

Franklin Templeton Funds

AN AUTHORISED OPEN-ENDED INVESTMENT COMPANY WITH VARIABLE CAPITAL



General Information

FRANKLIN TEMPLETON FUNDS

Head Office
Cannon Place
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AUTHORISED CORPORATE DIRECTOR, ADMINISTRATOR AND REGISTRAR

Franklin Templeton Fund Management Limited
Cannon Place
78 Cannon Street, London, EC4N 6HL

DEPOSITARY

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One Canada Square, London, E14 5AL

INVESTMENT ADVISERS

Franklin Advisers, Inc.
One Franklin Parkway
San Mateo, CA 94403, USA

Franklin Mutual Advisers, LLC
101 John F. Kennedy Parkway, Short Hills, NJ 07078, USA

Franklin Templeton Fund Management Limited
Cannon Place
78 Cannon Street, London, EC4N 6HL

Franklin Templeton Investment Management Limited
Cannon Place
78 Cannon Street, London, EC4N 6HL

Templeton Asset Management Limited
7 Temasek Boulevard
38-03 Suntec Tower One, Singapore 038987

Franklin Templeton Investments Corp.
200 King Street West
Suite 1500, Toronto, Ontario, M5H 3T4, Canada

Franklin Templeton Institutional, LLC
280 Park Avenue, New York, NY 10017, USA

INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP
Atria One
144 Morrison Street, Edinburgh, EH3 8EX

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* Collectively these comprise the Authorised Corporate Director’s Report as required by the Financial Conduct Authority’s Collective Investment Schemes Sourcebook (“COLL”).

FRANKLIN TEMPLETON FUNDS (the “Company”)

Report of the Authorised Corporate Director

The Company

The Company is registered in the United Kingdom and is an authorised open-ended investment company with variable capital. It has an umbrella structure and as at 31 March 2019 offered shares in 15 Funds: Franklin Absolute Return Bond Fund, Franklin European Opportunities Fund, Franklin Mutual Shares Fund, Franklin UK Corporate Bond Fund, Franklin UK Equity Income Fund, Franklin UK Gilt Fund, Franklin UK Managers’ Focus Fund, Franklin UK Mid Cap Fund, Franklin UK Opportunities Fund, Franklin UK Rising Dividends Fund, Franklin UK Smaller Companies Fund, Franklin US Opportunities Fund, Templeton Global Emerging Markets Fund, Templeton Global Total Return Bond Fund and Templeton Growth Fund.

The Company’s registered number is SI000002 and the address of its Head Office is Cannon Place, 78 Cannon Street, London, EC4N 6HL.

The Company’s Shareholders are not liable for its debts beyond the amount subscribed. The Funds are “ring-fenced”, thus each Fund is treated as a separate entity and only those assets can be used to meet the liabilities attributable to that Fund. Each Fund has investment powers equivalent to those of a securities company.

Franklin Templeton Fund Management Limited, the Authorised Corporate Director (“ACD”), is authorised and regulated by the Financial Conduct Authority (“FCA”). The ACD may authorise the creation of additional Funds in the future with different investment objectives, subject to amendment of the Prospectus and FCA approval. The ACD’s principal activity is investment management.

This Annual Report includes statements which show the financial positions of both the Company as a whole and each Fund individually. Separate investment reviews are provided for each Fund.

Franklin Advisers, Inc. (“FAI”) is Investment Adviser to Franklin US Opportunities Fund and Templeton Global Total Return Bond Fund.

Franklin Mutual Advisers, LLC (“FMA”) is Investment Adviser to Franklin Mutual Shares Fund.

Franklin Templeton Fund Management Limited (“FTFML”) is Investment Adviser to Franklin UK Equity Income Fund, Franklin UK Managers’ Focus Fund, Franklin UK Mid Cap Fund, Franklin UK Opportunities Fund, Franklin UK Rising Dividends Fund and Franklin UK Smaller Companies Fund.

Franklin Templeton Investment Management Limited (“FTIML”) is Investment Adviser to Franklin European Opportunities Fund, Franklin UK Corporate Bond Fund and Franklin UK Gilt Fund.

Templeton Asset Management Limited (“TAML”) is Investment Adviser to Templeton Global Emerging Markets Fund.

FTIML and Franklin Templeton Investments Corp. (“FTIC”) are Co-Investment Advisers to Templeton Growth Fund.

FAI and Franklin Templeton Institutional, LLC (“FTI”) are Co-Investment Advisers to Franklin Absolute Return Bond Fund.

FAI, FMA and FTI are regulated by the United States Securities and Exchange Commission.

FTIML is authorised and regulated by the FCA.

TAML is regulated by the United States Securities and Exchange Commission, the Hong Kong Securities and Futures Commission and the Monetary Authority of Singapore.

FTIC is registered as (i) an investment fund manager with the securities regulatory authorities in Alberta, British Columbia, Manitoba, Newfoundland and Labrador, Nova Scotia, Ontario and Quebec, (ii) a portfolio manager, mutual fund dealer and exempt market dealer with the securities regulatory authorities in all Canadian provinces and one territory, (iii) a commodity trading manager with the Ontario Securities Commission and (iv) an investment adviser with the U.S. Securities and Exchange Commission.

The Investment Advisers’ principal activity is investment management, and TAML also markets and distributes collective investment schemes in Singapore. The agreements between the Company, the ACD and the Investment Advisers may be terminated at any time on the giving of three months’ notice. The Investment Advisers are associates of the ACD by virtue of being a body corporate in a group in which the ACD is a member.

Report of the Authorised Corporate Director (continued)

The investment objectives and policies of each Fund can be found in the further information section on pages 261 to 270.

REMUNERATION POLICY

Following the implementation of EU Directive 2014/91/EU amending the Undertaking for Collective Investment in Transferable Securities Directive (EU Directive 2009/65/EC (“UCITS V”) on 18 March 2016, the ACD has been subject to the UCITS Remuneration Code.

PURPOSE AND SCOPE OF THE REMUNERATION POLICY

The Remuneration Policy of FTFML has been designed to align the personal objectives of staff with the long term interests of FTFML and the funds under its management. It aims to mitigate incentive practices that may encourage employees to take unnecessary risk.

The Policy applies to a certain category of staff called the Code Staff which includes the Board of Directors, members of control functions, risk takers, and any employee with remuneration that takes them into the same bracket as risk takers, whose activities have a material impact on the risk profiles of FTFML or the funds it manages.

There are defined procedures in place for the creation, update, review and approval of the Policy as well as for communication and implementation of the Policy. Senior Management, Human Resources, Compliance and other functions are all involved in this process and the Policy is approved by Senior Management and the ACD. There have been no material changes to the Policy for the year ended 30 September 2018.

DESCRIPTION OF THE STRUCTURE OF REMUNERATION

Fixed remuneration is defined as base salary plus material company provided benefits which may include company cars and company pension contributions. Levels of fixed remuneration are set with reference to job complexity, level of responsibility, performance and market benchmarking data. These levels are reviewed on a regular basis.

Variable remuneration is defined as annual bonuses, long term awards in the form of performance, share grants or sales bonus payments. Levels of variable remuneration are set with reference to overall corporate and business unit performance as well as individual performance.

Details of the Remuneration Policy are available from the ACD’s website at:

http://www.franklintempleton.co.uk/en_GB/investor/company/regulatory-information#remuneration

A paper copy of the remuneration information available on the ACD’s website is also available free of charge on request from the ACD.

Total amount of fixed remuneration paid by FTFML during the year ended 30 September 2018*	£ 887,202
Total amount of variable remuneration paid by FTFML during the year ended 30 September 2018*	£1,808,279
Number of FTFML staff as at 30 September 2018	7
Total amount of compensation paid by FTFML to Senior Managers during the year ended 30 September 2018*	£1,421,329
Total amount paid by FTFML to other members of staff who have a material impact on the risk profile of the UCITS during the year ended 30 September 2018*	£4,229,971

*The total amount of compensation paid by FTFML has been allocated to each UCITS [as ACD/Investment Manager] based on their pro rata share of the average month end total net assets of FTFML for the period ended 30 September 2018, which is the year end of FTFML.

Report of the Authorised Corporate Director (continued)

Significant Events

There are no significant events during the year.

ACD's Authorisation

This Annual Report has been approved by the ACD for issue to Shareholders and has been signed in accordance with the requirements of the FCA's Collective Investment Schemes Sourcebook ("COLL").

Kathleen Davidson

Director, Franklin Templeton Fund Management Limited, Authorised Corporate Director

1 July 2019

Statement of Authorised Corporate Director's Responsibilities

The Open-Ended Investment Companies Regulations 2001 and COLL require the Authorised Corporate Director to prepare financial statements for each accounting period which give a true and fair view of the financial position of the Company and of net income/expenditure and the net gains/losses on the property of the Company for the period. In preparing the financial statements the Authorised Corporate Director is required to:

- > select suitable accounting policies and then apply them consistently;
- > make adjustments and estimates that are reasonable and prudent;
- > conform with the disclosure requirements of the Statement of Recommended Practice of Authorised Funds issued by the Investment Management Association in May 2014 and amended by the Investment Management Association from time to time;
- > comply with the disclosure requirements of the Prospectus and Instrument of Incorporation;
- > follow generally accepted accounting principles and applicable accounting standards;
- > prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business;
- > keep proper accounting records which enable it to demonstrate that the financial statements, as prepared, comply with the above requirements; and
- > take reasonable steps for the prevention and detection of fraud and non-compliance with law or regulations.

The Authorised Corporate Director is responsible for the management of the Company in accordance with its Prospectus.

Statement of the Depositary's Responsibilities

Statement of the Depositary's Responsibilities in Respect of the Scheme and Report of the Depositary to the Shareholders of the Franklin Templeton Funds ("the Company") for the year ended 31 March 2019

The Depositary must ensure that the Company is managed in accordance with the Financial Conduct Authority's Collective Investment Schemes Sourcebook, the Open-Ended Investment Companies Regulations 2001 (SI 2001/1228), as amended, the Financial Services and Markets Act 2000, as amended, (together "the Regulations"), the Company's Instrument of Incorporation and Prospectus (together "the Scheme documents") as detailed below.

The Depositary must in the context of its role act honestly, fairly, professionally, independently and in the interests of the Company and its investors.

The Depositary is responsible for the safekeeping of all custodial assets and maintaining a record of all other assets of the Company in accordance with the Regulations.

The Depositary must ensure that:

- the Company's cash flows are properly monitored¹ and that cash of the Company is booked into the cash accounts in accordance with the Regulations;
- the sale, issue, repurchase and cancellation of shares are carried out in accordance with the Regulations;
- the value of shares of the Company are calculated in accordance with the Regulations;
- any consideration relating to transactions in the Company's assets is remitted to the Company within the usual time limits;
- the Company's income is applied in accordance with the Regulations; and
- the instructions of the Authorised Fund Manager ("the AFM"), which is the UCITS Management Company, are carried out (unless they conflict with the Regulations).

The Depositary also has a duty to take reasonable care to ensure that the Company is managed in accordance with the Regulations and Scheme documents in relation to the investment and borrowing powers applicable to the Company.

Having carried out such procedures as we consider necessary to discharge our responsibilities as depositary of the Company, it is our opinion, based on the information available to us and the explanations provided, that in all material respects the Company, acting through the AFM:

- i. has carried out the issue, sale, redemption and cancellation, and calculation of the price of the Company's shares and the application of the Company's income in accordance with the Regulations and the Scheme documents of the Company; and
- ii. has observed the investment and borrowing powers and restrictions applicable to the Company.

For and on behalf of
The Bank of New York Mellon (International) Limited,
One Canada Square,
London E14 5AL

Manager
1 July 2019

¹This requirement on the Depositary applied from 18 March 2016.

Independent auditors' report to the Shareholders of Franklin Templeton Funds

Report on the audit of the financial statements

Opinion

In our opinion, Franklin Templeton Funds' (the "Company") financial statements:

- give a true and fair view of the financial position of the Company and each of the sub-funds as at 31 March 2019 and of the net revenue/(expenses) and the net capital gains/(losses) on the scheme property of the Company and each of the sub-funds for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law), the Statement of Recommended Practice for UK Authorised Funds, the Collective Investment Schemes sourcebook and the Instrument of Incorporation.

Franklin Templeton Funds (the "company") is an Open Ended Investment Company ('OEIC') with 15 sub-funds. The financial statements of the company comprise the financial statements of each of the sub-funds. We have audited the financial statements, included within the Annual Report and Audited Financial Statements (the "Annual Report"), which comprise: the balance sheets as at 31 March 2019; the statements of total return and the statements of change in net assets attributable to shareholders for the year then ended; the distribution statements; the notes to the financial statements applicable to all sub-funds, which include a description of the significant accounting policies; and the notes to the financial statements for each sub-fund.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the Authorised Corporate Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Authorised Corporate Director has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's or any of the sub-funds' ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's or any of the sub-funds' ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the funds' business and the wider economy.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Authorised Corporate Director is responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion on, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude

Independent auditors' report to the Shareholders of Franklin Templeton Funds (continued)

whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

Report of the Authorised Corporate Director

In our opinion, the information given in the Report of the Authorised Corporate Director for the financial year for which the financial statements are prepared is consistent with the financial statements.

Responsibilities for the financial statements and the audit

Responsibilities of the Authorised Corporate Director for the financial statements

As explained more fully in the Statement of Authorised Corporate Director's Responsibilities set out on page 5, the Authorised Corporate Director is responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Authorised Corporate Director is also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Authorised Corporate Director is responsible for assessing the company's and each of the sub-funds ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Authorised Corporate Director either intends to wind up or terminate the company or individual sub-fund, or has no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the Company's shareholders as a body in accordance with paragraph 4.5.12 of the Collective Investment Schemes sourcebook as required by paragraph 67(2) of the Open-Ended Investment Companies Regulations 2001 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Opinion on matter required by the Collective Investment Schemes sourcebook

In our opinion, we have obtained all the information and explanations we consider necessary for the purposes of the audit.

Collective Investment Schemes sourcebook exception reporting

Under the Collective Investment Schemes sourcebook we are also required to report to you if, in our opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records.

Independent auditors' report to the Shareholders of Franklin Templeton Funds (continued)

We have no exceptions to report arising from this responsibility.

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh
1 July 2019

Notes to the Financial Statements Applicable to all Sub-Funds

1. Accounting Policies

(a) Basis of Accounting

The financial statements have been prepared under the historical cost basis, as modified by the revaluation of investments, and in accordance with the Statement of Recommended Practice for UK Authorised Funds issued by The Investment Management Association (now the "The Investment Association") in May 2014 (SORP 2014), and in accordance with United Kingdom Generally Accepted Accounting Practice as defined within FRS 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland. Both of which became effective for the accounting periods commencing 1 January 2015.

All of the sub-funds have been prepared on a going concern basis.

(b) Basis of Valuation of Investments

Investments in long positions of the Funds have been valued at the bid-market dealing prices (short positions at offer-market dealing prices) at close of business on the last working day of the accounting period.

Securities which are listed on a stock exchange or traded on any organised market are valued at the last available bid or offer price on such exchange or market which is normally the principal market for each security, excluding any accrued interest in the case of debt securities.

Securities not listed on any stock exchange are valued at the last available price, or if such price is not representative of their fair value, they are fair valued based on the ACD's assessment of their net fair value.

(c) Revenue Recognition

Dividends on investments and revenue from offshore collective investment schemes are recognised when the securities are quoted ex-dividend.

Revenue from unquoted securities is recognised when entitlement to the dividend is established.

Interest on debt securities is determined on an effective yield basis. Effective yield is a revenue calculation that reflects the amount of amortisation of any discount or premium on the purchase price over the remaining life of the security.

Bank interest is accounted for on an accruals basis.

The ordinary element of stocks received in lieu of cash dividends (stock dividends) is recognised as revenue of the Fund and where applicable is included in the distribution. Any enhanced element of the stock dividends is taken to capital and not distributed.

Special dividends are treated as repayments of capital or revenue depending on the facts of each particular case.

Dividends received from US REITs are allocated between revenue and capital for distribution purposes. The split is based on the year-end tax reporting date issued by the US REIT. Where the split of revenue and capital has not been announced at the accounting date a provisional split will be used. The provision will be calculated on the prior years aggregated dividend split for each US REIT.

Equalisation earned from Collective Investment Schemes (CIS) is recorded as capital.

(d) Treatment of derivatives

Motive and circumstances are used to determine whether the return of a derivative should be recognised as capital or revenue. Where positions are adopted to protect or enhance capital, and circumstances support this, the returns are recognised in net capital gain/(loss). Where positions are adopted to protect or enhance revenue, and circumstances support this, the returns are recognised as revenue. Where positions generate total returns, the return is split between capital and revenue based upon the nature of the transaction.

(e) Treatment of Expenses

The ACD's annual fee is charged to the income property of the respective Funds, with the exception of Franklin UK Equity Income Fund and Franklin UK Rising Dividends Fund where the ACD's annual management charge is charged to capital and Franklin UK Corporate Bond Fund and Franklin UK Gilt Fund where the ACD's annual fee and expenses are charged to capital.

All other expenses are accounted for on an accruals basis and are charged wholly to revenue.

All costs directly related to the purchase and sale of investments are charged to capital.

Expenses incurred in respect of, or attributable to, the Funds as a whole are allocated when incurred in the proportion of the net asset value of each share class to the total net asset value of the Fund.

(f) Foreign Currencies

Transactions involving foreign currencies are translated at the spot exchange rate ruling on the date of the transaction.

Forward exchange contracts are valued at the forward rate applicable at the Balance Sheet date for the remaining period, until maturity. Gains or losses resulting from forward exchange contracts are recognised in the Statement of Total Return, as either revenue or capital depending on the underlying purposes and nature of the contract.

Other assets and liabilities in foreign currencies are translated at the exchange rates ruling at the end of the year.

(g) Taxation

Provision is made for corporation tax at the current rate on the excess of taxable revenue over allowable expenses. The charge for taxation is based on taxable income less allowable expenses for the year. UK dividend income is disclosed net of any related tax credit.

Overseas dividends continue to be disclosed gross of any foreign tax suffered, the tax element being separately disclosed in the taxation note.

Deferred tax is provided at current rates of corporation tax on all timing differences, which have originated but not reversed by the Balance Sheet date other than those differences regarded as permanent. Deferred tax assets are recognised only to the extent that it is more likely than not that there will be taxable profits from which underlying timing differences can be deducted.

Notes to the Financial Statements Applicable to all Sub-Funds (continued)

1. Accounting Policies (continued)

Deferred tax assets and provisions are not discounted to reflect the time value of money.

(h) Equalisation

All shareholders, within each share category, receive the same distribution per share, although the distribution to shareholders who purchased shares during the distribution period (group 2 holdings) contains an element of equalisation. Equalisation is a repayment, at an average rate per share, of the amount of accrued net revenue, which was included in the purchase price of such shares. As the nature of this payment is capital it is not subject to income tax but must be deducted from the purchase price in any capital gains tax computation on the sale of the shares.

(i) Distribution Policy

Revenue produced by the Funds' investments accumulates during each distribution period. If at the end of the distribution period, revenue exceeds expenses for a share class, the net revenue of the share class is available to be distributed to shareholders.

Franklin UK Corporate Bond Fund and Franklin UK Gilt Fund charge all of their charges and expenses to the capital property of the Fund, therefore the distribution is equal to the revenue for the period. Franklin UK Equity Income Fund and Franklin UK Rising Dividends Fund charge only the ACD fee to the capital property of the Fund, therefore the ACD fee is not deducted from the revenue for the period.

Revenue attributed to accumulation shareholders is retained at the end of each distribution period and represents a reinvestment of revenue.

(j) Dilution Adjustment

The cost of purchasing or selling investments for a Fund may deviate from the mid-market value used in calculating the daily price of shares in the Fund due to dealing costs and any spread between the buying and selling prices of the underlying investments. Without adjustment, these dealing costs can have an adverse effect on the value of each Fund. In order to protect shareholders from this impact, the ACD may, at its discretion, make a dilution adjustment on the creation and/or cancellation of shares if, in its opinion, the existing shareholders (for creations) or remaining shareholders (for cancellations) might be adversely affected.

2. Related parties

Franklin Templeton Fund Management Limited, a related party, acted primarily in all transactions in the Funds. The aggregate amounts received through issues and cancellations are disclosed in the Statement of Change in Net Assets Attributable to Shareholders.

Amounts charged by the ACD and associates of the ACD in respect of the management and administration fees are disclosed in Note 3 of the individual funds.

Further details on related parties transactions are disclosed within the related parties note of the individual Funds.

3. Derivatives and Other Financial Instruments

The numerical disclosures for derivatives and other financial instruments are shown within each individual Fund.

Financial Instrument Risks

In accordance with investment objectives, the Funds may hold certain financial instruments as part of efficient portfolio management, which may comprise:

- securities held in accordance with the Funds' investment objectives and policies;
- cash and short-term assets;
- derivatives.

The Company's overall risk management policy is the responsibility of the ACD. The ACD uses a risk management process, as reviewed by the Depositary, enabling it to monitor and measure as frequently as appropriate the risk of a Fund's positions and their contribution to the overall risk profile of the Fund.

