-rate cut. Economic data among the largest economies remained inconsistent, with continued dire predictions of a severe global economic slowdown.

During the period, the Federal Reserve (Fed) announced that the size of the quantitative easing programme would begin being reduced. Pessimism about this policy contributed to bearishness in emerging markets as market participants' expectations of global liquidity conditions evolved. The Fed subsequently announced further reductions to its bond buying programme to US$55 billion per month in total purchases.

Significant Changes

The top five buys during the 12-month period were:

1. Korea Treasury Bond 2.75% 06/10/2016
2. Mexican Fixed Rate Bonds 7.25% 12/15/2016
3. Mexican Fixed Rate Bonds 8.00% 12/17/2015
4. Poland Government 01/25/2016 Strip Coupon
5. Korea Monetary Stab Bond 2.47% 04/02/2015

The top five sells during the 12-month period were:

1. Korea Treasury Bond 3.00% 12/10/2013
2. Malaysia Govt 5.094% 04/30/2014
3. Iceland Government International Bond 4.875% 06/16/2016 Reg S
4. Poland Government 07/25/2013 Strip Coupon
5. Republic of Hungary 5.50% 02/12/2014

Contributors and Detractors

For the year ended 31 March 2014, the Fund underperformed its benchmark primarily due to currency positions, while interest-rate strategies were largely neutral. Conversely, overall credit exposures contributed to relative results.

The Fund's large underweighted exposure to the Japanese yen contributed significantly to relative performance. However, its overweighted exposures in Asian ex-Japan and Latin American currencies detracted from relative results. The Fund's underweighted position in the euro contributed to relative performance, but this effect was partially offset by its overweighted exposures to peripheral European currencies.

The Fund maintained a defensive approach regarding interest rates in developed and emerging markets. Consequently, duration contributions were limited. Within credit exposures, high-yield corporate bonds benefited relative results.

Outlook

Looking forward, we believe that, during periods of volatility, our truly unconstrained and global approach allows us to try to exploit the differentiation between countries with reasonably robust fundamentals and those with weaker fundamentals. We expect to continue to see volatility during this year, but as we have done in the past, we will try to exploit those opportunities. We intend to be very selective about our investments and very active about positioning for a potentially rising interest-rate environment.

In the United States, interest rates appear likely to continue rising. As the US Fed's tapering of its bond purchases continues amid a decent economic outlook, we expect interest rates to normalise towards higher levels.

We think Japan will continue to provide an important source of liquidity globally as quantitative easing (QE) is likely to continue at a very robust pace. We believe that with QE in place, the Japanese yen is likely to continue weakening, particularly versus the US dollar as the Fed tapers its bond purchases. In our view, a significant amount of capital could flow out of Japan and into other parts of the world, particularly into Asian emerging markets, as well as other emerging markets.

In our view, the massive divergence in emerging markets is likely to continue. Our job is to identify those emerging-market countries we think can offer value. We remain encouraged regarding the growth prospects and low indebtedness of many emerging markets. Asia ex-Japan looks reasonably strong to us, as do select economies in Latin America and Europe. In our opinion, many countries in these regions also have offered higher short-term interest rates and had undervalued currencies. We favour those countries with policymakers who have stayed ahead of the curve regarding fiscal, monetary and financial policy.

As for China, policymakers seem committed to undertaking financial-market reforms, though reform may be a huge challenge. Liberalizing China's interest-rate market is one of the most important components of that reform, in our opinion. Financial-market reform is also likely to involve greater openness and greater convertibility of capital accounts, which may lead to more capital flowing in and out of China and higher interest rates as artificial subsidies are removed.

Regarding the eurozone, growth is likely to continue to be quite anaemic, in our view. However, the business cycle has started to improve in parts of central and eastern Europe, and we expect places like Hungary and Poland to continue to benefit from that improvement in economic activity. We also expect Ireland, having successfully exited its bailout agreement, to continue to perform well in light of the government's solid fiscal resources and the country's improved economic activity.

Michael Hasenstab, PhD, John Beck & Sonal Desai, PhD
Fund Managers
23 May 2014

Share Class Performance

Share Class	Net Asset Value as at 31 March 2014 p	Net Asset Value as at 31 March 2013 p	% Movement
A – Income Shares	135.41	152.12	-10.98
A – Income Hedge Shares	121.11	123.77	-2.15
A – Accumulation Shares	168.54	184.84	-8.82
A – Accumulation Hedge Shares	126.00	125.97	0.02
W – Income Shares*	91.25	n/a	n/a
W – Income Hedge Shares	112.13	115.09	-2.57
W – Accumulation Shares*	92.97	n/a	n/a
Z – Income Hedge Shares	112.49	115.39	-2.51
Z – Accumulation Shares	158.78	173.77	-8.63

*class launched on 15 July 2013

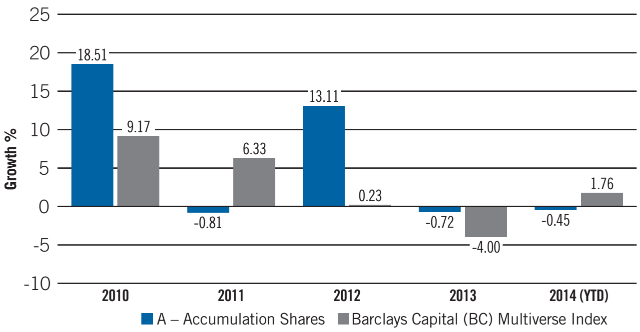
Share Price and Income History

	Calendar Year	Highest Price p	Lowest Price p	Net Income Per Share p
A – Income Shares	2010	139.23	118.63	5.03
	2011	138.00	126.51	4.64
	2012	143.54	128.99	4.72
	2013	157.04	137.30	3.46
	2014*	138.58	133.38	0.90
A – Income Hedge Shares	2010	114.20	100.55	3.97
	2011	119.44	104.83	3.77
	2012	123.67	106.92	3.96
	2013	127.68	117.08	2.89
	2014*	121.99	118.29	0.79
A – Accumulation Shares	2010	152.78	128.69	5.48
	2011	158.03	146.01	5.28
	2012	171.47	150.52	5.43
	2013	190.02	168.64	4.28
	2014*	171.35	164.92	1.10
A – Accumulation Hedge Shares	2010µ	106.41	100.00	1.51
	2011	114.30	101.07	3.69
	2012	123.68	104.69	4.06
	2013	129.94	119.76	3.00
	2014*	126.10	122.34	0.82

	Calendar Year	Highest Price p	Lowest Price p	Net Income Per Share p
W – Income Shares	2013[Θ]	100.03	92.52	1.03
	2014*	93.39	89.91	0.67
W – Income Hedge Shares	2012[Ω]	115.14	99.10	2.67
	2013	118.65	108.65	3.18
	2014*	113.05	109.63	0.83
W – Accumulation Shares	2013[Θ]	100.03	92.98	1.00
	2014*	94.46	90.94	0.68
Z – Income Hedge Shares	2012[Ω]	115.22	99.10	2.55
	2013	119.04	109.10	2.98
	2014*	113.39	109.99	0.81
Z – Accumulation Shares	2010	143.24	120.12	5.73
	2011	148.48	136.95	5.08
	2012	161.16	141.23	5.67
	2013	178.71	158.82	4.09
	2014*	161.36	155.33	1.12

[μ]Figures stated from launch date 31 August 2010.
[Ω]Figures stated from launch date 31 May 2012.
[Θ]Figures stated from launch date 15 July 2013.
*Figures to 31 March 2014.

Calendar Year Performance



Source: Franklin Templeton

All performance data shown is based in sterling using the NAV prices of the A accumulation shares and include reinvested dividends and are net of management fees. Sales charges and other commissions, taxes and other relevant costs paid by the investor are not included in the calculations.

The value of shares and the income therefrom may go down as well as up and is not guaranteed. Past performance is not necessarily a guide to future performance. In particular, some investments held may be designated in currencies other than sterling and so may rise and fall purely on account of exchange rate fluctuations. Investors should be aware of the risks associated with this type of investment and should take a medium to long-term view of returns.

