UNAUDITED INTERIM
SHORT REPORT

30 SEPTEMBER 2013

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, warrants, 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. 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 UK) equities.

Investment Review

Change to the Fund's name, objective and investment policy
On 30 September 2013, Templeton Europe Fund was renamed Franklin European Opportunities Fund and its investment objective and investment policy was amended.

The investment objective was amended to replace the reference to "primarily" with "principally". This amendment was made only to bring the Fund in line with the terminology we more commonly use. From our investment strategy point of view, both terms have the same meaning of at least 80%. The Fund will still invest in the equities of European (excluding UK) companies, however it will in future be managed by a different investment team within Franklin Templeton Investments – the Franklin European Equity team, rather than the Templeton Global Equity team.

The Fund will normally have a focused portfolio, typically of around 25-45 European companies, regardless of their 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.

Performance
For the six months ended 30 September 2013, Franklin European Opportunities Fund gained 11.33%, while the MSCI Europe ex-UK Index rose 8.32% (both returns in UK sterling).

Overview
European equity markets finished the six-month review period in positive territory as economic improvements and sustained loose monetary conditions overcame political turmoil and policy uncertainty. While global economic growth overall remained muted, notable signs of progress emerged: Europe exited its longest recession on record, US manufacturing conditions hit a two-year high, Japan's GDP growth exceeded estimates and Chinese industrial output improved. Investors weighed these positives against concerns about the US Federal Reserve (Fed) Board's expected tapering of monthly asset purchases. These concerns pressured Treasuries and emerging markets (which have benefited from Fed-sponsored dollar liquidity) until mid-September, when Chairman Bernanke surprised investors by keeping the current $85 billion/month bond-buying programme intact. The European Central Bank also maintained its accommodative stance, with President Mario Draghi indicating his willingness to provide further stimulus if warranted. Despite the generally accommodative policy environment, political risk remained elevated during the period. US politicians backed away from intervention in Syria, but embraced fiscal conflict at home as failure to compromise on a stop-gap spending measure resulted in the partial shutdown of government operations at period end. In Europe, Germany's Angela Merkel was re-elected in a vote of support for ongoing eurozone reform measures, while in Italy, allies of ex-PM Silvio Berlusconi threatened to withdraw support for the ruling coalition. In Asia, new regimes in both China and Japan consolidated political power while advancing economic reform.

Significant Changes
During the six-month period, we continued to look for long-term investment opportunities within the Fund's investment universe. The most significant new acquisition was a stake in Commerzbank, Germany's second largest bank by asset size. The company's loss-making, capital-consuming, asset-based finance business has severely depressed overall valuations, yet the division is in run-off, and we believe the rest of Commerzbank appears attractive and

deserving a price closer to tangible book value than its current 60% discount. We also added to existing positions across a range of sectors. Notable liquidations included Dutch coffee and tea distributor DE Master Blenders, Spanish energy firm Tecnicas Reunidas and Italian telecommunications services company Telecom Italia.

Positive/Negative Contributors

The Fund delivered absolute gains and outperformed its benchmark during the six months under review. 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 reorganised 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 is now nearing the end of its bailout commitments following more than 35 disposals that raised roughly €23 billion, and recent results highlight the operational improvements achieved at ING's banking business as the company cuts costs and improves margins. Like Unicredit and ING, many of our European financials holdings now 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 commoditised 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 IT companies have experienced a great deal of strategic reorganisation in recent years, and we remain patient as managements restructure their business portfolios and optimise the prodigious cash flows generated by their valuable core operations.

Stock selection in telecommunications also detracted, as did an underweight and stock selection in materials. The portfolio's telecommunications position was pressured by Italian incumbent operator Telecom Italia. We swapped 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.

Outlook

After a long period of contrarian investment in Europe, many of the fundamental improvements we have anticipated are coming to fruition, and the region is gaining wider acceptance among the broader investment community. By some estimates, roughly 70% of the required fiscal adjustments in the eurozone have already been enacted, and fiscal tightening is now becoming less severe, aided by lower financing costs in the periphery. Rising domestic demand, improving competitiveness and a current account surplus in the periphery have helped the region exit its worst recession on record. Such improvements underpinned record-high equity inflows in Europe in the third quarter, yet at period-end eurozone companies were still 35% cheaper than US stocks on long-term normalized earnings multiples, an extreme discount. Profit margins in the two regions also show record divergence, with US companies earning close-to-peak profits while European firms recover from trough margins. Additionally, it is estimated that the operating leverage of European earnings to nominal GDP growth is 1.7 times that of US earnings, further enhancing the positive impact of an eventual revenue recovery on European corporate profitability. While we believe significant political and macro risks remain, European companies with globally diversified revenues and high operating leverage remain attractive to us over our long-term investment horizon.

Michael Clements, CFA, Claire Manson & Stephen Michael Flynn
Fund Managers
25 November 2013

Share Class Performance

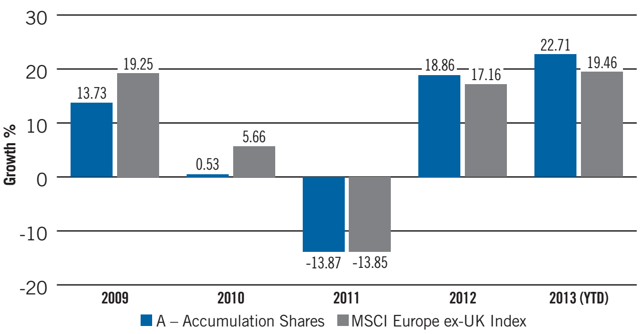
Share Class	Net Asset Value as at 30 September 2013 p	Net Asset Value as at 31 March 2013 p	% Movement
A – Income Shares	176.39	159.24	10.77
A – Accumulation Shares	205.64	183.23	12.23
W – Accumulation Shares	157.02	139.94	12.21
Z – Accumulation Shares	156.56	139.69	12.08

Share Price and Income History

	Calendar Year	Highest Price p	Lowest Price p	Net Income per Share p
A – Income Shares	2009	158.50	98.59	2.21
	2010	155.08	128.38	1.86
	2011	163.92	113.24	2.67
	2012	147.61	114.35	2.37
	2013*	181.83	148.35	1.65
A – Accumulation Shares	2009	173.13	106.07	2.38
	2010	169.40	140.24	2.01
	2011	181.58	125.29	2.98
	2012	169.86	129.61	2.73
	2013*	210.02	170.71	1.91
W – Accumulation Shares	2012Ω	129.46	98.41	0.37
	2013*	160.33	130.13	2.00
Z – Accumulation Shares	2012Ω	129.31	98.41	0.30
	2013*	159.87	129.98	1.92

Ω Figures stated from launch date 31 May 2012.
* Figures to 30 September 2013.

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
	30 September 2013	1.75
A – Accumulation Shares	31 March 2013	1.75
	30 September 2013	1.75
W – Accumulation Shares	31 March 2013	1.05
	30 September 2013	1.05
Z – Accumulation Shares	31 March 2013	1.25
	30 September 2013	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

PORTFOLIO INFORMATION

Classification of Investments

	30 September 2013 %	31 March 2013 %
France	23.66	21.45
Netherlands	13.36	11.44
Italy	11.86	7.70
Germany	10.01	20.92
Switzerland	8.66	9.19
Ireland	6.09	3.64
Spain	5.66	5.68
Norway	4.08	6.56
Belgium	4.06	0.97
Sweden	2.37	2.56
United Kingdom	–	2.23
Finland	–	1.83
Portugal	–	1.72
Luxembourg	–	1.15
Denmark	–	1.06
Net other assets	10.19	1.90
Net assets	100.00	100.00

Top 10 Holdings as at 30 September 2013

	30 September 2013 %
Roche Holding AG	5.32
Fugro NV, IDR	4.98
Boskalis Westminster NV	4.34
Lectra	4.33
GFK AG	4.28
TGS Nopec Geophysical Co. ASA	4.08
Anheuser-Busch InBev NV	4.06
Reed Elsevier NV	4.05
Legrand SA	4.01
Prysmian SpA	3.79

Top 10 Holdings as at 31 March 2013

	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.

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 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 2.95% for the six months ended 30 September 2013, while the Standard & Poor's® 500 Index increased by 1.67% (both returns in UK sterling).

Overview

The US economy, as measured by gross domestic product (GDP), grew modestly during the six-month period ended 30 September

2013, supported by investment and consumer spending. Accelerating new and existing home sales accompanied historically low mortgage rates, rising but affordable housing prices, low inventories and the lowest level of US foreclosures in nearly eight years. Manufacturing, a mainstay of economic productivity, expanded for most of the period.

After indicating in May that the Federal Reserve Board (Fed) might reduce monthly purchases of mortgage-backed securities and Treasuries, assuming on-going US recovery, Fed Chairman Ben Bernanke announced in September that any tapering of its purchases would be postponed until US economic growth strengthened. At period-end, because of partisan disagreement about a new healthcare law, Congress did not authorise some routine federal funding, resulting in a temporary shutdown of non-essential US government services. Unless prolonged, the shutdown was not expected to hinder long-term economic growth, but the political impasse added to concerns about congressional ability to successfully navigate federal debt ceiling negotiations in October.

Chairman Bernanke's statements and the impending US government shutdown sparked some market sell-offs during the six-month period. Rising corporate profits and generally favourable economic data bolstered investor confidence, however, and US stocks generated healthy six-month returns as the Standard & Poor's® 500 Index (S&P 500®) and Dow Jones Industrial Average reached all-time highs during the period.[1]

Significant Changes

Five of the Fund's largest purchases during the year were Freeport McMoRan Copper & Gold, Apple, Merck, Medtronic and Microsoft.

The Fund's investment in Plains Exploration and Production (PXP) consummated in a takeover by Freeport-McMoRan Copper & Gold (FCX). Prior to the deal closing, it became clear that the offer price was too low relative to the underlying value of PXP and at the last minute FCX increased the offer. While the Fund benefitted from the price increase in the deal, we believed that FCX was still getting PXP at an attractive price and that the deal also partially obscured the value of FCX's core assets. Consequently, we chose to receive FCX shares in the deal and held those shares, as well as other FCX shares acquired before the deal closed.

During the period under review, the Fund's position in Medtronic increased. The medical device maker reported strong quarterly results and issued fiscal year 2014 guidance pointing to improved revenue performance relative to expectations. Medtronic also raised its dividend and increased the scope of its share buyback plan, reflecting confidence in its ability to generate strong free cash flow and a commitment to its policy of returning 50% of free cash flow to shareholders each year. Despite these positive events, we estimated that Medtronic shares traded at an unwarranted valuation discount to the universe of medical technology peers.

The Fund also added to its position in Apple after initiating a position in early 2013. During the past six months, Apple's growth momentum stalled and the share price reflected, in our opinion, only a conservative valuation for the business in place, with little credit for the company's strong balance sheet or the possibility that new products – such as the recently released iPhone 5s and 5c – may continue to succeed in captivating the market. Apple is a classic example of a growth company that slows and becomes priced for mediocrity rather than success.

Amongst the Fund's largest sales/trims during the period were Oshkosh, Raytheon, Morgan Stanley, Hewlett Packard and Mondelez International.

Shares of Raytheon, a major global defence and aerospace company, rallied during the period under review. Despite the negative impact of sequestration, the company has managed to turn in solid operational performance across many of its business lines. During the period, the stock price accelerated past our estimate of fair value and we correspondingly began to trim the Fund's position in the company.

Mondelez International is a snack food company formerly known as Kraft Foods. Consumer staples, particularly food products companies, have been a haven for defensive investors which, in our view, reduces the upside potential for these stocks. As a result, the Fund exited its position in the company.

Positive/Negative Contributors

The managers evaluate each investment on a bottom-up basis, without set criteria for specific value parameters, asset size, earnings, geographic location or industry type. The paragraphs below focus on a few of the Fund's most significant contributors and detractors rather than broad discussions of sector, industry or geographic exposures.

Three of our largest contributors to performance for the six-month period included AIG, Twenty-First Century Fox and Kroger. AIG materially contributed to the portfolio's returns during the period due in part to an August announcement of a US$1 billion share buyback plan and the initiation of a dividend. The insurer also reported quarterly earnings results that topped consensus estimates due to strong performance across all segments and a general improvement in expense management. In addition, Standard & Poor's upgraded its rating of AIG's property-casualty insurance business in May.

Twenty-First Century Fox consists of the television and entertainment assets that were part of News Corporation following the 30 June 2013 split of the company. Twenty-First Century Fox reported quarterly earnings that were slightly ahead of expectations and issued a medium-term outlook that exceeded expectations. Following the earnings release, the company held an analyst day during which management discussed the medium-term growth opportunity for the company, in addition to a target capital structure and shareholder returns, all of which were ahead of expectations. At period-end, we believed that operating cash flow growth had the potential to accelerate over the course of the three-year outlook as investments in content and the launch of a national sports network in the US may drive incremental revenue growth in later years.

Kroger, a Cincinnati-based grocery retailer, was amongst the top contributors as its recent earnings performance has been meeting or exceeding market expectations for the past several quarters. In July, the company announced an agreement to acquire Harris Teeter Supermarkets – a regional grocery chain that we consider to be well-run and with good market shares. From our perspective, Kroger has successfully integrated a number of grocery operators in the past. We also believe the current management has been disciplined in terms of capital allocation, including acquisitions. Kroger stated that it expects the acquisition be accretive to earnings within the first full year.

Three investments that did not perform as well as we expected during the year were Transocean, Exelon and British American Tobacco (BAT). Transocean, which owns the world's largest offshore drilling fleet, was plagued by planned and unplanned out-of-service time which impacted profitability. The drilling market also saw a pause in the rate increases oil companies pay contractors for rigs, and the market reset expectations for future growth. Overall, analyst earnings estimates have been moving lower in response to these events. In our view, Transocean was trading at a discount to net asset value at period-end. We also believe that a recently announced cost cutting programme and a healthy dividend have the potential to benefit shareholders.

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

The shares of BAT slumped during the period under review as it appeared that investors were increasingly wary of stocks exposed to emerging markets. However, management indicated they have already taken the vast majority of the pricing steps needed in 2013 to achieve their plan. While some emerging markets appeared to present possible short-term headwinds, we continued to believe that BAT is well managed and could continue to accrete value to shareholders.

Exelon, a US utility company, detracted from performance due to sharply lower-than-expected future prices for reserve-capacity electricity, set in a May auction. The result drove some investors to lower their estimates for the company's future revenue and earnings estimates, as they viewed the auction outcome as an indication that forward price signals remain tepid.

Outlook

The stock market performance year to date in 2013 has been stronger than macroeconomics would suggest. The economic recovery in the US appears sustainable and the slowdown in Europe seems to have troughed. During the year, the expansion of price-to-earnings multiples has outpaced earnings growth. Therefore, the market's confidence in the stable to improving global economy seems to be manifesting itself in broader valuations. As a result, at period-end we viewed equity markets in general as not particularly cheap.

On a more positive note, lower equity market correlations indicated that company fundamentals, as opposed to macroeconomic factors, were an increasingly important driver of individual stocks. We welcome any reassertion of fundamentals on individual stocks – from our experience it is generally favourable to our bottom-up, security-by-security investment approach – but recognise that such trends can be interrupted and do not typically move in straight lines.

Indeed, budget politics in Washington D.C. grabbed investors' attention as the quarter came to a close. Intransigence on both sides of the aisle over a long-term fiscal resolution and the federal debt ceiling jeopardises market confidence and economic growth. Similar to the fiscal cliff situation in December 2012, we can only remain hopeful that politicians can get past the brinksmanship and reach a constructive, long-term agreement.

In Europe, on-going hints of economic improvement continued to validate our positive view. Current economic, political and financial conditions provide investors with an opportunity to purchase what we view as strong corporate assets with substantial positive catalysts at valuations near the bottom of their earnings cycle. More specifically, we see particularly attractive risk/reward profiles amongst companies that generate most of their revenues within Europe. Such companies may benefit significantly from improving economic conditions.

More broadly, we have also been finding a number of attractive opportunities in less traditional value-investing areas, with the types of individual catalysts needed to help realise positive investment results in the future. We believe that defensive sectors such as consumer staples and healthcare – regarded as the more traditional territory of value investors – have become more richly priced than information technology, materials and other, more cyclical sectors.

Peter Langerman & Deborah Turner, CFA
Fund Managers
25 November 2013

Share Class Performance

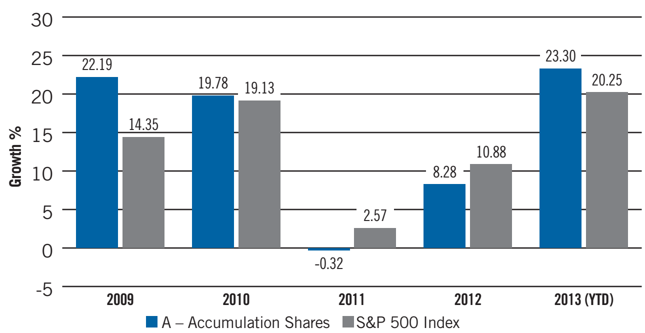
Share Class	Net Asset Value as at 30 September 2013 p	Net Asset Value as at 31 March 2013 p	% Movement
A – Income Shares	155.12	151.61	2.32
A – Accumulation Shares	161.03	157.22	2.43
I – Accumulation Shares	172.95	168.26	2.79
W – Accumulation Shares	131.90	128.31	2.80
Z – Accumulation Shares	131.54	128.10	2.69

Share Price and Income History

	Calendar Year	Highest Price p	Lowest Price p	Net Income per Share p
A – Income Shares	2009	99.79	62.11	0.13
	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
A – Accumulation Shares	2009	102.49	63.65	0.13
	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
I – Accumulation Shares	2009	107.20	66.19	0.50
	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
W – Accumulation Shares	2012Ω	110.21	98.05	0.29
	2013*	140.89	107.90	1.14
Z – Accumulation Shares	2012Ω	110.13	98.05	0.21
	2013*	140.57	107.77	0.88

Ω Figures stated from launch date 31 May 2012.
* Figures to 30 September 2013.