The main risks arising from the Company's financial instruments are market risk (which are comprised of currency risk, interest rate risk and other market price risk), liquidity risk, credit and counterparty risks. The ACD reviews policies for managing each of these risks and these are summarised below.

(a) Market risk

Market risk arises mainly from uncertainty about future prices of financial instruments held. It represents the potential loss the Company might suffer through holding market positions in the face of price movements.

The ACD monitors on a daily basis the net allocation of the portfolio in order to minimise the risk associated with particular countries and industry sectors whilst continuing to follow the investment objective. An individual fund manager is responsible for monitoring the existing portfolio selected in accordance with the overall asset allocation parameter and seeks to ensure that individual securities also meet the risk reward profile that is acceptable.

The global exposure of the sub-funds Templeton Global Total Return Bond Fund is measured through Value-at-Risk ("VaR") calculated using the Monte Carlo approach. Value at Risk (VaR) is a statistical risk measure that estimates the potential portfolio loss from adverse market moves in an ordinary market environment. VaR analysis reflects the interdependencies between risk variables, unlike a traditional sensitivity analysis. VaR can be defined as the predicted loss a portfolio can experience at a specified confidence level (e.g. 99%) over a given period of time (e.g. 20 days).

The VaR calculations are based on a confidence level of 99% with a holding period of not greater than 1 month (20 days) and a historical observation period of not less than 1 year (250 days). A 99% 1 month VaR means that the expectation is that 99% of the time over a 1 month period the Fund will lose less than this number in percentage terms. Therefore, higher VaR numbers indicate higher risk.

It is noted that the use of this VaR methodology, as any other statistical risk measure, has limitations. There is some probability that the loss could be greater than the VaR amounts and therefore it cannot be guaranteed that losses will neither exceed the VaR indicated, nor that losses in excess of the VaR amounts will not occur more frequently.

Notes to the Financial Statements Applicable to all Sub-Funds (continued)

3. Derivatives and Other Financial Instruments (continued)

(a) Market risk (continued)

The Templeton Global Total Return Bond Fund uses the relative VaR methodology which is the absolute VaR of the portfolio divided by the absolute VaR of the benchmark. The benchmark that is used is the one that is most representative of the sub-fund's strategy and likely risk exposures. The Franklin Absolute Return Bond Fund uses the absolute VaR methodology.

Please refer to individual Fund's accounts for details of market risk exposure.

Currency risk

The revenue and capital value of the Company's investments can be significantly affected by currency translation movements as some of the Company's assets and revenue are denominated in currencies other than sterling which is the Company's functional currency.

The ACD has identified three principal areas where foreign currency risk could impact the Company:

- Movements in rates affect the value of investments;
- Movements in rates affect short term timing differences; and
- Movements in rates affect revenue received.

Currency exposure is monitored closely and is considered to be part of the overall investment process. Currency hedges via forward exchange contracts will only be used in the event of a specific currency risk being identified or in order to hedge a particular share class

The Company may be subject to short-term exposure to exchange rate movement, for instance, where there is a difference between the date an investment purchase or sale is entered into and the date when settlement of the proceeds occurs. The ACD may elect to hedge against this risk.

The Company receives revenue in currencies other than sterling and the sterling values of the revenue can be affected by movements in exchange rates. The ACD may elect to hedge against this risk.

Please refer to individual Fund's accounts for details of currency risk exposure.

Interest rate risk

The Company holds cash balances which are subject to a floating rate of interest. These cash balances are placed with reputable financial institutions. The Company invests in both fixed and floating rate debt instruments. It is exposed to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash-flows. Any change to the interest rates relevant for particular securities may result in either revenue increasing or decreasing or the ACD being unable to secure similar returns on the expiry of contracts or the sale of securities. In addition, changes to prevailing rates or changes in expectations of future rates may result in an increase or decrease in the value of the securities held.

In general, if interest rates rise, the revenue potential of the individual Fund also rises, but the value of the fixed rate securities will decline (along with certain expenses calculated by reference to the assets of the individual Fund). A decline in interest rates will generally have the opposite effect.

Please refer to individual Fund's accounts for details of interest rate risk exposure and interest rate sensitivity analysis, where applicable.

Other price risk

Other risks in using derivative and non derivative securities include the risk of differing valuations of derivatives arising out of different permitted valuation methods and the inability of derivatives to correlate perfectly with underlying securities, rates and indices. Many derivatives, in particular OTC derivatives, are complex and often valued subjectively and the valuation can only be provided by a limited number of market professionals which often are acting as counterparties to the transaction to be valued. Inaccurate valuations can result in increased cash payment requirements to counterparties or a loss of value to the Funds. However, this risk is limited as the valuation method used to value OTC derivatives must be verifiable by an independent auditor.

Derivatives do not always closely track the value of the underlying securities, rates or indices they are designed to track.

Please refer to individual Fund's accounts for details of other price risk sensitivity analysis.

(b) Credit and Counterparty risk

Credit risk

The Company invests in investment grade and sub-investment grade financial debt instruments. Investment grade bonds are rated by Standard & Poor's. Sub-investment grade bonds are subject to a greater risk that such investments could not be readily sold or that the issuer could default on its obligations causing the Company to sustain losses on such investments. The Investment Adviser will seek to limit such risks by in-depth credit research and careful securities selection. Sub-investment grade debt securities are speculative and involve a greater risk of default and price changes due to changes in the issuer's creditworthiness. Tables of credit ratings can be seen within the Funds holding such securities.

Counterparty risk

Certain transactions in securities that the Company enters into expose it to the risk that the counterparty will not deliver the investment (purchase) or cash (sale) after the Company has fulfilled its responsibilities. The Company mainly deals, however, on a "delivery versus payment" basis which reduces the counterparty risk. The Company only buys and sells investments through brokers which have been approved by the ACD as an acceptable counterparty. In addition, limits are set as to the maximum exposure to any broker that may exist at any time; these limits are reviewed weekly. Only counterparties that have been approved by Franklin Templeton Investments' Counterparty Credit Committee are used for derivatives transactions. Details of counterparty exposure can be found within each Fund's Portfolio Statement.

Please refer to individual Fund's accounts for details of credit and counterparty risk exposure.

(c) Liquidity risk

The Company's assets comprise mainly readily realisable securities. The main liability of the Company is the redemption of any shares that investors wish to sell.

Notes to the Financial Statements Applicable to all Sub-Funds (continued)**3. Derivatives and Other Financial Instruments (continued)****(c) Liquidity risk (continued)**

Liquidity risk exists when a particular instrument is difficult to purchase or sell. If a derivative transaction is particularly large or if the relevant market is illiquid, it may not be possible to initiate a transaction or liquidate a position at an advantageous price (however, the Funds will only enter into OTC derivatives if these are allowed to liquidate such transactions, at any time, at fair value).

Please refer to individual Fund's accounts for details of liquidity risk exposure.

4. Portfolio Transaction Costs

The numerical disclosures for portfolio transaction costs are shown within each individual Fund where applicable.

FRANKLIN ABSOLUTE RETURN BOND FUND

Investment Review

Performance

For the 12 months to 31 March 2019, Franklin Absolute Return Bond Fund (W (acc) shares) returned 0.33%*, while the benchmark LIBOR 90 Day Rate Index returned 0.80% (both returns in UK sterling).

Overview

The U.S. economy grew during the year. After accelerating in 2018's second quarter, U.S. gross domestic product ("GDP") growth moderated in the next two quarters. In the fourth quarter, growth in consumer spending, business investment, exports and inventory investment was partly offset by declines in housing investment and government spending as well as an increase in imports (a subtraction from GDP calculations). The unemployment rate fluctuated during the year, beginning at 4.0% in March 2018 and ending at 3.8%. The annual inflation rate, as measured by the Consumer Price Index, also varied, from a six-year high of 2.9% in summer 2018 to 1.9% in March 2019.

In Europe, the United Kingdom's quarterly GDP growth accelerated in 2018's second and third quarters but moderated in the fourth quarter. The Bank of England raised its key policy rate once during the year. The EU decided to temporarily extend the deadline for the United Kingdom's departure before the previous date of 29 March, but the UK government had not reached agreement on a course of action by year-end. Meanwhile, the eurozone's year-on-year GDP growth moderated during 2018 compared to 2017. The bloc's annual inflation rate varied throughout the year but ended at the same level as in March 2018. The European Central Bank ("ECB") kept its benchmark interest rate unchanged during the year and concluded its bond purchasing programme at the end of 2018. In March 2019, the ECB mentioned it expected key interest rates to remain unchanged at least through the end of 2019 and announced the launch of a new stimulus measure beginning in September 2019.

In Asia, Japan's quarterly GDP expanded in 2018's second quarter, contracted in the third quarter and returned to growth in the fourth quarter. The Bank of Japan kept its benchmark interest rate unchanged during the year and continued its monetary stimulus measures. In emerging markets, Brazil's quarterly GDP growth was flat in 2018's second quarter, accelerated in the third quarter and eased in the fourth quarter. After accelerating in 2018's second quarter, Russia's annual GDP growth held steady in 2018's third quarter and accelerated in the fourth quarter. The Bank of Russia increased its key interest rate twice during the year. China's quarterly GDP growth moderated in 2018's third and fourth quarters. The People's Bank of China left its benchmark interest rate unchanged, but it took measures to improve financial liquidity to mitigate the effects of the trade dispute with the United States and support economic growth.

Significant Changes

The top five buys during the year were:

1. Navient Corp., senior bond, 8.00%, 03/25/2020
2. Galaxy XXVII CLO Ltd., 2018-27A, A, 144A, FRN, 3.703%, 5/16/2031
3. Galaxy XXVII CLO Ltd., 2018-27A, C, 144A, FRN, 4.483%, 5/16/2031
4. Turkiye Vakiflar Bankasi TAO, secured note, Reg S, 2.375%, 11/04/2022
5. Tenet Healthcare Corp., 6.75%, 02/01/2020

The top five sells during the year were:

1. U.S. Treasury Note, Index Linked, 0.375%, 7/15/2025
2. Tenet Healthcare Corp., 6.75%, 02/01/2020
3. COMM Mortgage Trust, 2014-277P, A, 144A, FRN, 3.732%, 8/10/2049
4. Caixa Geral de Depositos SA, secured note, 3.00%, 1/15/2020
5. Sabine Pass Liquefaction LLC, senior secured note, first lien, 5.625%, 4/15/2023

Positive/Negative Contributors

During the year, U.S. fixed income spread sectors saw positive absolute returns across all segments of the market, with corporate (investment-grade and high-yield) performing well given lower tax rates and other U.S. fiscal stimulus. Shorter-term yields increased as the U.S. Federal Reserve ("Fed") raised their short-term policy rate 75 basis points over the year. The yield on the five-year U.S. and ten-year Treasury notes both fell by 33 basis points compared to prior year-end levels. In comparison, longer-term euro government

* Figure differs from comparative table performance due to alternative calculation methodology used.

FRANKLIN ABSOLUTE RETURN BOND FUND

Investment Review (continued)

Positive/Negative Contributors (continued)

rates saw similar declines. The U.S. dollar saw uniform strength during the year, with the Japanese yen, the euro and UK sterling all posting declines.

Against the backdrop of a generally supportive macro environment, many fixed income spread sectors were able to perform better than duration-matched U.S. Treasuries. From an excess return perspective, the higher-yielding, below-investment-grade corporate credit sector saw notable gains as spread tightening and income returns added to modest price appreciation. While finding the environment somewhat more difficult to negotiate, higher-rated agency mortgage-backed securities (“MBS”) and agency debt underperformed duration matched treasuries, but commercial MBS (“CMBS”) posted positive excess returns. The longer-dated taxable municipal bond sector posted strong excess returns as longer-term U.S. rates fell. Hard-currency emerging-markets debt performed well while local-currency securities underperformed partially due to U.S. dollar strength and concerns over slowing global growth.

In terms of drivers of performance over the year, the portfolio’s yield-curve positioning was the primary contributor to the Fund’s absolute returns, driven primarily by duration exposure in the United States. In contrast, eurozone duration exposure detracted from our results. Our overall sector exposure also added value, driven by our positioning in sovereign emerging markets debt, corporate credit (both investment grade and high-yield) and bank loans. Over the year, our positioning in collateralised loan obligations (“CLO”) detracted from performance. Our covered bond and Treasury Inflation-Protected Securities (“TIPS”) positioning also detracted from results. Our foreign currency positioning was the primary detractor from absolute results, driven by our U.S. dollar and Philippine peso positioning.

Outlook

Though some recent economic data have come in below consensus expectations, the misses may have been exaggerated by seasonal factors, which have often skewed calculations around this time of the year. Given the economy’s residual strength and these potential statistical anomalies, we would expect any recent weakness to prove temporary, and a stabilisation of growth over the rest of the year looks like a far more plausible scenario than a slide into recession.

In terms of currencies, continued strength in the U.S. economy should lead to higher interest rates and increasingly magnify the fundamental differences between healthy and vulnerable economies around the world which will lead to respective appreciations and depreciations against the U.S. dollar.

Fundamentals within the corporate credit markets remain generally supportive and credit spreads are hovering around their one-year average. High leverage and slowing earnings growth, due to fiscal stimulus having been fully realised, have us continue our cautious approach. Company selection will be important as slower global growth rates will have differing impacts.

MBS fundamentals remain supportive and the prepayment outlook appears benign, though low expected return and tight historical yield spreads lead us to retain a cautious stance on agency MBS. The portfolio retains its overweight to non-agency residential MBS (“RMBS”), and we continue to seek opportunities in the sector. The portfolio’s exposure to the sector is allocated higher in the capital structure where we do not anticipate material extension-related risks.

With our CMBS allocation, we maintain a cautionary stance as we believe we are nearing an end to this commercial mortgage credit cycle. From a positioning perspective, we prefer to invest in high-quality collateral and remain higher in the CMBS structure, with a bias towards shorter duration and floating-rate assets.

David Yuen & Michael Materasso

Fund Managers

31 March 2019

FRANKLIN ABSOLUTE RETURN BOND FUND

Comparative Table

W – Accumulation shares ¹	31 March 2019	31 March 2018
Change in net assets per share (p)		
Opening net asset value per share	99.66	100.00
Return before operating charges ²	0.88	0.36
Operating charges ³	(0.70)	(0.70)
Return after operating charges* ⁴	0.18	(0.34)
Closing net asset value per share	99.84	99.66
Retained distributions on accumulation shares	2.6666	0.1258
*After direct transaction costs of: ⁵	-	-
Performance		
Return after charges ⁶	0.18%	(0.34%)
Other information		
Closing net asset value (£)	24,958,956	24,915,849
Closing number of shares	25,000,000	25,000,000
Ongoing charges ratio ⁷	0.70%	0.70%
Direct transaction costs ⁵	-	-
Prices (p)		
Highest share price	100.26	100.18
Lowest share price	97.67	99.58

1 This is from share class launch on 28 February 2018.

2 The "return before operating charges" is calculated as the "return after operating charges" plus the "operating charges".

3 The "operating charges" are calculated with reference to the total expenses for the year divided by the number of shares in issue at each valuation point.

4 The "return after operating charges" is calculated as the "closing net asset value per share" plus the "distributions" (for income share classes only) minus the "opening net asset value per share".

5 The direct transaction costs include all fees and expenses which relate directly to the sales and purchases of securities which include commissions, transfer taxes and duties. Direct transaction costs do not include any difference between the quoted bid and offer prices or internal administrative or holding costs. The "direct transaction costs" ratio is calculated by dividing the total transaction costs by the average net assets.

6 The "return after charges" is calculated as the "return after operating charges" per share divided by the "opening net asset value per share". This figure will differ from "performance return" figure disclosed under "Investment Review" section due to alternative calculation methodology used.

7 The "ongoing charges ratio" represents all operating charges and expenses of the share class in the prior 12 months as a percentage of the share class'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.

Risk Profile (W(acc) shares)



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.

For a full discussion of all the risks applicable to this Fund, please refer to the "Risk Factors" section of the current prospectus of Franklin Templeton Funds.

FRANKLIN ABSOLUTE RETURN BOND FUND

Portfolio Statement as at 31 March 2019

(Currency – GBP)

Number of Shares or Face Value	Description	Market Value £000	% of Net Assets
	BONDS 75.31% (76.15%)		
	ASIA 10.47% (6.85%)		
	CHINA		
200,000	Baidu Inc., senior note, 4.375%, 5/14/2024#	159	0.64
200,000	Bank of China Ltd., senior note, Reg S, FRN, 3.344%, 3/08/2021#•	153	0.61
200,000	CGNPC International Ltd., senior note, Reg S, 3.75%, 12/11/2027#	154	0.62
200,000	China Overseas Finance Cayman VII Ltd., senior note, Reg S, 4.25%, 4/26/2023#	158	0.63
200,000	CNOOC Finance 2015 USA LLC, senior note, 3.50%, 5/05/2025#	155	0.62
200,000	The Export-Import Bank of China, senior note, 144A, 3.625%, 7/31/2024#	157	0.63
200,000	SF Holding Investment Ltd., senior note, Reg S, 4.125%, 7/26/2023#	156	0.62
200,000	Sinopec Group Overseas Development 2016 Ltd., senior note, 144A, 2.75%, 9/29/2026#	145	0.58
200,000	State Grid Overseas Investment 2016 Ltd., senior note, 144A, 3.50%, 5/04/2027#	154	0.62
200,000	Three Gorges Finance I Cayman Islands Ltd., senior note, 144A, 3.15%, 6/02/2026#	150	0.60
		<u>1,541</u>	<u>6.17</u>
	INDIA		
200,000	The Export-Import Bank of India, senior note, 144A, 3.875%, 2/01/2028#	151	0.61
		<u>151</u>	<u>0.61</u>
	SINGAPORE		
190,478	Bayfront Infrastructure Capital Pte Ltd., 2018, A, Reg S, FRN, 4.32%, 1/11/2038#*•	146	0.58
		<u>146</u>	<u>0.58</u>
	SOUTH KOREA		
200,000	The Export-Import Bank of Korea, senior note, 2.875%, 1/21/2025#	153	0.61
100,000	Harvest Operations Corp., senior note, 144A, 4.20%, 6/01/2023#	80	0.32
300,000	Kookmin Bank, secured note, 144A, 2.25%, 2/03/2022#	227	0.91
200,000	The Korea Development Bank, senior note, 3.375%, 3/12/2023#	156	0.63
200,000	Korea East-West Power Co. Ltd., senior note, 144A, 3.875%, 7/19/2023#	159	0.64
		<u>775</u>	<u>3.11</u>
	TOTAL - ASIA	<u>2,613</u>	<u>10.47</u>
	EUROPE - OTHER EU 3.40% (4.91%)		
	FRANCE		
200,000	EDF SA, junior sub. bond, 144A, 5.625% to 1/22/24, FRN thereafter, Perpetual#	153	0.61
		<u>153</u>	<u>0.61</u>
	ITALY		
300,000	Banca Monte dei Paschi di Siena SpA, secured note, Reg S, 2.125%, 11/26/2063#	262	1.05
200,000	Banca Popolare di Milano Scarl, secured note, Reg S, 0.875%, 9/14/2023#	173	0.70
300,000	Banco BPM SpA, secured note, Reg S, 0.75%, 3/31/2023#	260	1.04
		<u>695</u>	<u>2.79</u>
	TOTAL - EUROPE - OTHER EU	<u>848</u>	<u>3.40</u>
	MIDDLE EAST 3.06% (0.57%)		
	ISRAEL		
200,000	Israel Electric Corp. Ltd., secured bond, 144A, 4.25%, 8/14/2028#	155	0.62
		<u>155</u>	<u>0.62</u>

FRANKLIN ABSOLUTE RETURN BOND FUND

Portfolio Statement as at 31 March 2019 (continued)

(Currency – GBP)