Ongoing Charges Ratio

	As at	%
A – Income Shares	31 March 2013	1.35
	31 March 2014	1.33
A – Income Hedge Shares	31 March 2013	1.38
	31 March 2014	1.33
A – Accumulation Shares	31 March 2013	1.35
	31 March 2014	1.33
A – Accumulation Hedge Shares	31 March 2013	1.38
	31 March 2014	1.33
W – Income Shares	31 March 2014	0.83
W – Income Hedge Shares	31 March 2013	0.85
	31 March 2014	0.83
W – Accumulation Shares	31 March 2014	0.83
Z – Income Hedge Shares	31 March 2013	1.05
	31 March 2014	1.03
Z – Accumulation Shares	31 March 2013	1.05
	31 March 2014	1.03

The Ongoing Charges Ratio is a figure representing all operating charges and expenses as a percentage of the Fund's average net assets during the year. Where ex-post expense information is not a fair representation of future operating costs and where 12 months of information is not available, an estimate will be disclosed.

Distributions

For the period 1 April 2013 to 30 June 2013

Group 1 – Shares purchased prior to 1 April 2013

Group 2 – Shares purchased in the period 1 April 2013 to 30 June 2013

	Gross Income p	Income Tax @ 20% p	Net Income p	Equalisation p	30 June 2013 Pence per Share p	30 June 2012 Pence per Share p
A – Income Shares						
Group 1	0.9655	0.1931	0.7724	–	0.7724	1.1409
Group 2	0.5210	0.1042	0.4168	0.3556	0.7724	1.1409
A – Income Hedge Shares						
Group 1	0.7943	0.1588	0.6355	–	0.6355	0.9371
Group 2	0.3901	0.0780	0.3121	0.3234	0.6355	0.9371
A – Accumulation Shares						
Group 1	1.1903	0.2380	0.9523	–	0.9523	1.3911
Group 2	0.6226	0.1245	0.4981	0.4542	0.9523	1.3911
A – Accumulation Hedge Shares						
Group 1	0.8232	0.1646	0.6586	–	0.6586	1.0696
Group 2	0.3402	0.0680	0.2722	0.3864	0.6586	1.0696
W – Income Hedge Shares						
Group 1	0.9342	0.1868	0.7474	–	0.7474	0.3613
Group 2	0.3495	0.0699	0.2796	0.4678	0.7474	0.3613
Z – Income Hedge Shares						
Group 1	0.8645	0.1729	0.6916	–	0.6916	0.3445
Group 2	0.2521	0.0504	0.2017	0.4899	0.6916	0.3445
Z – Accumulation Shares						
Group 1	1.1701	0.2340	0.9361	–	0.9361	1.0162
Group 2	0.8371	0.1674	0.6697	0.2664	0.9361	1.0162

For the period 1 July 2013 to 30 September 2013

Group 1 – Shares purchased prior to 1 July 2013

Group 2 – Shares purchased in the period 1 July 2013 to 30 September 2013

	Gross Income p	Income Tax @ 20% p	Net Income p	Equalisation p	30 September 2013 Pence per Share p	30 September 2012 Pence per Share p
A – Income Shares						
Group 1	1.0015	0.2003	0.8012	–	0.8012	1.1086
Group 2	0.6441	0.1288	0.5153	0.2859	0.8012	1.1086
A – Income Hedge Shares						
Group 1	0.8205	0.1641	0.6564	–	0.6564	0.8929
Group 2	0.4485	0.0897	0.3588	0.2976	0.6564	0.8929
A – Accumulation Shares						
Group 1	1.2450	0.2490	0.9960	–	0.9960	1.2478
Group 2	0.8012	0.1602	0.6410	0.3550	0.9960	1.2478
A – Accumulation Hedge Shares						
Group 1	0.8705	0.1741	0.6964	–	0.6964	0.9122
Group 2	0.4475	0.0895	0.3580	0.3384	0.6964	0.9122
W – Income Shares						
Group 1	0.5538	0.1107	0.4431	–	0.4431	n/a
Group 2	0.1646	0.0329	0.1317	0.3114	0.4431	n/a
W – Income Hedge Shares						
Group 1	0.8356	0.1671	0.6685	–	0.6685	1.0284
Group 2	0.4068	0.0813	0.3255	0.3430	0.6685	1.0284
W – Accumulation Shares						
Group 1	0.5063	0.1012	0.4051	–	0.4051	n/a
Group 2	0.0870	0.0174	0.0696	0.3355	0.4051	n/a
Z – Income Hedge Shares						
Group 1	0.8547	0.1709	0.6838	–	0.6838	0.9738
Group 2	0.5036	0.1007	0.4029	0.2809	0.6838	0.9738
Z – Accumulation Shares						
Group 1	1.1467	0.2293	0.9174	–	0.9174	1.3412
Group 2	0.7516	0.1503	0.6013	0.3161	0.9174	1.3412

For the period 1 October 2013 to 31 December 2013

Group 1 – Shares purchased prior to 1 October 2013

Group 2 – Shares purchased in the period 1 October 2013 to 31 December 2013

	Gross Income p	Income Tax @ 20% p	Net Income p	Equalisation p	31 December 2013 Pence per Share p	31 December 2012 Pence per Share p
A – Income Shares						
Group 1	1.0275	0.2055	0.8220	–	0.8220	1.4247
Group 2	0.5801	0.1160	0.4641	0.3579	0.8220	1.4247
A – Income Hedge Shares						
Group 1	0.8645	0.1729	0.6916	–	0.6916	1.2281
Group 2	0.4485	0.0897	0.3588	0.3328	0.6916	1.2281
A – Accumulation Shares						
Group 1	1.2955	0.2591	1.0364	–	1.0364	1.6810
Group 2	0.7535	0.1507	0.6028	0.4336	1.0364	1.6810
A – Accumulation Hedge Shares						
Group 1	0.8867	0.1773	0.7094	–	0.7094	1.1316
Group 2	0.3913	0.0782	0.3131	0.3963	0.7094	1.1316
W – Income Shares						
Group 1	0.7358	0.1471	0.5887	–	0.5887	n/a
Group 2	0.2110	0.0422	0.1688	0.4199	0.5887	n/a
W – Income Hedge Shares						
Group 1	0.9381	0.1876	0.7505	–	0.7505	1.2851
Group 2	0.4367	0.0873	0.3494	0.4011	0.7505	1.2851
W – Accumulation Shares						
Group 1	0.7436	0.1487	0.5949	–	0.5949	n/a
Group 2	0.1790	0.0358	0.1432	0.4517	0.5949	n/a
Z – Income Hedge Shares						
Group 1	0.7971	0.1594	0.6377	–	0.6377	1.2290
Group 2	0.2183	0.0436	0.1747	0.4630	0.6377	1.2290
Z – Accumulation Shares						
Group 1	1.2733	0.2546	1.0187	–	1.0187	2.0053
Group 2	0.6851	0.1370	0.5481	0.4706	1.0187	2.0053

For the period 1 January 2014 to 31 March 2014

Group 1 – Shares purchased prior to 1 January 2014

Group 2 – Shares purchased in the period 1 January 2014 to 31 March 2014

	Gross Income p	Income Tax @ 20% p	Net Income p	Equalisation p	31 March 2014 Pence per Share p	31 March 2013 Pence per Share p
A – Income Shares						
Group 1	1.1260	0.2252	0.9008	–	0.9008	1.0627
Group 2	0.5603	0.1120	0.4483	0.4525	0.9008	1.0627
A – Income Hedge Shares						
Group 1	0.9818	0.1963	0.7855	–	0.7855	0.9095
Group 2	0.4266	0.0853	0.3413	0.4442	0.7855	0.9095
A – Accumulation Shares						
Group 1	1.3708	0.2741	1.0967	–	1.0967	1.2991
Group 2	0.7237	0.1447	0.5790	0.5177	1.0967	1.2991
A – Accumulation Hedge Shares						
Group 1	1.0215	0.2043	0.8172	–	0.8172	0.9320
Group 2	0.5232	0.1046	0.4186	0.3986	0.8172	0.9320
W – Income Shares						
Group 1	0.8323	0.1664	0.6659	–	0.6659	n/a
Group 2	0.4007	0.0801	0.3206	0.3453	0.6659	n/a
W – Income Hedge Shares						
Group 1	1.0323	0.2064	0.8259	–	0.8259	1.0164
Group 2	0.4781	0.0956	0.3825	0.4434	0.8259	1.0164
W – Accumulation Shares						
Group 1	0.8461	0.1692	0.6769	–	0.6769	n/a
Group 2	0.3755	0.0751	0.3004	0.3765	0.6769	n/a
Z – Income Hedge Shares						
Group 1	1.0151	0.2030	0.8121	–	0.8121	0.9648
Group 2	0.5770	0.1154	0.4616	0.3505	0.8121	0.9648
Z – Accumulation Shares						
Group 1	1.3957	0.2791	1.1166	–	1.1166	1.2222
Group 2	0.8520	0.1704	0.6816	0.4350	1.1166	1.2222