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
	30 September 2013	1.72
A – Accumulation Shares	31 March 2013	1.72
	30 September 2013	1.72
I – Accumulation Shares	31 March 2013	1.02
	30 September 2013	1.02
W – Accumulation Shares	31 March 2013	1.02
	30 September 2013	1.02
Z – Accumulation Shares	31 March 2013	1.22
	30 September 2013	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

PORTFOLIO INFORMATION

Classification of Investments

	30 September 2013 %	31 March 2013 %
United States	84.42	84.32
United Kingdom	5.10	5.18
Netherlands	0.74	0.20
France	0.53	0.56
Denmark	0.48	0.50
South Korea	0.45	0.10
Israel	0.40	0.31
Germany	0.37	0.58
Switzerland	0.23	0.35
Brazil	0.15	–
Japan	–	0.06
Net other assets	7.13	7.84
Net assets	100.00	100.00

Top 10 Holdings as at 30 September 2013

	30 September 2013 %
Merck & Co. Inc.	3.73
Microsoft Corp.	3.23
American International Group Inc.	2.85
Apple Inc.	2.78
White Mountains Insurance Group Ltd.	2.62
Twenty-First Century Fox Inc., B	2.52
Medtronic Inc.	2.52
CVS Caremark Corp.	2.29
Cigna Corp.	2.24
Marathon Oil Corp.	2.18

Top 10 Holdings as at 31 March 2013

	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 six months to 30 September 2013, Franklin UK Blue Chip Fund recorded a return of 2.49%, compared with the benchmark FTSE All-Share Index's 3.84%. The FTSE 100 Index gained 2.79% over the same period (all returns in UK sterling).

Overview

The Fund's new financial year started as the previous year had ended, with the UK equity market continuing to forge ahead, 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 but everything changed in June when the market had a 'taper tantrum' and suffered a peak-to-trough correction of more than 10%. Everyone had known that the liquidity support for global equity markets provided by central banks' various quantitative easing (QE) programmes would eventually have to end, but it took the actual realisation that the US Federal Reserve (Fed) could begin to taper its programme of monthly asset purchases as early as September to finally rattle the markets.

Bond yields on both sides of the Atlantic had been rising steadily throughout May but this process accelerated in June as the tapering debate intensified. A 100 basis point move in 10-year US Treasury yields from 1.6% to 2.6% in little over six weeks rattled policymakers. Fearful that such a sharp move would put the brakes on economic recovery, the policymakers tried to emphasise the fact that short-term rates would stay low for a prolonged period in an attempt to keep the yield curve in check. After a difficult June, the UK equity market bounced back strongly in July, helped by the soothing words of central bankers, although it did not quite recapture its May peak. A nervous tone to the market returned briefly towards the end of August as geopolitical instability rose to a head in the Middle East, but constructive intervention by the Russians in the Syrian crisis helped ensure that volatility linked to geopolitics was short lived, so that attention could focus again on the threat of imminent tapering. The period under review ended on a somewhat unsettling note in September. First the Fed fluffed what looked to us to be the perfect opportunity to start weaning financial markets off the liquidity drug by surprisingly opting not to taper its monthly asset purchases. And then the politicians in Washington, DC conspired to remind us just how dysfunctional they can be by failing to agree a federal budget for the new financial year, and thus ensured the US federal government entered a partial shutdown on 1 October.

Following the strong returns enjoyed in the previous half year, we consider the positive, albeit relatively modest, returns recorded by the FTSE All-Share Index in the first six months of the new financial year to be a creditable result for investors given that the overall performance of the global economy remains very mixed. A somewhat better outcome than might have been expected from Europe and Japan has been offset by signs of fragility in emerging-market economies and a tempering of growth in the US.

The main features of the UK equity market over the period at the sector level were the relative strength of mobile telecoms, reflecting the long-awaited bid for Vodafone's holding in Verizon Wireless, and the weakness in oil & gas and mining, impacted by the weakness in emerging markets. A lesser, but not insignificant feature, was the relative underperformance of some defensive sectors such as beverages, tobacco and food producers. Markets appreciated the stable cash flows provided by companies operating in these sectors as bond yields fell in the early part of the six-month period, but these stocks were hurt badly when bond yields rose again during much of the second part of the period.

Significant Changes

April and May were quiet months in terms of buys and sells, with just some existing positions added to or reduced. Activity picked up in June, when the Fund added new positions in Severn Trent and building materials company Wolseley to replace stakes in Glencore Xstrata, ITV and Tesco, which were disposed of in the same month. We took advantage of price weakness following the rejection of a bid from a consortium of investors to add water utility Severn Trent to the portfolio, purchasing the stock at a price below where the stock was trading before the bid approach was made. The purchase of Wolseley was justified, in our view, by the exposure it affords to the construction industry, mainly in the US. We decided to sell our stake in Tesco because its sales performance had not improved in spite of a £1 billion revamp of its UK stores, while we sold out of ITV on valuation grounds. We locked in a healthy capital gain from this sale. Other important transactions in the early part of the reporting period included the reinforcement of existing stakes in Smiths Group and John Wood Group, as well as the partial sale of Fund positions in Shire Pharmaceuticals and HSBC Holdings.

In the period from the beginning of July to the end of September, the Fund booked healthy capital gains from reducing its stake in a large number of stocks, but the sole stock that it disposed of entirely during these four months was motor insurer esure after a run of disappointing news and negative price performance. We also booked profits from the partial sale of our positions in BT Group, Unilever and Legal & General. The one new addition to the Fund in the three-month period to end September was a small stake in Rolls-Royce, while existing stakes were topped up.

Positive/Negative Contributors

Franklin UK Blue Chip Fund has had a relatively difficult six months, mainly due to the large-cap bias of the portfolio. During the period under review, the FTSE 100 Index rose just 2.79% compared to gains of about 10% for the FTSE 250 and 12% for the FTSE Small-Cap indices. This underperformance has left many large-cap stocks looking cheap in comparison to their mid- and small-cap counterparts.

The best-contributing stocks to the Fund's performance over the six-month period were pharmaceutical company Shire and telecoms company BT Group. Shire's share price rose by almost 24% over the six months, and BT Group's by almost 26%. Recurrent takeover speculation combined with a strong operating performance and forward statements boosted Shires' share price, while BT Group has benefited 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). Overweight positions in insurer Legal & General, wealth manager St James's Place and international asset manager Schroders also featured among the top five contributors to relative returns, underlying the strong revival in the fortunes of the UK financial sector.

The largest detractor from relative performance was car insurer esure. Having disappointed with its maiden interim results and lowered earnings guidance, this stock was disposed of late in the period under review. Performance was also negatively impacted by software provider The Sage Group, which lost favour after some analyst downgrades; Premier Oil, which suffered from delays to its oil extraction plans off the Falkland Islands; and Aberdeen Asset Management, which suffered outflows and a fall in assets under management over the summer as volatility in emerging markets hit new business. The Fund was also penalised for having an underweight position in Vodafone, whose share price rose over 20% in the period under review in the context of the sale of its stake in Verizon Wireless.

Outlook and Strategy

It is fair to say that the global economy is not quite progressing as we expected in 2013. Helped by a recovering housing market, the US economy does indeed appear to be meeting the challenge from fiscal tightening, but growth in key emerging markets has not picked up to the extent that many had forecast. China in particular has disappointed, but many other smaller developing economies have also had a difficult summer, buffeted by currency weakness as capital outflows accelerated in the face of rising US bond yields. More positive news has come from closer to home, with the eurozone showing signs of stability and the UK economy performing significantly better.

In the October issue of its *World Economic Outlook* report, the International Monetary Fund (IMF) revised its forecast for global growth down to 2.9% for 2013, compared to its July prediction of 3.2% growth this year. The UK stood out from the crowd as one of the few economies to see a significant upgrade in its growth forecast. Indeed, the Office for National Statistics reported that the quarter-over-quarter growth rate reached 0.7% in the second quarter, making the UK one of the fastest-growing developed economies. The IMF forecast global growth to bounce back to 3.6% in 2014, with the US and Europe making the greatest contributions to the improvement.[1]

The IMF is clearly assuming that the current political crisis in the US is resolved in the short term with no lasting impact on growth. We hope this is indeed the case, but it is no by means certain and represents an obvious short-term source of volatility. The uncertainty, which to a degree mirrors the position this time last year with the looming fiscal cliff, does have implications for the taper on/taper off debate. We now see tapering of the US QE programme as more of an issue for 2014 and hopefully financial markets will be better prepared for such a move by the time it comes around.

The UK government appears to have chosen the housing market as the conduit through which to engineer a pre-election boost to the economy. Whilst it is doubtful that this is a good idea in the long run and while a significant rise in the housing market may exacerbate rather than address the long-standing imbalances in the economy, it does appear to be having the desired effect. For the UK recovery to be sustainable, however, we need to see a broader-based pick-up in investment, and this is still proving elusive. Real disposable incomes have improved somewhat, helped by a fall in mortgage rates and modest employment growth, but with utility bills on the rise again and bond yields increasing, income growth is not going to be a strong driver of the recovery without a marked fall in the savings ratio.

In terms of valuations, by early October the UK equity market was trading at forward-price earnings multiples that look stretched to us, particularly given that earnings downgrades have lately become more prominent. The volatility in equity prices driven by rising bond yields during the summer served to remind investors that 10-year US Treasuries still effectively set the cost of capital worldwide and will need to be carefully watched in the months ahead.

Back in April, we stated that we believed the recent rate of upward progress in share prices was unlikely to be maintained. Therefore, we have not been surprised to see a period of consolidation over the summer months. Our strategy going forward remains the same: we will work hard to identify interesting new stock ideas whilst 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
25 November 2013

1. Source: World Economic Outlook, October 2013. © By International Monetary Fund. All Rights Reserved.

Share Class Performance

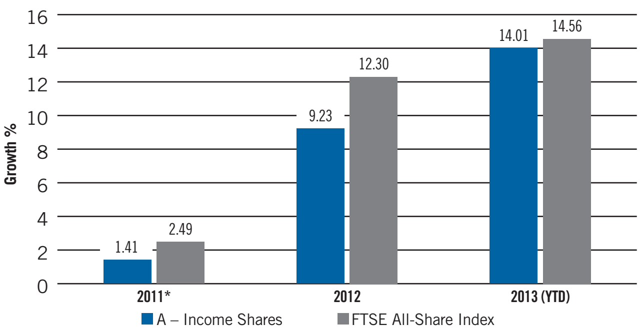
Share Class	Net Asset Value as at 30 September 2013 p	Net Asset Value as at 31 March 2013 p	% Movement
A – Income Shares	392.39	385.62	1.76
W – Accumulation Shares	127.80	123.73	3.29
Z – Accumulation Shares	127.46	123.51	3.20

Share Price and Income History

	Calendar Year	Highest Price p	Lowest Price p	Net Income per Share p
A – Income Shares	2011β	334.02	304.11	–
	2012	353.96	315.33	7.36
	2013*	413.46	356.79	4.56
W – Accumulation Shares	2012Ω	112.51	98.70	0.93
	2013*	132.78	113.44	1.91
Z – Accumulation Shares	2012Ω	112.39	98.70	0.86
	2013*	132.52	113.31	1.78

β Figures stated from launch date 17 October 2011.
Ω Figures stated from launch date 31 May 2012.
* Figures to 30 September 2013.

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
	30 September 2013	1.65
W – Accumulation Shares	31 March 2013	0.95
	30 September 2013	0.95
Z – Accumulation Shares	31 March 2013	1.15
	30 September 2013	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

PORTFOLIO INFORMATION

Classification of Investments

	30 September 2013 %	31 March 2013 %
Oil & Gas Producers	12.39	13.39
Pharmaceuticals & Biotechnology	10.17	11.23
Tobacco	7.71	7.64
Banks	6.54	7.79
Life Insurance	5.58	5.86
Media	5.48	5.72
Mining	5.07	5.73
Travel & Leisure	4.32	3.34
Mobile Telecommunications	3.97	3.94
Aerospace & Defence	3.83	2.10
Gas, Water & Multiutilities	3.31	2.86
Software & Computer Services	2.99	2.43
Fixed Line Telecommunications	2.85	2.59
Financial Services	2.68	2.45
General Industrials	2.54	1.26
Support Services	2.40	1.03
General Retailers	2.21	2.06
Food Producers	2.16	3.09
Health Care Equipment & Services	2.03	1.69
Beverages	1.97	2.58
Household Goods & Home Construction	1.84	1.99
Electricity	1.76	1.78
Oil Equipment, Services & Distribution	1.73	1.15
Real Estate Investment Trusts	1.32	1.44
Industrial Engineering	0.89	0.80
Food & Drug Retailers	–	1.36
Nonlife Insurance	–	0.80
Net other assets	2.26	1.90
Net assets	100.00	100.00

Top 10 Holdings as at 30 September 2013

	30 September 2013 %
Royal Dutch Shell PLC, A	4.68
British American Tobacco PLC	4.54
GlaxoSmithKline PLC	4.54
HSBC Holdings PLC	4.32
BP PLC	4.24
Vodafone Group PLC	3.97
Reed Elsevier PLC	3.50
AstraZeneca PLC	3.38
Imperial Tobacco Group PLC	3.17
Compass Group PLC	3.04

Top 10 Holdings as at 31 March 2013

	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 six months to 30 September 2013, Franklin UK Equity Income Fund recorded a return of 3.42% compared with the benchmark FTSE All-Share Index's 3.84% (both returns in UK sterling).

Overview

The Fund's new financial year started as the previous year had ended, with the UK equity market continuing to forge ahead, 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 but everything changed in June when the market had a 'taper tantrum' and suffered a peak-to-trough correction of more than 10%. Everyone had known that the liquidity support for global equity markets provided by central banks' various quantitative easing (QE) programmes would eventually have to end, but it took the actual realisation that the US Federal Reserve (Fed) could begin to taper its programme of monthly asset purchases as early as September to finally rattle the markets.

Bond yields on both sides of the Atlantic had been rising steadily throughout May but this process accelerated in June as the tapering debate intensified. A 100 basis point move in 10-year US Treasury yields from 1.6% to 2.6% in little over six weeks rattled policymakers. Fearful that such a sharp move would put the brakes on economic recovery, the policymakers tried to emphasise the fact that short-term rates would stay low for a prolonged period in an attempt to keep the yield curve in check. After a difficult June, the UK equity market bounced back strongly in July, helped by the soothing words of central bankers, although it did not quite recapture its May peak. A nervous tone to the market returned briefly towards the end of August as geopolitical instability rose to a head in the Middle East, but constructive intervention by the Russians in the Syrian crisis helped ensure that volatility linked to geopolitics was short lived, so that attention could focus again on the threat of imminent tapering. The period under review ended on a somewhat unsettling note in September. First the Fed fluffed what looked to us to be the perfect opportunity to start weaning financial markets off the liquidity drug by surprisingly opting not to taper its monthly asset purchases. And then the politicians in Washington D.C. conspired to remind us just how dysfunctional they can be by failing to agree a federal budget for the new financial year, and thus ensured the US federal government entered a partial shutdown on 1 October.

Following the strong returns enjoyed in the previous half year we consider the positive, albeit relatively modest, returns recorded by the FTSE All-Share Index in the first six months of the new financial year to be a creditable result for investors given that the overall performance of the global economy remains very mixed. A somewhat better outcome than might have been expected from Europe and Japan has been offset by signs of fragility in emerging-market economies and a tempering of growth in the US.

The main features of the UK equity market over the period at the sector level were the relative strength of mobile telecoms, reflecting the long-awaited bid for Vodafone's holding in Verizon Wireless, and the weakness in oil & gas and mining, impacted by the weakness in emerging markets. A lesser, but not insignificant feature, was the relative underperformance of some defensive sectors such as beverages, tobacco and food producers. Markets appreciated the stable cash flows provided by companies operating in these sectors as bond yields fell in the early part of the six-month period, but these stocks were hurt badly when bond yields rose again during much of the second part of the period.

Significant Changes
We reduced our stakes in a large number of stocks, realising hefty profits in almost all cases, for example, in specialist engineering company Senior and in wealth manager Rathbone Brothers, which was removed from the Fund in June. However, we maintained a lively interest in parts of the financial industry, adding Aberdeen Asset Management to the portfolio early in the six months under review, and we also purchased a stake in oil and gas services company John Wood Group. In June, we sold out of Tesco because its sales performance has not improved in spite of a £1 billion revamp of its UK stores. The Fund's holding in electronics company Laird had also disappointed, and it too was sold completely in June. We booked profits through the partial sale of a large number of holdings. The largest partial sales in the period under review involved Vodafone, Schroders, British American Tobacco, Centrica, Reed Elsevier, HSBC Holdings, Royal Dutch, Astra Zeneca, Unilever and BP. During the period under review, we added to existing holdings in The Sage Group, Compass Group, RPS Group, Smith Group and Pearson, among others.

In spite of the high level of transactions, we completely sold out of only two stocks in the three months to end-September – specialist financial services provider Close Brothers and consultancy RPS Group – and booked substantial capital gains on each. As for purchases, in July, the Fund acquired a position in Rolls-Royce to take advantage of that company's strong position in the jet-engine market and the strong growth expected in air travel over the medium to long term.

Positive/Negative Contributors
Franklin UK Equity Income Fund's performance trailed that of its benchmark during the six months under review, mainly due to the portfolio's large-cap bias. During the period under review, the FTSE 100 Index rose just 2.79% compared to gains of about 10% for the FTSE 250 and 12% for the FTSE Small-Cap indices. This has left many large-cap stocks looking cheap in comparison to their mid- and small-cap counterparts. On a positive note, we have seen some good dividend increases across the portfolio as well as special dividends from a number of our holdings.

The best contribution to relative returns over the period under review came from BT Group, whose share price rose by 25.6% in the six months to end-September. BT Group has benefited 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 contribution came from an overweight position in asset manager Schroders, which was buoyed by the completion of its acquisition of Cazenove Capital and a 25% increase in pre-tax profits in the first half of this year. Packaging firm DS Smith – the third-largest contributor to the Fund's relative returns – saw its market price rise by over 33% in the six months to end-September, thanks to a strong interim trading statement and market approval of its takeover of rival firm SCA Packaging. Overweight positions in publisher and information provider Reed Elsevier and insurer Legal & General also helped boost relative performance, while the Fund also benefited from an underweight position in HSBC Holdings, which was facing a fine for mis-selling mortgage products in the US.

The largest detractor from relative performance was car insurer esure, which disappointed with its maiden interim results and lowered earnings guidance. Performance was also negatively impacted by software provider The Sage Group, which lost favour after some analyst downgrades; electronic components company Laird, which was hurt by doubts over some of its major customers before we sold this stock in June; and Aberdeen Asset Management, which suffered outflows and a fall in assets under management over the summer as volatility in emerging markets hit new business. The Fund was also penalised for having an underweight position in Vodafone, whose share price rose over 20% in the period under review in the context of the sale of its stake in Verizon Wireless.