Number of Shares or Face Value	Description	Market Value £000	% of Net Assets
SAUDIA ARABIA			
200,000	SABIC Capital II BV, senior note, 144A, 4.50%, 10/10/2028#	159	0.64
200,000	Saudi Electricity Co., senior bond, Reg S, 4.723%, 9/27/2028#	160	0.64
		<u>319</u>	<u>1.28</u>
TURKEY			
350,000	Turkiye Vakiflar Bankasi TAO, secured note, Reg S, 2.375%, 11/04/2022#	291	1.16
		<u>291</u>	<u>1.16</u>
TOTAL - MIDDLE EAST		<u>765</u>	<u>3.06</u>
NORTH AMERICA 57.13% (61.38%)			
BERMUDA			
150,000	Bellemeade Re Ltd., 2018-1A, M1B, 144A, FRN, 4.086%, 4/25/2028#	116	0.47
		<u>116</u>	<u>0.47</u>
UNITED STATES			
250,000	AES Corp., senior note, 4.00%, 3/15/2021#	194	0.78
50,000	Allergan Funding SCS, senior bond, 3.80%, 3/15/2025#	39	0.16
92,418	American Homes 4 Rent, 2014-SFR3, A, 144A, 3.678%, 12/17/2036#	73	0.29
241,430	American Homes 4 Rent, 2015-SFR1, A, 144A, 3.467%, 4/17/2052#	188	0.75
223,238	American Homes 4 Rent, 2015-SFR2, A, 144A, 3.732%, 10/17/2052#	176	0.71
50,000	American Tower Corp., senior bond, 3.375%, 10/15/2026#	37	0.15
50,000	Amgen Inc., senior note, 2.60%, 8/19/2026#	36	0.14
250,000	Antares CLO Ltd., 2018-1A, B, 144A, FRN, 4.411%, 4/20/2031#	187	0.75
50,000	Anthem Inc., senior note, 2.95%, 12/01/2022#	38	0.15
50,000	Aptiv Corp., senior bond, 4.15%, 3/15/2024#	40	0.16
500,000	Ares XLVII CLO Ltd., 2018-47A, C, 144A, FRN, 4.537%, 4/15/2030#	369	1.48
50,000	Athene Global Funding, secured note, 144A, 3.00%, 7/01/2022#	38	0.15
500,000	Bain Capital Credit CLO, 2018-1A, A2, 144A, FRN, 3.922%, 4/23/2031#	380	1.52
500,000	Bain Capital Credit CLO, 2018-1A, C, 144A, FRN, 4.522%, 4/23/2031#	364	1.46
200,000	BAMLL Commercial Mortgage Securities Trust, 2015-200P, A, 144A, 3.218%, 4/14/2033#	155	0.62
100,000	Bank of America Corp., senior note, 3.50%, 4/19/2026#	78	0.31
250,000	BCC Middle Market CLO LLC, 2018-1A, A2, 144A, FRN, 4.911%, 10/20/2030#	185	0.74
81,777	BX Commercial Mortgage Trust, 2018-IND, A, 144A, FRN, 3.234%, 11/15/2035#	63	0.25
100,000	Capital One Financial Corp., senior note, 3.05%, 3/09/2022#	77	0.31
500,000	Carlyle Global Market Strategies CLO Ltd., 2014-1A, A1R2, 144A, FRN, 3.743%, 4/17/2031#	378	1.51
500,000	Carlyle Global Market Strategies CLO Ltd., 2014-1A, A2R2, 144A, FRN, 3.903%, 4/17/2031#	381	1.53
300,000	CenturyLink Inc., senior note, Series S, 6.45%, 6/15/2021#	240	0.96
93,486	CIM Trust, 2018-INV1, A4, 144A, FRN, 4.00%, 8/25/2048#	73	0.29
200,000	COMM Mortgage Trust, 2015-3BP, A, 144A, 3.178%, 2/10/2035#	155	0.62
500,000	Cook Park CLO Ltd., 2018-1A, A2, 144A, FRN, 3.893%, 4/17/2030#	380	1.52
500,000	Cook Park CLO Ltd., 2018-1A, C, 144A, FRN, 4.523%, 4/17/2030#	368	1.47
50,000	CVS Health Corp., senior note, 3.70%, 3/09/2023#	39	0.16
150,000	Dominion Energy Inc., senior bond, 2.85%, 8/15/2026#	111	0.44
400,000	Dryden 64 CLO Ltd., 2018-64A, A, 144A, FRN, 3.75%, 4/18/2031#	302	1.21
200,000	Dryden 64 CLO Ltd., 2018-64A, D, 144A, FRN, 5.43%, 4/18/2031#	145	0.58
250,000	Ellington CLO III Ltd., 2018-3A, A1, 144A, FRN, 4.411%, 7/20/2030#	190	0.76
50,000	Enterprise Products Operating LLC, senior note, 3.35%, 3/15/2023#	39	0.16

FRANKLIN ABSOLUTE RETURN BOND FUND

Portfolio Statement as at 31 March 2019 (continued)

(Currency – GBP)

Number of Shares or Face Value	Description	Market Value £000	% of Net Assets
	United States (continued)		
50,000	FedEx Corp., senior bond, 3.20%, 2/01/2025#	39	0.16
247,143	FHLMC Structured Agency Credit Risk Debt Notes, 2014-HQ1, M3, FRN, 6.585%, 8/25/2024#•	206	0.83
250,000	FHLMC Structured Agency Credit Risk Debt Notes, 2014-HQ2, M3, FRN, 6.235%, 9/25/2024#•	212	0.85
197,567	FHLMC Structured Agency Credit Risk Debt Notes, 2014-HQ3, M3, FRN, 7.235%, 10/25/2024#•	168	0.67
250,000	FHLMC Structured Agency Credit Risk Debt Notes, 2015-DNA1, M3, FRN, 5.785%, 10/25/2027#•	210	0.84
275,000	FHLMC Structured Agency Credit Risk Debt Notes, 2015-DNA3, M3, FRN, 7.185%, 4/25/2028#•	243	0.97
250,000	FHLMC Structured Agency Credit Risk Debt Notes, 2015-HQ2, M3, FRN, 5.735%, 5/25/2025#•	208	0.83
251,483	FHLMC Structured Agency Credit Risk Debt Notes, 2016-DNA4, M2, FRN, 3.786%, 3/25/2029#•	194	0.78
200,789	FHLMC Structured Agency Credit Risk Debt Notes, 2016-HQA2, M2, FRN, 4.736%, 11/25/2028#•	156	0.63
250,000	FHLMC Structured Agency Credit Risk Debt Notes, 2016-HQA3, M2, FRN, 3.836%, 3/25/2029#•	194	0.78
50,000	Fiserv Inc., senior bond, 3.85%, 6/01/2025#	39	0.16
110,171	Flagstar Mortgage Trust, 2018-6RR, 1A3, 144A, FRN, 4.00%, 10/25/2048#•	86	0.34
275,000	FNMA Connecticut Avenue Securities, 2014-C02, 1M2, FRN, 5.086%, 5/25/2024#•	221	0.89
218,892	FNMA Connecticut Avenue Securities, 2014-C02, 2M2, FRN, 5.086%, 5/25/2024#•	174	0.70
234,299	FNMA Connecticut Avenue Securities, 2014-C03, 1M2, FRN, 5.486%, 7/25/2024#•	191	0.77
208,001	FNMA Connecticut Avenue Securities, 2014-C03, 2M2, FRN, 5.386%, 7/25/2024#•	167	0.67
137,109	FNMA Connecticut Avenue Securities, 2014-C04, 1M1, FRN, 7.385%, 11/25/2024#•	118	0.47
164,712	FNMA Connecticut Avenue Securities, 2015-C03, 2M2, FRN, 7.485%, 7/25/2025#•	139	0.56
30,000	FNMA Connecticut Avenue Securities, 2017-C03, 1M2, FRN, 5.486%, 10/25/2029#•	24	0.10
166,493	FNMA Connecticut Avenue Securities, 2018-C02, 2M1, FRN, 3.136%, 8/25/2030#•	128	0.51
74,340	FNMA Connecticut Avenue Securities, 2018-C04, 2M1, FRN, 3.236%, 12/25/2030#•	57	0.23
100,000	Freeport-McMoRan Inc., senior note, 4.00%, 11/14/2021#	77	0.31
500,000	Galaxy XXVII CLO Ltd., 2018-27A, A, 144A, FRN, 3.703%, 5/16/2031#•	377	1.51
500,000	Galaxy XXVII CLO Ltd., 2018-27A, C, 144A, FRN, 4.483%, 5/16/2031#•	364	1.46
150,000	The Goldman Sachs Group Inc., senior note, FRN, 3.811%, 9/15/2020#•	116	0.46
200,000	HayFin Kingsland IX Ltd., 2013-6A, BR, 144A, FRN, 4.565%, 4/28/2031#•	153	0.61
148,506	Invitation Homes Trust, 2018-SFR3, A, 144A, FRN, 3.482%, 7/17/2037#•	114	0.46
114,769	Invitation Homes Trust, 2018-SFR4, A, 144A, FRN, 3.582%, 1/17/2038#•	89	0.36
100,000	J.P. Morgan Chase Commercial Mortgage Securities Trust, 2016-NINE, A, 144A, FRN, 2.854%, 10/06/2038#•	75	0.30
200,000	JP Morgan Chase Commercial Mortgage Securities Trust, 2015-JP1, A5, 3.914%, 1/15/2049#	161	0.65
200,000	JPMBB Commercial Mortgage Securities Trust, 2015-C30, A5, 3.822%, 7/15/2048#	160	0.64
50,000	Kraft Heinz Foods Co., senior bond, 3.00%, 6/01/2026#	36	0.14
50,000	Maxim Integrated Products Inc., senior note, 3.45%, 6/15/2027#	37	0.15
216,946	Mill City Mortgage Loan Trust, 2017-3, A1, 144A, FRN, 2.75%, 1/25/2061#•	164	0.66
100,000	Mill City Mortgage Loan Trust, 2018-4, A1B, 144A, FRN, 3.50%, 4/25/2066#•	78	0.31
100,000	Morgan Stanley, senior note, 3.70%, 10/23/2024#	78	0.31

FRANKLIN ABSOLUTE RETURN BOND FUND

Portfolio Statement as at 31 March 2019 (continued)

(Currency – GBP)

Number of Shares or Face Value	Description	Market Value £000	% of Net Assets
	United States (continued)		
460,000	Navient Corp., senior bond, 8.00%, 3/25/2020#	367	1.47
200,000	Octagon Investment Partners 18-R Ltd., 2018-18A, C, 144A, FRN, 5.479%, 4/16/2031#•	145	0.58
500,000	Octagon Investment Partners 36 Ltd., 2018-1A, A2, 144A, FRN, 3.987%, 4/15/2031#•	379	1.52
500,000	Octagon Investment Partners 36 Ltd., 2018-1A, C, 144A, FRN, 4.487%, 4/15/2031#•	368	1.47
100,000	PetSmart Inc., senior note, 144A, 7.125%, 3/15/2023#	57	0.23
150,000	Radnor RE Ltd., 2018-1, M1, 144A, FRN, 3.886%, 3/25/2028#•	115	0.46
100,000	Sealed Air Corp., senior bond, 144A, 5.25%, 4/01/2023#	80	0.32
119,196	Sequoia Mortgage Trust, 2016-2, A4, 144A, FRN, 3.50%, 8/25/2046#•	92	0.37
50,000	The Southern Co., senior bond, 3.25%, 7/01/2026#	38	0.15
156,482	Towd Point Mortgage Trust, 2015-2, 1A1, 144A, FRN, 3.25%, 11/25/2060#•	120	0.48
189,083	Towd Point Mortgage Trust, 2016-3, A1, 144A, FRN, 2.25%, 4/25/2056#•	143	0.57
207,716	Towd Point Mortgage Trust, 2016-5, A1, 144A, FRN, 2.50%, 10/25/2056#•	157	0.63
199,717	Towd Point Mortgage Trust, 2017-2, A1, 144A, FRN, 2.75%, 4/25/2057#•	152	0.61
189,043	Towd Point Mortgage Trust, 2017-5, A1, 144A, FRN, 3.086%, 2/25/2057#•	144	0.58
50,000	Verizon Communications Inc., senior note, 2.45%, 11/01/2022#	38	0.15
700,000	Voya CLO Ltd., 2013-2A, A1R, 144A, FRN, 3.741%, 4/25/2031#•	529	2.12
300,000	Voya CLO Ltd., 2013-2A, BR, 144A, FRN, 4.621%, 4/25/2031#•	222	0.89
200,000	Wells Fargo Commercial Mortgage Trust, 2016-NXS6, A4, 2.918%, 11/15/2049#	151	0.60
96,384	Wells Fargo Mortgage Backed Securities, 2018-1, A3, 144A, FRN, 3.50%, 7/25/2047#•	74	0.30
		<u>14,142</u>	<u>56.66</u>
	TOTAL - NORTH AMERICA	<u>14,258</u>	<u>57.13</u>
	UNITED KINGDOM 1.25% (2.30%)		
200,000	Imperial Brands Finance PLC, senior note, 144A, 4.25%, 7/21/2025#	156	0.62
200,000	HSBC Holdings PLC, senior note, 3.60%, 5/25/2023#	156	0.63
	TOTAL - UNITED KINGDOM	<u>312</u>	<u>1.25</u>
	TOTAL - BONDS	<u>18,796</u>	<u>75.31</u>
	COLLECTIVE INVESTMENT SCHEMES 10.01% (9.91%)		
	BOND FUNDS		
244,565	Franklin Flexible Alpha Bond Fund, Class V3	<u>2,499</u>	<u>10.01</u>
	TOTAL COLLECTIVE INVESTMENT SCHEMES	<u>2,499</u>	<u>10.01</u>
	DERIVATIVES (1.45%) (1.76%) Ω		
	DEBT FUTURES		
4	Australian 10 Yr. Bond, June, 2019	6	0.02
4	Canada 10 Yr. Bond, June, 2019	7	0.03
(2)	Euro BOBL, June, 2019	(2)	(0.01)
(1)	Euro-Bund Future, June, 2019	(3)	(0.01)
(4)	U.S. Treasury 2 Yr. Note, June, 2019	(2)	(0.01)
(23)	U.S. Treasury 5 Yr. Note, June, 2019	(18)	(0.07)
(1)	U.S. Treasury 10 Yr. Note, June, 2019	(1)	(0.00)
(7)	Ultra 10 Yr. U.S. Treasury Note, June, 2019	(14)	(0.06)
		<u>(27)</u>	<u>(0.11)</u>

FRANKLIN ABSOLUTE RETURN BOND FUND

Portfolio Statement as at 31 March 2019 (continued)

(Currency – GBP)

Number of Shares or Face Value	Description	Market Value £000	% of Net Assets
FORWARD CURRENCY CONTRACTS Ω			
	Buy USD 799,738 & Sell EUR 685,000, 12/13/2019	11	0.05
	Buy INR 5,560,000 & Sell USD 77,195, 4/25/2019	2	0.01
	Buy MXN 1,590,000 & Sell USD 80,275, 6/10/2019	1	0.00
	Buy SEK 920,000 & Sell USD 98,882, 9/18/2019	1	0.00
	Buy USD 210,622 & Sell AUD 294,000, 7/26/2019	1	0.00
	Buy USD 59,182 & Sell KRW 66,000,000, 6/03/2019	1	0.00
	Buy JPY 9,800,000 & Sell USD 88,944, 6/12/2019	0	0.00
	Buy MXN 450,000 & Sell USD 23,190, 6/21/2019	0	0.00
	Buy NOK 100,000 & Sell USD 11,495, 9/18/2019	0	0.00
	Buy PLN 140,000 & Sell USD 36,862, 9/18/2019	0	0.00
	Buy USD 149,413 & Sell CAD 199,000, 6/05/2019	0	0.00
	Buy USD 51,377 & Sell EUR 45,000, 9/18/2019	0	0.00
	Buy USD 105,104 & Sell GBP 80,000, 9/18/2019	0	0.00
	Buy USD 35,873 & Sell INR 2,500,000, 4/25/2019	0	0.00
	Buy USD 44,092 & Sell INR 3,060,000, 4/25/2019	0	0.00
	Buy GBP 50,000 & Sell USD 66,900, 9/18/2019	(1)	(0.00)
	Buy IDR 1,300,000,000 & Sell USD 91,331, 5/28/2019	(1)	(0.00)
	Buy USD 77,246 & Sell CNH 525,000, 4/26/2019	(1)	(0.00)
	Buy USD 65,658 & Sell CNH 460,000, 4/26/2019	(2)	(0.01)
	Buy GBP 22,500,000 & Sell USD 29,797,875, 6/04/2019	(295)	(1.18)
FOREIGN EXCHANGE GAIN/LOSS ON OUTSTANDING FORWARD CURRENCY CONTRACTS		(283)	(1.13)
CREDIT DEFAULT SWAPS Ω			
(250,000)	Aes Corp., CDS, 5.00%, 3/20/2021#	(18)	(0.07)
(175,000)	Ally Financial Inc., CDS, 5.00%, 6/20/2024#	(23)	(0.09)
50,000	CDX.EM.30, Index Swap, 1.00%, 12/20/2023#	(1)	(0.00)
(300,000)	Centurylink Inc., CDS, 5.00%, 6/20/2021#	(19)	(0.08)
200,000	Citibank Bespoke Bogota Tranche, 1.35%, 6/20/2020#	1	0.01
160,000	Citibank Bespoke Broker Index Tranche, 1.30%, 6/20/2019#	0	0.00
140,000	Citibank Bespoke Broker Index Tranche, 1.40%, 6/20/2019#	0	0.00
260,000	Citibank Bespoke Lima Mezzanine Tranche, Index Swap, 2.13%, 12/20/2019#	1	0.01
45,000	Citibank Bespoke Palma Tranche, 2.30%, 6/20/2021#	0	0.00
80,000	Citibank Bespoke Singapore Tranche, 1.00%, 6/20/2020#	(8)	(0.03)
110,000	DISH DBS Corp., CDS, 5.00%, 6/20/2023#	0	0.00
(110,000)	DISH DBS Corp., CDS, 5.00%, 6/20/2021#	(5)	(0.02)
50,000	Government of Argentina, CDS, 5.00%, 12/20/2023#	(4)	(0.02)
350,000	Government of China, CDS, 1.00%, 6/20/2024#	7	0.03
185,000	Government of Indonesia, CDS, 1.00%, 6/20/2024#	0	0.00
(80,000)	Government of Italy, CDS, 1.00%, 6/20/2023#	0	0.00
80,000	Government of Italy, CDS, 1.00%, 6/20/2023#	(2)	(0.01)
80,000	Government of Vietnam, CDS, 1.00%, 6/20/2024#	(1)	(0.00)
1,100,000	MCDX.NA.31, Index Swap, 1.00%, 12/20/2023#	13	0.05
175,000	Morgan Stanley, CDS, 1.00%, 6/20/2024#	2	0.01
(35,000)	Nabors Industries Inc., CDS, 1.00%, 12/20/2021#	1	0.01
(20,000)	Nabors Industries Inc., CDS, 1.00%, 12/20/2021#	1	0.00
(25,000)	Nabors Industries Inc., CDS, 1.00%, 12/20/2021#	1	0.00
20,000	Nabors Industries Inc., CDS, 1.00%, 12/20/2023#	(2)	(0.01)
25,000	Nabors Industries Inc., CDS, 1.00%, 12/20/2023#	(2)	(0.01)
35,000	Nabors Industries Inc., CDS, 1.00%, 12/20/2023#	(4)	(0.02)
(200,000)	Navient Corp., CDS, 5.00%, 3/20/2020#	(7)	(0.03)
(260,000)	Navient Corp., CDS, 5.00%, 3/20/2020#	(9)	(0.04)
175,000	The Goldman Sachs Group Inc., CDS, 1.00%, 6/20/2024#	1	0.00
		(77)	(0.31)
CROSS CURRENCY SWAPS Ω			
307,500	Receiving floating rate 3-month USD LIBOR + 1.894%, Paying fixed rate, 1.50%, 5/04/2021#	24	0.10
116,200	Receiving floating rate 3-month USD LIBOR + 2.87%, Paying fixed rate, 2.50%, 5/04/2021#	3	0.01
		27	0.11

FRANKLIN ABSOLUTE RETURN BOND FUND

Portfolio Statement as at 31 March 2019 (continued)

(Currency – GBP)

Number of Shares or Face Value	Description	Market Value £000	% of Net Assets
	INTEREST RATE SWAPS (USD) Ω		
(2,300,000)	Receiving floating rate 3-month USD LIBOR, + 1.316%, Paying fixed rate, 2.00%, 6/20/2025#	31	0.12
(1,150,000)	Receiving floating rate 3-month USD LIBOR, + 2.348%, Paying fixed rate, 2.806%, 4/17/2023#	(18)	(0.07)
(850,000)	Receiving floating rate 3-month USD LIBOR, + 2.302%, Paying fixed rate, 2.712%, 3/29/2023#	(11)	(0.05)
(600,000)	Receiving floating rate 3-month USD LIBOR, + 2.601%, Paying fixed rate, 3.197%, 11/13/2023#	(18)	(0.07)
		<u>(16)</u>	<u>(0.07)</u>
	OPTIONS Ω		
(650,000)	Buy protection on CDX.NA.HY.31, Premium Rate 5.00%, Strike Price \$101.50, 6/19/2019#	(1)	(0.01)
650,000	Buy protection on CDX.NA.HY.31, Premium Rate 5.00%, Strike Price \$105, 6/19/2019#	4	0.02
650,000	Buy protection on CDX.NA.IG.31, Premium Rate 1.00%, Strike Price \$67.50, 5/15/2019#	0	0.00
800,000	Buy protection on CDX.NA.IG.31, Premium Rate 1.00%, Strike Price \$75, 4/17/2019#	0	0.00
(800,000)	Buy protection on CDX.NA.IG.31, Premium Rate 1.00%, Strike Price \$95, 4/17/2019#	0	0.00
650,000	Buy protection on CDX.NA.IG.31, Premium Rate 5.00%, Strike Price \$72.50, 6/19/2019#	0	0.00
1,300,000	Receive float 3 month USD LIBOR, Pay fixed 3.07%, 4/08/2019#	0	0.00
1,000,000	Receive float 3 month USD LIBOR, Recieve fixed 2.25%, 6/28/2019#	4	0.02
		<u>7</u>	<u>0.03</u>
	TOTAL RETURN SWAPS Ω		
300,000	Citi Bank, iBoxx USD Liquid Leveraged Loans, 9/20/2019#	1	0.00
250,000	Goldman Sachs International, iBoxx USD Liquid Leveraged Loans, 9/20/2019#	(1)	(0.00)
310,000	JPMorgan Chase Bank NA, iBoxx USD Liquid Leveraged Loans, 6/20/2019#	3	0.01
300,000	JPMorgan Chase Bank NA, iBoxx USD Liquid Leveraged Loans, 9/20/2019#	2	0.01
875,000	JPMorgan Chase Bank NA, iBoxx USD Liquid Leveraged Loans, 9/20/2019#	25	0.10
		<u>30</u>	<u>0.12</u>
	INFLATION SWAP CONTRACTS Ω		
850,000	Receiving floating rate US CPI Urban Consumers NSA Index, Paying fixed rate, 2.061%, 12/10/2025#	(8)	(0.03)
	TOTAL - DERIVATIVES	<u>(347)</u>	<u>(1.45)</u>
	TOTAL VALUE OF INVESTMENTS Ω	20,948	83.93
	OTHER ASSETS	4,011	16.07
	TOTAL NET ASSETS	<u>24,959</u>	<u>100.00</u>

The total percentage figures in brackets next to each category heading represent holdings as at 31 March 2018.