PORTFOLIO INFORMATION

Classification of Investments

	31 March 2014 %	31 March 2013 %
Mexico	14.16	6.36
South Korea	13.91	12.43
Malaysia	9.41	6.47
Hungary	7.97	5.18
United States	7.15	7.25
Poland	6.15	5.22
Uruguay	4.30	5.16
Brazil	4.28	1.01
Ukraine	3.82	3.09
Irish Republic	3.25	5.35
Serbia	2.16	2.12
Canada	2.06	2.64
Singapore	1.69	2.20
Sweden	1.60	1.42
Slovenia	1.14	–
Ghana	1.13	2.12
Philippines	0.84	0.99
Russia	0.66	1.43
United Kingdom	0.60	0.72
Sri Lanka	0.51	0.85
Indonesia	0.49	1.34
Romania	0.46	0.82
Netherlands	0.39	0.29
South Africa	0.39	0.75
Kazakhstan	0.30	0.59
Luxembourg	0.29	0.19
Bermuda	0.19	0.18
Spain	0.19	0.27
Latvia	0.15	0.30
Lithuania	0.14	0.27
France	0.13	0.08
Switzerland	0.13	–
Argentina	0.12	0.19
Italy	0.12	0.14
Australia	0.12	0.14
Germany	0.12	0.15
Iceland	0.10	1.18
Vietnam	0.08	0.17
Croatia	0.08	0.15
Venezuela	0.06	0.16
Chile	0.05	–
United Arab Emirates	0.04	–
Japan	0.03	0.06
Trinidad and Tobago	0.03	0.06
UAE	–	0.29
Foreign exchange gain on outstanding forward contracts	0.71	1.94
Interest Rate Swaps	(0.24)	–
Net other assets	8.54	18.28
Total Net Assets	100.00	100.00

Top 10 Holdings

	31 March 2014 %
Korea Treasury Bond, senior note, 2.75%, 6/10/16	3.68
Government of Mexico, 7.25%, 12/15/16	3.25
Government of Mexico, 8.00%, 12/17/15	3.12
Government of Poland, Strip, 1/25/16	2.79
Mexico Treasury Bill, 12/11/14	2.44
Korea Monetary Stabilization Bond, senior bond, 2.47%, 4/02/15	2.21
Government of Malaysia, senior note, 3.172%, 7/15/16	2.17
Mexico Treasury Bill, 10/16/14	1.74
Korea Monetary Stabilization Bond, senior note, 2.76%, 6/02/15	1.63
Government of Poland, 5.75%, 4/25/14	1.60

Top 10 Holdings

	31 March 2013 %
Korea Treasury Bond, senior bond, 3.00%, 12/10/13	3.74
Government of Poland, 5.75%, 4/25/14	2.91
Korea Treasury Bond, senior bond, 3.75%, 6/10/13	2.41
Korea Treasury Bond, senior note, 3.25%, 12/10/14	1.95
Government of Ireland, senior bond, 5.40%, 3/13/25	1.76
Government of Mexico, 8.00%, 12/19/13	1.69
Uruguay Notas del Tesoro, 10.50%, 3/21/15	1.69
Government of Malaysia, 3.434%, 8/15/14	1.63
Government of Sweden, 6.75%, 5/05/14	1.26
Korea Monetary Stabilization Bond, senior note, 2.74%, 2/02/15	1.23

Templeton Growth Fund

FUND FACTS

Launch Date: 15 September 1988
Benchmark: MSCI All Country World Index
Sector: IMA Global
Ex Dates: 31 March & 30 September
Distribution Pay Dates: 31 May & 30 November

Investment Objective

The Fund aims to maximise total investment return, concentrating on long-term capital growth, with the lower risks associated with an internationally diversified portfolio of equities.

Investment Policy

The investment policy, and the general nature of the portfolio, is to invest primarily in the equity or equity related securities of companies globally that the Investment Adviser has identified as trading at a significant discount to an estimate of their long-term underlying worth.

In addition, at the ACD's discretion, the Fund may also invest a proportion of its portfolio in other transferable securities including, (but not limited to) fixed interest and other debt related securities, cash and near cash, money market instruments and other collective investment schemes, subject to COLL.

It is not currently intended that derivatives will be used for any purpose other than the efficient portfolio management of the Fund. However, the Fund may, in the future and subject to the ACD giving not less than 60 days' notice to shareholders in the Fund, use derivatives in pursuit of its investment objective as well as for efficient portfolio management. When the Fund uses derivatives for the purposes of efficient portfolio management, it will comply with the restrictions set out in Appendix 2 of the Prospectus. It is not intended that the use of derivatives for efficient portfolio management will cause the Fund's existing risk profile to rise. Where the use of derivatives in pursuit of the Fund's investment objective may cause the Fund to have higher volatility or otherwise cause its existing risk profile to rise, a notification to that effect shall be included within the 60-day prior notice to be sent to shareholders in the Fund.

The base currency of the Fund is UK sterling.

Risk Profile

1 2 3 4 5 **6** 7

Lower risk
Potentially lower rewards

Higher risk
Potentially higher rewards

This indicator, disclosed in the Key Investor Information Document (KIID), provides a measure of the price movement of the Fund based on historical behaviour. Historical data may not be a reliable indication of the future risk profile of the Fund. The category shown is not guaranteed to remain unchanged and may shift over time. The lowest category does not mean risk free.

The Fund's investments are subject to general market and industry risk as well as currency exchange rate volatility.

The Templeton Growth Fund may be appropriate for investors looking for long term capital growth potential, from a diversified portfolio of companies from around the world.

Investment Review

Performance

For the year ended 31 March 2014, Templeton Growth Fund rose by 19.29% strongly outperforming its benchmark, the MSCI All Country World Index which rose by 6.72% (both returns in UK sterling).

Overview

The economic recovery was more robust in developed markets than in emerging markets during the 12 months under review. Many developed-market central banks reaffirmed their accommodative monetary policies in an effort to support an ongoing recovery. In contrast, several emerging market central banks raised interest rates in an effort to control inflation and currency depreciation.

US economic growth and employment trends generally exceeded expectations during the period until early 2014, when weaker economic data followed severe weather across many states. In late 2013, a budget impasse resulted in a temporary federal government shutdown. However, Congress passed a spending bill in January 2014 to fund the federal government through to September 2014. Congress also approved the suspension of the debt ceiling until March 2015. The US Federal Reserve Board (Fed) maintained its monthly bond purchases at US$85 billion until December 2013 but began reducing them in January 2014, based on continued positive economic and employment data.

Outside the US, growth was strong in the UK, supported by an easing credit environment and stronger consumer confidence. Economic activity was slower in Japan, although business sentiment and personal consumption improved. Higher Japanese exports along with a weaker yen supported the economy, and unemployment reached its lowest level since 2007. The Bank of Japan announced that it would provide additional monetary stimulus. Although technically out of recession, the eurozone experienced weak employment trends, deflationary concerns from investors and political turmoil in some peripheral economies. However, German Chancellor Angela Merkel's re-election and the European Central Bank's interest rate cut to a record low helped investor confidence in the region.

In several emerging markets, including China, growth remained solid despite a slight moderation, as domestic demand, exports and commodity prices weakened. Emerging-market equities declined and regional currencies depreciated sharply against the US dollar amidst political turmoil in certain countries and concerns about the potential impact of the Fed's tapering its asset purchases. Uncertainty about Ukraine in early 2014 also weighed on markets. Central banks in several emerging-market countries, including Brazil, India, Turkey and South Africa, raised interest rates during the latter half of the reporting period in an effort to curb inflation and support their currencies.

The stock market rally in developed markets accelerated during the period under review, driven by redoubled central bank commitments, continued strength in corporate earnings and increasing signs of an economic recovery. Emerging-market stocks rebounded towards period-end, although Latin American stocks trailed their emerging-market peers for the 12-month period. Gold prices experienced notable declines despite a modest rally in early 2014, and oil prices rose amidst supply concerns related to political unrest. The UK sterling strengthened in foreign exchange markets, which reduced the extent of market gains in pound terms.