Outlook and Strategy
It is fair to say that the global economy is not quite progressing as we expected in 2013. Helped by a recovering housing market, the US economy does indeed appear to be meeting the challenge from fiscal tightening, but growth in key emerging markets has not picked up to the extent that many had forecast. China in particular has disappointed, but many other smaller developing economies have also had a difficult summer, buffeted by currency weakness as capital outflows accelerated in the face of rising US bond yields. More positive news has come from closer to home, with the eurozone showing signs of stability and the UK economy performing significantly better.

In the October issue of its *World Economic Outlook* report, the International Monetary Fund (IMF) revised its forecast for global growth down to 2.9% for 2013, compared to its July prediction of 3.2% growth this year.[1] The UK stood out from the crowd as one of the few economies to see a significant upgrade in its growth forecast. Indeed, the Office for National Statistics reported that the quarter-over-quarter growth rate reached 0.7% in the second quarter, making the UK one of the fastest-growing developed economies. The IMF forecast global growth to bounce back to 3.6% in 2014, with the US and Europe making the greatest contributions to the improvement.[1]

The IMF is clearly assuming that the current political crisis in the US is resolved in the short term with no lasting impact on growth. We hope this is indeed the case but it is no by means certain and represents an obvious short-term source of volatility. The uncertainty, which to a degree mirrors the position this time last year with the looming fiscal cliff, does have implications for the taper on/taper off debate. We now see tapering of the US QE programme as more of an issue for 2014 and hopefully financial markets will be better prepared for such a move by the time it comes around.

The UK government appears to have chosen the housing market as the conduit through which to engineer a pre-election boost to the economy. Whilst it is doubtful that this is a good idea in the long run and while a significant rise in the housing market may exacerbate rather than address the long-standing imbalances in the economy, it does appear to be having the desired effect. For the UK recovery to be sustainable, however, we need to see a broader-based pick-up in investment, and this is still proving elusive. Real disposable incomes have improved somewhat, helped by a fall in mortgage rates and modest employment growth, but with utility bills on the rise again and bond yields increasing, income growth is not going to be a strong driver of the recovery without a marked fall in the savings ratio.

In terms of valuations, by early October the UK equity market was trading at forward-price earnings multiples that look stretched to us, particularly given that earnings downgrades have lately become more prominent. The volatility in equity prices driven by rising bond yields during the summer served to remind investors that 10-year US Treasuries still effectively set the cost of capital worldwide and will need to be carefully watched in the months ahead.

Back in April, we stated that we believed the recent rate of upward progress in share prices was unlikely to be maintained. Therefore, we have not been surprised to see a period of consolidation over the summer months. Our strategy going forward remains the same: we will work hard to identify interesting new stock ideas whilst 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
25 November 2013

1. Source: World Economic Outlook, October 2013. © By International Monetary Fund. All Rights Reserved.

Share Class Performance

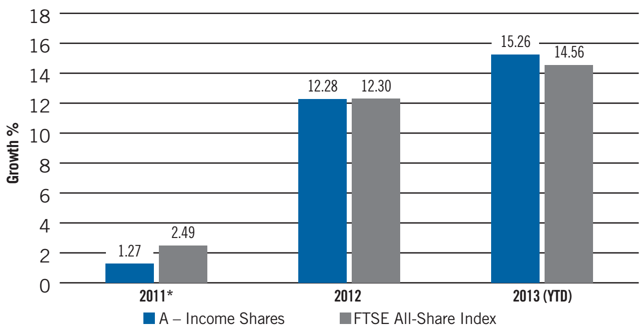
Share Class	Net Asset Value as at 30 September 2013 p	Net Asset Value as at 31 March 2013 p	% Movement
A – Income Shares	199.84	196.65	1.62
A – Accumulation Shares	131.15	126.22	3.91
W – Income Shares	125.99	123.52	2.00
W – Accumulation Shares	131.71	126.32	4.27
Z – Income Shares	125.00	122.66	1.91
Z – Accumulation Shares	131.38	126.13	4.16

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*	211.59	182.54	7.39
A – Accumulation Shares	2011µ	102.80	94.32	–
	2012	114.63	99.44	3.30
	2013*	135.81	115.47	4.96
W – Income Shares	2012Ω	113.91	98.96	0.59
	2013*	133.03	114.76	4.92
W – Accumulation Shares	2012Ω	114.52	98.96	1.53
	2013*	136.05	115.38	4.75
Z – Income Shares	2012Ω	114.12	98.96	0.26
	2013*	132.07	114.96	5.94
Z – Accumulation Shares	2012Ω	114.39	98.96	1.53
	2013*	135.81	115.24	4.75

µ Figures stated from launch date 17 October 2011.
Ω Figures stated from launch date 31 May 2012.
* Figures to 30 September 2013.

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	1.61
	30 September 2013	1.61
A – Accumulation Shares	31 March 2013	1.61
	30 September 2013	1.61
W – Income Shares	31 March 2013	0.91
	30 September 2013	0.91
W – Accumulation Shares	31 March 2013	0.91
	30 September 2013	0.91
Z – Income Shares	31 March 2013	1.11
	30 September 2013	1.11
Z – Accumulation Shares	31 March 2013	1.11
	30 September 2013	1.11

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	0.9401	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

PORTFOLIO INFORMATION

Classification of Investments

	30 September 2013 %	31 March 2013 %
Oil & Gas Producers	9.89	10.90
Pharmaceuticals & Biotechnology	9.03	9.24
Tobacco	7.79	7.85
Media	6.51	5.77
Gas, Water & Multiutilities	6.23	6.31
Life Insurance	5.75	5.45
Banks	5.17	5.78
Support Services	4.24	4.51
Travel & Leisure	4.11	3.23
Financial Services	4.04	4.44
Mobile Telecommunications	3.96	4.02
Mining	3.92	3.83
Aerospace & Defence	3.27	2.43
General Industrials	3.27	1.84
Software & Computer Services	2.90	2.02
Nonlife Insurance	2.87	2.70
Fixed Line Telecommunications	2.69	2.67
Food Producers	2.65	3.25
Electricity	1.93	1.80
Real Estate Investment Trusts	1.91	2.00
General Retailers	1.80	1.63
Household Goods & Home Construction	1.59	1.68
Health Care Equipment & Services	1.07	0.92
Beverages	0.93	1.40
Oil Equipment, Services & Distribution	0.90	–
Food & Drug Retailers	–	1.28
Technology Hardware & Equipment	–	0.73
Net other assets	1.58	2.32
Net assets	100.00	100.00

Top 10 Holdings as at 30 September 2013

	30 September 2013 %
GlaxoSmithKline PLC	4.66
Royal Dutch Shell PLC, A	4.60
British American Tobacco PLC	4.54
HSBC Holdings PLC	4.23
BP PLC	4.05
Vodafone Group PLC	3.96
Reed Elsevier PLC	3.49
AstraZeneca PLC	3.44
Imperial Tobacco Group PLC	3.25
The Sage Group PLC	2.90

Top 10 Holdings as at 31 March 2013

	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	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 six months to 30 September 2013, Franklin UK Managers' Focus Fund recorded a return of 13.50%, significantly outperforming the benchmark FTSE All-Share Index's 3.84% (both returns in UK sterling).

Overview

The Fund's new financial year started as the previous year had ended, with the UK equity market continuing to forge ahead, 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 but everything changed in June when the market had a 'taper tantrum' and suffered a peak-to-trough correction of more than 10%. Everyone had known that the liquidity support for global equity markets provided by central banks' various quantitative easing (QE) programmes would eventually have to end, but it took the actual realisation that the US Federal Reserve (Fed) could begin to taper its programme of monthly asset purchases as early as September to finally rattle the markets.

Bond yields on both sides of the Atlantic had been rising steadily throughout May but this process accelerated in June as the tapering debate intensified. A 100 basis point move in 10-year US Treasury yields from 1.6% to 2.6% in little over six weeks rattled policymakers. Fearful that such a sharp move would put the brakes on economic recovery, the policymakers tried to emphasise the fact that short-term rates would stay low for a prolonged period in an attempt to keep the yield curve in check. After a difficult June, the UK equity market bounced back strongly in July, helped by the soothing words of central bankers, although it did not quite recapture its May peak. A nervous tone to the market returned briefly towards the end of August as geopolitical instability rose to a head in the Middle East, but constructive intervention by the Russians in the Syrian crisis helped ensure that volatility linked to geopolitics was short lived, so that attention could focus again on the threat of imminent tapering. The period under review ended on a somewhat unsettling note in September. First the Fed fluffed what looked to us to be the perfect opportunity to start weaning financial markets off the liquidity drug by surprisingly opting not to taper its monthly asset purchases. And then the politicians in Washington D.C. conspired to remind us just how dysfunctional they can be by failing to agree a federal budget for the new financial year, and thus ensured the US federal government entered a partial shutdown on 1 October.

Following the strong returns enjoyed in the previous half year we consider the positive, albeit relatively modest, returns recorded by the FTSE All-Share Index in the first six months of the new financial year to be a creditable result for investors given that the overall performance of the global economy remains very mixed. A somewhat better outcome than might have been expected from Europe and Japan has been offset by signs of fragility in emerging-market economies and a tempering of growth in the US.

The main features of the UK equity market over the period at the sector level were the relative strength of mobile telecoms, reflecting the long-awaited bid for Vodafone's holding in Verizon Wireless, and the weakness in oil & gas and mining, impacted by the weakness in emerging markets. A lesser, but not insignificant feature, was the relative underperformance of some defensive sectors such as beverages, tobacco and food producers. Markets appreciated the stable cash flows provided by companies operating in these sectors as bond yields fell in the early part of the six-month period, but these stocks were hurt badly when bond yields rose again during much of the second part of the period.

Significant Changes

Transaction activity was quite intense during the six months under review, especially from May. Some existing high-conviction holdings were reinforced and some new ones were initiated, while at the same time the continued advance of UK equities during most of the period persuaded us to dispose of a number of stocks that had become progressively more fully valued and/or offered less upside potential than alternatives. In May, there was a significant turnover of holdings, with stakes in companies such as mortgage provider Paragon, home-improvement retailer Kingfisher and commodities companies Premier Oil and Rio Tinto replaced by stakes in the likes of Carphone Warehouse Group, John Wood Group, Pearson and BHP Billiton. The high valuation its share price had reached triggered the sale of our stake in car-dealership Inchcape and in house-builder Persimmon in June, but the pronounced upturn in the UK housing market persuaded us to take stakes in a number of alternative commercial and residential property-related stocks in June in the shape of Bovis Homes, LSL Property Services and serviced-office provider Regus. The Fund also exited its positions in technology companies Laird and IQE during this period, but initiated holdings of Thomas Cook Group and thermal-processing specialist Bodycote. We significantly reinforced our existing stake in Xaar early in the six months under review, but reduced our stake later on, booking a substantial capital gain in the process. We also booked profits from partial sales of Scapa, Schroders and IG Group, but also added to existing stakes in Smith & Nephew and The Sage Group.

Buying activity continued apace in the three months to end-September, when financial stocks Aberdeen Asset Management and Intermediate Capital Group were added to the portfolio. There were other new additions to the Fund late in the reporting period, including engineering services-related stocks Smiths Group and WYG, as well as online gambling and entertainment company Sportech and clothing firm Supergroup. The volume of purchases exceeded the volume of sales, but among stocks liquidated during the latter half of the reporting period were Anite, DS Smith, IG Group, Invensys, RPS Group and Schroders. With the exception of specialist software company Anite, the Fund realised a profit from the sale of all these stocks. During the latter part of the period under review, apart from the aforementioned decision to book partial profits from Xaar, we reduced our stake in Shire Pharmaceuticals but reinforced further our allocation to Bodycote.

Positive/Negative Contributors

By far the largest contribution to the Fund's outperformance in the six months under review came from a significantly overweight position in Xaar, a company that supplies industrial inkjet print-heads. Xaar's share price rose by more than 89% over the period, thanks to important new contracts to supply digital print-heads to China and aggressive upgrades to its profit forecasts. Like Xaar, the rest of the top contributors to fund performance were all small- or mid-cap stocks, reflecting the continued outperformance of this part of the UK equity market this year. Thus, the Fund's outperformance was fuelled by its overweight positions in Persimmon, Invensys, Ted Baker, Bodycote and Avon Rubber. House-builder Persimmon, which was the second-largest contributor to returns, benefitted from the introduction of government measures to boost house buying and the consequent rise in the UK property market, while third-best contributor Invensys was boosted in part by takeover speculation surrounding this engineering company which, in effect, was acquired by France's Schneider Electric during the summer.

There were naturally some disappointments as well. Environmental consultancy RPS Group was the largest detractor from relative returns, with its share price declining by 12.3% over the six months under review. RPS Group was hurt early in the period by the announcement of renewed weakness from the group's exposure to major resource projects in Australia. Overweight positions in resources group Cairn Energy, technology stock IQE and home-builder Bovis Homes also detracted from returns. Bovis Homes, like other UK homebuilders, has benefitted from the significant rise in the property market in the UK, but after a steep rise in its share price between mid-June and mid-July, its price performance declined substantially as the stock's forward price-to-earnings ratio began to look frothy amid fears of a new housing bubble.

Outlook and Strategy

It is fair to say that the global economy is not quite progressing as we expected in 2013. Helped by a recovering housing market, the US economy does indeed appear to be meeting the challenge from fiscal tightening, but growth in key emerging markets has not picked up to the extent that many had forecast. China in particular has disappointed, but many other smaller developing economies have also had a difficult summer, buffeted by currency weakness as capital outflows accelerated in the face of rising US bond yields. More positive news has come from closer to home, with the eurozone showing signs of stability and the UK economy performing significantly better.

In the October issue of its *World Economic Outlook* report, the International Monetary Fund (IMF) revised its forecast for global growth down to 2.9% for 2013, compared to its July prediction of 3.2% growth this year. The UK stood out from the crowd as one of the few economies to see a significant upgrade in its growth forecast. Indeed, the Office for National Statistics reported that the quarter-over-quarter growth rate reached 0.7% in the second quarter, making the UK one of the fastest-growing developed economies. The IMF forecast global growth to bounce back to 3.6% in 2014, with the US and Europe making the greatest contributions to the improvement.[1]

The IMF is clearly assuming that the current political crisis in the US is resolved in the short term with no lasting impact on growth. We hope this is indeed the case but it is no by means certain and represents an obvious short-term source of volatility. The uncertainty, which to a degree mirrors the position this time last year with the looming fiscal cliff, does have implications for the taper on/taper off debate. We now see tapering of the US QE programme as more of an issue for 2014 and hopefully financial markets will be better prepared for such a move by the time it comes around.

The UK government appears to have chosen the housing market as the conduit through which to engineer a pre-election boost to the economy. Whilst it is doubtful that this is a good idea in the long run and while a significant rise in the housing market may exacerbate rather than address the long-standing imbalances in the economy, it does appear to be having the desired effect. For the UK recovery to be sustainable, however, we need to see a broader-based pick-up in investment, and this is still proving elusive. Real disposable incomes have improved somewhat, helped by a fall in mortgage rates and modest employment growth, but with utility bills on the rise again and bond yields increasing, income growth is not going to be a strong driver of the recovery without a marked fall in the savings ratio.

1. Source: World Economic Outlook, October 2013. © By International Monetary Fund. All Rights Reserved.

In terms of valuations, by early October the UK equity market was trading at forward-price earnings multiples that look stretched to us, particularly given that earnings downgrades have lately become more prominent. The volatility in equity prices driven by rising bond yields during the summer served to remind investors that 10-year US Treasuries still effectively set the cost of capital worldwide and will need to be carefully watched in the months ahead.

Back in April, we stated that we believed the recent rate of upward progress in share prices was unlikely to be maintained. Therefore, we have not been surprised to see a period of consolidation over the summer months. Our strategy going forward remains the same: we will work hard to identify interesting new stock ideas whilst continuing to take advantage of any periods of volatility to add to quality names in the portfolio.

Colin Morton, Ben Russon, CFA, Mark Hall, Paul Spencer & Richard Bullas
Fund Managers
25 November 2013

Share Class Performance

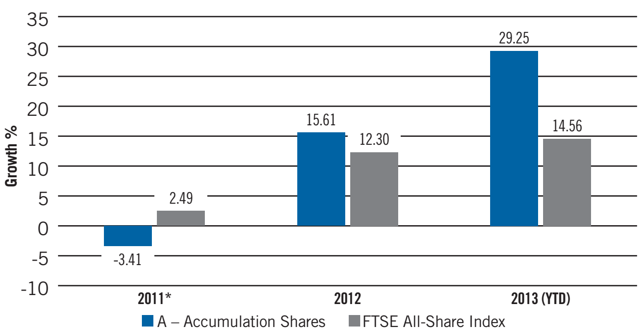
Share Class	Net Asset Value as at 30 September 2013 p	Net Asset Value as at 31 March 2013 p	% Movement
A – Accumulation Shares	164.24	144.24	13.87
W – Accumulation Shares	146.39	128.13	14.25
Z – Accumulation Shares	146.01	127.90	14.16

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*	168.20	129.14	0.61
W – Accumulation Shares	2012Ω	113.15	97.79	0.26
	2013*	149.78	114.54	1.41
Z – Accumulation Shares	2012Ω	113.01	97.79	0.23
	2013*	149.44	114.40	1.17

µ Figures stated from launch date 17 October 2011.
Ω Figures stated from launch date 31 May 2012.
* Figures to 30 September 2013.

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 – Accumulation Shares	31 March 2013	1.65
	30 September 2013	1.65
W – Accumulation Shares	31 March 2013	0.95
	30 September 2013	0.95
Z – Accumulation Shares	31 March 2013	1.15
	30 September 2013	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

PORTFOLIO INFORMATION

Classification of Investments

	30 September 2013 %	31 March 2013 %
Support Services	9.83	8.42
Pharmaceuticals & Biotechnology	7.68	11.05
Oil & Gas Producers	7.08	10.66
Real Estate Investment & Services	5.68	2.23
Personal Goods	5.49	1.81
Media	5.16	2.99
Tobacco	5.04	5.99
Travel & Leisure	4.83	–
Software & Computer Services	4.78	8.91
Aerospace & Defence	4.59	4.46
General Retailers	4.59	6.16
Financial Services	4.36	8.79
Industrial Engineering	3.74	–
Life Insurance	3.18	3.18
Health Care Equipment & Services	2.66	1.59
Household Goods & Home Construction	2.47	3.72
Electronic & Electrical Equipment	2.28	3.49
General Industrials	2.26	2.28
Mining	2.09	1.82
Real Estate Investment Trusts	2.09	–
Oil Equipment, Services & Distribution	1.96	–
Chemicals	1.72	2.13
Gas, Water & Multiutilities	1.60	3.07
Technology Hardware & Equipment	–	3.94
Net other assets	4.84	3.31
Net assets	100.00	100.00

Top 10 Holdings as at 30 September 2013

	30 September 2013 %
Bodycote PLC	3.74
SuperGroup PLC	3.30
Ashtead Group PLC	3.18
St. James's Place Capital PLC	3.18
LSL Property Services PLC	2.93
Thomas Cook Group PLC	2.91
Regus PLC	2.88
Unite Group PLC	2.75
British American Tobacco PLC	2.74
Avon Rubber PLC	2.69

Top 10 Holdings as at 31 March 2013

	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
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 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

In the six months to 30 September 2013, Franklin UK Mid Cap Fund recorded a return of 7.79%, compared with a return of 10.16% for the benchmark FTSE 250 (ex Investment Trusts) Index (both returns in UK sterling).