* These securities are fair valued by the manager.

• Securities shown as FRNs represent Floating Rate Notes – debt instruments that pay a Floating Rate of interest, usually based on an accepted market benchmark rate such as LIBOR.

Ω Derivative Contract.

Traded on an alternative investment market.

FRANKLIN ABSOLUTE RETURN BOND FUND

Securities Financing Transactions Regulation (SFTR)

As defined in Article 3 of Regulation (EU) 2015/2365, securities financing transactions ("SFT") include: repurchase transactions; securities and commodities lending; securities and commodities borrowing; buy-sell back transactions; sell-buy back transactions; and margin lending transactions. Whilst the Fund is not involved in such SFTs, it does engage in Total Return Swaps ("TRS") and therefore, in accordance with Article 13 of the Regulation, the Fund's involvement in and exposures related to TRS for the year ended 31 March 2019 are detailed below.

Amount of assets engaged in TRS

The following table represents the fair value of assets engaged in TRS as at the balance sheet date:

	31 March 2019 Value £000	31 March 2019 % of Net Assets	31 March 2018 Value £000	31 March 2018 % of Net Assets
TRS	30	0.12	(1)	0.00

Ten largest collateral issuers

All collateral received or pledged in relation to TRS positions is in the form of cash. As a result there are no requirements for the Fund to show the top 10 non-cash collateral issuers.

Counterparties

The following table provides details of the top ten counterparties, their country of incorporation and the gross volume of outstanding transactions (underlying exposure per counterparty, on a gross absolute basis), in respect of TRS, as at the balance sheet date.

Counterparty	Country of incorporation	31 March 2019 Value £000	31 March 2018 Value £000
Citi	UK	1	(1)
Goldman Sachs	UK	(1)	-
JP Morgan	UK	30	-

Type, quality of maturity tenor of collateral

As at 31 March 2019, collateral provided by the Fund in respect of Over the Counter ("OTC") derivatives (including TRS) to JP Morgan and Deutsche Bank was in the form of cash and totalled £483,000. The collateral received from JP Morgan was in the form of cash and totalled £38,000. The maturity tenor of the collateral was therefore less than 1 day. (As at 31 March 2018, collateral provided to JP Morgan and Deutsche Bank was in the form of cash and totalled £212,000, and collateral received from JP Morgan was in the form of cash and totalled £730,000. The maturity tenor of the collateral was less than 1 day).

Currency of collateral

The following table provide an analysis of the currency profile of the collateral received and provided in respect of OTC derivatives (including TRS).

	31 March 2019 Collateral received Value £000	31 March 2019 Collateral provided Value £000	31 March 2018 Collateral received Value £000	31 March 2018 Collateral provided Value £000
Australian dollar	-	20	-	-
Canadian dollar	-	12	-	-
Euro	38	-	-	-
US dollar	-	451	730	212

Maturity tenor of TRS

The following table provides an analysis of the maturity tenor of open TRS positions as at the balance sheet date.

Maturity	31 March 2019 Value £000	31 March 2018 Value £000
1 - 3 months	3	2
4 - 12 months	27	(3)

The above maturity tenor analysis has been based on the contractual maturity date of the relevant TRS.

FRANKLIN ABSOLUTE RETURN BOND FUND

Statement of Total Return

For the year ended 31 March 2019

	Note	March 2019 £000	March 2019 £000	March 2018 £000	March* 2018 £000
Income					
Net capital gains/(losses)	1		(609)		(116)
Revenue	2	841		47	
Expenses	3	(174)		(16)	
Net revenue before taxation		667		31	
Taxation	4	(14)		-	
Net revenue after taxation			653		31
Total return before distributions for the year			44		(85)
Distributions	5		(667)		(31)
Change in net assets attributable to shareholders			(623)		(116)

Statement of Change in Net Assets Attributable to Shareholders

For the year ended 31 March 2019

	March 2019 £000	March 2019 £000	March 2018 £000	March 2018 £000
Opening net assets attributable to shareholders		24,915		-
Amounts received on creation of shares	-		25,000	
				25,000
Change in net assets attributable to shareholders from investment activities (see above)		(623)		(116)
Retained distribution on accumulation shares		667		31
Closing net assets attributable to shareholders		24,959		24,915

Balance Sheet

As at 31 March 2019

	Note	March 2019 £000	March 2018 £000
Assets			
Fixed assets			
Tangible assets:			
Investment assets		21,450	21,957
Current assets			
Debtors	6	117	190
Cash and bank balances		3,991	7,215
Total assets		25,558	29,362
Liabilities			
Investment liabilities		(502)	(77)
Creditors			
Other creditors	7	(97)	(4,370)
Total liabilities		(599)	(4,447)
Net assets attributable to shareholders		24,959	24,915

*For the period 28 February 2018 to 31 March 2018.

FRANKLIN ABSOLUTE RETURN BOND FUND

Notes to the Financial Statements

	March 2019 £000	March 2018 £000
1. Net capital gains/(losses)		
The net capital gains/(losses) during the year comprise:		
Non-derivative securities gains/(losses)	1,420	(447)
Currency gains/(losses)	37	(110)
Derivative gains/(losses)	(2,066)	441
	<u>(609)</u>	<u>(116)</u>
2. Revenue		
Revenue from debt securities	808	39
Net swap revenue	19	-
Bank and other interest	7	9
Other revenue	7	(1)
	<u>841</u>	<u>47</u>
3. Expenses		
Payable to the ACD, associates of the ACD and agents of either of them		
ACD's periodic charge	137	12
ACD's administration charge	12	1
	<u>149</u>	<u>13</u>
Payable to the Depositary, associates of the Depositary and agents of either of them		
Depositary fees	5	-
Safe custody fees	1	1
	<u>6</u>	<u>1</u>
Other expenses		
Audit fees	13	10
Legal and publication fees	12	-
Printing fees	3	2
Net swap expense	-	1
Expense cap	(9)	(11)
	<u>19</u>	<u>2</u>
	<u>174</u>	<u>16</u>
4. Taxation		
(a) Analysis of charge in the year		
Corporation tax	14	-
Total current tax (note 4(b))	14	-
Total taxation	<u>14</u>	<u>-</u>
(b) Factors affecting tax charge for the year		
The tax assessed for the year is lower (2018: lower) than the standard rate of corporation tax in the UK for Open Ended Investment Companies (20% (2018: 20%)).		
The differences are explained below:		
Net revenue before taxation	667	31
Corporation tax of 20% (2018: 20%)	133	6
Effects of:		
Interest distributions	(133)	(6)
Non-deductible expenses	1	-
Reporting offshore fund deemed distributions	13	-
Current tax charge for year (note 4(a))	<u>14</u>	<u>-</u>
Open Ended Investment Companies are exempt from tax on capital gains in the UK. Therefore, any capital return is not included within the reconciliation above.		

FRANKLIN ABSOLUTE RETURN BOND FUND

Notes to the Financial Statements (continued)

	March 2019 £000	March 2018 £000
5. (a) Finance costs		
The distribution takes account of income received on the issue of shares and income deducted on the cancellation of shares, and comprise:		
Interim dividend distributions		
Accumulation	317	31
	<u>317</u>	<u>31</u>
Final dividend distributions		
Accumulation	350	-
	<u>350</u>	<u>-</u>
Total distribution	<u>667</u>	<u>31</u>
Total finance costs	<u>667</u>	<u>31</u>
(b) Difference between net revenue and distribution:		
Net revenue after taxation	653	31
Tax charge taken from capital account	<u>14</u>	<u>-</u>
Total distribution for the year	<u>667</u>	<u>31</u>
Details of the distribution in pence per share for this fund are set out in the table on page 32.		
6. Debtors		
Accrued income	117	70
Sales awaiting settlement	-	109
Capped expenses	<u>-</u>	<u>11</u>
	<u>117</u>	<u>190</u>
7. Other creditors		
Accrued expenses	30	26
Net swap expense payable*	28	27
Purchases awaiting settlement	25	4,317
Tax payable	<u>14</u>	<u>-</u>
	<u>97</u>	<u>4,370</u>

* Prior year Debtor (Net accrued interest receivable on interest rate swaps) and prior year Other creditors (Swaps interest payable) and (Net swaps interest payable) have been merged and disclosed as Other creditor (Net swap expense payable).

8. Related parties

During the year, Franklin Templeton Fund Management Limited ("ACD"), a related party, acted primarily in all transactions of the Funds. The aggregate amounts received through issues and cancellations are disclosed in the Statement of Change in Net Assets Attributable to Shareholders.

Amounts charged by the ACD and associates of the ACD in respect of the management and administration fees are disclosed in Note 3.

The amounts due to the ACD and associates of the ACD in respect of management and administration fees at 31 March 2019 are £13,000 (£13,000 as at 31 March 2018).

During the year the Fund received £20,000 (nil for the year to 31 March 2018) in reimbursed expenses from the ACD.

As at 31 March 2019 the Fund was due reimbursed expenses of nil (£11,000 as at 31 March 2018) from the ACD.

As at 31 March 2019 Templeton Global Advisors Limited ("TGAL") held 100% of the shares in issue of Class W Accumulation (100% as at 31 March 2018).

9. Risk management policies and disclosures

The risks inherent in the Fund's investment portfolio are as follows:

Market Risk**Currency risk**

An analysis of monetary assets and liabilities (including equity investments), in foreign currencies at the year end is shown below.

FRANKLIN ABSOLUTE RETURN BOND FUND

Notes to the Financial Statements (continued)

9. Risk management policies and disclosures (continued)

Currency	Net foreign currency assets and (liabilities) 31 March 2019			Net foreign currency assets and (liabilities) 31 March 2018		
	Monetary £000	Non-Monetary £000	Total £000	Monetary £000	Non-Monetary £000	Total £000
Euro	(697)	982	285	(70)	880	810
Mexican peso	79	-	79	128	-	128
Swedish krona	75	-	75	105	-	105
Indonesian rupiah	70	-	70	68	-	68
Japanese yen	67	-	67	-	-	-
Polish zloty	28	-	28	52	-	52
US Dollar	(17,717)	17,736	19	(19,755)	18,115	(1,640)
Norwegian krone	9	-	9	74	-	74
Malaysian ringgit	-	-	-	1	48	49
New Zealand dollar	-	-	-	1	-	1
Philippine peso	-	-	-	(23)	-	(23)
Indian rupee	(1)	-	(1)	100	-	100
South Korean won	(44)	-	(44)	(39)	-	(39)
Canadian dollar	(100)	7	(93)	(87)	6	(81)
Chinese yuan	(109)	-	(109)	-	-	-
Australian dollar	(139)	6	(133)	(92)	4	(88)
	(18,479)	18,731	252	(19,537)	19,053	(484)

With reference to the foreign currency assets and liabilities table above, any movement in exchange rates would lead to a corresponding change in the value of the assets.

Interest Rate Risk

	Floating rate financial assets £000	Fixed rate financial assets £000	Financial assets not carrying interest £000	Total £000
March 2019				
UK sterling	-	-	24,706	24,706
Euro	-	986	(701)	285
Mexican peso	-	-	79	79
Swedish Krona	-	-	75	75
Indonesian rupiah	-	-	70	70
Japanese yen	-	-	67	67
Polish zloty	-	-	28	28
US dollar	12,675	5,145	(17,799)	21
Norwegian krona	-	-	9	9
Indian rupee	-	-	(1)	(1)
South Korean won	-	-	(44)	(44)
Canadian dollar	-	-	(94)	(94)
Chinese yuan	-	-	(109)	(109)
Australian dollar	-	-	(133)	(133)
	12,675	6,131	6,153	24,959

FRANKLIN ABSOLUTE RETURN BOND FUND

Notes to the Financial Statements (continued)

	Floating rate financial assets £000	Fixed rate financial assets £000	Financial assets not carrying interest £000	Total £000
March 2018				
UK sterling	-	-	25,403	25,403
Euro	-	904	(95)	809
Mexican peso	-	-	127	127
Swedish Krona	-	-	104	104
Indian rupee	-	-	99	99
Norwegian krona	-	-	74	74
Indonesian rupiah	-	-	68	68
Polish zloty	-	-	52	52
Malaysian ringgit	-	48	1	49
New Zealand dollar	-	-	1	1
Philippine peso	-	-	(23)	(23)
South Korean won	-	-	(39)	(39)
Canadian dollar	-	-	(81)	(81)
Australian dollar	-	-	(87)	(87)
US dollar	10,411	7,684	(19,736)	(1,641)
	10,411	8,636	5,868	24,915

	March 2019 Fixed rate weighted average period (years)	March 2019 Fixed rate Weighted average interest rate %	March 2018 Fixed rate weighted average period (years)	March 2018 Fixed rate weighted average interest rate (%)
Euro	14.8	1.6	16.4	1.6
Malaysian ringgit	-	-	7.5	4.0
US dollar	9.5	4.2	12.6	3.6

FRANKLIN ABSOLUTE RETURN BOND FUND

Notes to the Financial Statements (continued)

10. Portfolio Transaction Costs

	2019			2018		
	Purchases £000	% Of Purchases	% of Average Net Asset Value	Purchases £000	% Of Purchases	% of Average Net Asset Value
Bond purchases in year before transaction costs	<u>5,743</u>			<u>19,468</u>		
Total Bond purchases in year after transaction costs	5,743			19,468		

	2019			2018		
	Sales £000	% Of Sales	% of Average Net Asset Value	Sales £000	% Of Sales	% of Average Net Asset Value
Bond sales in year before transaction costs	<u>6,479</u>			<u>108</u>		
Total Bond sales in year after transaction costs	6,479			108		

	2019			2018		
	Purchases £000	% Of Purchases	% of Average Net Asset Value	Purchases £000	% Of Purchases	% of Average Net Asset Value
Derivatives purchases in year before transaction costs	88			10		
Commission	<u>1</u>	1.14	-	-	-	-
Total Derivative purchases in the year after direct transaction costs	89			10		

	2019			2018		
	Sales £000	% Of Sales	% of Average Net Asset Value	Sales £000	% Of Sales	% of Average Net Asset Value
Derivative sales in year before transaction costs	59			2		
Commissions	<u>(1)</u>	1.69	-	-	-	-
Total Derivative sales in year after transaction costs	58			2		

	2019			2018		
	Purchases £000	% Of Purchases	% of Average Net Asset Value	Purchases £000	% Of Purchases	% of Average Net Asset Value
Collective Investment Schemes purchases in year before transaction costs	<u>-</u>			<u>2,475</u>		
Total Collective Investment Schemes purchases in the year after direct transaction costs	-			2,475		

In pursuance of its investments objectives the Fund incurs commissions, taxes and other charges when buying and selling investment securities. Share dealing generally incurs broker commission and stamp Duty and these are paid by the Fund on each transaction where appropriate.

In addition there is a dealing spread between the buying and selling prices of the underlying investments. The average dealing spread which is the difference between the quoted bid and offer prices or internal administrative or holding costs, are not included in the calculation of Direct Transaction Costs. As at 31 March 2019, the average dealing spread for the underlying Fund investments is 0.28% (2018:0.26%).

Comparing portfolio transaction costs for a range of funds may give misleading impression of the relative costs of investing in those funds for the following reasons:

- Historic transaction costs are not an effective indicator of the future impact on performance as it may vary from year to year depending on the investment manager;
- Transaction costs for buying and selling investments due to shareholder activity on the fund are recovered from those investors;

FRANKLIN ABSOLUTE RETURN BOND FUND

Notes to the Financial Statements (continued)

10. Portfolio Transaction Costs (continued)

- Transaction costs will vary depending on the types of securities the fund is investing.

11. Creations and Cancellations of Shares

	W-Accumulation shares
Opening Shares	25,000,000
Total Closing Shares	25,000,000

12. Fair Value Disclosure

In accordance with FRS 102 the Fund classifies fair value measurement under the following levels:

Level 1

Unadjusted quoted market prices in active markets for identical securities.

Level 2

Investments (other than quoted prices included within Level 1) whose fair value is based directly on observable current market prices or is indirectly being derived from market prices; and

Level 3

Investments whose fair value is determined using a valuation technique based on assumptions that are not supported by observable current market prices or are not based on observable market data such as security in default or securities valued by Franklin Templeton Fair Valuation Committee.

Fair Value Hierarchy	31 March 2019		31 March 2018	
	Assets £000	Liabilities £000	Assets £000	Liabilities £000
Level 1	2,512	(40)	2,485	(28)
Level 2	18,792	(462)	19,472	(49)
Level 3	146	-	-	-
Total	21,450	(502)	21,957	(77)

13. Portfolio Statement by Credit Rating

Standard & Poor's Ratings		Market Value £000	% of Net Assets
March 2019			
Highest quality	AAA	6,512	26.08
High quality	AA	1,281	5.13
Upper medium quality	A	6,596	26.44
Medium grade	BBB	2,692	10.79
Somewhat speculative	BB	820	3.29
Low grade, speculative	B	607	2.43
Low grade, partial recovery possible	CC	57	0.23
Not Rated	Not Rated	231	0.92
TOTAL VALUE OF BONDS		18,796	75.31
March 2018			
Highest quality	AAA	5,177	20.78
High quality	AA	1,372	5.51
Upper medium quality	A	4,922	19.73
Medium grade	BBB	5,288	21.24
Somewhat speculative	BB	1,147	4.59
Low grade, speculative	B	201	0.81
Low grade, partial recovery possible	CCC	40	0.16
Not Rated	Not Rated	825	3.32
TOTAL VALUE OF BONDS		18,972	76.14

FRANKLIN ABSOLUTE RETURN BOND FUND

Notes to the Financial Statements (continued)

14. Counterparty and Collateral Exposure

Counterparty	Forward currency contracts £000	Futures £000	Credit Default Swaps £000	Cross Currency Swaps £000	Interest Rate Swaps £000	Total Return Swaps £000	Inflation Index Swaps £000	Options £000	Total £000
31 March 2019									
Citi	-	27	(15)	-	13	1	-	4	30
Goldman Sachs	-	-	-	-	-	(1)	-	-	(1)
Deutsche Bank	12	-	-	-	(11)	-	(8)	-	(7)
HSBC	-	-	-	-	(18)	-	-	-	(18)
Barclays	-	-	(20)	-	-	-	-	-	(20)
JP Morgan	(295)	-	(42)	(27)	-	30	-	3	(331)
31 March 2018									
JP Morgan	354	(13)	(6)	(5)	(9)	-	-	-	321
Citi	-	-	24	-	77	(1)	-	-	100
Deutsche Bank	(1)	-	17	-	-	-	-	-	16
HSBC	-	-	-	-	(4)	-	-	5	1

As at 31 March 2019, the Fund: pledged £326,000 of US dollar cash collateral, £12,000 of Canadian dollar cash collateral, £20,000 of Australian dollar cash collateral to JP Morgan; held £38,000 of Euro cash collateral from JP Morgan; and pledged £125,000 of US dollar cash collateral to Deutsche Bank, in respect of its derivative contracts (pledged £212,000 of US dollar cash collateral to Deutsche Bank and JP Morgan, and held £730,000 of US dollar cash collateral from JP Morgan as at 31 March 2018).