Significant Changes

The year under review saw a number of new holdings enter the Fund. We made substantial purchases of US insurer ING US, when Dutch financial services company ING Groep floated the business through an initial public offering at a price that we believed undervalued its long-term prospects. Believing that value was emerging in some consumer staples businesses, we opened positions in German food and consumer staples retailer Metro and Japanese drinks business Suntory Beverage & Food. Elsewhere, we acquired holdings in Italian oil and gas company ENI and US security company. The ADT as their valuations reached what appeared to be attractive levels according to our research metrics.

In addition, when a majority position in US mobile telephony business Sprint Nextel was acquired by Japanese telecommunications conglomerate Softbank and renamed Sprint, we built on our existing holding in the business. In contrast, we took profits in a number of positions, selling out of Norwegian pharmaceutical business Algeta (following a takeover bid) and out of US personal computer company Dell, when a proposed management buyout pushed the share price to our target level. We also liquidated positions in US computer games business Electronic Arts, French electrical engineering firm Alstom and Russian gas production and transmission company Gazprom in order to release funds for investments elsewhere.

Positive/Negative Contributors

The Fund enjoyed exceptional performance during the period under review with strong gains from individual stock selection reinforcing positive impacts from market and sector allocations. The largest sector contribution to relative performance came from financials. Our conviction that investor pessimism about the prospects for European banking and financial stocks had left valuations well below appropriate levels was rewarded as steady improvements in the outlook for the region led to resilient results and a substantial re-rating of stocks. Italian, French and UK financial holdings all saw significant gains, but the largest contribution came from Dutch diversified financial business ING Groep, which attracted support with solid results and asset sales that improved its balance sheet, and it also undertook a highly successful market floatation of its US insurance operations.

Other sectors also made strong contributions to relative performance. Positioning in the health care sector generated a substantial outperformance not only from an overweighted stance in a well-supported sector, but also from stock selection, with corporate activity driving a number of holdings ahead. US pharmaceutical business Actavis was a notably dynamic performer, building on its existing strengths in the US generics market through acquisitions that made it a global player in generics. In addition, through the purchase of smaller US drugs business Forest Laboratories (also held in the Fund), Actavis strengthened its position in proprietary pharmaceuticals. Positioning and stock selection produced a strong contribution from the materials sector, thanks to both our underweighting of subdued metals and mining stocks and strong performances from chemicals holdings in the portfolio. A solid outcome from the consumer discretionary sector was founded on gains for UK retailers, UK house builders and Japanese auto stocks. In telecommunication services, the acquisition by Japanese telecoms/media company Softbank of US mobile phone business Sprint Nextel, later renamed Sprint Corp, generated strong gains for the Fund. Underweighting food, beverage and tobacco stocks in consumer staples led to further significant relative gains, though weakness in UK food retailer Tesco, which was buffeted by weak demand and rising competition from discount grocery operations, reduced the contribution somewhat.

Industrials were the only sector to detract from relative performance as positions among electrical engineering stocks struggled. France-based Alstom was the major detractor as persistent weakness in its thermal power business sapped sales and profitability, while the resulting weak cash flow eroded the group's balance sheet strength, threatening the dividend. Positions in Chinese power equipment businesses also lost ground as emerging market demand for their products proved weaker than anticipated. A lack of exposure to strongly performing US aerospace and defence businesses detracted further from the industrials return, but Anglo-Spanish airline operator International Consolidated Airlines Group achieved a solid offsetting gain as wide-ranging restructuring measures strengthened the business and reviving US and European economic growth led to a more buoyant industry background. Elsewhere, select emerging-market positions lost ground, Brazilian energy business Petrobras weakened on concerns about Brazilian government policy, with fuel price subsidies forcing the firm to sell its products at a loss, while Chinese mobile telecommunications giant China Mobile was pressured by costs associated with new fourth generation mobile services. Both stocks also suffered from generalised weakness in their respective equity markets. Underperformance elsewhere was restricted to individual stocks. US-based offshore oil equipment business Noble produced subdued results as demand for offshore deep water drilling rigs missed expectations at a time when the number of available rigs was rising, though other positions in oil services performed well. Oil and gas producer Talisman Energy also saw some disappointing earnings as output from its UK North Sea assets weakened, forcing write downs on valuations.

From a regional standpoint, dramatic outperformance from European holdings, especially financials, was the most noteworthy feature. In North America, stock selection gains outweighed the adverse impact from underweighting a strongly performing region. Stock selection in emerging markets detracted from relative performance, but this was more than offset by relative gains due to underweighting emerging market stocks as a whole.

Outlook

We believe the transition from a generally high debt, low growth and policy dependent world to a more "normal" environment of market derived interest rates, organic economic demand and fiscal sustainability is unlikely to proceed smoothly. While significant imbalances remain, we are encouraged by the progress made in key regions and sectors as global financial conditions appear to be slowly normalizing. Most importantly, we continue to find companies around the world trading at significant discounts to our estimation of their long-term intrinsic value. The late Sir John Templeton once remarked, "The best bargains are not stocks whose prices are down most, but rather those stocks that have the lowest prices in relation to the possible earning power of future years." We continue to believe that Templeton's conception of value creates the most sensible framework through which to understand equity markets and investment opportunities. Value remains our compass as we navigate market crosscurrents in 2014.

Dylan Ball, Peter Moeschter, CFA & Heather Arnold, CFA
Fund Managers
23 May 2014

Share Class Performance

Share Class	Net Asset Value as at 31 March 2014 p	Net Asset Value as at 31 March 2013 p	% Movement
A – Income Shares	558.67	470.61	18.71
A – Accumulation Shares	818.03	683.92	19.61
I – Income Shares	1,920.92	1617.82	18.74
I – Accumulation Shares	2,619.05	2174.43	20.45
W – Accumulation Shares	164.22	136.37	20.42
Z – Accumulation Shares	163.65	136.15	20.20

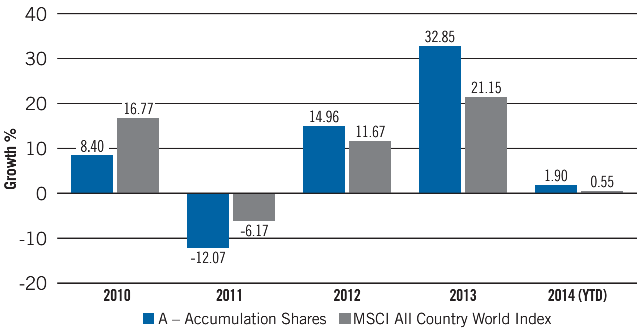
Share Price and Income History

	Calendar Year	Highest Price p	Lowest Price p	Net Income Per Share p
A – Income Shares	2010	425.62	362.02	3.67
	2011	451.09	336.48	4.60
	2012	420.78	346.98	4.21
	2013	550.39	423.11	3.93
	2014*	562.90	526.44	0.11
A – Accumulation Shares	2010	602.36	509.22	5.33
	2011	641.25	481.55	6.56
	2012	611.34	499.12	6.16
	2013	805.74	614.63	5.79
	2014*	824.05	770.68	0.17
I – Income Shares	2010	1464.15	1427.25	21.00
	2011	1552.47	1156.76	25.77
	2012	1448.62	1193.73	23.90
	2013	1895.59	1456.89	25.00
	2014*	1939.29	1814.36	6.95
I – Accumulation Shares	2010	1885.05	1588.07	29.55
	2011	2011.79	1514.92	33.65
	2012	1939.92	1577.26	31.55
	2013	2575.22	1950.85	33.58
	2014*	2634.58	2464.85	9.45
W – Accumulation Shares	2012Ω	121.68	99.28	0.51
	2013	161.50	122.36	2.10
	2014*	165.22	154.55	0.59
Z – Accumulation Shares	2012Ω	121.53	99.28	0.43
	2013	160.99	122.21	1.83
	2014*	164.69	154.06	0.43

Ω Figures stated from launch date 31 May 2012.

* Figures to 31 March 2014.

Calendar Year Performance



Source: Franklin Templeton

All performance data shown is based in sterling using the NAV prices of the A accumulation shares and include reinvested dividends and are net of management fees. Sales charges and other commissions, taxes and other relevant costs paid by the investor are not included in the calculations.