Overview

The Fund's new financial year started as the previous year had ended, with the UK equity market continuing to forge ahead, 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 but everything changed in June when the market had a 'taper tantrum' and suffered a peak-to-trough correction of more than 10%. Everyone had known that the liquidity support for global equity markets provided by central banks' various quantitative easing (QE) programmes would eventually have to end, but it took the actual realisation that the US Federal Reserve (Fed) could begin to taper its programme of monthly asset purchases as early as September to finally rattle the markets.

Bond yields on both sides of the Atlantic had been rising steadily throughout May but this process accelerated in June as the tapering debate intensified. A 100 basis point move in 10-year US Treasury yields from 1.6% to 2.6% in little over six weeks rattled policymakers. Fearful that such a sharp move would put the brakes on economic recovery, the policymakers tried to emphasise the fact that short-term rates would stay low for a prolonged period in an attempt to keep the yield curve in check. After a difficult June, the UK equity market bounced back strongly in July, helped by the soothing words of central bankers, although it did not quite recapture its May peak. A nervous tone to the market returned briefly towards the end of August as geopolitical instability rose to a head in the Middle East, but constructive intervention by the Russians in the Syrian crisis helped ensure that volatility linked to geopolitics was short lived, so that attention could focus again on the threat of imminent tapering. The period under review ended on a somewhat unsettling note in September. First the Fed fluffed what looked to us to be the perfect opportunity to start weaning financial markets off the liquidity drug by surprisingly opting not to taper its monthly asset purchases. And then the politicians in Washington D.C. conspired to remind us just how dysfunctional they can be by failing to agree a federal budget for the new financial year, and thus ensured the US federal government entered a partial shutdown on 1 October.

Following the strong returns enjoyed in the previous half year we consider the positive, albeit relatively modest, returns recorded by the FTSE 250 Index in the first six months of the new financial year to be a creditable result for investors given that the overall performance of the global economy remains very mixed. A somewhat better outcome than might have been expected from Europe and Japan has been offset by signs of fragility in emerging-market economies and a tempering of growth in the US.

Taking sectors' relative weighting within the index into account, the best contributions to the FTSE 250 Index's performance came, in order, from support services, financial services, general retailers and travel & leisure. A handful of sectors reported outright negative returns over the six months under review. The mining sector remained notably depressed, with falling commodity prices, funding issues and geo-political unrest causing considerable deterioration across all companies in the sector. The oil & gas sector was even weaker, while the chemicals and the technology hardware & equipment sectors were also feeble.

At a stock level, Ocado, Thomas Cook, SuperGroup, Sports Direct and Ted Baker were amongst the stand-out performers on the FTSE 250 Index. While a number of companies with extremely weak share prices were ejected from the index during the period under review, of those remaining, stocks that saw the sharpest declines included Imagination Technologies, Hochschild Mining, Kazakhmys, First Group and Ladbrokes.

Significant Changes

During the period under review, two of our long standing investments, Persimmon and Travis Perkins, were promoted to the FTSE 100. In order to maintain the Fund's core FTSE 250 credentials, these highly successful positions were sold, but in order to maintain our exposure to the housebuilding and builders merchant sectors, we replaced these positions with new investments in Bellway and SIG.

Following an agreed bid approach to Invensys from Schneider Electric, we viewed the chances of any additional upside as being very remote and consequently disposed of the entire investment. In order to build up our exposure to the UK consumer we introduced new holdings in mobile electronic device retailer Carphone Warehouse, travel agent and tour operator Thomas Cook and fashion retailer SuperGroup.

Other new additions to the portfolio included motor insurer Esure, office rental firm Regus and precision instrumentation company Spectris. Conversely, high valuations prompted us to dispose of specialist financial services provider Close Brothers, Lloyd's insurer Hiscox, and London-focused housebuilder Berkeley Group.

Positive/Negative Contributors

The largest positive contribution to relative performance in the six months under review came from Invensys, whose share price (which rose by over 43% in the six months to 30 September) was boosted by the bid from France's Schneider Electric during the summer. The next-largest contributions to Fund performance came from large positions in thermal-processing specialist Bodycote (whose interim results were boosted by a series of US acquisitions), packaging firm DS Smith (which took over rival firm SCA Packaging), travel operator Thomas Cook and residential landlord Grainger.

The largest detractors from relative returns included our positions in Hunting, Esure, AZ Electronics Materials, Premier Oil and Spirent Communications. Oilfield equipment company Hunting's business forecast slightly disappointed investors. Motor insurer Esure's maiden interim results were below expectations, resulting in lowered earnings guidance. AZ Electronic Materials saw its share price fall by almost 22% after a hoped-for acceleration in demand for its specialist chemicals failed to materialise. Spirent suffered from continued weakness in demand from its key telecoms equipment customers

Sector wise, our positioning in software & computing services and industrial engineering were sources of outperformance against the benchmark index. The Fund also benefited from its lack of exposure to the mining sector. By contrast, stock selection in financial services was a drag on performance, as were overweight allocations to oil services and chemicals.

Outlook and Strategy

It is fair to say that the global economy is not quite progressing as we expected in 2013. Helped by a recovering housing market, the US economy does indeed appear to be meeting the challenge from fiscal tightening, but growth in key emerging markets has not picked up to the extent that many had forecast. China in particular has disappointed, but many other smaller developing economies have also had a difficult summer, buffeted by currency weakness as capital outflows accelerated in the face of rising US bond yields. More positive news has come from closer to home, with the eurozone showing signs of stability and the UK economy performing significantly better.

In the October issue of its *World Economic Outlook* report, the International Monetary Fund (IMF) revised its forecast for global growth down to 2.9% for 2013, compared to its July prediction of 3.2% growth this year.[1] The UK stood out from the crowd as one of the few economies to see a significant upgrade in its growth forecast. Indeed, the Office for National Statistics reported that the quarter-over-quarter growth rate reached 0.7% in the second quarter, making the UK one of the fastest-growing developed economies. The IMF forecast global growth to bounce back to 3.6% in 2014, with the US and Europe making the greatest contributions to the improvement.

The IMF is clearly assuming that the current political crisis in the US is resolved in the short term with no lasting impact on growth. We hope this is indeed the case but it is no by means certain and represents an obvious short-term source of volatility. The uncertainty, which to a degree mirrors the position this time last year with the looming fiscal cliff, does have implications for the taper on/taper off debate. We now see tapering of the US QE programme as more of an issue for 2014 and hopefully financial markets will be better prepared for such a move by the time it comes around.

The UK government appears to have chosen the housing market as the conduit through which to engineer a pre-election boost to the economy. Whilst it is doubtful that this is a good idea in the long run and while a significant rise in the housing market may exacerbate rather than address the long-standing imbalances in the economy, it does appear to be having the desired effect. For the UK recovery to be sustainable, however, we need to see a broader-based pick-up in investment, and this is still proving elusive. Real disposable incomes have improved somewhat, helped by a fall in mortgage rates and modest employment growth, but with utility bills on the rise again and bond yields increasing, income growth is not going to be a strong driver of the recovery without a marked fall in the savings ratio.

In terms of valuations, by early October, the UK equity market was trading at forward-price earnings multiples that looked stretched to us, particularly given that earnings downgrades have lately become more prominent. The volatility in equity prices driven by rising bond yields during the summer served to remind investors that 10-year US Treasuries still effectively set the cost of capital worldwide and will need to be carefully watched in the months ahead.

Back in April, we stated that we believed the recent rate of upward progress in share prices was unlikely to be maintained. Therefore, we have not been surprised to see a period of consolidation over the summer months. Our strategy going forward remains the same: we will work hard to identify interesting new stock ideas whilst continuing to take advantage of any periods of volatility to add to quality names in the portfolio.

Paul Spencer, Mark Hall & Richard Bullas
Fund Managers
25 November 2013

1. Source: World Economic Outlook, October 2013. © By International Monetary Fund. All Rights Reserved.

Share Class Performance

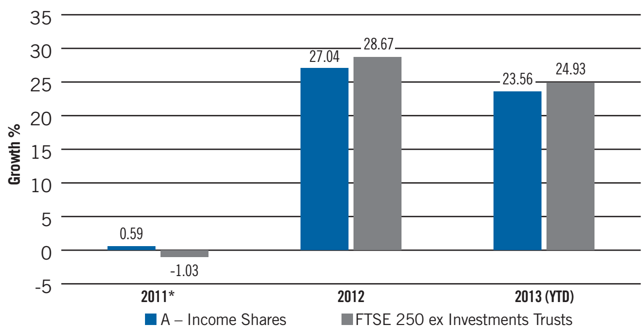
Share Class	Net Asset Value as at 30 September 2013 p	Net Asset Value as at 31 March 2013 p	% Movement
A – Income Shares	428.39	396.18	8.13
W – Income Shares	127.52	117.73	8.32
W – Accumulation Shares	147.72	135.70	8.86
Z – Accumulation Shares	147.34	135.48	8.75

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*	448.12	353.54	1.38
W – Income Shares	2012β	103.37	97.31	–
	2013*	133.48	105.11	0.87
W – Accumulation Shares	2012Ω	118.90	97.48	0.50
	2013*	153.86	120.89	1.02
Z – Accumulation Shares	2012Ω	118.77	97.48	0.45
	2013*	153.51	120.76	0.80

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 30 September 2013.

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	1.58
	30 September 2013	1.58
W – Income Shares	31 March 2013	0.88
	30 September 2013	0.88
W – Accumulation Shares	31 March 2013	0.88
	30 September 2013	0.88
Z – Accumulation Shares	31 March 2013	1.08
	30 September 2013	1.08

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	0.4486

PORTFOLIO INFORMATION

Classification of Investments

	30 September 2013 %	31 March 2013 %
Support Services	17.74	16.18
Financial Services	12.04	15.88
Travel & Leisure	8.44	4.84
General Retailers	5.19	2.89
Real Estate Investment & Services	5.17	4.21
Household Goods & Home Construction	4.99	7.04
Technology Hardware & Equipment	4.59	4.95
Aerospace & Defence	4.47	4.66
Oil & Gas Producers	4.15	5.53
Industrial Engineering	3.99	3.09
Personal Goods	3.51	–
Oil Equipment, Services & Distribution	3.10	3.12
Life Insurance	3.08	2.92
General Industrials	2.97	2.80
Pharmaceuticals & Biotechnology	2.56	2.51
Electronic & Electrical Equipment	2.46	–
Real Estate Investment Trusts	2.30	2.41
Chemicals	2.12	3.47
Nonlife Insurance	1.77	5.02
Media	1.76	2.69
Software & Computer Services	0.22	4.52
Net other assets	3.38	1.27
Net assets	100.00	100.00

Top 10 Holdings as at 30 September 2013

	30 September 2013 %
Bodycote PLC	3.99
Thomas Cook Group PLC	3.60
Regus PLC	3.55
SuperGroup PLC	3.51
Hunting PLC	3.10
St. James's Place Capital PLC	3.08
DS Smith PLC	2.97
Bovis Homes Group PLC	2.80
Ashtead Group PLC	2.74
Michael Page International PLC	2.74

Top 10 Holdings as at 31 March 2013

	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

In the six months to 30 September 2013, the Franklin UK Opportunities Fund (previously named Franklin UK Select Growth Fund) recorded a return of 1.25%, compared with the benchmark FTSE All-Share Index's 3.84% (both returns in UK sterling).

Overview

The Fund's new financial year started as the previous year had ended, with the UK equity market continuing to forge ahead, 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 but everything changed in June when the market had a 'taper tantrum' and suffered a peak-to-trough correction of more than 10%. Everyone had known that the liquidity support for global equity markets provided by central banks' various quantitative easing (QE) programmes would eventually have to end, but it took the actual realisation that the US Federal Reserve (Fed) could begin to taper its programme of monthly asset purchases as early as September to finally rattle the markets.

Bond yields on both sides of the Atlantic had been rising steadily throughout May but this process accelerated in June as the tapering debate intensified. A 100 basis point move in 10-year US Treasury yields from 1.6% to 2.6% in little over six weeks rattled policymakers. Fearful that such a sharp move would put the brakes on economic recovery, the policymakers tried to emphasise the fact that short-term rates would stay low for a prolonged period in an attempt to keep the yield curve in check. After a difficult June, the UK equity market bounced back strongly in July, helped by the soothing words of central bankers, although it did not quite recapture its May peak. A nervous tone to the market returned briefly towards the end of August as geopolitical instability rose to a head in the Middle East, but constructive intervention by the Russians in the Syrian crisis helped ensure that volatility linked to geopolitics was short lived, so that attention could focus again on the threat of imminent tapering. The period under review ended on a somewhat unsettling note in September. First the Fed fluffed what looked to us to be the perfect opportunity to start weaning financial markets off the liquidity drug by surprisingly opting not to taper its monthly asset purchases. And then the politicians in Washington D.C. conspired to remind us just how dysfunctional they can be by failing to agree a federal budget for the new financial year, and thus ensured the US federal government entered a partial shutdown on 1 October.

Following the strong returns enjoyed in the previous half year we consider the positive, albeit relatively modest, returns recorded by the FTSE All-Share Index in the first six months of the new financial year to be a creditable result for investors given that the overall performance of the global economy remains very mixed. A somewhat better outcome than might have been expected from Europe and Japan has been offset by signs of fragility in emerging-market economies and a tempering of growth in the US.

The main features of the UK equity market over the period at the sector level were the relative strength of mobile telecoms, reflecting the long-awaited bid for Vodafone's holding in Verizon Wireless, and the weakness in oil & gas and mining, impacted by the weakness in emerging markets. A lesser, but not insignificant feature, was the relative underperformance of some defensive sectors such as beverages, tobacco and food producers. Markets appreciated the stable cash flows provided by companies operating in these sectors as bond yields fell in the early part of the six-month period, but these stocks were hurt badly when bond yields rose again during much of the second part of the period.

Significant Changes
Along with the name change from Franklin UK Select Growth Fund to Franklin UK Opportunities Fund, the most significant development for the Fund during the period under review was the change in the lead manager, with Ben Russon taking on this role in June 2013. The change of 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 activity 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 shown by the fact that the Fund's previous lead manager, Mark Hall, remains a key element in its investment team.

In terms of transactions, the decision to run a more focussed portfolio resulted in the disposal of a total of 10 stocks in April alone. Our decision to sell was helped by the strong performance of the UK equity market, which had left several of the Fund's holdings fairly priced, in our view. We were thus able to lock in excellent gains in positions such as Filtrona, Restaurant Group, Elementis, ITV, Euromoney, Mears Group and Premier Farnell. The proceeds of the sales were utilised to take higher-conviction positions in a number of stocks already in the Fund. For example, the Fund's media-sector exposure was then focused around positions in Pearson and Reed Elsevier. The process of selling positions in stocks that had performed very well since purchase and using the proceeds to consolidate positions in higher-conviction names that we believed had further upside potential continued in May and June, when the Fund's positions in Jupiter Fund Management, Legal & General, Travis Perkins and Shire were all sold. Proceeds from the Fund's sale of its holding in Shire were used to increase the fund's position in AstraZeneca, while Legal & General was replaced by Standard Life. Other names sold out of the portfolio on valuation grounds included Barclays Bank, Brown Group, HSBC, Spirax Sarco, IMI, Hays, Grainger and Tesco, while two utilities stocks, Severn Trent and SSE, and mezzanine finance provider Intermediate Capital Group were added. We also purchased a stake in Wolseley while we reduced our stakes in BP and Ashtead. During the first part of the reporting period, we also added to a number of existing positions, with the most significant transactions apart from those already mentioned involving John Wood Group, Centrica, The Sage Group and Compass Group.

The second half of the six-month period under review was somewhat quieter, but the volume of sales still outpaced purchases. During the three months from July to September, the Fund disposed of its holdings in Close Brothers, Cobham, IG Group and Invensys, booking a capital gain in each instance. During the same period, the Fund added British Sky Broadcasting and Smiths Group to the fund's holdings.

Positive/Negative Contributors
Over the six months under review, the largest contribution to the Fund's relative performance came from a significant underweight position in HSBC Holdings, whose stock price has been hurt by the banking group's large exposure to volatility in Southeast Asia and by the imposition of a large fine for mis-selling mortgage products in the US. The next best contributions to Fund performance came from overweight positions in Invensys, Unite Group, Howden Joinery and Next. The market price of engineering company Invensys (up over 43% in the six months to September 30) was boosted in large part by takeover speculation which, in effect, culminated in the company's acquisition by France's Schneider Electric during the summer. The market price of major student-accommodation provider Unite Group, the third-best contributor, was helped by the strength of its property portfolio and investor interest in its business amid a surge in third-level student numbers.

By contrast, the top five detractors from relative performance were overweight positions in esure Group, Unilever, Aberdeen Asset Management, Jupiter Fund Management and The Sage Group. The worst impact on relative performance came from car insurer esure, which disappointed with its maiden interim results and lowered earnings guidance. Consumer products group Unilever sent a chill through its industry late in the period under review after it issued a sales warning due to weakness in emerging-market currencies and growth. Its share price therefore underperformed the overall FTSE All-Share Index. Software provider The Sage Group lost favour after some analyst downgrades, while Aberdeen Asset Management suffered outflows and a fall in assets under management over the summer as volatility in emerging markets hit new business.

Outlook and Strategy
It is fair to say that the global economy is not quite progressing as we expected in 2013. Helped by a recovering housing market, the US economy does indeed appear to be meeting the challenge from fiscal tightening, but growth in key emerging markets has not picked up to the extent that many had forecast. China in particular has disappointed, but many other smaller developing economies have also had a difficult summer, buffeted by currency weakness as capital outflows accelerated in the face of rising US bond yields. More positive news has come from closer to home, with the eurozone showing signs of stability and the UK economy performing significantly better.