15. Calculation Method of the Risk Exposure
Global exposure using the VaR approach

Market Risk	Limit	Lowest	Highest	Average	Reference portfolio	Model type	Confidence Interval	Holding period	Observation period
March 2019									
Absolute VaR	20%	0.57%	0.96%	0.71%	N/A	Monte Carlo Simulation	99th Percentile	20-Day	1 Apr 2018 to 31 Mar 2019
March 2018									
Absolute VaR	20%	0.39%	0.75%	0.56%	N/A	Monte Carlo Simulation	99th Percentile	20-Day	28 Feb 2018 to 31 Mar 2018

FRANKLIN ABSOLUTE RETURN BOND FUND

Distribution Statement

For the period 1 April 2018 to 30 September 2018

Group 1 - Shares purchased prior to 1 April 2018

Group 2 - Shares purchased in the period 1 April 2018 to 30 September 2018

	Gross Income p	Equalisation p	30 September 2018 Pence per Share p	30 September 2017 Pence per Share p
W - Accumulation Shares				
Group 1	1.2684	-	1.2684	n/a
Group 2	1.2684	-	1.2684	n/a

For the period 1 October 2018 to 31 March 2019

Group 1 - Shares purchased prior to 1 October 2018

Group 2 - Shares purchased in the period 1 October 2018 to 31 March 2019

	Gross Income p	Equalisation p	31 March 2019 Pence per Share p	31 March 2018 Pence per Share p
W - Accumulation Shares				
Group 1	1.3982	-	1.3982	0.1258
Group 2	1.3982	-	1.3982	0.1258

Equalisation

All shareholders, within each share category, receive the same distribution per share, although the distribution to shareholders who purchased shares during the distribution period (Group 2 holdings) contains an element of equalisation which is a repayment, at an average rate per share, of the amount of accrued net income which was included in the purchase price of such shares. As the nature of this payment is capital it is not subject to income tax but must be deducted from the purchase price in any capital gains tax computation on the sale of the shares.

FRANKLIN EUROPEAN OPPORTUNITIES FUND

Investment Review

Performance

For the 12 months to 31 March 2019, Franklin European Opportunities Fund (W (acc) shares) fell 2.78%*, while the MSCI Europe ex-UK Index rose 3.11%.

Overview

European markets rose modestly over the year to 31 March 2019. Although corporate earnings were relatively robust, a combination of global economic growth concerns, falling earnings growth expectations, U.S.-China trade tensions and political uncertainty in Europe kept markets on edge during the year. Both regional and global economic data showed signs of softening global growth over the past 12 months. These fears became more pronounced in March 2019 after the European Central Bank downgraded its growth forecasts and unveiled new measures to support the regional economy. In the United States, the U.S. Federal Reserve took a more dovish stance, putting interest rate increases on hold, given the more uncertain global economic environment.

Trade tensions, largely between the United States and China, also created greater uncertainty for the global and regional economy. There were signs that U.S. tariffs had begun to negatively affect China's economic growth rates, a major market for European exports, although China responded by taking steps to bolster growth. On the political front, Brexit negotiations continued to create uncertainty for the region. The UK government and European Union ("EU") officials reached a withdrawal agreement in late 2018, but the UK parliament rejected the deal, forcing a delay to the date the UK would leave the EU. A populist government in Italy and months of protests in France over government policy created more market uncertainties.

Significant Changes

The largest purchases in the year were: Spain-based rice and pasta maker Ebro Foods SA, Portugal-based cork maker Corticeira Amorim SA, Germany-based wireless telecommunications operator 1&1 Drillisch AG, Ireland-based nutritional supplements maker Glanbia PLC and Denmark-based facilities outsourcer ISS AS.

Ebro focuses on becoming the clear leader in a specific country or becoming the specialist in certain market niches. Management has been diversifying the business into complementary, yet higher margin, premium and health-branded niche products. Corticeira Amorim is the market leader in providing cork, with a significant global distribution presence that sets it apart from its smaller competitors. 1&1 Drillisch is the only mobile virtual network operator ("MVNO") that offers 4G wireless services in Germany and can thereby compete with the incumbent telecommunication services providers on a level playing field. An MVNO obtains bulk access to network services from the larger telecommunications companies at wholesale rates, and then independently sets retail prices. 1&1 Drillisch has what we view as a favourable wholesale price contract that allows it to be the market leader in Germany.

Glanbia has built up a strong stable of brands in sports nutrition through several acquisitions and is one of the few players in the market with global reach. The company should continue to see strong growth, in our view, given the high demand for sports nutrition products, particularly in the United States. We believe ISS enjoys superior scale, a robust industry reputation and best-in-class capabilities, particularly when providing integrated facility management services to large multinational accounts, which sets it apart from competitors. We anticipate growth will come from increased outsourcing of services globally and greater demand from customers for bundled solutions.

The largest stock sales were TGS NOPEC Geophysical Co. ASA, a Norway-based geosciences data provider, SAF-Holland SA, a Germany-based truck parts manufacturer, Cerved Information Solutions SpA, an Italy-based risk analytics firm, Mediaset Espana Comunicacion, a Spain-based television broadcaster. Disposals were the result of both strong stock prices and portfolio repositioning. We also reduced exposure to Dutch insurer ASR Nederland NV after strong share price appreciation.

Positive/Negative Contributors

The Fund underperformed its benchmark during the year as stock selection in the industrials and consumer staple sectors weighed on relative performance. In contrast, security selection and an underweight in financials as well as an underweight and stock selection in materials were beneficial.

* Figure differs from comparative table performance due to alternative calculation methodology used.

FRANKLIN EUROPEAN OPPORTUNITIES FUND

Investment Review (continued)

Positive/Negative Contributors (continued)

Germany-based health care stock Draegerwerk AG, which makes medical and safety technology products, curbed relative performance after reporting a decline in earnings for 2018, as it made additional investments in its business and had unexpected expenses related to quality measures that impacted results. The company has several orders on hand, but said it may see near-term weakness in its business, given the current economic environment. Over the longer term, we expect Draegerwerk to benefit from increased emerging-market health care spending and ever more stringent safety regulations globally.

France-based consumer discretionary stock Maisons du Monde SA, a home goods retailer, weighed on relative performance, as the company's full-year earnings estimates were reduced. The company has managed to post solid sales growth, despite a more challenging economic environment in France, with its omnichannel and international strategies helping to mitigate the weakness in its home market.

In the industrials sector, Italy-based electric cable manufacturer Prysmian SpA curbed relative returns, after warning of additional costs related to a UK subsea project. Despite the weakness, Prysmian has continued to see solid demand for its undersea electrical and telecommunications cables. Furthermore, we believe Prysmian could benefit from long-term secular trends, such as the growing use of alternative energy sources and smart grid adoption. Also in the sector, Ireland-based budget airline Ryanair Holdings PLC curbed relative returns, due to weaker earnings amidst a strike by pilots and higher fuel costs. Nonetheless, we believe the budget airline is well placed to take advantage of leisure travel growth over the longer term.

Amongst the individual contributors was Ireland-based dairy and nutritional supplements company Glanbia PLC. The company continues to demonstrate solid fundamentals, and announced an acquisition of SlimFast to broaden its nutritional supplement product offering.

TGS NOPEC Geophysical Co. ASA, a Norway-based provider of geosciences data, contributed to relative performance, on growing optimism that higher crude oil prices would lead to a pickup in oil and gas exploration and production activity. We exited the position during the year following the strength in the stock price.

Swiss drug maker Roche Holding AG was also a contributor, as market volatility in late 2018 prompted investors to seek out stable growth companies like pharmaceutical stocks. Furthermore, the company continues to benefit from what we view as its robust product pipeline and recent acquisitions to boost its presence in gene therapy.

Italian multi-channel lender FinecoBank SpA moved sharply higher during the year, despite weakness in the country's major banks and ongoing domestic political uncertainty. We believe the structural weakness of the Italian banking sector helps FinecoBank, since it creates an opportunity for potential disruptors. As the country's only truly multi-channel bank that offers both a strong digital platform and personal investment advice, FinecoBank could benefit from the digitalisation of financial services and open-architecture fee-based investment advice.

In industrials, Compania de Distribucion Integral Logista Holdings SA, a Spain-based tobacco distributor, supported relative performance. Financial results at the company have been strong and Logista raised its dividend in the first half of the year.

Outlook

We continue to think European valuations reflect excessive pessimism. While the market is almost universally bearish on Europe, we believe the region is cheap and well-positioned to benefit from a weaker euro, looser financial conditions, a more accommodative central bank, renewed fiscal stimulus and a potential pickup in Chinese economic activity. European equities have struggled in this recent low-growth, low-rate environment. The fourth quarter of 2018 offered a glimpse of what an eventual inflection in the market cycle could bring: a dramatic drawdown in US-based technology and growth shares and, conversely, relative resilience

FRANKLIN EUROPEAN OPPORTUNITIES FUND

Investment Review (continued)

Outlook (continued)

in Europe, emerging markets, financials and value stocks. With volatility back to the ultra-low levels witnessed before the fourth-quarter selloff and bond and stock markets sending increasingly divergent signals, we believe risks to stability have risen.

Dylan Ball & James Windsor, CFA
Fund Managers
31 March 2019

FRANKLIN EUROPEAN OPPORTUNITIES FUND

Comparative Table

A – Income shares	31 March 2019	31 March 2018	31 March 2017
Change in net assets per share (p)			
Opening net asset value per share	224.71	221.31	182.47
Return before operating charges ¹	(3.12)	13.14	45.35
Operating charges ²	(3.92)	(4.14)	(3.58)
Return after operating charges* ³	(7.04)	9.00	41.77
Distributions on income shares	(1.6564)	(5.5972)	(2.9255)
Closing net asset value per share	216.01	224.71	221.31
*After direct transaction costs of: ⁴	0.13	0.24	0.25
Performance			
Return after charges ⁵	(3.13%)	4.07%	22.89%
Other information			
Closing net asset value (£)	34,463	34,476	35,811
Closing number of shares	15,954	15,343	16,181
Ongoing charges ratio ⁶	1.75%	1.75%	1.75%
Direct transaction costs ⁴	0.06%	0.10%	0.12%
Prices (p)			
Highest share price	242.55	248.58	225.21
Lowest share price	198.88	217.77	176.61

A – Accumulation shares	31 March 2019	31 March 2018	31 March 2017
Change in net assets per share (p)			
Opening net asset value per share	278.35	267.64	216.96
Return before operating charges ¹	(3.89)	15.74	54.86
Operating charges ²	(4.87)	(5.03)	(4.18)
Return after operating charges* ³	(8.76)	10.71	50.68
Closing net asset value per share	269.59	278.35	267.64
Retained distributions on accumulation shares	2.0787	6.7538	2.8696
*After direct transaction costs of: ⁴	0.17	0.29	0.29
Performance			
Return after charges ⁵	(3.15%)	4.00%	23.36%
Other information			
Closing net asset value (£)	821,133	884,013	891,113
Closing number of shares	304,583	317,595	332,948
Ongoing charges ratio ⁶	1.75%	1.75%	1.75%
Direct transaction costs ⁴	0.06%	0.10%	0.12%
Prices (p)			
Highest share price	300.45	304.52	270.42
Lowest share price	247.28	263.00	209.89

FRANKLIN EUROPEAN OPPORTUNITIES FUND

Comparative Table (continued)

W – Accumulation shares	31 March 2019	31 March 2018	31 March 2017
Change in net assets per share (p)			
Opening net asset value per share	218.73	208.85	168.69
Return before operating charges ¹	(3.08)	12.25	42.13
Operating charges ²	(2.31)	(2.37)	(1.97)
Return after operating charges* ³	(5.39)	9.88	40.16
Closing net asset value per share	213.34	218.73	208.85
Retained distributions on accumulation shares	3.1680	6.9080	3.9819
*After direct transaction costs of: ⁴	0.13	0.23	0.23
Performance			
Return after charges ⁵	(2.46%)	4.73%	23.81%
Other information			
Closing net asset value (£)	446,896	570,691	507,972
Closing number of shares	209,475	260,910	243,218
Ongoing charges ratio ⁶	1.05%	1.05%	1.05%
Direct transaction costs ⁴	0.06%	0.10%	0.12%
Prices (p)			
Highest share price	236.78	239.02	211.02
Lowest share price	195.33	205.31	163.35

Y – Income shares	31 March 2019	31 March 2018	31 March 2017
Change in net assets per share (p)			
Opening net asset value per share	122.48	120.66	99.39
Return before operating charges ¹	(1.69)	7.22	25.15
Operating charges ²	(1.27)	(1.43)	(1.03)
Return after operating charges* ³	(2.96)	5.79	24.12
Distributions on income shares	(1.7858)	(3.9741)	(2.8511)
Closing net asset value per share	117.73	122.48	120.66
*After direct transaction costs of: ⁴	0.07	0.13	0.13
Performance			
Return after charges ⁵	(2.42%)	4.80%	24.27%
Other information			
Closing net asset value (£)	3,499	3,640	3,586
Closing number of shares	2,972	2,972	2,972
Ongoing charges ratio ⁶	1.04%	1.11%	0.93%
Direct transaction costs ⁴	0.06%	0.10%	0.12%
Prices (p)			
Highest share price	132.55	135.97	123.46
Lowest share price	108.73	118.77	96.32

FRANKLIN EUROPEAN OPPORTUNITIES FUND

Comparative Table (continued)

Z – Accumulation shares	31 March 2019	31 March 2018	31 March 2017
Change in net assets per share (p)			
Opening net asset value per share	216.17	206.77	167.35
Return before operating charges ¹	(3.05)	12.18	41.73
Operating charges ²	(2.71)	(2.78)	(2.31)
Return after operating charges* ³	(5.76)	9.40	39.42
Closing net asset value per share	210.41	216.17	206.77
Retained distributions on accumulation shares	2.6557	6.3475	3.4631
*After direct transaction costs of: ⁴	0.13	0.22	0.22
Performance			
Return after charges ⁵	(2.66%)	4.55%	23.56%
Other information			
Closing net asset value (£)	35,988	27,839	28,476
Closing number of shares	17,104	12,878	13,772
Ongoing charges ratio ⁶	1.25%	1.25%	1.25%
Direct transaction costs ⁴	0.06%	0.10%	0.12%
Prices (p)			
Highest share price	233.81	236.30	208.91
Lowest share price	192.75	203.23	162.01

1 The "return before operating charges" is calculated as the "return after operating charges" plus the "operating charges".

2 The "operating charges" are calculated with reference to the total expenses for the year divided by the number of shares in issue at each valuation point.

3 The "return after operating charges" is calculated as the "closing net asset value per share" plus the "distributions" (for income share classes only) minus the "opening net asset value per share".

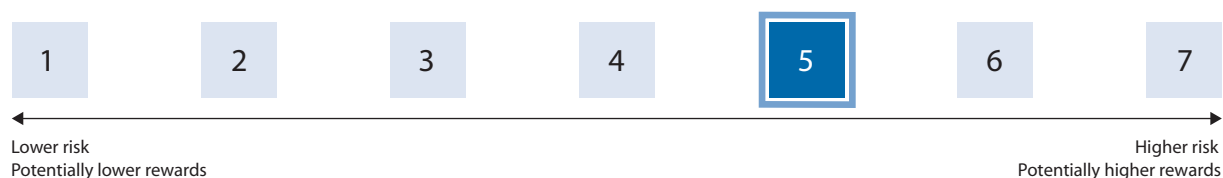
4 The direct transaction costs include all fees and expenses which relate directly to the sales and purchases of securities which include commissions, transfer taxes and duties. Direct transaction costs do not include any difference between the quoted bid and offer prices or internal administrative or holding costs. The "direct transaction costs" ratio is calculated by dividing the total transaction costs by the average net assets.

5 The "return after charges" is calculated as the "return after operating charges" per share divided by the "opening net asset value per share". This figure will differ from "performance return" figure disclosed under "Investment Review" section due to alternative calculation methodology used.

6 The "ongoing charges ratio" represents all operating charges and expenses of the share class in the prior 12 months as a percentage of the share class'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.

Risk Profile (W(acc) shares)



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.

For a full discussion of all the risks applicable to this Fund, please refer to the "Risk Factors" section of the current prospectus of Franklin Templeton Funds.

FRANKLIN EUROPEAN OPPORTUNITIES FUND

Portfolio Statement as at 31 March 2019

(Currency – GBP)

Number of Shares or Face Value	Description	Market Value £000	% of Net Assets
	EQUITIES 98.88% (95.60%)		
	EUROPE - NON EU 14.46% (16.37%)		
	NORWAY		
4,830	Atea ASA	54	4.02
5,634	Sbanken ASA	39	2.91
		<u>93</u>	<u>6.93</u>
	SWITZERLAND		
606	Landis+Gyr Group AG	29	2.16
338	Roche Holding AG	72	5.37
		<u>101</u>	<u>7.53</u>
	TOTAL EUROPE - NON EU	<u>194</u>	<u>14.46</u>
	EUROPE - OTHER EU 82.86% (77.85%)		
	AUSTRIA		
447	Schoeller-Bleckmann Oilfield Equipment AG	28	2.09
	DENMARK		
1,822	ISS AS	43	3.20
3,370	Scandinavian Tobacco Group AS	32	2.39
		<u>75</u>	<u>5.59</u>
	FINLAND		
1,914	Tieto OYJ	45	3.35
	FRANCE		
628	Capgemini SE	58	4.32
1,439	Maisons du Monde SA	21	1.56
662	Sanofi	45	3.35
667	Schneider Electric SE	40	2.98
317	SEB SA	41	3.06
637	Vinci SA	48	3.58
		<u>253</u>	<u>18.85</u>
	GERMANY		
1,169	1&1 Drillisch AG	32	2.38
712	Draegerwerk AG & Co. KGaA, pfd.	26	1.94
2,622	Takkt AG	33	2.46
		<u>91</u>	<u>6.78</u>
	IRISH REPUBLIC		
3,846	Glanbia PLC	58	4.32
3,366	Ryanair Holdings PLC	34	2.53
		<u>92</u>	<u>6.85</u>
	ITALY		
2,067	Banca Generali SpA	40	2.98
1,535	Brembo SpA	13	0.97
5,634	FinecoBank Banca Fineco SpA	57	4.25
3,888	Italgas Reti SpA	18	1.34
2,415	Prysmian SpA	35	2.61
		<u>163</u>	<u>12.15</u>
	NETHERLANDS		
403	ASML Holding NV	58	4.32
1,784	ASR Nederland NV	57	4.25
		<u>115</u>	<u>8.57</u>

FRANKLIN EUROPEAN OPPORTUNITIES FUND

Portfolio Statement as at 31 March 2019 (continued)

(Currency – GBP)

Number of Shares or Face Value	Description	Market Value £000	% of Net Assets
	PORTUGAL		
4,428	Corticeira Amorim SGPS SA	40	2.98
	SPAIN		
4,589	Applus Services SA	42	3.13
2,097	Cia de Distribucion Integral Logista Holdings SA	38	2.83
2,941	Ebro Foods SA	48	3.58
3,795	Merlin Properties Socimi SA§	38	2.83
1,202	Tecnicas Reunidas SA	26	1.94
		192	14.31
	SWEDEN		
3,054	Dometic Group AB	18	1.34
	TOTAL - EUROPE - OTHER EU	1,112	82.86
	UNITED KINGDOM 1.56% (1.38%)		
1,284	RELX PLC	21	1.56
	TOTAL - UNITED KINGDOM	21	1.56
	TOTAL - EQUITIES	1,327	98.88
	TOTAL VALUE OF INVESTMENTS	1,327	98.88
	OTHER ASSETS	15	1.12
	TOTAL NET ASSETS	1,342	100.00

The total percentage figures in brackets next to each category heading represent holdings as at 31 March 2018. Unless otherwise stated the above securities are ordinary shares or common stock and admitted to official stock exchange listings.

§ Real Estate Investment Trust (REIT).