The value of shares and the income therefrom may go down as well as up and is not guaranteed. Past performance is not necessarily a guide to future performance. In particular, some investments held may be designated in currencies other than sterling and so may rise and fall purely on account of exchange rate fluctuations. Investors should be aware of the risks associated with this type of investment and should take a medium to long-term view of returns.

Ongoing Charges Ratio

	As at	%
A – Income Shares	31 March 2013	1.62
	31 March 2014	1.59
A – Accumulation Shares	31 March 2013	1.62
	31 March 2014	1.59
I – Income Shares	31 March 2013	0.92
	31 March 2014	0.89
I – Accumulation Shares	31 March 2013	0.92
	31 March 2014	0.89
W – Accumulation Shares	31 March 2013	0.92
	31 March 2014	0.89
Z – Accumulation Shares	31 March 2013	1.12
	31 March 2014	1.09

The Ongoing Charges Ratio is a figure representing all operating charges and expenses as a percentage of the Fund's average net assets during the year. Where ex-post expense information is not a fair representation of future operating costs and where 12 months of information is not available, an estimate is disclosed.

Distributions

For the period 1 April 2013 to 30 September 2013

Group 1 – Shares purchased prior to 1 April 2013

Group 2 – Shares purchased in the period 1 April 2013 to 30 September 2013

	Net Income p	Equalisation p	30 September 2013 Pence per Share p	30 September 2012 Pence per Share p
A – Income Shares				
Group 1	3.7339	–	3.7339	3.9755
Group 2	1.1756	2.5583	3.7339	3.9755
A – Accumulation Shares				
Group 1	5.4278	–	5.4278	5.7187
Group 2	2.5103	2.9175	5.4278	5.7187
I – Income Shares				
Group 1	18.9346	–	18.9346	18.2396
Group 2	18.9346	–	18.9346	18.2396
I – Accumulation Shares				
Group 1	25.4494	–	25.4494	24.0997
Group 2	15.8423	9.6071	25.4494	24.0997
W – Accumulation Shares				
Group 1	1.5963	–	1.5963	0.5097
Group 2	0.4847	1.1116	1.5963	0.5097
Z – Accumulation Shares				
Group 1	1.4476	–	1.4476	0.4301
Group 2	0.2665	1.1811	1.4476	0.4301

For the period 1 October 2013 to 31 March 2014

Group 1 – Shares purchased prior to 1 October 2013

Group 2 – Shares purchased in the period 1 October 2013 to 31 March 2014

	Net Income p	Equalisation p	31 March 2014 Pence per Share p	31 March 2013 Pence per Share p
A – Income Shares				
Group 1	0.1125	–	0.1125	0.1972
Group 2	0.0589	0.0536	0.1125	0.1972
A – Accumulation Shares				
Group 1	0.1679	–	0.1679	0.3638
Group 2	0.0915	0.0764	0.1679	0.3638
I – Income Shares				
Group 1	6.9534	–	6.9534	6.0622
Group 2	6.9534	–	6.9534	6.0622
I – Accumulation Shares				
Group 1	9.4475	–	9.4475	8.1336
Group 2	8.3445	1.1030	9.4475	8.1336
W – Accumulation Shares				
Group 1	0.5920	–	0.5920	0.5001
Group 2	0.3015	0.2905	0.5920	0.5001
Z – Accumulation Shares				
Group 1	0.4316	–	0.4316	0.3841
Group 2	0.3780	0.0536	0.4316	0.3841

PORTFOLIO INFORMATION

Classification of Investments

	31 March 2014 %	31 March 2013 %
United States	37.08	35.53
France	10.57	9.98
United Kingdom	10.49	12.23
Germany	7.14	6.46
Netherlands	5.81	5.67
Switzerland	4.93	5.58
Italy	4.17	2.04
China	3.87	4.25
Japan	3.76	3.07
Canada	1.85	2.09
South Korea	1.48	1.69
Hong Kong	1.23	1.45
Ireland	1.01	1.91
Spain	1.00	0.58
Brazil	0.94	0.95
Sweden	0.88	1.05
Singapore	0.72	0.92
Portugal	0.46	–
Taiwan	0.45	0.50
Norway	0.42	0.88
Austria	0.40	–
Israel	0.26	–
Belgium	0.25	–
Russia	–	0.87
Net other assets	0.83	2.30
Net assets	100.00	100.00

Top 10 Holdings

	31 March 2014 %
Roche Holding AG	2.55
ING Groep NV, IDR	1.89
Sprint Corp.	1.85
Actavis PLC	1.78
Credit Agricole SA	1.72
Intesa Sanpaolo SpA	1.63
Merck KGaA	1.60
Macy’s Inc.	1.59
ING U.S. Inc.	1.57
Aviva PLC	1.56

Top 10 Holdings

	31 March 2013 %
Roche Holding AG	2.54
Merck KGaA	1.83
Pfizer Inc.	1.74
ING Groep NV	1.73
GlaxoSmithKline PLC	1.64
Sprint Nextel Corp.	1.53
AXA SA	1.52
Citigroup Inc.	1.50
Sanofi	1.50
International Consolidated Airlines Group SA	1.47

Templeton Strategic Bond Fund

FUND FACTS

Launch Date: 2 June 2008
Benchmark: BofA Merril Lynch Sterling Broad Market Index
Sector: IMA UK Sterling Strategic Bond
Ex Dates: 30 April, 31 May, 30 June, 31 July, 31 August, 30 September, 31 October, 30 November, 31 December, 31 January, 28 February & 31 March
Distribution Pay Dates: 30 June, 31 July, 31 August, 30 September, 31 October, 30 November, 31 December, 31 January, 28 February, 31 March, 30 April & 31 May

Investment Objective

The Fund aims to deliver a regular income and achieve a positive return over the medium to long term through investment in fixed income securities.

Investment Policy

The Fund intends to achieve its objective by investing primarily in a portfolio of fixed income securities and related derivatives selected from across the entire spectrum of sectors, issuers, countries, currencies and related markets.

The Fund will invest primarily in securities denominated in or hedged back to UK sterling.

The Fund's investment portfolio may include fixed and floating rate debt securities and debt obligations of governments, government-related supranational and corporate entities worldwide. These may be investment grade and non-investment grade securities (including securities in default).

In addition, the Fund may purchase mortgage and asset-backed securities, convertible bonds and may invest in securities or structured products where the security is linked to or derives its value from another security, or is linked to assets or currencies of any nation.

The Fund may make use of permitted debt and currency related derivative contracts including (but not limited to) options, futures, credit default swaps, interest rate swaps and total return swaps, forward currency contracts, contracts for difference and other derivatives to vary exposure to currencies, bond markets, interest rates, sectors, individual securities and/or individual issuers in order to enhance capital return, limit downside volatility and/or preserve capital. The Fund may take long and short positions in currencies, debt related markets, securities, groups of securities and indices through derivative and forward currency contracts but total net derivatives exposure may not exceed the limits in COLL.

In addition, at the ACD's discretion, the Fund may also invest a proportion of its portfolio in other transferable securities including (but not limited to) cash and near cash, money market instruments and other collective investment schemes, subject to COLL.

The base currency of the Fund is UK sterling.

Risk Profile

1	2	3	**4**	5	6	7

Lower risk
Potentially lower rewards

Higher risk
Potentially higher rewards

This indicator, disclosed in the Key Investor Information Document (KIID), provides a measure of the price movement of the Fund based on historical behaviour. Historical data may not be a reliable indication of the future risk profile of the Fund. The category shown is not guaranteed to remain unchanged and may shift over time. The lowest category does not mean risk free.

The Fund's investments in debt securities are subject to interest rate risk, credit default risk and industry risk.

The Templeton Strategic Bond Fund may be appropriate for investors who mainly want an attractive level of regular income from an investment in a globally diversified portfolio of fixed income securities and currencies.

Investment Review

Performance

For the 12-month period ended 31 March 2014, Templeton Strategic Bond Fund returned 1.72%, compared to the BofA Merrill Lynch Sterling Broad Market Index, which returned -1.24% (both returns in UK sterling).

Overview

Bond markets generally endured a difficult start to the 12-month period. The widespread weakness was sparked by indications from the US Federal Reserve (Fed) that it would consider slowing the pace of its quantitative easing towards the end of 2013 if the health of the US economy continued to improve. Yields of 10-year US Treasuries began to rise steadily from May 2013 onwards, in turn sparking significant volatility in other markets.