In the October issue of its *World Economic Outlook* report, the International Monetary Fund (IMF) revised its forecast for global growth down to 2.9% for 2013, compared to its July prediction of 3.2% growth this year.[1] The UK stood out from the crowd as one of the few economies to see a significant upgrade in its growth forecast. Indeed, the Office for National Statistics reported that the quarter-over-quarter growth rate reached 0.7% in the second quarter, making the UK one of the fastest-growing developed economies. The IMF forecast global growth to bounce back to 3.6% in 2014, with the US and Europe making the greatest contributions to the improvement.

The IMF is clearly assuming that the current political crisis in the US is resolved in the short term with no lasting impact on growth. We hope this is indeed the case but it is no by means certain and represents an obvious short-term source of volatility. The uncertainty, which to a degree mirrors the position this time last year with the looming fiscal cliff, does have implications for the taper on/taper off debate. We now see tapering of the US QE programme as more of an issue for 2014 and hopefully financial markets will be better prepared for such a move by the time it comes around.

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In terms of valuations, by early October the UK equity market was trading at forward-price earnings multiples that look stretched to us, particularly given that earnings downgrades have lately become more prominent. At these levels, valuations are still looking stretched to us,

1. Source: World Economic Outlook, October 2013. © By International Monetary Fund. All Rights Reserved.

particularly given that earnings downgrades have lately become more prominent. The volatility in equity prices driven by rising bond yields during the summer served to remind investors that 10-year US Treasuries still effectively set the cost of capital worldwide and will need to be carefully watched in the months ahead.

Back in April, we stated that we believed the recent rate of upward progress in share prices was unlikely to be maintained. Therefore, we have not been surprised to see a period of consolidation over the summer months. Our strategy going forward remains the same: we will work hard to identify interesting new stock ideas whilst 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
25 November 2013

Share Class Performance

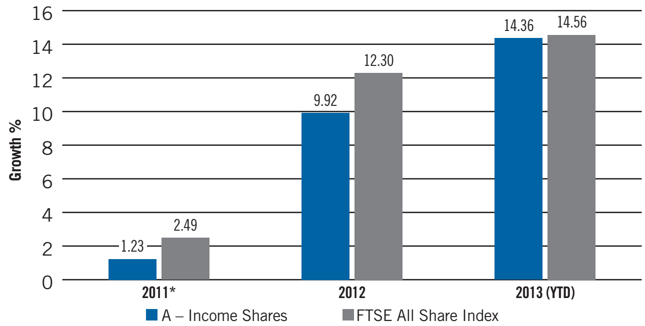
Share Class	Net Asset Value as at 30 September 2013 p	Net Asset Value as at 31 March 2013 p	% Movement
A – Income Shares	301.06	299.49	0.52
W – Accumulation Shares	128.58	126.03	2.02
Z – Accumulation Shares	128.24	125.82	1.92

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*	318.82	272.97	3.43
W – Accumulation Shares	2012Ω	112.55	98.42	0.87
	2013*	134.29	113.92	1.84
Z – Accumulation Shares	2012Ω	112.41	98.42	0.79
	2013*	134.04	113.77	1.76

µ Figures stated from launch date 17 October 2011.
Ω Figures stated from launch date 31 May 2012.
* Figures to 30 September 2013.

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.

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Ongoing Charges Ratio

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

PORTFOLIO INFORMATION

Classification of Investments

	30 September 2013 %	31 March 2013 %
Oil & Gas Producers	10.55	12.10
Tobacco	8.43	7.93
Pharmaceuticals & Biotechnology	7.40	6.72
Media	7.08	4.55
Gas, Water & Multiutilities	6.28	2.56
Mining	5.25	4.96
Travel & Leisure	5.14	3.26
Food Producers	4.90	4.14
Mobile Telecommunications	4.85	3.77
General Retailers	3.82	2.60
Household Goods & Home Construction	3.78	2.86
Life Insurance	3.49	2.17
Beverages	3.08	2.92
Software & Computer Services	3.01	1.55
Financial Services	2.93	4.59
Support Services	2.92	10.07
Banks	2.63	8.53
Trading Companies & Distributors	2.17	–
Oil Equipment, Services & Distribution	2.10	1.97
Real Estate Investment & Services	1.98	2.29
Aerospace & Defence	1.97	3.24
General Industrials	1.76	0.82
Electricity	1.54	–
Property & Casualty Insurance	1.40	–
Chemicals	–	1.63
Food & Drug Retailers	–	1.34
Industrial Engineering	–	1.34
Nonlife Insurance	–	0.86
Personal Goods	–	0.62
Net other assets	1.54	0.61
Net assets	100.00	100.00

Top 10 Holdings as at 30 September 2013

	30 September 2013 %
British American Tobacco PLC	4.96
Vodafone Group PLC	4.85
Royal Dutch Shell PLC, A	4.58
GlaxoSmithKline PLC	4.31
BP PLC	3.50
Imperial Tobacco Group PLC	3.47
Reed Elsevier PLC	3.30
Centrica PLC	3.28
Compass Group PLC	3.28
BHP Billiton PLC	3.14

Top 10 Holdings as at 31 March 2013

	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
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 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 six months to 30 September 2013, Franklin UK Smaller Companies Fund recorded a return of 20.45% far outperforming the 12.46% registered by the benchmark Numis Smaller Companies Index (both returns in UK sterling).

Overview

The Fund's new financial year started as the previous year had ended, with the UK equity market continuing to forge ahead, 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 but everything changed in June when the market had a 'taper tantrum' and suffered a peak-to-trough correction of more than 10%. Everyone had known that the liquidity support for global equity markets provided by central banks' various quantitative easing (QE) programmes would eventually have to end, but it took the actual realisation that the US Federal Reserve (Fed) could begin to taper its programme of monthly asset purchases as early as September to finally rattle the markets.

Bond yields on both sides of the Atlantic had been rising steadily throughout May but this process accelerated in June as the tapering debate intensified. A 100 basis point move in 10-year US Treasury yields from 1.6% to 2.6% in little over six weeks rattled policymakers. Fearful that such a sharp move would put the brakes on economic recovery, the policymakers tried to emphasise the fact that short-term rates would stay low for a prolonged period in an attempt to keep the yield curve in check. After a difficult June, the UK equity market bounced back strongly in July, helped by the soothing words of central bankers, although it did not quite recapture its May peak. A nervous tone to the market returned briefly towards the end of August as geopolitical instability rose to a head in the Middle East, but constructive intervention by the Russians in the Syrian crisis helped ensure that volatility linked to geopolitics was short lived, so that attention could focus again on the threat of imminent tapering. The period under review ended on a somewhat unsettling note in September. First the Fed fluffed what looked to us to be the perfect opportunity to start weaning financial markets off the liquidity drug by surprisingly opting not to taper its monthly asset purchases. And then the politicians in Washington D.C. conspired to remind us just how dysfunctional they can be by failing to agree a federal budget for the new financial year, and thus ensured the US federal government entered a partial shutdown on 1 October.

Following the strong returns enjoyed in the previous half year, we consider the positive, albeit relatively modest, returns recorded by the FTSE All-Share Index in the first six months of the new financial year to be a creditable result for investors given that the overall performance of the global economy remains very mixed. A somewhat better outcome than might have been expected from Europe and Japan has been offset by signs of fragility in emerging-market economies and a tempering of growth in the US.

A notable feature over the reporting period has been the on-going outperformance of small-cap and midcap stocks relative to the larger-cap stocks quoted on the FTSE 100 Index. The bottom end of the small-cap universe was particularly buoyant in the second part of the reporting period, as demonstrated by the performance of the FTSE AIM and FTSE Fledgling Indexes.

As for the FTSE All-Share Index, the main features of the market over the period at the sector level were the relative strength of mobile telecoms, reflecting the long-awaited bid for Vodafone's holding in Verizon Wireless, and the weakness in oil & gas and mining, impacted by the weakness in emerging markets. A lesser but not insignificant feature was the relative underperformance of some defensive sectors such as beverages, tobacco and food producers.

Markets appreciated the stable cash flows provided by companies operating in these sectors as bond yields fell in the early part of the six-month period, but these stocks were hurt badly when bond yields rose again during much of the second part of the period.

Significant Changes

In the first two months of the reporting period, we added new investments in Workspace Group (a London-focused property group), SIG (a specialist builder's merchant) and LSL Property Services (an estate agency network). In May, 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. Topps Tiles was also added early in the reporting period in consideration of the improving outlook for consumer spending and housing, and our position in this stock was subsequently reinforced further.

Between June and September, we added six new positions and sold only one. The new investments were: Hunting (oil equipment), Telford Homes (London-focused housing developer), Ricardo (world-leading automotive technology company), Sportech (online gambling and entertainment company) and specialist engineering firms, WYG and Keller. The sole security disposed of was Dechra Pharmaceuticals.

Strong inflows meant we were able to add to existing holdings throughout the six-month period; with the largest purchase transactions involving existing holdings in Crest Nicholson, Entertainment One, Polar Capital Holdings and Cranswick. During the period, we booked some profits from our holding in Xaar.

Positive/Negative Contributors

Franklin UK Smaller Companies Fund has enjoyed a very successful six months, driven by some highly rewarding stock selections. It is also fair to say that some stabilisation of the global macro picture and an improving domestic economy have made for a better environment for a Fund like ours, focused on bottom-up stock selection within the UK smaller-companies universe.

By far the largest contribution to the Fund's outperformance in the six months under review came from a significantly overweight position in Xaar (supplier of industrial inkjet print-heads). Xaar's share price rose by more than 89%, thanks to important new contracts to supply digital print-heads to China and aggressive upgrades to its profit forecasts. Other significant contributors included Topps Tiles, Polar Capital, Ted Baker and Avon Rubber. Topps Tiles has been an indirect beneficiary of the improving outlook for UK housing. Polar Capital's share price rose by over 40%, helped by a significant rise in assets under management. Avon Rubber benefitted from the announcement of a number of new contracts to supply protective masks, while clothing firm Ted Baker has benefited from earnings upgrades from its expanding national and international sales network.

The largest detractors from performance over the six months were Faroe Petroleum, ECO Animal Health Group, IQE, RPS Group and Anite. Faroe Petroleum's share price fell sharply early in the reporting period after the company announced disappointing results from its oil-drilling operations, while Anite was hurt by delayed spending from its key telecom equipment customers. ECO Animal Health saw its market price decline ahead of a cash call to fund working capital, while semiconductor company IQE was hurt by the growing perception that its business was vulnerable to silicon-based competition. Environmental consultancy RPS Group suffered from negative sentiment towards its exposure to major resource projects in Australia.

Sector wise, the Fund's performance was helped by stock selection in the electronic & electrical equipment and chemicals sectors, as well as the absence of exposure to mining stocks. Lack of exposure to food & drug retailers and a combination of relative weightings and stock selection in the pharmaceutical and travel & leisure sectors were the main sources of underperformance.

Outlook and Strategy

It is fair to say that the global economy is not quite progressing as we expected in 2013. Helped by a recovering housing market, the US economy does indeed appear to be meeting the challenge from fiscal tightening, but growth in key emerging markets has not picked up to the extent that many had forecast. China in particular has disappointed, but many other smaller developing economies have also had a difficult summer, buffeted by currency weakness as capital outflows accelerated in the face of rising US bond yields. More positive news has come from closer to home, with the eurozone showing signs of stability and the UK economy performing significantly better.

In the October issue of its *World Economic Outlook* report, the International Monetary Fund (IMF) revised its forecast for global growth down to 2.9% for 2013, compared to its July prediction of 3.2% growth this year. The UK stood out from the crowd as one of the few economies to see a significant upgrade in its growth forecast. Indeed, the Office for National Statistics reported that the quarter-over-quarter growth rate reached 0.7% in the second quarter, making the UK one of the fastest-growing developed economies. The IMF forecast global growth to bounce back to 3.6% in 2014, with the US and Europe making the greatest contributions to the improvement.

The IMF is clearly assuming that the current political crisis in the US is resolved in the short term with no lasting impact on growth. We hope this is indeed the case, but it is no by means certain and represents an obvious short-term source of volatility. The uncertainty, which to a degree mirrors the position this time last year with the looming fiscal cliff, does have implications for the taper on/taper off debate. We now see tapering of the US QE programme as more of an issue for 2014 and hopefully financial markets will be better prepared for such a move by the time it comes around.

The UK government appears to have chosen the housing market as the conduit through which to engineer a pre-election boost to the economy. Whilst it is doubtful that this is a good idea in the long run and while a significant rise in the housing market may exacerbate rather than address the long-standing imbalances in the economy, it does appear to be having the desired effect. For the UK recovery to be sustainable, however, we need to see a broader-based pick-up in investment, and this is still proving elusive. Real disposable incomes have improved somewhat, helped by a fall in mortgage rates and modest employment growth, but with utility bills on the rise again and bond yields increasing, income growth is not going to be a strong driver of the recovery without a marked fall in the savings ratio.

In terms of valuations, the small-cap valuation discount that had existed historically has been closed due to the continued outperformance of small caps, leaving them trading on similar multiples to the wider market. By early October, the Numis Smaller Companies Index was trading at a forward-price earnings level very similar to the forward-price earnings multiple for the broad UK equity market. Such valuations are beginning to look stretched to us, particularly given that earnings downgrades have lately become more prominent. The volatility in equity prices driven by rising bond yields during the summer served to remind investors that 10-year US Treasuries still effectively set the cost of capital worldwide and will need to be carefully watched in the months ahead.

Back in April, we stated that we believed the recent rate of upward progress in share prices was unlikely to be maintained. Therefore, we have not been surprised to see a period of consolidation over the

1. Source: World Economic Outlook, October 2013. © By International Monetary Fund. All Rights Reserved.

summer months. Our strategy going forward remains the same: we will work hard to identify interesting new stock ideas whilst continuing to take advantage of any periods of volatility to add to quality names in the portfolio.

Paul Spencer, Richard Bullas & Mark Hall
Fund Managers
25 November 2013

Share Class Performance

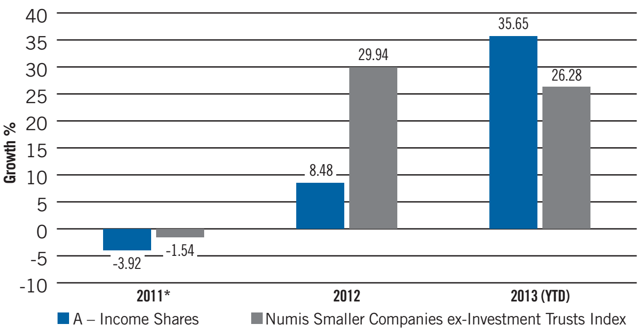
Share Class	Net Asset Value as at 30 September 2013 p	Net Asset Value as at 31 March 2013 p	% Movement
A – Income Shares	698.96	582.57	19.98
W – Accumulation Shares	149.58	124.09	20.54
Z – Accumulation Shares	149.17	123.86	20.43

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*	708.78	524.10	0.93
W – Accumulation Shares	2012Ω	109.81	95.88	0.28
	2013*	151.44	111.45	0.61
Z – Accumulation Shares	2012Ω	109.66	95.85	0.19
	2013*	151.03	111.30	0.39

µ Figures stated from launch date 17 October 2011.
Ω Figures stated from launch date 31 May 2012.
* Figures to 30 September 2013.

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
	30 September 2013	1.64
W – Accumulation Shares	31 March 2013	1.00
	30 September 2013	0.94
Z – Accumulation Shares	31 March 2013	1.20
	30 September 2013	1.14

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

PORTFOLIO INFORMATION

Classification of Investments

	30 September 2013 %	31 March 2013 %
Support Services	20.05	16.36
Software & Computer Services	6.71	10.74
Household Goods & Home Construction	6.37	5.33
Travel & Leisure	6.21	5.35
Financial Services	6.10	7.26
Real Estate Investment & Services	5.52	2.69
Aerospace & Defence	5.16	5.94
General Retailers	5.10	6.09
Electronic & Electrical Equipment	4.78	7.10
Industrial Engineering	4.32	1.49
Real Estate Investment Trusts	4.22	2.04
Media	4.19	4.89
Chemicals	3.45	3.98
Technology Hardware & Equipment	3.23	6.37
Personal Goods	2.42	2.62
Food Producers	2.09	1.89
Construction & Materials	1.84	–
Oil Equipment, Services & Distribution	1.76	–
Oil & Gas Producers	1.41	2.11
Pharmaceuticals & Biotechnology	1.06	3.88
Net other assets	4.01	3.87
Net assets	100.00	100.00

Top 10 Holdings as at 30 September 2013

	30 September 2013 %
Topps Tiles PLC	3.16
Avon Rubber PLC	3.10
Polar Capital Holdings PLC	3.06
LSL Property Services PLC	2.98
Ricardo PLC	2.77
Bodycote PLC	2.64
WYG PLC	2.57
Unite Group PLC	2.54
RWS Holdings PLC	2.52
Gooch & Housego PLC	2.51

Top 10 Holdings as at 31 March 2013

	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 Dates: 31 March
Distribution Pay Dates: 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.

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 six-month period ended 30 September 2013, Franklin US Opportunities Fund returned 8.13%, while its benchmark, the Russell 3000® Growth Index,[1] returned 4.07% (both returns in UK sterling).

Overview

The US economy, as measured by gross domestic product (GDP), grew modestly during the six-months ended 30 September 2013, supported by investment and consumer spending. Accelerating new- and existing-home sales accompanied historically low mortgage rates, rising but affordable housing prices, low inventories and the lowest level of US foreclosures in nearly eight years. Manufacturing, a mainstay of economic productivity, expanded for most of the period.

Budgetary agreement between congressional parties on 1 January 2013 preserved lower income tax rates for most US households, but Washington's lack of consensus on proposed expenditure reductions resulted in further across-the-board federal spending cuts starting in March. After indicating in May that the Federal Reserve Board (Fed) might reduce monthly purchases of mortgage-backed securities and US Treasuries, assuming ongoing US recovery, Fed Chairman Ben Bernanke announced in September that any tapering of its purchases would be postponed until US economic growth strengthened. At period-end, because of partisan disagreement about a new healthcare law, the US Congress did not authorise some routine federal funding, resulting in a temporary shutdown of non-essential US government services beginning on 1 October. Unless prolonged, the shutdown was not expected to hinder long-term economic growth, but the political impasse added to concerns about congressional ability to successfully navigate federal debt ceiling negotiations in October.