FRANKLIN EUROPEAN OPPORTUNITIES FUND

Statement of Total Return

For the year ended 31 March 2019

	Note	March 2019 £000	March 2019 £000	March 2018 £000	March 2018 £000
Income					
Net capital gains/(losses)	1		(60)		22
Revenue	2	38		49	
Expenses	3	(22)		(23)	
Net revenue before taxation		16		26	
Taxation	4	(1)		15	
Net revenue after taxation			15		41
Total return before distributions for the year			(45)		63
Distributions	5		(15)		(41)
Change in net assets attributable to shareholders			(60)		22

Statement of Change in Net Assets Attributable to Shareholders

For the year ended 31 March 2019

	March 2019 £000	March 2019 £000	March 2018 £000	March 2018 £000
Opening net assets attributable to shareholders		1,521		1,467
Amounts received on creation of shares	121		568	
Amounts paid on cancellation of shares	(254)		(577)	
		(133)		(9)
Dilution adjustments		-		1
Change in net assets attributable to shareholders from investment activities (see above)		(60)		22
Retained distribution on accumulation shares		14		40
Closing net assets attributable to shareholders		1,342		1,521

Balance Sheet

As at 31 March 2019

	Note	March 2019 £000	March 2018 £000
Assets			
Fixed assets			
Tangible assets:			
Investment assets		1,327	1,454
Current assets			
Debtors	6	7	9
Cash and bank balances		103	176
Total assets		1,437	1,639
Liabilities			
Creditors			
Other creditors	7	(95)	(118)
Total liabilities		(95)	(118)
Net assets attributable to shareholders		1,342	1,521

FRANKLIN EUROPEAN OPPORTUNITIES FUND

Notes to the Financial Statements

	March 2019 £000	March 2018 £000
1. Net capital gains/(losses)		
The net capital gains/(losses) during the year comprise:		
Currency gains/(losses)	1	(2)
Non-derivative securities gains/(losses)	(61)	24
	<u>(60)</u>	<u>22</u>
2. Revenue		
Overseas dividends	38	44
Bank and other interest	-	5
	<u>38</u>	<u>49</u>
3. Expenses		
Payable to the ACD, associates of the ACD and agents of either of them		
ACD's periodic charge	18	19
ACD's administration charge	1	1
	<u>19</u>	<u>20</u>
Payable to the Depositary, associates of the Depositary and agents of either of them		
Safe custody fees	1	1
	<u>1</u>	<u>1</u>
Other expenses		
Audit fees	9	11
Printing fees	3	3
Legal and publication fees	2	1
Expense cap	(12)	(13)
	<u>2</u>	<u>2</u>
	<u>22</u>	<u>23</u>
4. Taxation		
(a) Analysis of charge/(credit) in the year		
Irrecoverable overseas tax	1	8
Prior period adjustment	-	(23)
Total current tax (note 4(b))	1	(15)
Total taxation	<u>1</u>	<u>(15)</u>
(b) Factors affecting tax charge/(credit) for the year		
The tax assessed for the year is lower (2018: lower) than the standard rate of corporation tax in the UK for Open Ended Investment Companies (20% (2018: 20%)).		
The differences are explained below:		
Net revenue before taxation	16	26
Corporation tax of 20% (2018: 20%)	3	5
Effects of:		
Irrecoverable overseas tax	1	8
Adjustments in respect of prior year	-	(23)
Excess management expenses	4	4
Non-taxable revenue	-	-
UK dividends & non-taxable overseas dividends*	(7)	(9)
Current tax charge/(credit) for year (note 4(a))	<u>1</u>	<u>(15)</u>

*As an Open Ended Investment Company these items are not subject to corporation tax.

Open Ended Investment Companies are exempt from tax on capital gains in the UK. Therefore, any capital return is not included within the reconciliation above.

At the year end there is a potential deferred tax asset of £245,000 (£241,000 as at 31 March 2018) in relation to excess management fees. It is unlikely the Fund will generate sufficient tax profits in the future to utilise these amounts and therefore no deferred tax assets have been recognised in the year.

FRANKLIN EUROPEAN OPPORTUNITIES FUND

Notes to the Financial Statements (continued)

	March 2019 £000	March 2018 £000
5. (a) Finance costs		
The distribution takes account of income received on the issue of shares and income deducted on the cancellation of shares, and comprise:		
Interim dividend distributions		
Income	-	1
Accumulation	7	21
	<u>7</u>	<u>22</u>
Final dividend distributions		
Accumulation	7	19
	<u>7</u>	<u>19</u>
Add: Income deducted on cancellation of shares	2	7
Deduct: Income received on issue of shares	(1)	(7)
Total distribution	<u>15</u>	<u>41</u>
Total finance costs	<u>15</u>	<u>41</u>
(b) Difference between net revenue and distribution:		
Net revenue after taxation	<u>15</u>	<u>41</u>
Total distribution for the year	<u>15</u>	<u>41</u>
Details of the distribution in pence per share for this Fund are set out in the table on page 47.		
6. Debtors		
Accrued income	3	2
Overseas tax recoverable	3	7
Capped expenses	1	-
	<u>7</u>	<u>9</u>
7. Other creditors		
Provision for uncertain tax position	80	82
Accrued expenses	15	15
Purchases awaiting settlement	-	21
	<u>95</u>	<u>118</u>

8. Related parties

During the year, Franklin Templeton Fund Management Limited ("ACD"), a related party, acted primarily in all transactions of the Funds. The aggregate amounts received through issues and cancellations are disclosed in the Statement of Change in Net Assets Attributable to Shareholders.

Amounts charged by the ACD and associates of the ACD in respect of the management and administration fees are disclosed in Note 3.

The amounts due to the ACD and associates of the ACD in respect of management and administration fees at 31 March 2019 are £1,000 (£2,000 as at 31 March 2018).

During the year the Fund received £11,000 (£9,000 for the year to 31 March 2018) in reimbursed expenses from the ACD.

As at 31 March 2019 the Fund was due reimbursed expenses of £1,000 from the ACD (nil as at 31 March 2018).

As at 31 March 2019 Templeton Global Advisors Limited ("TGAL") held 86.00% (82.48% as at 31 March 2018) of the shares in issue of Class A Accumulation and 100% (100% as at 31 March 2018) of the shares in issue of Class Y Income.

FRANKLIN EUROPEAN OPPORTUNITIES FUND

Notes to the Financial Statements (continued)

9. Risk management policies and disclosures

The risks inherent in the Fund's investment portfolio are as follows:

Market Risk

Currency risk

Currency	Net foreign currency assets and (liabilities) 31 March 2019			Net foreign currency assets and (liabilities) 31 March 2018		
	Monetary £000	Non-Monetary £000	Total £000	Monetary £000	Non-Monetary £000	Total £000
Euro	(71)	1,040	969	(69)	1,159	1,090
Swiss franc	-	101	101	2	106	108
Norwegian krone	-	93	93	-	143	143
Danish krone	1	75	76	1	46	47
Swedish krona	-	18	18	-	-	-
	(70)	1,327	1,257	(66)	1,454	1,388

With reference to the foreign currency assets and liabilities table above, any movement in exchange rates would lead to a corresponding change in the value of the assets.

Interest rate risk

The Fund does not invest in either fixed or floating rate securities and interest rate risk exposure is restricted to interest receivable on bank deposits or payable on bank overdraft positions which will be affected by fluctuations in interest rates.

Other price risk

At the year end date, 98.88% (2018: 95.60%) of the net assets of the Fund were invested in ordinary shares or stock units admitted to an official stock exchange. If the market value were to change by 10%, the value of the Fund would change by 9.89% (2018: 9.56%).

There is no material difference between the value of the financial assets and liabilities, as shown in the Balance sheet, and their fair values.

FRANKLIN EUROPEAN OPPORTUNITIES FUND

Notes to the Financial Statements (continued)

10. Portfolio Transaction Costs

	2019			2018		
	Purchases £000	% Of Purchases	% of Average Net Asset Value	Purchases £000	% Of Purchases	% of Average Net Asset Value
Equity purchases in year before transaction costs	338			598		
Commissions	-	-	-	1	0.17	0.06
Taxes	1	0.30	0.07	1	0.17	0.06
Total Equity purchases in the year after direct transaction costs	339			600		

	2019			2018		
	Sales £000	% Of Sales	% of Average Net Asset Value	Sales £000	% Of Sales	% of Average Net Asset Value
Equity sales in year before transaction costs	402			511		
Total Equity sales in the year after direct transaction costs	402			511		

In pursuance of its investment objectives the Fund incurs commissions, taxes and other charges when buying and selling investment securities. Share dealing generally incurs broker commission and stamp duty and these are paid by the Fund on each transaction where appropriate.

In addition there is a dealing spread between the buying and selling prices of the underlying investments. The average dealing spread which is the difference between the quoted bid and offer prices or internal administrative or holding costs, are not included in the calculation of Direct Transaction Costs. As at 31 March 2019, the average dealing spread for the underlying Fund investments is 0.14% (2018: 0.11%).

Comparing portfolio transaction costs for a range of funds may give a misleading impression of the relative costs of investing in those funds for the following reasons:

- Historic transaction costs are not an effective indicator of the future impact on performance as it may vary from year to year depending on the investment manager;
- Transaction costs for buying and selling investments due to shareholder activity on the fund are recovered from those investors;
- Transaction costs will vary depending on the types of securities the fund is investing.

11. Creations and Cancellations of Shares

	A–Income shares	A–Accumulation shares	W–Accumulation shares	Y–Income shares	Z–Accumulation shares
Opening Shares	15,343	317,596	260,910	2,972	12,878
Creations	617	1,499	52,713	-	-
Cancellations	(6)	(9,768)	(104,148)	-	(1,851)
Conversions	-	(4,742)	-	-	6,077
Total Closing Shares	15,954	304,585	209,475	2,972	17,104

12. Fair Value Disclosure

In accordance with FRS 102 the Fund classifies fair value measurement under the following levels:

Level 1

Unadjusted quoted market prices in active markets for identical securities.

Level 2

Investments (other than quoted prices included within Level 1) whose fair value is based directly on observable current market prices or is indirectly being derived from market prices; and

Level 3

Investments whose fair value is determined using a valuation technique based on assumptions that are not supported by observable current market prices or are not based on observable market data such as security in default or securities valued by Franklin Templeton Fair Valuation Committee.

FRANKLIN EUROPEAN OPPORTUNITIES FUND

Notes to the Financial Statements (continued)

12. Fair Value Disclosure (continued)

Fair Value Hierarchy	Assets 31 March 2019 £000	Liabilities 31 March 2019 £000	Assets 31 March 2018 £000	Liabilities 31 March 2018 £000
Level 1	1,327	-	1,454	-
Level 2	-	-	-	-
Level 3	-	-	-	-
Total	1,327	-	1,454	-

FRANKLIN EUROPEAN OPPORTUNITIES FUND

Distribution Statement

For the period 1 April 2018 to 30 September 2018

Group 1 – Shares purchased prior to 1 April 2018

Group 2 – Shares purchased in the period 1 April 2018 to 30 September 2018

	Net Income p	Equalisation p	30 September 2018 Pence per Share p	30 September 2017 Pence per Share p
A - Income Shares				
Group 1	0.8607	-	0.8607	3.0970
Group 2	-	0.8607	0.8607	3.0970
A - Accumulation Shares				
Group 1	1.0712	-	1.0712	3.7383
Group 2	-	1.0712	1.0712	3.7383
W - Accumulation Shares				
Group 1	1.2432	-	1.2432	3.3342
Group 2	-	1.2432	1.2432	3.3342
Y - Income Shares				
Group 1	0.6587	-	0.6587	1.9581
Group 2	0.6587	-	0.6587	1.9581
Z - Accumulation Shares				
Group 1	1.0980	-	1.0980	3.1757
Group 2	1.0980	-	1.0980	3.1757

For the period 1 October 2018 to 31 March 2019

Group 1 – Shares purchased prior to 1 October 2018

Group 2 – Shares purchased in the period 1 October 2018 to 31 March 2019

	Net Income p	Equalisation p	31 March 2019 Pence per Share p	31 March 2018 Pence per Share p
A - Income Shares				
Group 1	0.7957	-	0.7957	2.5002
Group 2	0.5000	0.2957	0.7957	2.5002
A - Accumulation Shares				
Group 1	1.0075	-	1.0075	3.0155
Group 2	0.4734	0.5341	1.0075	3.0155
W - Accumulation Shares				
Group 1	1.9248	-	1.9248	3.5738
Group 2	0.4524	1.4724	1.9248	3.5738
Y - Income Shares				
Group 1	1.1271	-	1.1271	2.0160
Group 2	1.1271	-	1.1271	2.0160
Z - Accumulation Shares				
Group 1	1.5577	-	1.5577	3.1718
Group 2	1.5577	-	1.5577	3.1718

Equalisation

All shareholders, within each share category, receive the same distribution per share, although the distribution to shareholders who purchased shares during the distribution period (Group 2 holdings) contains an element of equalisation which is a repayment, at an average rate per share, of the amount of accrued net income which was included in the purchase price of such shares. As the nature of this payment is capital it is not subject to income tax but must be deducted from the purchase price in any capital gains tax computation on the sale of the shares.

FRANKLIN MUTUAL SHARES FUND

Investment Review

Performance

The Franklin Mutual Shares Fund (W (acc) shares) returned 9.77%* for the year ended 31 March 2019, while the Standard & Poor's 500 Index returned 17.93% (both returns in UK sterling).

Overview

The U.S. economy grew during the year. After accelerating in 2018's second quarter, U.S. gross domestic product ("GDP") growth moderated in the next two quarters. In the fourth quarter, growth in consumer spending, business investment, exports and inventory investment was partly offset by declines in housing investment and government spending as well as an increase in imports (a subtraction from GDP calculations). The manufacturing and services sectors expanded during the year. The unemployment rate fluctuated during the year, beginning at 4.0% in March 2018 and ending at 3.8%. The annual inflation rate, as measured by the Consumer Price Index, also varied, hitting a six-year high of 2.9% in summer 2018 and ending at 1.9%.

The U.S. Federal Reserve ("Fed") raised its target range for the federal funds rate by 25 basis points three times during the year, to 2.25%–2.50%, and continued reducing its balance sheet as part of its plan to normalise monetary policy. At its March 2019 meeting, the Fed kept rates unchanged and lowered its forecasts for economic growth in 2019 and 2020. Furthermore, the Fed mentioned it would cease its balance sheet normalisation by the end of September 2019.

U.S. equity markets overall rose during the year, benefitting from upbeat economic data and better U.S. corporate earnings. However, markets reflected concerns about tighter regulation of technology companies, the Fed's interest-rate path, U.S. political uncertainties, and the impact of U.S. trade disputes with China and other trading partners on global growth and corporate earnings. Later in the year, these concerns were partially alleviated by easing trade tensions and optimism about a potential U.S.-China trade deal. Markets also benefitted from the Fed's pivot to a patient approach regarding its monetary policy decisions. After reaching a new all-time high in September 2018, the broad U.S. stock market, as measured by the Standard & Poor's® 500 Index (S&P 500), sold off sharply during 2018's fourth quarter but rallied in 2019's first quarter.

Significant Changes

Five of the Fund's largest purchases during the year under review were Newell Brands, T-Mobile, Vistra Energy, Western Digital and Red Hat.

We initiated a position in T-Mobile U.S., the third largest mobile phone carrier in the United States, after the shares traded lower in response to a merger with Sprint. We feel that T-Mobile's share price should appreciate with or without a deal. If the deal is approved, the synergies should be significant and the market structure should have improved. If the deal is rejected, T-Mobile is in a strong position to continue to take market share and benefit from a distressed Sprint all the while supporting its shares with a significant buyback programme.

We initiated a position in Western Digital, a manufacturer of storage technology. The stock was attractive as we believed its cash generative hard disk drive business would support the more cyclical NAND flash business, which has been going through a downturn. Industry peers have been cutting capacity, and demand for storage has historically been very price sensitive. In our view, the market fundamentals in the NAND flash business should improve, the stock has been cheap on a normalized basis and Western Digital pays a healthy dividend.

Among the Fund's largest sales/trims during the fiscal year were Microsoft, Eli Lilly, Merck, CA Inc. and Cisco Systems.

In late 2018, the Fund exited its position in Microsoft, a multinational software company. A sustained period of strong operational performance pushed the stock price above our estimate of fair value.

CA is a California-based technology company focused on security, storage and systems management solutions. In July, CA announced an agreement to be acquired by Broadcom. In our view, the all-cash offer included a healthy premium above the closing price of CA's stock just prior to the announcement.

* Figure differs from comparative table performance due to alternative calculation methodology used.

FRANKLIN MUTUAL SHARES FUND

Investment Review (continued)

Positive/Negative Contributors

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

Three investments that did not perform as well as we expected during the fiscal year were British American Tobacco, Newell Brands and PG&E.

The UK-based British American Tobacco faced downward pressure due to the potential for additional regulation in the U.S. and concerns regarding next generation products. In March 2018, the U.S. Food and Drug Administration ("FDA") issued an Advance Notice of Proposed Rulemaking, which started the process of examining the possibility of regulating nicotine levels in combustible cigarettes. The announcement weighed on tobacco industry stocks during the second quarter of 2018. We subsequently exited the position by the end of October.

In August 2018, we began to accumulate a position in Newell Brands, a global consumer products company that owns a portfolio of brands. Many of the company's brands enjoy strong market positions, including Yankee Candle, Sharpie, Coleman, Oster and Graco. In December 2018, shares of Newell Brands gave back some of the significant gain made in November due to increased financial market and economic concerns. The general market decline outweighed the positive announcement of activist investor Carl Icahn increasing his stake in the company. Shares of Newell took another step down in February due to quarterly results that fell short of market expectations and disappointing guidance for 2019. In addition, the outlook for after-tax proceeds from a series of assets sales was revised from \$10 billion to \$9 billion, while the completion date for its divestiture effort was extended to the end of 2019. We continue to believe the involvement of activist investors will keep pressure on the board and the management team to extract cost savings while they continue to "right size" the company.

PG&E is a California-based electric utility company. We completely exited the Fund's equity position in PG&E by the end of 2018. The stock price dropped in November when it drew down on its \$3.3 billion of available revolving credit lines due to a destructive wildfire in Northern California. A PG&E power line malfunction came under investigation as the potential cause of the wildfire, and the company stated that \$1.4 billion of wildfire insurance may not cover all of its potential liabilities.

Three of the Fund's largest contributors to performance during the year were Eli Lilly, Merck and Microsoft.

Shares of Eli Lilly and Company, a U.S.-based pharmaceutical company, climbed steadily higher as it announced a series of solid quarterly results and provided consistently positive guidance for 2018. Investors also reacted favourably to Lilly's spinoff of its animal health business, Elanco. An initial public offering of 19.8% of Elanco occurred in September and Lilly subsequently announced the divestiture of the remaining stake in February. As of year end, we believe Eli Lilly continues to have a strong product growth story and room for further margin expansion, in addition to having solid research and development capabilities.

Merck & Co. is a global, research-driven pharmaceutical company with solid market positions in cardio, diabetes, vaccines and animal health. In April 2018, Merck & Co. released positive clinical trial results for its Keytruda oncology drug in combination with chemotherapy to treat newly diagnosed lung cancer patients. The combination therapy reduced the risk of death by half compared with chemotherapy alone. These results set a high bar for competition and appeared to enhance Keytruda's prospects to gain share in the sizeable market for lung cancer treatment. Results from a competitor, Bristol-Myers Squibb (not a Fund holding), were less compelling in a different clinical trial in lung cancer. During the year, Merck also reported generally upbeat results, and in October 2018, it raised its dividend and authorised a new \$10 billion share buyback plan.

Microsoft, a multinational software company, continued to reap the rewards of its rapidly growing cloud computing business and its effort to move Microsoft Office software clients to a subscription-based service. During 2018, Microsoft reported solid quarterly results and strong full-year guidance. While we continued to believe Microsoft's cloud computing and subscription-based services would grow at a strong pace, we decided to exit the position as the stock moved above our target price.

FRANKLIN MUTUAL SHARES FUND

Investment Review (continued)

Outlook

Little has happened to challenge the full-year consensus view of slower global economic growth and modest improvement in corporate earnings. The US Federal Reserve's (Fed's) policy shift lessened investor concern about a near-term recession, despite continued downside risks to the global economy. Market expectations regarding the Fed's next move have shifted from near certainty of another rate hike to serious consideration of a rate cut.

We are closely monitoring U.S.-China trade discussions, Brexit negotiations, the effectiveness of China's stimulus measures, and how major central banks navigate an uncertain economic environment. Movement towards positive, or at least less negative, policy outcomes has boosted investor sentiment. Yet, trade tensions and Brexit remain far from resolved, leaving financial markets vulnerable to renewed volatility and another downturn.

We took advantage of late 2018 market turbulence to seek out stocks whose risk/reward profiles turned more favourable. Subsequently, we used the recent rebound to exit or trim from select positions that reached or exceeded our estimates of intrinsic value, most notably within the health care sector.

As of year end, we believe the overall equity market is close to fair value, given the uncertain economic outlook, with no sector or industry looking abnormally cheap or compelling. New opportunities at this time are idiosyncratic in nature. However, an uncertain and volatile market typically presents broader opportunities for prudent stock pickers with a disciplined approach.

Value investing often requires an investor to be contrarian in nature. We continue to maintain a bottom-up stock-picking process that is disciplined, driven by rigorous fundamental analysis, and attempts to limit downside risk. In our view, investing in underappreciated and misunderstood companies with identifiable catalysts for unlocking shareholder value can offer meaningful upside potential and a degree of downside protection in periods of financial market turbulence.