Other western economies, including the UK and the eurozone, also showed signs of momentum, with the latter returning to slightly positive growth in the second quarter of 2013 after a recession in the region that had stretched back to 2011. Despite the improved news flow, both the Bank of England and European Central Bank (ECB) stated that they expected to keep interest rates low for an extended period, and the ECB reduced its benchmark interest rate twice over the rest of 2013 to further stimulate economic activity and combat the threat of deflation in the eurozone.

Most emerging-market bonds had previously benefited from large inflows as a result of the Fed's quantitative easing policy, and they saw sharp declines in the second quarter of 2013 as investors looked to reduce their overall exposure to emerging-market assets. Their weakness was matched by a general depreciation of emerging-market currencies, with many touching multi-year lows against the British pound. Worst hit were countries with sizable current account deficits, like India, Indonesia and Turkey.

Though sentiment among investors continued to be dominated by uncertainty about US monetary policy, bond markets generally exhibited much better performance in the second half of 2013. In December 2013, the Fed finally confirmed that the US economy had gained enough momentum to allow it to reduce its asset-purchase programme at the start of 2014. As a result, yields on US Treasuries and some other perceived "safe havens" such as German Bunds ended 2013 at their highest level for some time. However, they fell again in subsequent months, partly as a result of severe weather conditions in the US that appeared to temporarily slow the steady expansion of the US economy.

Confidence about the prospects for many peripheral eurozone countries steadily increased during the 12-month period, and in December 2013, Ireland announced that it was exiting its bailout program, the first eurozone member to make this step. Aided further by rising expectations among investors of pre-emptive ECB action to avert deflation, the sovereign debt markets of the more indebted eurozone member countries, notably those of Italy and Spain, delivered strong returns and their relative strength led to a significant narrowing of spreads against German Bunds over the 12 months as a whole.

Despite renewed concerns at the start of 2014 about the structural weakness of some emerging economies and further unease caused by events in Ukraine, most hard-currency emerging-market bonds staged a strong recovery towards the end of the 12-month period, driven by investors' appetite for yield and confidence in the relative strength of many countries' sovereign balance sheets.

Among other fixed income asset classes broadly seen as riskier than perceived safe-haven government debt, demand for corporate debt was robust, helping this sector to generally outperform the wider market. High-yield bonds were particularly strong, rebounding towards the end of the period to reach their highest levels for some years.

Significant Changes

The top purchases made by the Fund during the period included Mexican Fixed Rate Bonds 8.00% 12/07/2023, Poland Government 4.00% 10/25/2023, SB Capital SA 6.125% 02/07/2022, Republic of Chile 3.875% 08/05/2020 and Italy Buoni Poliennali del Tesoro 4.50% 03/01/2026. Conversely, the top sales during the period were HSBC Holdings Plc 6.50% 05/20/2024, BNP Paribas 5.75% 01/24/2022, HSBC Holdings Plc 5.75% 12/20/2027, SSE Plc 5.453% 09/29/2049 and Motability Operations Group Plc 4.375% 02/08/2027.

Positive/Negative Contributors

The Fund's exposure to high-yield issues and its duration and yield-curve positioning were the largest contributors to relative returns. Sector allocation, security selection and exposure to emerging-market issues further contributed to relative performance, though currency positioning and, to a lesser extent, positions denominated in the British pound and the G3 currencies (US dollar, euro and Japanese yen) had a negative impact on relative results.

Over the 12-month period, demand for high-yield issues remained strong, as investors looked to increase their risk exposure against a backdrop of improving economic news flow in the US and Europe and were attracted by the elevated coupons offered by the asset class. As a result, the Fund's allocation to high-yield bonds contributed significantly to relative returns.

With the benchmark index delivering negative returns over the 12-month period, the Fund's defensive duration and yield-curve positioning made the second-largest contribution to relative results.

In addition, positioning in investment-grade corporate bonds boosted the Fund's relative returns from sector allocation and security selection, with the most significant contributions coming from financial and industrial issues. Though corporate bonds suffered a limited sell-off in mid-2013 as the Fed began to re-align its monetary policy, they generally performed better than their sovereign peers over the 12-month period as a whole.

The Fund's positioning among government debt also added to relative returns, partly through an underweight exposure to this sector, but more so as a result of the portfolio's preference for holding Italian government bonds and avoiding German Bunds, as spreads continued to compress on improved sentiment about the Italian economy and investors' hopes for new monetary policy measures from the ECB.

Most emerging-market assets rebounded strongly from weakness in mid-2013. Consequently, the Fund's exposure to emerging-market debt added to relative performance, though this was curbed somewhat by the negative effect of positions denominated in currencies other than the British pound and the G3 currencies. An overweight allocation to government-related debt and an underweight exposure to securitised debt also weighed slightly on relative results.

However, the Fund's currency positioning was the largest detractor from relative returns, mainly as a result of an underweight exposure to the British pound. The currency appreciated against most major currencies as growth in the British economy accelerated, raising the prospect of a quicker increase in British interest rates than had been previously anticipated.

Outlook

With the exception of the eurozone, advanced economies are showing promising signs of improved growth, in our view. Combined with the robust expansion of many emerging economies, the broadly positive outlook across much of the world provides backing for our base scenario for a continued steady, if unspectacular, expansion of the global economy. Though growth in some emerging economies is undoubtedly slowing, we believe that concerns about a widespread slowdown among these countries are overdone and fail to sufficiently distinguish between countries that retain positive growth and debt fundamentals and those with structural weaknesses, where more reforms are required. Nevertheless, despite an encouraging global outlook, we consider it likely that market volatility will increase from time to time, perhaps as investor expectations about central-bank policies are reset.

In our view, country fundamentals have remained relatively unchanged for some time, so we retain our aversion to so-called "risk-free" assets – especially UK, US, German and Japanese sovereign bonds – as we believe they continue to be overvalued. Instead, we prefer select opportunities in emerging-market and corporate debt, where the fundamentals appear better to us, and we also look to diversify country exposures where possible.

David Zahn, CFA & John Beck
Fund Managers
23 May 2014

Share Class Performance

Share Class	Net Asset Value as at 31 March 2014 p	Net Asset Value as at 31 March 2013 p	% Movement
A – Income Shares	104.11	107.32	-2.99
A – Accumulation Shares	138.75	136.52	1.63
W – Income Shares	106.32	109.19	-2.63
Z – Income Shares	106.26	109.07	-2.58

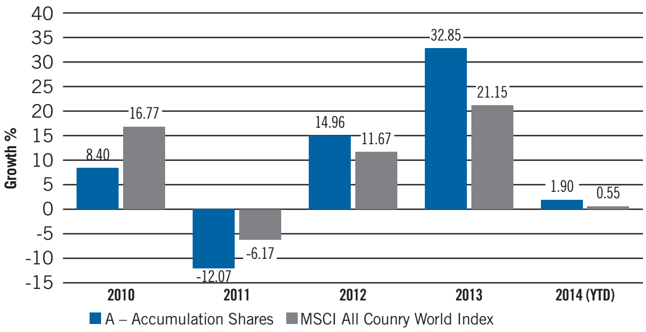
Share Price and Income History

	Calendar Year	Highest Price p	Lowest Price p	Net Income Per Share p
A – Income Shares	2010	104.73	99.43	5.10
	2011	101.96	94.77	4.96
	2012	107.53	96.05	5.07
	2013	110.17	101.85	5.02
	2014*	104.79	103.23	1.19
A – Accumulation Shares	2010	117.60	107.56	5.70
	2011	118.66	111.70	5.78
	2012	134.49	114.85	6.20
	2013	140.68	131.02	6.49
	2014*	139.11	136.30	1.57
W – Income Shares	2012Ω	109.29	100.00	3.01
	2013	112.14	103.71	5.30
	2014*	107.01	105.33	1.21
Z – Income Shares	2012Ω	109.23	100.00	3.01
	2013	112.02	103.62	5.34
	2014*	106.80	105.16	1.21

Ω Figures stated from launch date 31 May 2012.

* Figures to 31 March 2014.

Calendar Year Performance



Source: Franklin Templeton

All performance data shown is based in sterling using the NAV prices of the A accumulation shares and include reinvested dividends and are net of management fees. Sales charges and other commissions, taxes and other relevant costs paid by the investor are not included in the calculations.