Chairman Bernanke's statements and the impending US government shutdown sparked some market sell-offs. Rising corporate profits and generally favourable economic data bolstered investor confidence, however, and US stocks generated healthy six-month returns as the Standard & Poor's® 500 Index (S&P 500®) and Dow Jones Industrial Average reached all-time nominal highs during the period.[2]

Significant Changes

The healthcare sector was a significant contributor to the Fund's performance, with strength in the biotechnology and pharmaceutical industries over the period. Our Fund weighting increased in the healthcare sector, in which we have been focusing on companies that offer innovation, lower the overall costs of healthcare, or both. In particular, the biotechnology industry has high levels of innovation and offers the possibility of raising the standards of care and treatment for patients. In addition to healthcare, we meaningfully increased our consumer discretionary sector exposure with an eye towards a continually improving US economy. In the sector, we have been more invested in consistent growers, focusing on quality and brand, which we believe will matter in the long term.

As far as significant reductions in sector weightings, allocations were notably decreased in the information technology, energy and materials 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. We have been observing rapid changes and innovation in the technology sector, which has been tempering enterprise spending and directing us to exercise investment discretion in this area as a technology transformation has been taking place. Lastly, the Fund's cash position was decreased.

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 five largest purchases for the Fund during the six-month reporting period were The Walt Disney Company, Liberty Media, Jazz Pharmaceuticals, Bank of America and NetSuite.

The Walt Disney Company is an international family entertainment and media enterprise with rights to some of the world's most famous characters. In our view, Disney is a high-quality company with a unique brand, rights to some of the most famous characters worldwide and a talented management team. We see a number of growth drivers over a multi-year period, including the launch of new attractions at existing theme parks, the opening of new resorts outside the US, and an affiliate fee renewal cycle. Liberty Media engages in the business of media, communications and entertainment. In our view, the primary assets of the company are its ownership of interests in several firms in which we have a favourable opinion, including Sirius and Charter Communications. We initiated a position in Liberty Media as we believe the stock traded at a discount compared to the growth potential of its subsidiaries. Jazz Pharmaceuticals is a specialty pharmaceuticals company, focused on narcolepsy, oncology, pain and psychiatry. We believe the company has strong business momentum and a high-performing management team. In our view, near-term catalysts for growth include price increases on some of the company's drugs, as well as patient and sales volume growth. Bank of America provides a range of financial services and products through its banking and various non-banking subsidiaries throughout the US and in certain international markets. We see opportunity for stronger growth related to continued improvements in the US economy and housing market, to which the company is leveraged. We see positive impact of the firm's restructuring efforts reflected in its expanding margins and return on equity. Additionally, the stock was trading at a discount to its peers, which provided an attractive entry point, in our view. NetSuite engages in the provision of cloud-based business management application suites. Led by a strong management team, NetSuite has been able to attract small- and medium-sized businesses and grow its market share. We believe the company is well-positioned to benefit from the expansion of cloud computing solutions as software-as-a-service and cloud adoption hits an inflection point. NetSuite has been investing in research and development, and we believe it has a compelling product roadmap. In our view, NetSuite's approach and product suite have a high potential to address its customers' needs in a unique way.

The five largest sales for the Fund during the reporting period were Allergan, Express Scripts Holding, Apple, Onyx Pharmaceuticals and Fastenal.

Allergan is a global healthcare 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. However, in our view, the company is facing near-term pipeline setbacks (including the possibility of generic Restasis for macular degeneration after Allergan's patent expires next year), which we believe may lead to a weakening growth profile. We chose to liquidate our position and invest the proceeds into what we viewed as higher-growth areas. Express Scripts Holding is a holding company that provides pharmacy benefit management services and healthcare account administration services in North America. We believe upcoming changes within the US healthcare landscape caused by the Affordable Care Act will likely be a headwind for the company and, therefore, we chose to exit our position. Apple designs consumer electronic devices, including personal computers, tablets, phones and portable music players. Despite being a long-term holding in the Fund, we have been trimming our position on concerns around the company's innovation path, new product development and revenue growth slowdown caused by increasing competition in the smartphone and tablet markets. Onyx Pharmaceuticals operates as a biopharmaceutical company and engages in developing innovative therapies that target the molecular mechanisms that cause cancer. When biotechnology medicine company Amgen agreed to buy Onyx in a US$10.4 billion deal ($125 per share), we liquidated our position and reinvested the proceeds in growth areas that, in our view, were attractive. Fastenal engages in wholesale distribution of industrial and construction supplies. We believe the company's growth drivers, including outside growth initiatives, are bound to decrease, based on management's guidance. We liquidated the position, as the slowing growth profile would not support the stock's premium valuation levels, in our view.

Contributors and Detractors

The Fund strongly outperformed the benchmark for the six-month reporting period. The healthcare, information technology, consumer staples, consumer discretionary and telecommunications services sectors were contributors to relative Fund performance. In contrast, the energy, materials and industrials sectors notably detracted from the Fund's relative results.

Stock selection and an overweighting benefitted relative performance in the healthcare sector, which included several top-contributing holdings, such as Celldex Therapeutics, Actavis, Celgene, Gilead Sciences, Onyx Pharmaceuticals and Jazz Pharmaceuticals. Shares of development-stage biotechnology company Celldex rose on investor optimism that its breast cancer drug, which had encouraging trial results, would receive accelerated approval. Generic drugmaker Actavis reported solid fiscal first-quarter results and significantly raised its 2013 guidance to reflect better-than-expected margins on its business. Celgene reported an increase in second-quarter net income and raised its 2013 outlook amidst stronger sales of its cancer drug Revlimid, news that lifted its stock. Research-based biopharmaceutical company Gilead Sciences reported second-quarter financial results that were in-line with consensus expectations with its HIV business executing well. Onyx's shares had been rising after a takeover offer from Amgen (not a Fund holding) was disclosed in July. We subsequently sold our position on stock price appreciation. Jazz Pharmaceuticals raised its full-year guidance despite reporting modest second-quarter results, boosting its stock and aiding results. In contrast, cosmetic pharmaceutical company Allergan hindered Fund results as the company announced trial delays for two of its key pipeline drugs, reducing the near-term profit outlook for the company. We chose to liquidate this position during the period.

Stock selection had a positive impact on relative returns in the information technology sector, in which positions in payment processor MasterCard and web portal Yahoo proved favourable. Payment processor MasterCard reported solid quarterly results for its fiscal second quarter, helping the Fund's performance. Yahoo lifted on profit growth news from its ownership stake in a Chinese e-commerce company, which helped Yahoo's overall second quarter. An underweight position in International Business Machines benefitted the Fund's relative returns as its shares declined during the period. Conversely, holdings in Equinix and Semtech detracted from relative returns.

In the consumer staples sector, stock selection and an underweighting contributed to relative performance, particularly in the beverages industry. In the consumer discretionary sector, athletic apparel company Under Armour reported second-quarter revenues ahead of consensus expectations, supporting its shares. Stock selection in the telecommunication services sector also added to relative returns.

In contrast, stock selection hindered relative returns in the energy sector. Positions in Cameron International and Cobalt International Energy had a negative impact on relative returns. In the materials sector, chlorovinyl chemicals manufacturer Axiall curbed relative performance. In the industrials sector, shares of railroad company Kansas City Southern pressured returns.

Outlook

US equity markets overcame some August consolidation to produce another solid quarter of gains through September-end, with broad-market gauges climbing in seven out of nine months in 2013 thus far. Rising nominal US household wealth, which has encompassed both this year's stock market advance as well as the ongoing housing market recovery, was recently estimated by the Fed to be at its highest level since records began in 1945. The year's market rally also has led some observers to question if US equities have become overvalued along the way, but we continue to focus on the asset class's potential, particularly compared to other investment categories, over a three- to five-year time horizon. We expect that over that time period stock prices should follow earnings growth.

Towards that end, many US corporations have continued to benefit from record-high cash flow levels and strong balance sheets amidst an economy that has been growing modestly. The housing market has been a key growth contributor in recent quarters, and although a spring rise in US interest rates has subsequently hampered mortgage refinancing levels, new home sales for the year through August exhibited strength compared to 2012 levels. Overall, we believe momentum in housing and non-residential construction should continue to be positive longer term. The favourable impact of the housing recovery on consumer sentiment has been evident in strong auto sales rates in July and August, albeit with some deceleration in September. Additionally, we think steady expansion in the US manufacturing sector over the third quarter boded well for the overall economy and likely reflected domestic and global strengthening, including improved conditions in the eurozone and China. Factors like these – along with incremental US labour market improvement, ongoing low natural gas prices and some recent evidence of increased capital expenditures – lead us to expect the US economy to grow moderately during the remainder of 2013 and heading into the next year.

Against this positive backdrop, we continue to focus on the individual investment opportunities available in a private sector we regard as dynamic and supported by multiple global trends, which investors can sometimes discount amidst short-term, headline-driven noise. One example of the wide-ranging investment themes we are exploring is the tremendous advances that have occurred in electronic technology and data analysis, with their impact on products as disparate as gene-based health therapies and media content delivery. Yet such factors can become overshadowed by market uncertainty that has most recently focused on US monetary and fiscal policies. Much of the third quarter reflected investor concerns about when the Fed will eventually reduce its monetary stimulus efforts. Those fears eased over the period, capped by the Fed's late-September decision to delay a change in its asset purchase programme until there is further economic improvement. However, September ended with the federal government at an impasse over a stopgap spending measure and the Treasury Department nearing its borrowing limit. We continue to believe the Fed is likely to exercise caution in making any policy adjustments and regard such deliberation as generally supportive of equity markets. Additionally, we have tended to view past government disputes over the budget or debt ceiling as creating opportunities to initiate or add to investments. We expect policymakers to eventually work through these latest challenges without much impact on the strong forces we see at work in the private sector. We remain optimistic about the longer-term environment for US stocks and focused on investment themes tied to technology, media, energy, manufacturing, housing, healthcare and services, which currently underpin our bottom-up research into equity opportunities.

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 & Andrew Schramm, CFA
Fund Managers
25 November 2013

Share Class Performance

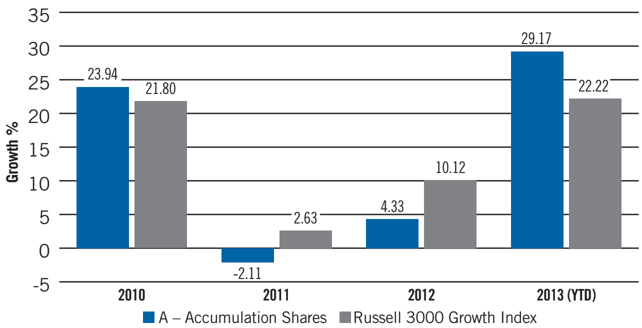
Share Class	Net Asset Value as at 30 September 2013 p	Net Asset Value as at 31 March 2013 p	% Movement
A – Accumulation Shares	211.97	197.56	7.29
I – Accumulation Shares	218.70	203.13	7.67
W – Accumulation Shares	128.77	119.61	7.66
Z – Accumulation Shares	216.64	201.41	7.56

Share Price and Income History

	Calendar Year	Highest Price p	Lowest Price p	Net Income per Share p
A – Accumulation Shares	2009^	133.10	86.54	–
	2010	163.57	124.04	–
	2011	170.70	130.91	–
	2012	180.02	156.45	–
	2013*	218.43	167.01	–
I – Accumulation Shares	2009^	133.82	86.58	–
	2010	165.56	124.79	–
	2011	173.43	133.12	–
	2012	183.80	159.45	–
	2013*	225.12	171.43	–
W – Accumulation Shares	2012Ω	104.55	96.88	–
	2013*	132.55	100.95	–
Z – Accumulation Shares	2009^	133.56	86.56	–
	2010	164.91	124.53	–
	2011	172.57	132.42	–
	2012	182.62	158.50	–
	2013*	223.06	170.06	–

^ Figures stated from launch date 20 February 2009.
Ω Figures stated from launch date 31 May 2012.
* Figures to 30 September 2013.

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
	30 September 2013	1.64
I – Accumulation Shares	31 March 2013	0.94
	30 September 2013	0.94
W – Accumulation Shares	31 March 2013	0.94
	30 September 2013	0.94
Z – Accumulation Shares	31 March 2013	1.14
	30 September 2013	1.14

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

Franklin US Opportunities Fund distributes annually as a result no distributions have been made during the period ended 30 September 2013.

PORTFOLIO INFORMATION

Classification of Investments

	30 September 2013 %	31 March 2013 %
Biotechnology	13.47	9.15
Internet Software & Services	9.05	7.78
Data Processing & Outsourced Services	5.38	5.19
Pharmaceuticals	4.57	4.13
Aerospace & Defence	4.31	3.75
Apparel, Accessories & Luxury Goods	4.07	3.15
Internet Retail	3.90	3.39
Restaurants	3.74	3.39
Application Software	3.13	3.73
Other Diversified Financial Services	3.06	2.25
Wireless Telecommunication Services	2.92	3.88
Communications Equipment	2.67	4.19
Asset Management & Custody Banks	2.60	2.72
Oil & Gas Equipment & Services	2.55	4.14
Movies & Entertainment	2.28	0.34
Systems Software	1.90	–
Research & Consulting Services	1.65	1.55
Footwear	1.55	1.50
Oil & Gas Exploration & Production	1.49	2.02
Railroads	1.44	1.77
Casinos & Gaming	1.38	1.45
Broadcasting	1.36	–
Trading Companies & Distributors	1.23	1.84
Semiconductors	1.23	1.30
Industrial Gases	1.12	0.97
Real Estate Services	1.11	0.86
Soft Drinks	1.09	0.78
Computer Hardware	1.04	2.43
Fertilizers & Agricultural Chemicals	1.00	1.27
Commodity Chemicals	0.95	1.73
Industrial Machinery	0.89	1.01
General Merchandise Stores	0.89	0.74
Regional Banks	0.86	1.05
Specialty Stores	0.86	0.53
Airlines	0.83	0.89
Electronic Manufacturing Services	0.82	0.92
Brewers	0.81	0.67
Cable & Satellite	0.79	0.51
Specialty Chemicals	0.78	1.89
Packaged Foods & Meats	0.75	0.75
Construction & Farm Machinery & Heavy Trucks	0.73	0.98
Health Care Supplies	0.70	0.74
Consumer Electronics	0.59	–
Electrical Components & Equipment	0.54	0.98
Human Resource & Employment Services	0.52	–
Insurance Brokers	0.49	–
Health Care Technology	0.48	–
Health Care Equipment	0.08	0.49
Home Improvement Retail	0.07	–
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	0.28	2.12
Net assets	100.00	100.00

Top 10 Holdings as at 30 September 2013

	30 September 2013 %
Gilead Sciences Inc.	3.87
MasterCard Inc., A	3.77
Google Inc., A	3.54
SBA Communications Corp.	2.92
Celgene Corp.	2.84
Precision Castparts Corp.	2.40
Amazon.com Inc.	2.25
Celldex Therapeutics Inc.	1.93
QUALCOMM Inc.	1.81
Actavis Inc.	1.75

Top 10 Holdings as at 31 March 2013

	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: 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 six months ended 30 September 2013, Templeton Global Emerging Markets Fund fell 9.57% while the MSCI Emerging Markets Index fell by 8.60% (both returns in UK sterling).

Overview

Although global equity markets gained during the six months under review, emerging markets were considerably weaker, weighed down by concerns about slowing growth, globally and in China, as well as worries about a potential "tapering" of the US Federal Reserve's (Fed's) quantitative easing (QE) programme, talk of which first emerged in May. Markets with sizeable current account deficits, such as India, Indonesia and Turkey, were perceived as vulnerable to a sudden interruption in foreign currency flows and saw a particularly sharp sell-off. A sharp but brief rise in Chinese interbank rates further weighed on investor sentiment. Reassurances from the People's Bank of China in June, followed by encouraging second-quarter Chinese economic data in July, sparked a turnaround in several emerging markets, especially China and South Korea, although select emerging markets, especially in Southeast Asia, still remained under pressure. Fears of a US military intervention in Syria heightened investors' risk aversion, pushing many markets even lower.

However, the last month of the reporting period saw a sharp reversal in sentiment. The Fed surprised markets by announcing that a reduction in its QE programme was delayed, Syria agreed to surrender its chemical weapons (thereby averting threatened US military action), second-quarter data confirmed that the eurozone had officially exited its longest recession on record, and Japan registered its highest consumer price inflation since 2008, a level nearly halfway towards the Bank of Japan's target to overcome the country's persistent deflation. As the period came to a close, though, markets saw a small bout of profit-taking, prompted by indications that Fed tapering remained a possibility and unease about the impact of a partial shutdown of the US government due to disagreement about the federal budget.

Among emerging stock markets, Latin America was the weakest performer for the period, driven lower by substantial weakness in nearly all its markets. Peru was one of the worst performers in emerging markets overall, but Chile, Mexico, Brazil and Colombia also recorded double-digit declines. Asian markets performed slightly better than their emerging-market peers, but still posted negative returns for the period. Although markets in China, Taiwan and South Korea were relatively resilient, the region was pulled lower by Indonesia, which fell a staggering 33% in UK sterling terms, partly due to considerable devaluation in the rupiah. The Philippines, Thailand and India also recorded double-digit declines. Middle Eastern, African and emerging European markets performed somewhat better than their emerging-market peers, with markets such as Poland and Hungary recording gains, and the Czech Republic, Russia, Egypt and South Africa witnessing falls limited to the low single digits. Turkey, however, was the region's weakest performer, falling more than 25% in UK sterling terms.

Significant Changes

During the period under review, our focus on attractively valued stocks led us to add to the portfolio in select positions, primarily in metals and mining stocks in the materials sector. Weakness in the early part of the period in the South African and Brazilian markets allowed us to add to positions in South Africa's Impala Platinum, one of the world's leading platinum producers; Anglo American, parent to the company that ranks as the largest producer of platinum globally; and Brazil-based Vale, the world's largest producer of iron ore.

We trimmed the portfolio in a few areas during the period to realise gains resulting from strong share-price appreciation and due to the availability of what we believed to be more attractive opportunities elsewhere in the fund's investment universe. Positions that were reduced included investments in two of Brazil's largest banks by market value – Itau Unibanco and Banco Bradesco; Russian commodity stocks TMK, an oil pipeline supplier, and Lukoil, the country's second-biggest oil producer; and MediaTek, Taiwan's largest semiconductor-chip designer.

Positive/Negative Contributors

We employ a long-term, ground-up approach, and our strategy is not benchmark-driven. The Fund's performance is, therefore, assessed on an absolute basis.