Peter Langerman & Deborah Turner, CFA
Fund Managers
31 March 2019

FRANKLIN MUTUAL SHARES FUND

Comparative Table

A – Income shares	31 March 2019	31 March 2018	31 March 2017
Change in net assets per share (p)			
Opening net asset value per share	232.99	262.29	193.39
Return before operating charges ¹	24.82	(22.96)	73.95
Operating charges ²	(4.42)	(4.42)	(4.06)
Return after operating charges* ³	20.40	(27.38)	69.89
Distributions on income shares	(0.9829)	(1.9184)	(0.9894)
Closing net asset value per share	252.41	232.99	262.29
*After direct transaction costs of: ⁴	0.05	0.03	0.02
Performance			
Return after charges ⁵	8.76%	(10.44%)	36.14%
Other information			
Closing net asset value (£)	497,556	711,923	1,048,042
Closing number of shares	197,118	305,557	399,570
Ongoing charges ratio ⁶	1.75%	1.75%	1.75%
Direct transaction costs ⁴	0.02%	0.01%	0.01%
Prices (p)			
Highest share price	271.75	264.35	274.86
Lowest share price	228.28	226.04	190.99

A – Accumulation shares	31 March 2019	31 March 2018	31 March 2017
Change in net assets per share (p)			
Opening net asset value per share	247.29	276.17	202.80
Return before operating charges ¹	26.34	(24.22)	77.62
Operating charges ²	(4.69)	(4.66)	(4.25)
Return after operating charges* ³	21.65	(28.88)	73.37
Closing net asset value per share	268.94	247.29	276.17
Retained distributions on accumulation shares	1.0442	2.0271	1.0338
*After direct transaction costs of: ⁴	0.05	0.03	0.02
Performance			
Return after charges ⁵	8.75%	(10.46%)	36.18%
Other information			
Closing net asset value (£)	1,322,851	1,815,434	2,477,843
Closing number of shares	491,883	734,143	897,216
Ongoing charges ratio ⁶	1.75%	1.75%	1.75%
Direct transaction costs ⁴	0.02%	0.01%	0.01%
Prices (p)			
Highest share price	288.42	278.13	288.91
Lowest share price	242.29	239.24	200.29

FRANKLIN MUTUAL SHARES FUND

Comparative Table (continued)

I – Accumulation shares	31 March 2019	31 March 2018	31 March 2017
Change in net assets per share (p)			
Opening net asset value per share	274.10	303.99	221.66
Return before operating charges ¹	29.22	(26.80)	85.09
Operating charges ²	(3.13)	(3.09)	(2.76)
Return after operating charges* ³	26.09	(29.89)	82.33
Closing net asset value per share	300.19	274.10	303.99
Retained distributions on accumulation shares	3.3111	4.3608	3.0993
*After direct transaction costs of: ⁴	0.06	0.03	0.03
Performance			
Return after charges ⁵	9.52%	(9.83%)	37.14%
Other information			
Closing net asset value (£)	66,065	64,510	95,901
Closing number of shares	22,008	23,535	31,548
Ongoing charges ratio ⁶	1.05%	1.05%	1.05%
Direct transaction costs ⁴	0.02%	0.01%	0.01%
Prices (p)			
Highest share price	320.61	306.21	317.82
Lowest share price	268.58	265.15	219.13

W – Accumulation shares	31 March 2019	31 March 2018	31 March 2017
Change in net assets per share (p)			
Opening net asset value per share	209.36	232.06	169.18
Return before operating charges ¹	22.31	(20.43)	65.01
Operating charges ²	(2.28)	(2.27)	(2.13)
Return after operating charges* ³	20.03	(22.70)	62.88
Closing net asset value per share	229.39	209.36	232.06
Retained distributions on accumulation shares	2.5964	3.4019	2.3540
*After direct transaction costs of: ⁴	0.05	0.02	0.02
Performance			
Return after charges ⁵	9.57%	(9.78%)	37.17%
Other information			
Closing net asset value (£)	4,699,917	5,363,456	7,192,428
Closing number of shares	2,048,846	2,561,840	3,099,362
Ongoing charges ratio ⁶	1.00%	1.01%	1.04%
Direct transaction costs ⁴	0.02%	0.01%	0.01%
Prices (p)			
Highest share price	244.92	233.76	242.63
Lowest share price	205.14	202.53	167.25

FRANKLIN MUTUAL SHARES FUND

Comparative Table (continued)

Y – Income shares	31 March 2019	31 March 2018	31 March 2017
Change in net assets per share (p)			
Opening net asset value per share	139.08	156.69	115.42
Return before operating charges ¹	14.88	(13.78)	44.33
Operating charges ²	(0.30)	(0.33)	(0.34)
Return after operating charges* ³	14.58	(14.11)	43.99
Distributions on income shares	(2.9355)	(3.4971)	(2.7195)
Closing net asset value per share	150.72	139.08	156.69
*After direct transaction costs of: ⁴	0.03	0.02	0.01
Performance			
Return after charges ⁵	10.48%	(9.01%)	38.11%
Other information			
Closing net asset value (£)	4,480	4,134	4,657
Closing number of shares	2,972	2,972	2,972
Ongoing charges ratio ⁶	0.20%	0.22%	0.24%
Direct transaction costs ⁴	0.02%	0.01%	0.01%
Prices (p)			
Highest share price	163.25	158.00	165.21
Lowest share price	136.28	136.02	114.23

Z – Accumulation shares	31 March 2019	31 March 2018	31 March 2017
Change in net assets per share (p)			
Opening net asset value per share	206.95	229.85	167.89
Return before operating charges ¹	22.05	(20.20)	64.62
Operating charges ²	(2.70)	(2.70)	(2.66)
Return after operating charges* ³	19.35	(22.90)	61.96
Closing net asset value per share	226.30	206.95	229.85
Retained distributions on accumulation shares	2.1144	2.9154	1.9519
*After direct transaction costs of: ⁴	0.05	0.02	0.02
Performance			
Return after charges ⁵	9.35%	(9.96%)	36.91%
Other information			
Closing net asset value (£)	151,628	125,522	275,417
Closing number of shares	67,003	60,653	119,823
Ongoing charges ratio ⁶	1.20%	1.21%	1.24%
Direct transaction costs ⁴	0.02%	0.01%	0.01%
Prices (p)			
Highest share price	241.90	231.53	240.36
Lowest share price	202.78	200.20	165.93

FRANKLIN MUTUAL SHARES FUND

Comparative Table (continued)

- 1 The "return before operating charges" is calculated as the "return after operating charges" plus the "operating charges".
- 2 The "operating charges" are calculated with reference to the total expenses for the year divided by the number of shares in issue at each valuation point.
- 3 The "return after operating charges" is calculated as the "closing net asset value per share" plus the "distributions" (for income share classes only) minus the "opening net asset value per share".
- 4 The direct transaction costs include all fees and expenses which relate directly to the sales and purchases of securities which include commissions, transfer taxes and duties. Direct transaction costs do not include any difference between the quoted bid and offer prices or internal administrative or holding costs. The "direct transaction costs" ratio is calculated by dividing the total transaction costs by the average net assets.
- 5 The "return after charges" is calculated as the "return after operating charges" per share divided by the "opening net asset value per share". This figure will differ from "performance return" figure disclosed under "Investment Review" section due to alternative calculation methodology used.
- 6 The "ongoing charges ratio" represents all operating charges and expenses of the share class in the prior 12 months as a percentage of the share class'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.

Risk Profile (W(acc) shares)



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.

For a full discussion of all the risks applicable to this Fund, please refer to the "Risk Factors" section of the current prospectus of Franklin Templeton Funds.

FRANKLIN MUTUAL SHARES FUND

Portfolio Statement as at 31 March 2019

(Currency – GBP)

Number of Shares or Face Value	Description	Market Value £000	% of Net Assets
	EQUITIES 89.85% (94.78%)		
	ASIA 0.00% (1.23%)		
	EUROPE - NON EU 0.00% (1.48%)		
	NORTH AMERICA 89.85% (87.83%)		
	UNITED STATES		
276	Alexander's Inc. §,	80	1.19
313	Alleghany Corp.	147	2.18
2,842	Ally Financial Inc.	60	0.89
2,046	Altria Group Inc.	90	1.33
4,694	American International Group Inc.	155	2.30
2,677	Anadarko Petroleum Corp.	93	1.38
2,890	AT&T Inc.	70	1.04
4,628	Baker Hughes a GE Co., A	99	1.47
1,866	Brighthouse Financial Inc.	52	0.77
1,594	Capital One Financial Corp.	100	1.48
661	Celgene Corp.	48	0.71
728	Charter Communications Inc., A	194	2.88
1,195	Chubb Ltd.	128	1.90
3,539	Cisco Systems Inc.	147	2.18
2,253	CIT Group Inc.	83	1.23
2,852	Citigroup Inc.	136	2.02
5,603	Citizens Financial Group Inc.	140	2.08
2,361	Cognizant Technology Solutions Corp., A	131	1.94
4,263	Comcast Corp., A	131	1.94
2,569	CVS Health Corp.	106	1.57
3,750	Discovery Inc., C	73	1.08
2,359	DISH Network Corp., A	57	0.85
1,181	Eli Lilly & Co.	118	1.75
1,520	Energizer Holdings Inc.	52	0.77
1,982	Fluor Corp.	56	0.83
10,650	General Electric Co.	82	1.22
3,745	General Motors Co.	107	1.59
6,583	Hewlett Packard Enterprise Co.	78	1.16
117	Huntington Ingalls Industries Inc.	19	0.28
566	Independent Bank Group Inc.	22	0.33
140,360	International Automotive Components Group North America LLC#*	13	0.19
2,986	International Paper Co.	106	1.57
3,931	Johnson Controls International PLC	111	1.65
2,309	JPMorgan Chase & Co.	179	2.65
9,696	Kinder Morgan Inc.	149	2.21
2,041	Lennar Corp., A	77	1.14
8,285	Marathon Oil Corp.	106	1.57
2,289	McDermott International Inc.	13	0.19
4,300	Medtronic PLC	301	4.46
2,540	Merck & Co. Inc.	162	2.40
2,893	MetLife Inc.	95	1.41
7,510	Newell Brands Inc.	88	1.31
3,233	Plains GP Holdings LP, A	62	0.92
645	PVH Corp.	60	0.89
575	Red Hat Inc.	81	1.20
3,641	Sensata Technologies Holding PLC	126	1.87
7,220	Symantec Corp.	127	1.88
1,990	The Goodyear Tire & Rubber Co.	28	0.42
3,077	The Hartford Financial Services Group Inc.	117	1.74
6,256	The Kroger Co.	118	1.75
2,290	The Walt Disney Co.	195	2.89
5,355	The Williams Cos. Inc.	118	1.75
2,086	T-Mobile U.S. Inc.	111	1.65
1,577	Toll Brothers Inc.	44	0.65
2,500	Vistra Energy Corp.	50	0.74
1,726	Vornado Realty Trust §	89	1.32
2,791	Voya Financial Inc.	107	1.59
57	Wabtec Corp.	3	0.04
1,945	Walgreens Boots Alliance Inc.	94	1.39

FRANKLIN MUTUAL SHARES FUND

Portfolio Statement as at 31 March 2019 (continued)

(Currency – GBP)

Number of Shares or Face Value	Description	Market Value £000	% of Net Assets
	UNITED STATES (continued)		
4,328	Wells Fargo & Co.	161	2.39
2,171	Western Digital Corp.	80	1.19
1,131	WestRock Co.	33	0.49
	TOTAL - NORTH AMERICA	6,058	89.85
	UNITED KINGDOM 0.00% (4.24%)		
	TOTAL - EQUITIES	6,058	89.85
	WARRANTS 0.02% (0.01%)		
	NORTH AMERICA 0.02% (0.01%)		
	UNITED STATES		
391	Avaya Holdings Corp., wts., 12/15/2022#	1	0.02
	TOTAL - NORTH AMERICA	1	0.02
	TOTAL - WARRANTS	1	0.02
	BONDS 3.04% (2.64%)		
	NORTH AMERICA 3.04% (2.64%)		
	UNITED STATES		
85,000	Avaya Holdings Corp., Escrow Account#*‡	0	0.00
96,000	Avaya Holdings Corp., Escrow Account, 10.50%, 3/01/2021#*‡	0	0.00
70,000	Frontier Communications Corp., senior note, 10.50%, 9/15/2022#	41	0.61
78,000	Frontier Communications Corp., senior note, 11.00%, 9/15/2025#	40	0.59
228,000	iHeartCommunications Inc., senior secured note, first lien, 9.00%, 12/15/2019#□	124	1.84
	TOTAL - NORTH AMERICA	205	3.04
	TOTAL - BONDS	205	3.04
	TOTAL VALUE OF INVESTMENTS	6,264	92.91
	OTHER ASSETS	478	7.09
	TOTAL NET ASSETS	6,742	100.00

The total percentage figures in brackets next to each category heading represent holdings as at 31 March 2018.

Unless otherwise stated the above securities are ordinary shares or common stock and admitted to official stock exchange listings.

□ These corporate bonds are currently in default.

* These securities are fair valued by the manager.

§ Real Estate Investment Trust (REIT).

‡ These securities are currently in an escrow position. An escrow account is an account established to hold monies pledged and to be used solely for a designed purpose, typically to pay debt service or an outstanding issue in an advance refunding.

Traded on an alternative investment market.

FRANKLIN MUTUAL SHARES FUND

Statement of Total Return

For the year ended 31 March 2019

	Note	March 2019 £000	March 2019 £000	March 2018 £000	March 2018 £000
Income					
Net capital gains/(losses)	1		664		(1,117)
Revenue	2	183		287	
Expenses	3	(92)		(120)	
Net revenue before taxation		91		167	
Taxation	4	(22)		(39)	
Net revenue after taxation			69		128
Total return before distributions for the year			733		(989)
Distributions	5		(69)		(128)
Change in net assets attributable to shareholders			664		(1,117)

Statement of Change in Net Assets Attributable to Shareholders

For the year ended 31 March 2019

	March 2019 £000	March 2019 £000	March 2018 £000	March 2018 £000
Opening net assets attributable to shareholders		8,085		11,094
Amounts received on creation of shares	120		843	
Amounts paid on cancellation of shares	(2,190)		(2,850)	
		(2,070)		(2,007)
Change in net assets attributable to shareholders from investment activities (see above)		664		(1,117)
Retained distribution on accumulation shares		63		115
Closing net assets attributable to shareholders		6,742		8,085

Balance Sheet

As at 31 March 2019

	Note	March 2019 £000	March 2018 £000
Assets			
Fixed assets			
Tangible assets:			
Investment assets		6,264	7,877
Current assets			
Debtors	6	39	21
Cash and bank balances		510	361
Total assets		6,813	8,259
Liabilities			
Creditors			
Distribution payable	5	(1)	(2)
Other creditors	7	(70)	(172)
Total liabilities		(71)	(174)
Net assets attributable to shareholders		6,742	8,085

FRANKLIN MUTUAL SHARES FUND

Notes to the Financial Statements

	March 2019 £000	March 2018 £000
1. Net capital gains/(losses)		
The net capital gains/(losses) during the year comprise:		
Non-derivative securities gains/(losses)	651	(1,100)
Currency gains/(losses)	13	(17)
	<u>664</u>	<u>(1,117)</u>
2. Revenue		
Overseas dividends	156	243
Revenue from debt securities	21	31
UK dividends	5	12
Bank and other interest	1	1
	<u>183</u>	<u>287</u>
3. Expenses		
Payable to the ACD, associates of the ACD and agents of either of them		
ACD's periodic charge	73	98
ACD's administration charge	4	5
	<u>77</u>	<u>103</u>
Payable to the Depositary, associates of the Depositary and agents of either of them		
Depositary fees	1	2
	<u>1</u>	<u>2</u>
Other expenses		
Audit fees	9	10
Printing fees	3	3
Legal and publication fees	2	3
Expense cap	-	(1)
	<u>14</u>	<u>15</u>
	<u>92</u>	<u>120</u>
4. Taxation		
(a) Analysis of charge in the year		
Irrecoverable overseas tax	22	39
Total current tax (note 4(b))	22	39
Total taxation	<u>22</u>	<u>39</u>
(b) Factors affecting tax charge for the year		
The tax assessed for the year is higher (2018: higher) than the standard rate of corporation tax in the UK for Open Ended Investment Companies (20% (2018: 20%)).		
The differences are explained below:		
Net revenue before taxation	91	167
Corporation tax of 20% (2018: 20%)	18	33
Effects of:		
Irrecoverable overseas tax	22	39
Excess management expenses	13	16
UK dividends & non-taxable overseas dividends*	(31)	(49)
Current tax charge for year (note 4(a))	<u>22</u>	<u>39</u>

*As an Open Ended Investment Company these items are not subject to corporation tax.

Open-ended investment companies are exempt from tax on capital gains in the UK. Therefore, any capital return is not included within the reconciliation above.

At the year end there is a potential deferred tax asset of £273,000 (£260,000 as at 31 March 2018) in relation to excess management fees. It is unlikely the Fund will generate sufficient tax profits in the future to utilise these amounts and therefore no deferred tax assets have been recognised in the year.

FRANKLIN MUTUAL SHARES FUND

Notes to the Financial Statements (continued)

	March 2019 £000	March 2018 £000
5. (a) Finance costs		
The distribution takes account of income received on the issue of shares and income deducted on the cancellation of shares, and comprise:		
Interim dividend distributions		
Income	1	4
Accumulation	32	74
	<u>33</u>	<u>78</u>
Final dividend distributions		
Income	1	2
Accumulation	31	42
	<u>32</u>	<u>44</u>
Add: Income deducted on cancellation of shares	4	8
Deduct: Income received on issue of shares	-	(2)
Total distribution	<u>69</u>	<u>128</u>
Total finance costs	<u>69</u>	<u>128</u>
(b) Difference between net revenue and distribution:		
Net revenue after taxation	69	128
Total distribution for the year	<u>69</u>	<u>128</u>
Details of the distribution in pence per share for this Fund are set out in the table on pages from 63-64.		
6. Debtors		
Sales awaiting settlement	26	2
Accrued income	9	16
Amounts receivable for issue of shares	4	1
Overseas tax recoverable	-	2
	<u>39</u>	<u>21</u>
7. Other creditors		
Amounts payable on cancellation of shares	32	132
Accrued expenses	19	20
Provision for uncertain tax position	19	19
Capped expenses	-	1
	<u>70</u>	<u>172</u>
8. Related parties		
During the year, Franklin Templeton Fund Management Limited ("ACD"), a related party, acted primarily in all transactions of the Funds. The aggregate amounts received through issues and cancellations are disclosed in the Statement of Change in Net Assets Attributable to Shareholders.		
Amounts charged by the ACD and associates of the ACD in respect of the management and administration fees are disclosed in Note 3.		
The amounts due to the ACD and associates of the ACD in respect of management and administration fees at 31 March 2019 are £6,000 (£7,000 as at 31 March 2018).		
During the year the Fund paid £1,000 (received £1,000 during the year to 31 March 2018) to the ACD in respect of an over-reimbursement of expenses.		
As at 31 March 2019 the Fund owed nil to the ACD in respect of an over-reimbursement of expenses (£1,000 as at 31 March 2018).		
As at 31 March 2019 Templeton Global Advisors Limited ("TGAL") held 100% (100% as at 31 March 2018) of the shares in issue of Class Y Income.		

FRANKLIN MUTUAL SHARES FUND

Notes to the Financial Statements (continued)

9. Risk management policies and disclosures

The risks inherent in the Fund's investment portfolio are as follows:

Market Risk

Currency Risk

An analysis of monetary assets and liabilities (including equity investments), in foreign currencies at the year end is shown below.

Currency	Net foreign currency assets and (liabilities) 31 March 2019			Net foreign currency assets and (liabilities) 31 March 2018		
	Monetary £000	Non-Monetary £000	Total £000	Monetary £000	Non-Monetary £000	Total £000
US dollar	444	6,264	6,708	192	7,503	7,695
South Korean won	-	-	-	1	99	100
Euro	(18)	-	(18)	(16)	91	75
	426	6,264	6,690	177	7,693	7,870

With reference to the foreign currency assets and liabilities table above, any movement in exchange rates would lead to a corresponding change in the value of the assets.

Interest Rate Risk

Interest rate profile of financial assets and financial liabilities

The tables below detail the interest rate profile of the Fund's assets at the year end

	Fixed rate financial assets £000	Financial assets not carrying interest £000	Total £000
March 2019			
US dollar	80	6,627	6,707
UK sterling	-	53	53
Euro	-	(18)	(18)
	80	6,662	6,742

	Fixed rate financial assets £000	Financial assets not carrying interest £000	Total £000
March 2018			
US dollar	83	7,613	7,696
UK sterling	-	214	214
South Korean won	-	100	100
Euro	-	74	74
	83	8,001	8,084

Fixed rate financial assets

	March 2019 Fixed rate weighted average period (years)	March 2019 Fixed rate Weighted average interest rate %	March 2018 Fixed rate weighted average period (years)	March 2018 Fixed rate weighted average interest rate (%)
US dollar	2.1	4.5	6.0	10.7

Other price risk

At the year end date, 92.91% (2018: 97.43%) of the net assets of the Fund were invested in ordinary shares or stock units admitted to an official stock exchange. If the market value were to change by 10%, the value of the Fund would change by 9.29% (2018: 9.74%).

There is no material difference between the value of the financial assets and liabilities, as shown in the Balance sheet, and their fair values.