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Ongoing Charges Ratio

	As at	%
A – Income Shares	31 March 2013	1.35
	31 March 2014	1.35
A – Accumulation Shares	31 March 2013	1.35
	31 March 2014	1.35
W – Income Shares	31 March 2013	0.85
	31 March 2014	0.85
Z – Income Shares	31 March 2013	0.95
	31 March 2014	0.95

The Ongoing Charges Ratio is a figure representing all operating charges and expenses as a percentage of the Fund's average net assets during the year. Where ex-post expense information is not a fair representation of future operating costs and where 12 months of information is not available, an estimate is disclosed.

Distributions

For the period 1 April 2013 to 30 April 2013

Group 1 – Shares purchased prior to 1 April 2013

Group 2 – Shares purchased in the period 1 April 2013 to 30 April 2013

	Gross Income p	Income Tax @ 20% p	Net Income p	Equalisation p	30 April 2013 Pence per Share p	30 April 2012 Pence per Share p
A – Income Shares						
Group 1	0.5183	0.1036	0.4147	–	0.4147	0.3292
Group 2	0.1605	0.0321	0.1284	0.2863	0.4147	0.3292
A – Accumulation Shares						
Group 1	0.6598	0.1319	0.5279	–	0.5279	0.3968
Group 2	0.2267	0.0453	0.1814	0.3465	0.5279	0.3968
W – Income Shares						
Group 1	0.5275	0.1055	0.4220	–	0.4220	n/a
Group 2	0.5275	0.1055	0.4220	–	0.4220	n/a
Z – Income Shares						
Group 1	0.5272	0.1054	0.4218	–	0.4218	n/a
Group 2	0.5272	0.1054	0.4218	–	0.4218	n/a

For the period 1 May 2013 to 31 May 2013

Group 1 – Shares purchased prior to 1 May 2013

Group 2 – Shares purchased in the period 1 May 2013 to 31 May 2013

	Gross Income p	Income Tax @ 20% p	Net Income p	Equalisation p	31 May 2013 Pence per Share p	31 May 2012 Pence per Share p
A – Income Shares						
Group 1	0.5652	0.1130	0.4522	–	0.4522	0.5942
Group 2	0.1975	0.0395	0.1580	0.2942	0.4522	0.5942
A – Accumulation Shares						
Group 1	0.7222	0.1444	0.5778	–	0.5778	0.7216
Group 2	0.2395	0.0479	0.1916	0.3862	0.5778	0.7216
W – Income Shares						
Group 1	0.6177	0.1235	0.4942	–	0.4942	n/a
Group 2	0.1261	0.0252	0.1009	0.3933	0.4942	n/a
Z – Income Shares						
Group 1	0.5753	0.1150	0.4603	–	0.4603	n/a
Group 2	0.5753	0.1150	0.4603	–	0.4603	n/a

For the period 1 June 2013 to 30 June 2013

Group 1 – Shares purchased prior to 1 June 2013

Group 2 – Shares purchased in the period 1 June 2013 to 30 June 2013

	Gross Income p	Income Tax @ 20% p	Net Income p	Equalisation p	30 June 2013 Pence per Share p	30 June 2012 Pence per Share p
A – Income Shares						
Group 1	0.5148	0.1029	0.4119	–	0.4119	0.3811
Group 2	0.4388	0.0877	0.3511	0.0608	0.4119	0.3811
A – Accumulation Shares						
Group 1	0.6600	0.1320	0.5280	–	0.5280	0.4653
Group 2	0.4885	0.0977	0.3908	0.1372	0.5280	0.4653
W – Income Shares						
Group 1	0.5286	0.1057	0.4229	–	0.4229	0.3870
Group 2	0.3063	0.0612	0.2451	0.1778	0.4229	0.3870
Z – Income Shares						
Group 1	0.5226	0.1045	0.4181	–	0.4181	0.3870
Group 2	0.5226	0.1045	0.4181	–	0.4181	0.3870

For the period 1 July 2013 to 31 July 2013

Group 1 – Shares purchased prior to 1 July 2013

Group 2 – Shares purchased in the period 1 July 2013 to 31 July 2013

	Gross Income p	Income Tax @ 20% p	Net Income p	Equalisation p	31 July 2013 Pence per Share p	31 July 2012 Pence per Share p
A – Income Shares						
Group 1	0.5111	0.1022	0.4089	–	0.4089	0.3861
Group 2	0.3560	0.0712	0.2848	0.1241	0.4089	0.3861
A – Accumulation Shares						
Group 1	0.6581	0.1316	0.5265	–	0.5265	0.4733
Group 2	0.0665	0.0133	0.0532	0.4733	0.5265	0.4733
W – Income Shares						
Group 1	0.5907	0.1181	0.4726	–	0.4726	0.3915
Group 2	0.2873	0.0574	0.2299	0.2427	0.4726	0.3915
Z – Income Shares						
Group 1	0.5190	0.1038	0.4152	–	0.4152	0.3915
Group 2	0.5190	0.1038	0.4152	–	0.4152	0.3915

For the period 1 August 2013 to 31 August 2013

Group 1 – Shares purchased prior to 1 August 2013

Group 2 – Shares purchased in the period 1 August 2013 to 31 August 2013

	Gross Income p	Income Tax @ 20% p	Net Income p	Equalisation p	31 August 2013 Pence per Share p	31 August 2012 Pence per Share p
A – Income Shares						
Group 1	0.4895	0.0979	0.3916	–	0.3916	0.4433
Group 2	0.4012	0.0802	0.3210	0.0706	0.3916	0.4433
A – Accumulation Shares						
Group 1	0.6341	0.1268	0.5073	–	0.5073	0.5454
Group 2	0.0478	0.0095	0.0383	0.4690	0.5073	0.5454
W – Income Shares						
Group 1	0.5011	0.1002	0.4009	–	0.4009	0.4497
Group 2	0.1941	0.0388	0.1553	0.2456	0.4009	0.4497
Z – Income Shares						
Group 1	0.4980	0.0996	0.3984	–	0.3984	0.4497
Group 2	0.4980	0.0996	0.3984	–	0.3984	0.4497

For the period 1 September 2013 to 30 September 2013

Group 1 – Shares purchased prior to 1 September 2013

Group 2 – Shares purchased in the period 1 September 2013 to 30 September 2013

	Gross Income p	Income Tax @ 20% p	Net Income p	Equalisation p	30 September 2013 Pence per Share p	30 September 2012 Pence per Share p
A – Income Shares						
Group 1	0.4775	0.0955	0.3820	–	0.3820	0.4124
Group 2	0.2266	0.0453	0.1813	0.2007	0.3820	0.4124
A – Accumulation Shares						
Group 1	0.6175	0.1235	0.4940	–	0.4940	0.5098
Group 2	0.1993	0.0398	0.1595	0.3345	0.4940	0.5098
W – Income Shares						
Group 1	0.3838	0.0767	0.3071	–	0.3071	0.4193
Group 2	0.0768	0.0153	0.0615	0.2456	0.3071	0.4193
Z – Income Shares						
Group 1	0.4873	0.0974	0.3899	–	0.3899	0.4190
Group 2	0.4873	0.0974	0.3899	–	0.3899	0.4190

For the period 1 October 2013 to 31 October 2013

Group 1 – Shares purchased prior to 1 October 2013

Group 2 – Shares purchased in the period 1 October 2013 to 31 October 2013

	Gross Income p	Income Tax @ 20% p	Net Income p	Equalisation p	31 October 2013 Pence per Share p	31 October 2012 Pence per Share p
A – Income Shares						
Group 1	0.5281	0.1056	0.4225	–	0.4225	0.4459
Group 2	0.2195	0.0439	0.1756	0.2469	0.4225	0.4459
A – Accumulation Shares						
Group 1	0.6857	0.1371	0.5486	–	0.5486	0.5534
Group 2	0.2601	0.0520	0.2081	0.3405	0.5486	0.5534
W – Income Shares						
Group 1	0.5365	0.1073	0.4292	–	0.4292	0.4534
Group 2	0.2650	0.0530	0.2120	0.2172	0.4292	0.4534
Z – Income Shares						
Group 1	0.5358	0.1071	0.4287	–	0.4287	0.4534
Group 2	0.5358	0.1071	0.4287	–	0.4287	0.4534