Despite a strong market rebound towards the end of the reporting period, weakness earlier in the period meant that most stocks and sectors detracted from absolute returns. Declines were led by the materials and energy sectors, in which the und had its largest weightings. In the materials sector, metals and mining companies that were weak included Vale, the Brazilian iron ore producer. Vale's share price dropped for much of the first half of the reporting period, affected by developments in China, a key market, including worries of policy tightening, slowing growth and high iron-ore inventories as well as weakness in iron ore prices. Strength in the second half of the reporting period, sparked by more positive data from China, was not sufficient to balance the earlier fall. South African platinum producers Anglo American and Impala Platinum declined for most of the first half of the reporting period on similar concerns, and were further affected by a steep decline in the value of the South African rand as well as worries about further industrial action at mines across the country. Chilean copper producer Antofagasta was another detractor from absolute returns within the sector.

In the energy sector, performance was hampered most by positions in Chinese coal companies Inner Mongolia Yitai Coal and Yanzhou Coal Mining, as well as an investment in Petroleo Brasileiro (Petrobras), Brazil's biggest company by market value. Nevertheless, select positions in the sector recorded gains and curbed the declines, particularly investments in two Russian companies – Gazprom, the largest producer of gas in the world by reserves and production, and TMK, an oil pipeline supplier – as well as CNOOC, China's largest producer of offshore crude oil.

Similarly, the financials sector detracted from absolute returns overall, mostly due to weakness in two of Brazil's largest banks by market value – Banco Bradesco and Itau Unibanco. In addition, an investment in Thailand's Kasikornbank gave back gains from earlier in the year as weaker economic data and concerns about the impact of the possible tapering of the Fed's QE measures led to an exodus of foreign investors. Although the shares rallied solidly in September, the gains were not enough to balance declines earlier in the reporting period. However, a position in Pakistan's MCB Bank bucked the sector trend, recording strong performance and contributing positively to returns.

Elsewhere, individual detractors included consumer staples stock Dairy Farm International, a pan-Asian supermarket, drug store and convenience store operator, and Hyundai Development, a South Korean construction and engineering business focused on the homebuilding industry. Dairy Farm's core businesses consist of supermarkets and hypermarkets, as well as health and beauty, convenience and home furnishings stores. We view Dairy Farm as a proxy to gain exposure to consumption growth in Asia, as the company could continue to benefit from growing consumer demand for consumer staples as well as discretionary items. Shares of Hyundai Development retreated during the reporting period after the company reported a loss for the second quarter, and a strong share-price gain in September was not sufficient to overcome this effect. We continue to believe the in the long-term strength of the company, which could further benefit from government measures to support the homebuilding industry.

The only sector to contribute positively to absolute performance for the period was consumer discretionary, thanks to a position in Brilliance China, which was the strongest contributor to performance overall. Brilliance, most noted for its joint venture with German luxury car maker BMW, saw strong share-price gains over the period on reports of better-than-expected second-quarter earnings as well as solid trends in car sales in China. We believe that China's growing middle class has been driving substantial secular demand for premium cars.

Outlook

With news of the continuation of the Fed's monthly asset-purchase programme, confidence in emerging markets recovered in September. Even if the Fed starts to pull back this programme as the US economy improves, other central banks across the world are still generating liquidity, which could support investor flows into emerging markets. For example, Japan has embarked on a massive easing programme, which, measured as a percentage of gross domestic product (GDP), is greater than the stimulus package adopted by the Fed. We expect global equities, currencies and commodities should benefit from this programme.

In our view, emerging markets generally appear well positioned to benefit from the high liquidity in the system due to their attractive fundamentals, including strong growth rates, low debt levels and high foreign exchange reserves, as investors look for higher-yielding assets, especially in an environment in which interest rates on bank savings have remained low. Greater cooperation among emerging markets gives us another reason to remain positive. Most recently, the leaders of the "BRICS" countries (i.e., Brazil, Russia, India, China and South Africa) agreed to establish a joint US$100 billion currency reserve to protect their economies from financial volatility and currency shocks. We continue to follow our value-driven investment philosophy, and at period-end, we were able to identify many solid companies across emerging markets that we believed remained undervalued.

Mark Mobius, PhD
Fund Manager
25 November 2013

Share Class Performance

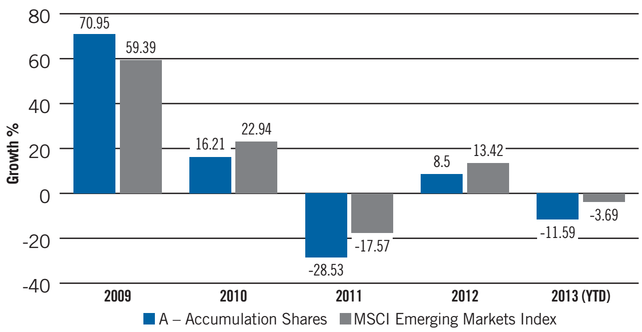
Share Class	Net Asset Value as at 30 September 2013 p	Net Asset Value as at 31 March 2013 p	% Movement
A – Accumulation Shares	202.36	223.81	-9.58
W – Accumulation Shares	99.07	109.25	-9.32
Z – Accumulation Shares	98.95	109.16	–9.35

Share Price and Income History

	Calendar Year	Highest Price p	Lowest Price p	Net Income per Share p
A – Accumulation Shares	2009	257.18	128.53	2.06
	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
W – Accumulation Shares	2012Ω	112.00	99.16	–
	2013*	117.51	90.54	1.25
Z – Accumulation Shares	2012Ω	111.95	99.17	–
	2013*	117.43	90.45	1.16

Ω Figures stated from launch date 31 May 2012.
* Figures to 30 September 2013.

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	1.95
	30 September 2013	1.95
W – Accumulation Shares	31 March 2013	1.35
	30 September 2013	1.35
Z – Accumulation Shares	31 March 2013	1.45
	30 September 2013	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

Templeton Global Emerging Markets Fund distributes annually as a result no distributions have been made during the period ended 30 September 2013.

PORTFOLIO INFORMATION

Classification of Investments

	30 September 2013 %	31 March 2013 %
Russia	21.90	21.19
Brazil	18.87	21.61
China	18.69	17.80
Pakistan	8.07	5.73
South Korea	7.27	7.48
Hong Kong	5.70	6.13
India	5.10	5.15
South Africa	4.78	3.76
Chile	4.24	4.29
United Kingdom	3.94	3.63
Thailand	1.65	1.90
Taiwan	–	1.16
Net other (liabilities)/assets	(0.21)	0.17
Net assets	100.00	100.00

Top 10 Holdings as at 30 September 2013

	30 September 2013 %
Gazprom OAO, ADR	9.53
Vale SA, ADR, pfd., A	8.35
MCB Bank Ltd.	8.07
Brilliance China Automotive Holdings Ltd.	7.07
Dairy Farm International Holdings Ltd.	5.70
Sesa Goa Ltd.	5.10
Hyundai Development Co.	5.02
Impala Platinum Holdings Ltd.	4.78
CNOOC Ltd.	4.35
TMK OAO, GDR, Reg S	4.27

Top 10 Holdings as at 31 March 2013

	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.

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 six months ended 30 September 2013, Templeton Global Total Return Bond Fund returned -9.01%, while the Barclays Multiverse Index returned -6.22% (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 or exceeded pre-crisis activity levels. Although some developed economies, such as those of Australia and Scandinavia, have also enjoyed relatively strong recoveries in the aftermath of the global financial crisis, the G3 (i.e., the United States, eurozone and Japan) continued to experience growth that was slow by the standards of recoveries from previous recessions. As fears eased surrounding the issues of sovereign debt in Europe, the possibility of another recession in the United States and a potential "hard landing" in China, financial market performance was positive. Improving sentiment, relatively strong fundamentals and continued provision of global liquidity supported risk assets as equity markets performed well. Policymakers in the largest developed economies continued to increase their already 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.

Fears of a reduction in stimulative government policy resulted in periods of risk aversion, when credit spreads widened and equity markets or other 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, increased liquidity creation continued, particularly from the Bank of Japan's commitment to increase inflation as well as from the US Federal Reserve's (Fed's) extension of quantitative easing and more explicit use of forward guidance. Economic data amongst the largest economies remained inconsistent with continued dire predictions of a severe global economic slowdown.

During the period, the Fed announced that the size of its bond-buying programme might be reduced at subsequent meetings, which led to risk assets, particularly those in emerging markets, to sell off as market participants' expectations of global liquidity conditions began to change.

Significant Changes

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

1. Mexican fixed rate bonds 8.00% 12/17/2015
2. Korea monetary stab bond 2.47% 04/02/2015
3. Korea monetary stab bond 2.76% 06/02/2015
4. Mexican fixed rate bonds 6.00% 06/18/2015
5. Ukraine government 7.80% 11/28/2022 Reg S

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

1. Poland government 07/25/2013 strip coupon
2. Mexican fixed rate bonds 9.00% 6/20/2013
3. Poland, Republic of 5.00% 10/24/2013
4. CDW LLC/Finance Corp. 8.50% 04/01/2019
5. United Rentals North America Inc. 8.375% 09/15/2020

Contributors and Detractors

For the six months ended 30 September 2013, the Fund underperformed its benchmark primarily due to currency positions, while overall credit exposures were largely neutral. However, interest-rate strategies contributed to relative results.

The Fund's overweighted currency exposures to Latin America and Asia ex-Japan detracted from relative performance. Its underweighted currency exposure to the Japanese yen contributed to relative results.

Within interest-rate strategies, the Fund's underweighted duration exposure to the United States contributed to relative performance.

Outlook

We continue to emphasise investments in select developed and emerging countries with relatively strong underlying fundamentals and low levels of indebtedness. Policymakers and central bank actions have continued to be the main drivers of market volatility in recent months. This trend has been persistent over the last few years and we continue to reiterate that it is essential for investors to understand and differentiate between declines related to market noise and those caused by fundamental developments.

In our view, the recent rise in interest rates is likely to be more long-term in nature, and we believe that as the global economic recovery continues in tandem with an eventual tapering of the bond purchasing programme in the United States, the macroeconomic environment will likely remain supportive of higher interest rates. Conversely, we feel that the recent declines in most emerging-market currencies were triggered by short-term panic selling regardless of underlying fundamentals. In recent years, emerging markets have experienced relatively broad-based bullish and bearish trends, tending to move in unity. However, we feel that emerging markets are likely to be more bifurcated moving forward, thus requiring the evaluation of opportunities on a country-by-country basis. Furthermore, we feel that global liquidity conditions may remain very loose as there have been no signs pointing to tighter monetary policy from the Bank of Japan or the European Central Bank.

We have continued to seek to position ourselves to manage the interest-rate risks that we expect from the combination of historically low interest rates and easy monetary policy amongst the largest developed economies, rising price pressures emanating from China, and global demand that we believe is far from collapsing. Thus, we have generally maintained an extremely short duration, while seeking to take advantage of what we deem as the relative attractiveness of currencies and sovereign credit exposures of countries with fundamentals likely to support medium-term growth.

Michael Hasenstab, PhD, John Beck & Sonal Desai, PhD
Fund Managers
25 November 2013

Share Class Performance

Share Class	Net Asset Value as at 30 September 2013 p	Net Asset Value as at 31 March 2013 p	% Movement
A – Income Shares	137.00	152.12	-9.94
A – Income Hedge Shares	118.60	123.77	-4.18
A – Accumulation Shares	168.33	184.84	-8.93
A – Accumulation Hedge Shares	122.01	125.97	-3.14
W – Income Shares*	92.40	n/a	n/a
W – Income Hedge Shares	110.07	115.09	-4.36
W – Accumulation Shares*	92.82	n/a	n/a
Z – Income Hedge Shares	110.49	115.39	-4.25
Z – Accumulation Shares	158.54	173.77	-8.76

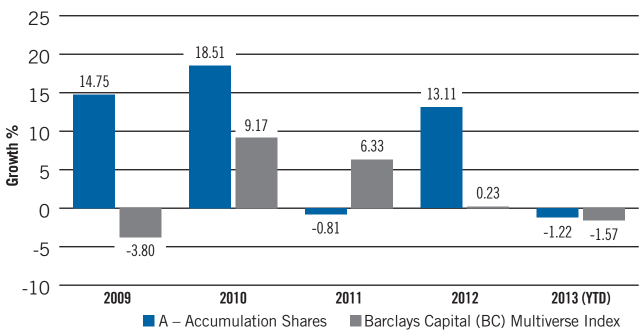
*class launched on 15 July 2013

Share Price and Income History

	Calendar Year	Highest Price p	Lowest Price p	Net Income per Share p
A – Income Shares	2009	122.95	102.66	6.33
	2010	139.23	118.63	5.03
	2011	138.00	126.51	4.64
	2012	143.54	128.99	4.72
	2013*	157.04	137.00	2.64
A – Income Hedge Shares	2009#	104.29	100.11	1.70
	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	2.20
A – Accumulation Shares	2009	130.96	105.31	6.60
	2010	152.78	128.69	5.48
	2011	158.03	146.01	5.28
	2012	171.47	150.52	5.43
	2013*	190.02	168.33	3.25
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	2.29
W – Income Shares	2013†	100.03	92.40	0.44
W – Income Hedge Shares	2012Ω	115.14	99.10	2.67
	2013*	118.65	108.65	2.43
W – Accumulation Shares	2013†	100.03	93.11	0.41
Z – Income Hedge Shares	2012Ω	115.22	99.10	2.55
	2013*	119.04	109.10	2.34
Z – Accumulation Shares	2009^	122.21	97.69	5.99
	2010	143.24	120.12	5.73
	2011	148.48	136.95	5.08
	2012	161.16	141.23	5.67
	2013*	178.71	158.54	3.08

^ Figures stated from launch date 20 February 2009.
# Figures stated from launch date 29 September 2009.
µ Figures stated from launch date 31 August 2010.
Ω Figures stated from launch date 31 May 2012.
† Figures stated from launch date 15 July 2013.
* Figures to 30 September 2013.

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
	30 September 2013	1.35
A – Income Hedge Shares	31 March 2013	1.38
	30 September 2013	1.38
A – Accumulation Shares	31 March 2013	1.35
	30 September 2013	1.35
A – Accumulation Hedge Shares	31 March 2013	1.38
	30 September 2013	1.38
W – Income Shares	30 September 2013	0.85
W – Income Hedge Shares	31 March 2013	0.85
	30 September 2013	0.85
W – Accumulation Shares	30 September 2013	0.85
Z – Income Hedge Shares	31 March 2013	1.05
	30 September 2013	1.05
Z – Accumulation Shares	31 March 2013	1.05
	30 September 2013	1.05

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 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 Revenue p	Revenue 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 Revenue 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

PORTFOLIO INFORMATION

Classification of Investments

	30 September 2013 %	31 March 2013 %
South Korea	12.66	12.43
Mexico	9.60	6.36
United States	7.24	7.25
Malaysia	7.22	6.47
Uruguay	4.96	5.16
Brazil	4.49	1.01
Poland	4.35	5.22
Hungary	3.76	5.18
Irish Republic	3.56	5.35
Ukraine	3.36	3.09
Canada	2.48	2.64
Singapore	2.04	2.20
Sweden	1.88	1.42
Ghana	1.61	2.12
Serbia	1.28	2.12
Slovenia	1.19	–
Philippines	1.16	0.99
Russia	0.85	1.43
Iceland	0.71	1.18
United Kingdom	0.67	0.72
Indonesia	0.57	1.34
Romania	0.54	0.82
Sri Lanka	0.53	0.85
Netherlands	0.45	0.29
South Africa	0.45	0.75
Kazakhstan	0.36	0.59
Luxembourg	0.20	0.19
Argentina	0.18	0.19
Latvia	0.18	0.30
Lithuania	0.17	0.27
UAE	0.17	0.29
Bermuda	0.16	0.18
France	0.16	0.08
Italy	0.15	0.14
Australia	0.14	0.14
Spain	0.14	0.27
Germany	0.13	0.15
Vietnam	0.10	0.17
Croatia	0.09	0.15
Venezuela	0.07	0.16
Japan	0.04	0.06
Switzerland	0.04	–
Trinidad and Tobago	0.03	0.06
Foreign exchange gain on outstanding forward contracts	0.52	1.94
Net other assets	19.36	18.28
Total Net Assets	100.00	100.00

Top 10 Holdings as at 30 September 2013

	30 September 2013 %
Government of Mexico, 8.00%, 12/17/15	3.82
Korea Monetary Stabilization Bond, senior bond, 2.47%, 4/02/15	2.63
Korea Treasury Bond, senior bond, 3.00%, 12/10/13	2.41
Korea Monetary Stabilization Bond, senior note, 2.76%, 6/02/15	1.95
Government of Poland, 5.75%, 4/25/14	1.89
Government of Sweden, 6.75%, 5/05/14	1.78
Government of Mexico, 6.00%, 6/18/15	1.64
Korea Treasury Bond, senior note, 3.25%, 12/10/14	1.25
Government of Ireland, senior bond, 5.40%, 3/13/2025	1.17
Government of Malaysia, senior bond, 5.094%, 4/30/14	1.16

Top 10 Holdings as at 31 March 2013

	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 six months ended 30 September 2013, Templeton Growth Fund rose by 8.99%, while the MSCI All Country World Index rose by 1.05% (both returns in UK sterling).

Overview

Global equity markets made solid progress in the half year under review, although a significant rally by the British pound on foreign exchange markets reduced the extent of the advance in UK sterling terms. Two major factors were at play over the period. The more significant was on-going evidence of strengthening economic growth that affected most major markets. While the US economy continued to achieve subdued gains in spite of the impact of public spending cuts, European markets emerged from recession, Japan began to show the impact of yen devaluation and aggressive stimulus, and Chinese growth showed signs of reviving after a slow-down in the early part of the year. Forward-looking indicators such as industrial surveys suggested that the rate of growth in many markets was tending to accelerate.

The second factor was speculation about a possible withdrawal of the exceptional monetary stimulus measures undertaken by the US Federal Reserve (Fed) following comments in May about a possible "tapering" of quantitative easing (QE). Although the Fed was at pains to emphasise that policy would remain highly accommodative, debt markets reacted sharply with US Treasuries seeing a full percentage point increase in yields, albeit from historically very low levels. Global equities also saw sharp falls in May and June, but the solid real economy news rapidly re-asserted itself in most markets, particularly in the developed world. Some emerging markets remained under pressure, with countries such as India, Indonesia and Turkey, perceived as having issues funding balance of payment deficits, seeing significant weakness in equity and/or foreign exchange markets. However, these markets also began to recover in September as it became clear that Fed tapering was to be delayed.