For the period 1 November 2013 to 30 November 2013

Group 1 – Shares purchased prior to 1 November 2013

Group 2 – Shares purchased in the period 1 November 2013 to 30 November 2013

	Gross Income p	Income Tax @ 20% p	Net Income p	Equalisation p	30 November 2013 Pence per Share p	30 November 2012 Pence per Share p
A – Income Shares						
Group 1	0.4873	0.0974	0.3899	–	0.3899	0.4421
Group 2	0.2215	0.0443	0.1772	0.2127	0.3899	0.4421
A – Accumulation Shares						
Group 1	0.6368	0.1273	0.5095	–	0.5095	0.5509
Group 2	0.0081	0.0016	0.0065	0.5030	0.5095	0.5509
W – Income Shares						
Group 1	0.4968	0.0993	0.3975	–	0.3975	0.4490
Group 2	0.1546	0.0309	0.1237	0.2738	0.3975	0.4490
Z – Income Shares						
Group 1	0.4956	0.0991	0.3965	–	0.3965	0.4488
Group 2	0.4956	0.0991	0.3965	–	0.3965	0.4488

For the period 1 December 2013 to 31 December 2013

Group 1 – Shares purchased prior to 1 December 2013

Group 2 – Shares purchased in the period 1 December 2013 to 31 December 2013

	Gross Income p	Income Tax @ 20% p	Net Income p	Equalisation p	31 December 2013 Pence per Share p	31 December 2012 Pence per Share p
A – Income Shares						
Group 1	0.5165	0.1033	0.4132	–	0.4132	0.4488
Group 2	–	–	–	0.4132	0.4132	0.4488
A – Accumulation Shares						
Group 1	0.6842	0.1368	0.5474	–	0.5474	0.5613
Group 2	–	–	–	0.5474	0.5474	0.5613
W – Income Shares						
Group 1	0.4505	0.0901	0.3604	–	0.3604	0.4559
Group 2	0.1942	0.0388	0.1554	0.2050	0.3604	0.4559
Z – Income Shares						
Group 1	0.5335	0.1067	0.4268	–	0.4268	0.4556
Group 2	0.5335	0.1067	0.4268	–	0.4268	0.4556

For the period 1 January 2014 to 31 January 2014

Group 1 – Shares purchased prior to 1 January 2014

Group 2 – Shares purchased in the period 1 January 2014 to 31 January 2014

	Gross Income p	Income Tax @ 20% p	Net Income p	Equalisation p	31 January 2014 Pence per Share p	31 January 2013 Pence per Share p
A – Income Shares						
Group 1	0.5007	0.1001	0.4006	–	0.4006	0.4823
Group 2	0.0670	0.0134	0.0536	0.3470	0.4006	0.4823
A – Accumulation Shares						
Group 1	0.6601	0.1320	0.5281	–	0.5281	0.6057
Group 2	–	–	–	0.5281	0.5281	0.6057
W – Income Shares						
Group 1	0.5097	0.1019	0.4078	–	0.4078	0.4911
Group 2	0.1062	0.0212	0.0850	0.3228	0.4078	0.4911
Z – Income Shares						
Group 1	0.5096	0.1019	0.4077	–	0.4077	0.4897
Group 2	0.5096	0.1019	0.4077	–	0.4077	0.4897

For the period 1 February 2014 to 28 February 2014

Group 1 – Shares purchased prior to 1 February 2014

Group 2 – Shares purchased in the period 1 February 2014 to 28 February 2014

	Gross Income p	Income Tax @ 20% p	Net Income p	Equalisation p	28 February 2014 Pence per Share p	28 February 2013 Pence per Share p
A – Income Shares						
Group 1	0.4748	0.0949	0.3799	–	0.3799	0.4359
Group 2	0.2241	0.0448	0.1793	0.2006	0.3799	0.4359
A – Accumulation Shares						
Group 1	0.6280	0.1256	0.5024	–	0.5024	0.5495
Group 2	0.0008	0.0001	0.0007	0.5017	0.5024	0.5495
W – Income Shares						
Group 1	0.4831	0.0966	0.3865	–	0.3865	0.4430
Group 2	0.2206	0.0441	0.1765	0.2100	0.3865	0.4430
Z – Income Shares						
Group 1	0.4838	0.0967	0.3871	–	0.3871	0.4437
Group 2	0.4838	0.0967	0.3871	–	0.3871	0.4437

For the period 1 March 2014 to 31 March 2014

Group 1 – Shares purchased prior to 1 March 2014

Group 2 – Shares purchased in the period 1 March 2014 to 31 March 2014

	Gross Income p	Income Tax @ 20% p	Net Income p	Equalisation p	31 March 2014 Pence per Share p	31 March 2013 Pence per Share p
A – Income Shares						
Group 1	0.5067	0.1013	0.4054	–	0.4054	0.4197
Group 2	0.0970	0.0194	0.0776	0.3278	0.4054	0.4197
A – Accumulation Shares						
Group 1	0.6728	0.1345	0.5383	–	0.5383	0.5724
Group 2	0.0531	0.0106	0.0425	0.4958	0.5383	0.5724
W – Income Shares						
Group 1	0.5143	0.1028	0.4115	–	0.4115	0.6542
Group 2	0.2021	0.0404	0.1617	0.2498	0.4115	0.6542
Z – Income Shares						
Group 1	0.5178	0.1035	0.4143	–	0.4143	0.6554
Group 2	0.5178	0.1035	0.4143	–	0.4143	0.6554

PORTFOLIO INFORMATION

Classification of Investments

	31 March 2014 %	31 March 2013 %
United Kingdom	26.97	31.51
Italy	8.57	7.15
Russia	6.58	4.85
France	5.96	7.50
United States	5.48	8.39
Brazil	4.36	6.75
Poland	4.31	2.00
Mexico	4.28	1.85
Spain	3.88	1.26
Netherlands	3.55	3.28
Turkey	3.30	1.15
Hungary	2.25	1.45
Sweden	2.15	2.96
Chile	2.09	1.08
Switzerland	1.90	1.34
Indonesia	1.77	1.42
South Africa	1.59	2.36
Peru	1.58	1.32
South Korea	1.31	–
China	1.23	–
Australia	1.12	–
Germany	0.95	0.71
Colombia	0.79	1.25
Lithuania	0.79	1.23
El Salvador	0.65	1.12
Irish Republic	–	2.57
Luxembourg	–	1.92
Croatia	–	2.44
Foreign exchange gain/(loss) on outstanding forward contracts	0.42	(1.11)
Debt Futures	0.11	–
Net other assets	2.06	2.25
Net assets	100.00	100.00

Top 10 Holdings

	31 March 2014 %
Nota Do Tesouro Nacional, Index Linked, 6.00%, 5/15/15	3.66
Government of Mexico, 8.00%, 12/07/23	2.96
Government of Hungary, senior bond, Reg S, 5.00%, 5/09/17	2.25
RZD Capital Ltd., senior secured note, Reg S, 7.487%, 3/25/31	2.25
Italy Treasury Bond, 5.50%, 9/01/22	2.14
Government of Chile, 3.875%, 8/05/20	2.09
GE Capital UK Funding, senior bond, 5.125%, 5/24/23	1.83
Government of Indonesia, senior note, Reg S, 11.625%, 3/04/19	1.77
Government of Poland, 4.00%, 10/25/23	1.70
Government of Poland, 5.75%, 9/23/22	1.68

Top 10 Holdings

	31 March 2013 %
Nota Do Tesouro Nacional, Index Linked, 6.00%, 5/15/15	5.67
Italy Treasury Bond, 5.50%, 9/01/22	2.65
GE Capital UK Funding, senior bond, 5.125%, 5/24/23	2.57
HSBC Holdings PLC, senior note, 6.50%, 5/20/24	2.56
Government of Mexico, 6.75%, 2/06/24	1.85
RZD Capital Ltd., senior secured note, Reg S, 7.487%, 3/25/31	1.80
Boparan Finance PLC, senior note, Reg S, 9.875%, 4/30/18	1.66
Svenska Handelsbanken AB, senior note, Reg S, 4.00%, 1/18/19	1.64
Jaguar Land Rover PLC, senior bond, Reg S, 8.125%, 5/15/18	1.63
WM Morrison Supermarkets PLC, Reg S, 4.625%, 12/08/23	1.63

Report & Accounts

Copies of the annual and interim long form report and accounts of this Company are available free of charge on request to Franklin Templeton Fund Management Limited.

Other Information

The information in this report is designed to enable shareholders to make an informed judgement on the activities of the Funds during the period it covers and the results of those activities at the end of the period. For more information about the activities and performance of the Funds during this and previous periods, please contact Franklin Templeton Fund Management Limited.

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