Europe was the strongest regional market over the half year, reflecting significant improvement in economic and financial conditions, with Asia and North America also gaining. Emerging markets weakened in UK sterling terms, especially commodity-related Latin American markets and Asian markets with balance of payments issues. From a sector perspective consumer discretionary was very strong, driven by gains from auto and some retail stocks, while industrials also advanced. Metal and mining stocks within the materials sector were relatively weak as markets remained uneasy about the ability of commodities demand to keep up with the emergence of new supplies. Interest rate sensitive sectors such as utilities and consumer staples also underperformed.

Significant Changes

The period under review saw the continuation of restructuring measures by Dutch financial services group ING Groep. A particularly significant move was a separate listing for ING's US insurance business, ING US, trading as Voya Financial. Having failed to find a private buyer for the business, ING's advisors priced the initial public offering (IPO) at a level that we believed to be very attractive, and we took a substantial position. In contrast, we were able to take some profits in ING Groep itself as the share price made strong gains. We added to other European stocks, believing that short-term worries had led to them becoming undervalued relative to their longer-term prospects. Such stocks included German retail business Metro (a new position), German cement business HeidelbergCement and Spanish telecoms business Telefonica. We also acquired a position in Japanese beverages business Suntory Beverage & Food, believing that the shares were attractively valued as the Japanese government sought to ignite consumer spending with stimulus measures. We disposed of positions in US computer maker Dell when a buy-out approach lifted the share price, and we liquidated positions in Russian gas business Gazprom and UK business services company Rentokil Initial in order to fund investments elsewhere. We also took some profits in Dutch electronics company Philips Electronics.

Positive/Negative Contributors

Fund performance was substantially superior to that of the benchmark during the period under review. Positioning in the financials sector was a particularly significant element in the relative outperformance. Sentiment on UK and European financial stocks improved steadily as the economic and financial market outlooks strengthened, and our conviction that European financial stocks had become extremely undervalued during the lengthy financial crisis appeared to be vindicated. While a number of French and Italian banks performed solidly, the outstanding gains came from Dutch financial services business ING Groep and UK lender Lloyds bank. ING benefited strongly as on-going restructuring measures were reflected in solid quarterly results, while prices for asset disposals beat market expectations. The spin-off of ING's US insurance assets through an IPO was strongly supported by investors. Lloyds meanwhile reacted well to increasingly buoyant macroeconomic data flow from the UK, while much stronger-than-expected second-quarter results opened up the prospect that the sale of the state stake in the business and the resumption of dividend payments could both be brought forward.

While financials produced the strongest relative return, all other sectors with the exception of industrials also outperformed in relative terms, with healthcare and consumer staples leading the contributions. The gain from healthcare was founded on strength for US pharmaceutical business Actavis, whose merger with rival Warner Chilcott produced an exceptionally strong global operator in the generic drugs market. A low relative weighting in the sluggish consumer staples sector combined with solid returns from European food and staples retail holdings to drive solid outperformance. Among individual stocks, Japanese car maker Mazda Motor continued to benefit from the competitive advantage conferred by yen devaluation. Mazda's much healthier financials allowed market attention to focus on the technological advances incorporated in a new range of vehicles.

Industrials was the only sector to detract from relative Fund performance, with electrical equipment holdings seeing weak performance. Positions among Chinese power equipment companies saw sluggish returns, but the major underperformance came from French business Alstom, which disappointed its investors with weak results for the year to March 2013 and a cautious outlook statement. A lack of exposure to the relatively strongly performing aerospace and defence businesses also detracted from performance, but airline holdings were notably stronger with International Consolidated Airlines Group seeing steady improvements in pricing and loading for its British Airways business, on-going rationalisation within its Spanish Iberia operation and strength for the newly acquired Spanish budget business Vueling. Among individual detractors from relative performance, oil and gas business Talisman Energy drifted after weak second-quarter results indicated falling production from North Sea assets. The collapse of a trading agreement among major potash producers saw the price of potash come under severe pressure, affecting the prospects of Canadian potash miner Potash Corporation of Saskatchewan. A sluggish market in personal computers held back computer and peripherals business Hewlett Packard, while Dell marked time, awaiting the outcome of protracted negotiations about taking the business private. We disposed of positions in Dell and Potash Corporation of Saskatchewan during the period.

In geographic terms, Europe provided the strongest contribution to relative performance as the improving economic outlook led to solid gains in both local equities and currencies to generate notable outperformance from the Fund's overweighted positions. However, positioning in North America also boosted relative returns, and no region detracted.

Outlook

Global equity markets in broad terms have appreciated substantially during 2013 thus far, and we think it is likely that, in some instances, fundamentals have not fully caught up to asset prices. However, we are encouraged to observe fundamental improvements in select regions and sectors around the world, and we believe ample scope exists for continued recovery at both the macroeconomic level and the corporate level. At the economic level, year-over-year global growth has been accelerating for the first time in three years, and the global economy remains awash in liquidity, which we believe could further spur growth once the velocity of money (the amount of economic activity associated with a given money supply) recovers. At the corporate level, global profit margins have remained below trend, equity inflows have been improving and stocks outside the US still traded at a discount to their long-term normalized earnings multiple as of quarter-end. With elevated policy uncertainty and a fragile economic recovery, the potential for setbacks and volatility remains high, in our view. However, we believe bottom-up equity investors with a value discipline and long-term time horizon can find attractive opportunities in the current environment.

Dylan Ball, Peter Moeschter, CFA & Heather Arnold, CFA
Fund Managers
25 November 2013

Share Class Performance

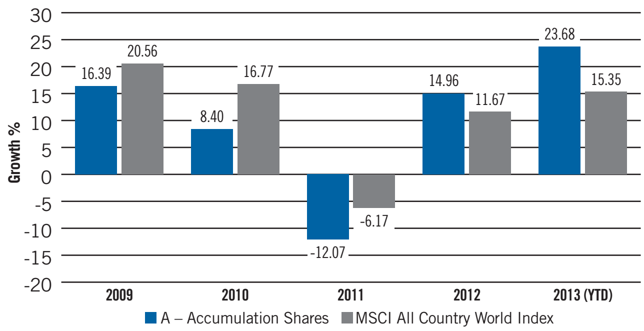
Share Class	Net Asset Value as at 30 September 2013 p	Net Asset Value as at 31 March 2013 p	% Movement
A – Income Shares	509.40	470.61	8.24
A – Accumulation Shares	745.70	683.92	9.03
I – Income Shares	1,751.30	1,617.82	8.25
I – Accumulation Shares	2,379.20	2,174.43	9.42
W – Accumulation Shares	149.21	136.37	9.42
Z – Accumulation Shares	148.81	136.15	9.30

Share Price and Income History

	Calendar Year	Highest Price p	Lowest Price p	Net Income per Share p
A – Income Shares	2009	399.18	269.55	4.65
	2010	425.62	362.02	3.67
	2011	451.09	336.48	4.60
	2012	420.78	346.98	4.21
	2013*	535.09	423.10	3.93
A – Accumulation Shares	2009	561.07	374.23	6.19
	2010	602.36	509.22	5.33
	2011	641.25	481.55	6.56
	2012	611.34	499.12	6.16
	2013*	777.63	614.63	5.79
I – Income Shares	2009	1,371.91	926.68	21.58
	2010	1,464.15	1,427.25	21.00
	2011	1,552.47	1,156.76	25.77
	2012	1,448.62	1,193.73	23.90
	2013*	1,843.88	1,456.89	25.00
I – Accumulation Shares	2009	1,743.56	1,156.29	27.13
	2010	1,885.05	1,588.07	29.55
	2011	2,011.79	1,514.92	33.65
	2012	1,939.92	1,577.26	31.55
	2013*	2,478.26	1,950.85	33.58
W – Accumulation Shares	2012Ω	121.68	99.28	0.51
	2013*	155.42	122.36	2.10
Z – Accumulation Shares	2012Ω	121.53	99.28	0.43
	2013*	155.06	122.21	1.83

Ω Figures stated from launch date 31 May 2012.
* Figures to 30 September 2013.

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	1.62
	30 September 2013	1.62
A – Accumulation Shares	31 March 2013	1.62
	30 September 2013	1.62
I – Income Shares	31 March 2013	0.92
	30 September 2013	0.92
I – Accumulation Shares	31 March 2013	0.92
	30 September 2013	0.92
W – Accumulation Shares	31 March 2013	0.92
	30 September 2013	0.92
Z – Accumulation Shares	31 March 2013	1.12
	30 September 2013	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

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

PORTFOLIO INFORMATION

Classification of Investments

	30 September 2013 %	31 March 2013 %
United States	34.65	35.53
United Kingdom	12.20	12.23
France	10.72	9.98
Germany	7.18	6.46
Switzerland	5.41	5.58
Netherlands	5.36	5.67
Japan	4.63	3.07
China	3.71	4.25
Italy	2.54	2.04
Canada	2.22	2.09
Ireland	2.10	1.91
South Korea	1.41	1.69
Hong Kong	1.36	1.45
Brazil	1.22	0.95
Norway	1.14	0.88
Spain	1.10	0.58
Sweden	0.98	1.05
Singapore	0.82	0.92
Portugal	0.50	–
Taiwan	0.43	0.50
Russia	–	0.87
Net other assets	0.32	2.30
Net assets	100.00	100.00

Top 10 Holdings as at 30 September 2013

	30 September 2013 %
Roche Holding AG	2.56
ING Groep NV, IDR	1.92
Lloyds Banking Group PLC	1.90
International Consolidated Airlines Group SA	1.83
Merck KGaA	1.65
Elan Corp. PLC, ADR	1.64
Pfizer Inc.	1.51
AXA SA	1.44
Citigroup Inc.	1.43
Marks & Spencer Group PLC	1.43

Top 10 Holdings as at 31 March 2013

	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 U.K. 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 six month period ended 30 September 2013, Templeton Strategic Bond Fund returned -1.34%, compared to the BofA Merrill Lynch Sterling Broad Market Index, which returned -2.53% (both returns in UK sterling).

Overview
Bond markets generally endured a difficult start to the six-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 toward the end of 2013 if the health of the US economy continued to improve. Having fallen in previous months, yields of 10-year US Treasuries began to rise steadily from May onwards, in turn sparking significant volatility in other markets. Sovereign yields rose in many peripheral eurozone countries as well as in more creditworthy European borrowers such as Germany, though their volatility was generally less than that of US Treasuries.

Investors were cheered by encouraging signs of momentum in the UK economy as well as by news of the eurozone's return to slightly positive growth in the second quarter, finally ending a recession in the region that had stretched back to 2011. However, both the Bank of England and European Central Bank (ECB) reaffirmed that they expected to keep interest rates low for an extended period, in the wake of a reduction by the ECB of its benchmark interest rate in May. Political developments included the widely expected re-election of Chancellor Merkel in Germany. With demand waning for perceived "safe havens", the spread between 10-year German Bunds and equivalent Italian and Spanish sovereign bonds narrowed substantially over the six-month period.

Most hard-currency sovereign bonds issued by emerging markets had previously benefitted from large inflows as a result of the Fed's quantitative easing and so saw sharp declines in May and June, 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 US dollar. Worst hit were countries with sizable current account deficits, like India, Indonesia and Turkey.

Data from the US economy remained broadly positive in the second part of the six-month period, though by September the Fed had not yet found sufficient evidence of quickening growth in the economy or improvement in the labour market to taper its quantitative easing, confounding expectations among many investors of such a move. Yields of 10-year US Treasuries peaked at 3% ahead of the anticipated policy shift by the Fed, but then in September registered their first monthly decline since April, eventually ending at just over 2.6%, up around 75 basis points over the six-month period as a whole.

Corporate debt returns broadly outpaced sovereign bonds in the six- month period, as the uncertainty that had affected the asset class in the second quarter diminished and the amount of issuance increased. High-yield corporate bonds largely outperformed their investment-grade counterparts, chiefly as a result of their higher coupons. The unexpected decision by the Fed not to reduce its monthly bond purchases also sparked a rally in hard-currency emerging-market bonds, though several emerging-market currencies remained sharply lower against most major global currencies over the six months as a whole.

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 Bright Food Hong Kong Ltd 3.00% 05/21/2018. Conversely, the top sales during the period were HSBC Holdings plc 6.50% 05/20/2024, Hera SpA 5.20% 01/29/2028, Areva SA 3.50% 03/22/2021, Merrill Lynch & Co Inc 6.875% 04/25/2018, and Croatia Government International Bond 6.75% 11/05/2019.

Positive/Negative Contributors

The Fund's exposure to high-yield issues, security selection as well as its duration and yield-curve positioning contributed to relative returns. However, its currency positioning had a negative impact on relative performance.

The Fund's exposure to high-yield and, to a lesser extent, investment-grade corporate bonds contributed significantly to relative returns, as improving economic growth in the US and Europe prompted investors to take on more risk. Though corporate bonds, like sovereign bonds, suffered a sell-off on the hints from the Fed of a potential change of monetary policy, they generally performed better than their sovereign peers over the six-month period, with investors particularly drawn to high-yield issues by the elevated coupons offered by the asset class. Security selection among corporate issues, notably financials, also boosted relative performance.

With bond markets enduring a particularly volatile second quarter of 2013, the Fund's defensive duration and yield-curve positioning also added significantly to relative results over the six months as a whole.

Conversely, the Fund's currency positioning held back relative performance, mainly as a result of its underweight allocation to the pound, which strengthened against most other currencies over the period on signs of increased growth in the UK economy, which raised the possibility of a rise in UK interest rates taking place earlier than was indicated by the Bank of England's projections.

Outlook

We remain of the view that the global economy is on a path of steady, if unspectacular, growth. The healthy expansion of many emerging markets and some non-G3 developed economies has continued to provide much of the impetus, with a slow but solid recovery in the US putting the country ahead of the UK, eurozone and Japan in securing a platform for higher growth. We also believe that the structural imbalances in the global economy are gradually unwinding, though we remain mindful that this process may not be linear and could lead to heightened market volatility from time to time.

In assessing spreads both between sovereign bonds and across the various fixed income asset classes, our view continues to be shaped by credit fundamentals over the medium term. We remain firmly tilted away from perceived safe-haven sovereign bonds – especially those of the UK, US, Germany and Japan – due to those countries' relatively poor growth and debt metrics. Instead, we retain overweight allocations to select opportunities in emerging-market and corporate debt, where the fundamentals appear better. We also look to diversify country exposures where possible.

David Zahn, CFA & John Beck
Fund Managers
25 November 2013

Share Class Performance

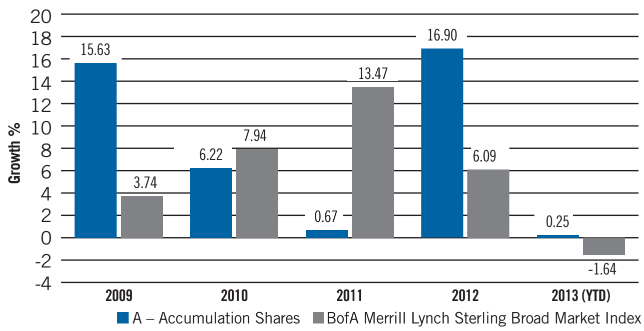
Share Class	Net Asset Value as at 30 September 2013 p	Net Asset Value as at 31 March 2013 p	% Movement
A – Income Shares	102.97	107.32	-4.05
A – Accumulation Shares	134.08	136.52	-1.79
W – Income Shares	104.92	109.19	-3.91
Z – Income Shares	104.79	109.07	-3.92

Share Price and Income History

	Calendar Year	Highest Price p	Lowest Price p	Net Income per Share p
A – Income Shares	2009	101.31	86.83	4.10
	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	3.80
A – Accumulation Shares	2009	108.35	90.87	4.32
	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	4.89
W – Income Shares	2012Ω	109.29	100.00	3.01
	2013*	112.14	103.71	4.11
Z – Income Shares	2012Ω	109.23	100.00	3.01
	2013*	112.02	103.62	4.09

Ω Figures stated from launch date 31 May 2012.
* Figures to 30 September 2013.

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
	30 September 2013	1.35
A – Accumulation Shares	31 March 2013	1.35
	30 September 2013	1.35
W – Income Shares	31 March 2013	0.85
	30 September 2013	0.85
Z – Income Shares	31 March 2013	0.95
	30 September 2013	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 31 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 Revenue p	Revenue 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 Revenue p	Revenue 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 Revenue 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 Revenue 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 Revenue 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 Revenue 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

PORTFOLIO INFORMATION

Classification of Investments

	30 September 2013 %	31 March 2013 %
United Kingdom	29.02	31.51
Russia	7.19	4.85
Italy	6.27	7.15
United States	5.63	8.39
France	4.70	7.50
Brazil	4.66	6.75
Netherlands	3.78	3.28
Mexico	3.69	1.85
Poland	3.15	2.00
Hungary	2.43	1.45
Sweden	2.32	2.96
Chile	2.30	1.08
Turkey	2.15	1.15
Spain	2.04	1.26
Irish Republic	1.98	2.57
Indonesia	1.97	1.42
South Africa	1.74	2.36
Peru	1.74	1.32
Luxembourg	1.59	1.92
China	1.41	–
Australia	1.22	–
Croatia	1.08	2.44
Switzerland	1.06	1.34
Colombia	0.90	1.25
Lithuania	0.90	1.23
El Salvador	0.74	1.12
Germany	–	0.71
Foreign exchange gain/(loss) on outstanding forward contracts	2.31	(1.11)
Net other assets	2.03	2.25
Net assets	100.00	100.00

Top 10 Holdings as at 30 September 2013

	30 September 2013 %
Nota Do Tesouro Nacional, Index Linked, 6.00%, 5/15/15	3.89
Government of Hungary, senior bond, 5.00%, 5/09/17	2.43
Government of Chile, 3.875%, 8/05/20	2.30
Government of Mexico, 8.00%, 12/07/23	2.26
Italy Treasury Bond, 5.50%, 9/01/22	2.17
GE Capital UK Funding, senior bond, 5.125%, 5/24/23	1.98
Government of Indonesia, senior note, Reg S, 11.625%, 3/04/19	1.97
Government of Russia, senior bond, Reg S, 7.50%, 3/31/30	1.87
Government of Peru, 6.55%, 3/14/37	1.74
LUKOIL International Finance BV, senior note, Reg S, 7.25%, 11/05/19	1.68

Top 10 Holdings as at 31 March 2013

	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 subfund during this and previous periods, please contact Franklin Templeton Fund Management Limited.

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