FRANKLIN MUTUAL SHARES FUND

Notes to the Financial Statements (continued)

10. Portfolio Transaction Costs

	2019			2018		
	Purchases £000	% Of Purchases	% of Average Net Asset Value	Purchases £000	% Of Purchases	% of Average Net Asset Value
Equity purchases in year before transaction costs	1,259			1,411		
Commissions	<u>1</u>	0.08	0.01	<u>1</u>	0.07	0.01
Total Equity Purchases in the year after direct transaction costs	1,260			1,412		

	2019			2018		
	Sales £000	% Of Sales	% of Average Net Asset Value	Sales £000	% Of Sales	% of Average Net Asset Value
Equity sales in year before transaction costs	3,228			2,558		
Commissions	<u>(1)</u>	(0.03)	(0.01)	<u>(1)</u>	(0.04)	(0.01)
Total Equity Sales in the year after direct transaction costs	3,227			2,557		

	2019			2018		
	Purchases £000	% Of Purchases	% of Average Net Asset Value	Purchases £000	% Of Purchases	% of Average Net Asset Value
Bond purchases in year before transaction costs	-			106		
Total Bond Purchases in the year after direct transaction costs	-			106		

	2019			2018		
	Sales £000	% Of Sales	% of Average Net Asset Value	Sales £000	% Of Sales	% of Average Net Asset Value
Bond sales in year before transaction costs	-			64		
Total Bond sales in the year after direct transaction costs	-			64		

In pursuance of its investments objectives the Fund incurs commissions, taxes and other charges when buying and selling investment securities. Share dealing generally incurs broker commission and stamp Duty and these are paid by the Fund on each transaction where appropriate.

In addition there is a dealing spread between the buying and selling prices of the underlying investments. The average dealing spread which is the difference between the quoted bid and offer prices or internal administrative or holding costs, are not included in the calculation of Direct Transaction Costs. As at 31 March 2019, the average dealing spread for the underlying Fund investments is 0.10% (2018: 0.07%).

Comparing portfolio transaction costs for a range of funds may give misleading impression of the relative costs of investing in those funds for the following reasons:

- Historic transaction costs are not an effective indicator of the future impact on performance as it may vary from year to year depending on the investment manager;
- Transaction costs for buying and selling investments due to shareholder activity on the fund are recovered from those investors;
- Transaction costs will vary depending on the types of securities the fund is investing.

FRANKLIN MUTUAL SHARES FUND

Notes to the Financial Statements (continued)

11. Creations and Cancellations of Shares

	A–Income shares	A–Accumulation shares	I–Accumulation shares	W–Accumulation shares	Y–Income shares	Z–Accumulation shares
Opening Shares	305,557	734,143	23,535	2,561,840	2,972	60,653
Creations	1,161	15,233	-	33,274	-	469
Cancellations	(106,442)	(248,242)	(2,054)	(551,418)	-	(2,732)
Conversions	(3,158)	(9,251)	526	5,150	-	8,613
Total Closing Shares	197,118	491,883	22,007	2,048,846	2,972	67,003

12. Fair Value Disclosure

In accordance with FRS 102 the Fund classifies fair value measurement under the following levels:

Level 1

Unadjusted quoted market prices in active markets for identical securities.

Level 2

Investments (other than quoted prices included within Level 1) whose fair value is based directly on observable current market prices or is indirectly being derived from market prices; and

Level 3

Investments whose fair value is determined using a valuation technique based on assumptions that are not supported by observable current market prices or are not based on observable market data such as security in default or securities valued by Franklin Templeton Fair Valuation Committee.

Fair Value Hierarchy	Assets		Liabilities	
	31 March 2019 £000	31 March 2019 £000	31 March 2018 £000	31 March 2018 £000
Level 1	6,046	-	7,615	-
Level 2	205	-	213	-
Level 3	13	-	49	-
Total	6,264	-	7,877	-

FRANKLIN MUTUAL SHARES FUND

Distribution Statement

For the period 1 April 2018 to 30 September 2018

Group 1 - Shares purchased prior to 1 April 2018

Group 2 - Shares purchased in the period 1 April 2018 to 30 September 2018

	Net Income p	Equalisation p	30 September 2018 Pence per Share p	30 September 2017 Pence per share p
A - Income Shares				
Group 1	0.4539	-	0.4539	1.2759
Group 2	0.2761	0.1778	0.4539	1.2759
A - Accumulation Shares				
Group 1	0.4749	-	0.4749	1.3524
Group 2	0.1381	0.3368	0.4749	1.3524
I - Accumulation Shares				
Group 1	1.5818	-	1.5818	2.5968
Group 2	1.5818	-	1.5818	2.5968
W - Accumulation Shares				
Group 1	1.2638	-	1.2638	1.9937
Group 2	0.9212	0.3426	1.2638	1.9937
Y - Income Shares				
Group 1	1.4511	-	1.4511	1.9733
Group 2	1.4511	-	1.4511	1.9733
Z - Accumulation Shares				
Group 1	1.0223	-	1.0223	1.7543
Group 2	0.5299	0.4924	1.0223	1.7543

For the period 1 October 2018 to 31 March 2019

Group 1 - Shares purchased prior to 1 October 2018

Group 2 - Shares purchased in the period 1 October 2018 to 31 March 2019

	Net Income p	Equalisation p	31 March 2019 Pence per Share p	31 March 2018 Pence per Share p
A - Income Shares				
Group 1	0.5290	-	0.5290	0.6425
Group 2	0.0954	0.4336	0.5290	0.6425
A - Accumulation Shares				
Group 1	0.5693	-	0.5693	0.6747
Group 2	0.1612	0.4081	0.5693	0.6747
I - Accumulation Shares				
Group 1	1.7293	-	1.7293	1.7640
Group 2	1.7293	-	1.7293	1.7640
W - Accumulation Shares				
Group 1	1.3326	-	1.3326	1.4082
Group 2	0.8603	0.4723	1.3326	1.4082
Y - Income Shares				
Group 1	1.4844	-	1.4844	1.5238
Group 2	1.4844	-	1.4844	1.5238
Z - Accumulation Shares				
Group 1	1.0921	-	1.0921	1.1611
Group 2	1.0809	0.0112	1.0921	1.1611

FRANKLIN MUTUAL SHARES FUND

Equalisation

All shareholders, within each share category, receive the same distribution per share, although the distribution to shareholders who purchased shares during the distribution period (Group 2 holdings) contains an element of equalisation which is a repayment, at an average rate per share, of the amount of accrued net income which was included in the purchase price of such shares. As the nature of this payment is capital it is not subject to income tax but must be deducted from the purchase price in any capital gains tax computation on the sale of the shares.

FRANKLIN UK CORPORATE BOND FUND

Investment Review

Performance

For the 12 months to 31 March 2019, Franklin UK Corporate Bond Fund (W (acc) shares) returned 3.34%*, compared to the Markit iBoxx GBP Non-Gilts Index, which returned 3.68% (both returns in UK sterling).

Overview

During the year, UK corporate bonds underperformed their government counterparts, as investors sought out perceived safe havens amidst an increase in risk aversion. This trend accelerated in the final quarter of 2018, as the United Kingdom (“UK”) struggled to secure a political agreement with the European Union (“EU”) on the terms of its departure which exacerbated the poor environment for corporate credit. In the first quarter of 2019, this pattern reversed, with corporates outperforming amid a general global preference for assets that were perceived as riskier, as market participants saw the risk of interest rate rises fall, in addition to growth momentum in the major economies.

After maintaining interest rates at the beginning of the year, the Bank of England (“BoE”) raised them in August 2018 and stated that more increases would be required to ensure the UK economy’s growth did not push inflation further above the central bank’s target of 2%. Nevertheless, the BoE predictions for future UK monetary policy contained some significant assumptions, not the least of which was a reasonably positive outcome to negotiations on the terms of the UK’s departure from the EU. BoE Governor Mark Carney said he would be willing to remain in his post until 2020 to maintain stability during the UK’s departure, but also stressed that the central bank’s ability to mitigate the shock of a disorderly exit was limited. By December 2018, it was clear that the withdrawal agreement between the UK and EU, which Prime Minister May had negotiated, would struggle to get approval in the UK parliament. From then until the end of the year, parliament was unable to agree a way forward on the exit of the UK from the bloc, leading to the postponement of the previous deadline of 29th March 2019.

Significant Changes

The top purchases made by the Fund during the year included Toyota Finance Australia, 1.625%, 7/11/2022, Total Capital International, 1.75%, 7/07/2025, UK Treasury Bond, 2.25%, 9/07/2023, AT&T Inc., 2.90%, 12/04/2026, ING Groep NV, 3.00%, 2/18/2026, National Australia Bank Ltd., 1.125%, 11/10/2022, Westpac Banking Corp., 1.00%, 6/30/2023, Telefonica Emisiones SA, 5.375%, 2/02/2026, Orange SA, 8.125%, 11/20/2028 and British Telecommunications PLC, 5.75%, 12/07/2028.

Conversely, the top sales during the year were UK Treasury Bond, 4.25%, 6/07/2032, National Westminster Bank PLC, 6.50%, 9/07/2021, Glencore Finance Europe SA, 6.00%, 4/03/2022, Barclays Bank PLC, 10.00%, 5/21/2021, Comcast Corp., 5.50%, 11/23/2029, UK Treasury Bond, 4.50%, 12/07/2042, Anglian Water Services Financing PLC, 2.625%, 6/15/2026, Yorkshire Building Society, 3.50%, 4/21/2026, JPMorgan Chase, 3.50%, 12/18/2026 and GlaxoSmithKline Capital PLC, 3.375%, 12/20/2027.

Positive/Negative Contributors

The Fund’s security selection was the main contributor to relative returns, particularly its selection among corporate industrial and utility issues as well as government-related agency bonds. In contrast, selection among emerging-market bonds and financials detracted.

The Fund’s sector allocation slightly detracted from relative performance, hurt by exposures among subordinated debt (excluding banking and insurance) and government-related bonds. However, allocation among financials added to relative results.

Other detractors from the Fund’s relative results included duration and yield-curve positioning and positions in interest-rate derivatives.

Outlook

The UK parliament continues to be unable to agree a way forward on the exit of the UK from the EU. There is now uncertainty over how the deadlock over the UK’s exit from the EU will be broken and how long it might take to forge an agreement. The leaders of the EU member states agreed to postpone the exit date, to either the end of October or when the UK ratifies a withdrawal agreement, whichever comes first.

* Figure differs from comparative table performance due to alternative calculation methodology used.

FRANKLIN UK CORPORATE BOND FUND

Investment Review (continued)

Outlook (continued)

The possibility of a further extension beyond October has not been ruled out by the EU. A full range of options remains open to the UK; depart with no deal, agree a withdrawal agreement acceptable to parliament, rescind the UK's notice of leaving the EU, a general election or even hold a new referendum. The continued uncertainty over the UK's future relationship with the EU is likely to be damaging to both parties. Given the consequences, we believe that both parties will be highly incentivised to try and secure a deal. The future performance of the UK economy and the BoE's monetary policy remain deeply dependent on the outcome of these negotiations.

David Zahn
Fund Manager
31 March 2019

FRANKLIN UK CORPORATE BOND FUND

Comparative Table

W – Income shares ¹	31 March 2019	31 March 2018	31 March 2017
Change in net assets per share (p)			
Opening net asset value per share	99.99	101.60	100.00
Return before operating charges ²	3.79	1.46	2.36
Operating charges ³	(0.45)	(0.46)	(0.45)
Return after operating charges* ⁴	3.34	1.00	1.91
Distribution on income shares	(2.6089)	(2.6082)	(0.3126)
Closing net asset value per share	100.72	99.99	101.60
*After direct transaction costs of: ⁵	-	-	-
Performance			
Return after charges ⁶	3.34%	0.98%	1.91%
Other information			
Closing net asset value (£)	4,027	3,998	4,062
Closing number of shares	3,998	3,998	3,998
Ongoing charges ratio ⁷	0.45%	0.45%	0.45%
Direct transaction costs ⁵	-	-	-
Prices (p)			
Highest share price	101.61	103.91	101.76
Lowest share price	97.12	99.62	99.81

W – Accumulation shares ¹	31 March 2019	31 March 2018	31 March 2017
Change in net assets per share (p)			
Opening net asset value per share	102.98	101.93	100.00
Return before operating charges ²	4.06	1.52	2.38
Operating charges ³	(0.46)	(0.47)	(0.45)
Return after operating charges* ⁴	3.60	1.05	1.93
Closing net asset value per share	106.58	102.98	101.93
Retained distributions on accumulation shares	2.7129	2.6412	0.3128
*After direct transaction costs of: ⁵	-	-	-
Performance			
Return after charges ⁶	3.50%	1.03%	1.93%
Other information			
Closing net asset value (£)	45,359,206	47,970,316	53,195,074
Closing number of shares	42,558,804	46,580,641	52,189,505
Ongoing charges ratio ⁷	0.45%	0.45%	0.45%
Direct transaction costs ⁵	-	-	-
Prices (p)			
Highest share price	106.84	104.88	101.92
Lowest share price	101.40	101.92	99.81

FRANKLIN UK CORPORATE BOND FUND

Comparative Table (continued)

- 1 This is from share class launch on 13 February 2017.
- 2 The "return before operating charges" is calculated as the "return after operating charges" plus the "operating charges".
- 3 The "operating charges" are calculated with reference to the total expenses for the year divided by the number of shares in issue at each valuation point.
- 4 The "return after operating charges" is calculated as the "closing net asset value per share" plus the "distributions" (for income share classes only) minus the "opening net asset value per share".
- 5 The direct transaction costs include all fees and expenses which relate directly to the sales and purchases of securities which include commissions, transfer taxes and duties. Direct transaction costs do not include any difference between the quoted bid and offer prices or internal administrative or holding costs. The "direct transaction costs" ratio is calculated by dividing the total transaction costs by the average net assets.
- 6 The "return after charges" is calculated as the "return after operating charges" per share divided by the "opening net asset value per share". This figure will differ from "performance return" figure disclosed under "Investment Review" section due to alternative calculation methodology used.
- 7 The "ongoing charges ratio" represents all operating charges and expenses of the share class in the prior 12 months as a percentage of the share class'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.

Risk Profile (W(acc) shares)



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.

For a full discussion of all the risks applicable to this Fund, please refer to the "Risk Factors" section of the current prospectus of Franklin Templeton Funds.

FRANKLIN UK CORPORATE BOND FUND

Portfolio Statement as at 31 March 2019

(Currency – GBP)

Number of Shares or Face Value	Description	Market Value £000	% of Net Assets
	BONDS 93.47% (97.98%)		
	ASIA 1.10% (1.04%)		
	HONG KONG		
400,000	Hutchison Whampoa Finance UK PLC, senior bond, Reg S, 5.625%, 11/24/2026#	499	1.10
	TOTAL - ASIA	<u>499</u>	<u>1.10</u>
	AUSTRALASIA 5.68% (3.20%)		
	AUSTRALIA		
400,000	APT Pipelines Ltd., senior bond, Reg S, 3.50%, 3/22/2030#	420	0.93
500,000	BHP Billiton Finance Ltd., senior bond, 4.30%, 9/25/2042#	659	1.45
500,000	National Australia Bank Ltd., secured note, Reg S, 1.125%, 11/10/2022#	499	1.10
500,000	Toyota Finance Australia Ltd., senior note, Reg S, 1.625%, 7/11/2022#	506	1.11
500,000	Westpac Banking Corp., secured note, Reg S, 1.00%, 6/30/2023#	495	1.09
	TOTAL - AUSTRALASIA	<u>2,579</u>	<u>5.68</u>
	CENTRAL AMERICA 2.80% (2.68%)		
	MEXICO		
425,000	America Movil SAB de CV, senior bond, 5.75%, 6/28/2030#	563	1.24
700,000	Government of Mexico, senior bond, 5.625%, 3/19/2114#	709	1.56
	TOTAL - CENTRAL AMERICA	<u>1,272</u>	<u>2.80</u>
	EUROPE - NON EU 3.29% (4.09%)		
	SWITZERLAND		
400,000	Credit Suisse Group AG, senior note, Reg S, 2.125% to 9/12/24, FRN thereafter, 9/12/2025#	390	0.86
400,000	Glencore Finance Europe Ltd., senior note, Reg S, 3.125%, 3/26/2026#	402	0.89
700,000	UBS AG London, senior note, Reg S, 1.25%, 12/10/2020#	699	1.54
	TOTAL EUROPE - NON EU	<u>1,491</u>	<u>3.29</u>
	EUROPE - OTHER EU 25.20% (20.47%)		
	BELGIUM		
400,000	Anheuser-Busch InBev NV, senior bond, Reg S, 4.00%, 9/24/2025#	444	0.98
300,000	Government of Belgium, Reg S, 5.70%, 5/28/2032#	433	0.95
		<u>877</u>	<u>1.93</u>
	FRANCE		
400,000	AXA SA, junior sub. bond, Reg S, 5.453% to 3/04/26, FRN thereafter, Perpetual#	429	0.95
400,000	BNP Paribas SA, senior note, Reg S, 3.375%, 1/23/2026#	418	0.92
300,000	EDF SA, junior sub. bond, Reg S, 5.87% to 1/22/29, FRN thereafter, Perpetual#	300	0.66
400,000	EDF SA, senior bond, 5.875%, 7/18/2031#	536	1.18
400,000	EDF SA, senior bond, Reg S, 5.50%, 10/17/2041#	546	1.21
300,000	Orange SA, senior bond, Reg S, 8.125%, 11/20/2028#	445	0.98
500,000	Total Capital International SA, senior note, Reg S, 1.75%, 7/07/2025#	509	1.12
400,000	Westfield America Management Ltd., senior bond, Reg S, 2.625%, 3/30/2029#	403	0.89
		<u>3,586</u>	<u>7.91</u>
	GERMANY		
550,000	Aroundtown SA, senior bond, Reg S, 3.00%, 10/16/2029#	529	1.17
400,000	Deutsche Telekom International Finance BV, senior bond, 8.875%, 11/27/2028#	614	1.35
350,000	innogy Finance BV, senior bond, Reg S, 6.25%, 6/03/2030#	467	1.03
		<u>1,610</u>	<u>3.55</u>

FRANKLIN UK CORPORATE BOND FUND

Portfolio Statement as at 31 March 2019 (continued)

(Currency – GBP)

Number of Shares or Face Value	Description	Market Value £000	% of Net Assets
ITALY			
500,000	Assicurazioni Generali SpA, junior sub. bond, Reg S, 6.41% to 2/07/07, FRN thereafter, Perpetual#	521	1.15
400,000	Enel SpA, sub. bond, Reg S, 6.625% to 9/15/21, FRN thereafter, 9/15/2076#	430	0.95
500,000	Government of Italy, senior bond, Reg S, 6.00%, 8/04/2028#	581	1.28
		<u>1,532</u>	<u>3.38</u>
NETHERLANDS			
700,000	ABN AMRO Bank NV, senior note, Reg S, 1.375%, 6/07/2022#	697	1.54
400,000	Cooperatieve Rabobank UA, sub. bond, Reg S, 4.625%, 5/23/2029#	452	0.99
500,000	ING Groep NV, senior note, Reg S, 3.00%, 2/18/2026#	511	1.13
500,000	Rabobank Capital Funding Trust IV, junior sub. bond, Reg S, 5.556% to 10/29/49, FRN thereafter, Perpetual#	513	1.13
		<u>2,173</u>	<u>4.79</u>
SPAIN			
550,000	Iberdrola Finanzas SA, senior bond, 7.375%, 1/29/2024#	688	1.52
400,000	Telefonica Emisiones SA, senior bond, Reg S, 5.375%, 2/02/2026#	472	1.04
		<u>1,160</u>	<u>2.56</u>
SWEDEN			
500,000	Swedbank AB, senior note, Reg S, 1.25%, 12/29/2021#	492	1.08
	TOTAL - EUROPE - OTHER EU	<u>11,430</u>	<u>25.20</u>
NORTH AMERICA 17.56% (24.00%)			
UNITED STATES			
500,000	American International Group Inc., senior bond, Reg S, 5.00%, 4/26/2023#	557	1.23
400,000	Amgen Inc., senior bond, Reg S, 5.50%, 12/07/2026#	493	1.09
610,000	Apple Inc., senior bond, 3.05%, 7/31/2029#	678	1.49
600,000	AT&T Inc., senior note, 2.90%, 12/04/2026#	611	1.35
600,000	Bank of America Corp., senior bond, Reg S, 6.125%, 9/15/2021#	664	1.46
400,000	Citigroup Inc., senior bond, Reg S, 5.15%, 5/21/2026#	474	1.05
560,000	General Electric Co., sub. bond, Reg S, 4.875%, 9/18/2037#	578	1.27
180,000	HJ Heinz Finance UK PLC, senior bond, 6.25%, 2/18/2030#	220	0.49
600,000	MetLife Inc., senior bond, Reg S, 5.375%, 12/09/2024#	715	1.58
400,000	Mondelez International Inc., senior bond, 4.50%, 12/03/2035#	459	1.01
400,000	The Goldman Sachs Group Inc., senior bond, Reg S, 4.25%, 1/29/2026#	441	0.97
225,000	Time Warner Cable LLC, first lien, senior secured bond, 5.75%, 6/02/2031#	268	0.59
600,000	Verizon Communications Inc., senior bond, 4.75%, 2/17/2034#	739	1.63
400,000	Wal-Mart Stores Inc., senior bond, Reg S, 4.875%, 1/19/2039#	568	1.25
450,000	Wells Fargo & Co., senior bond, Reg S, 3.50%, 9/12/2029#	499	1.10
	TOTAL - NORTH AMERICA	<u>7,964</u>	<u>17.56</u>
UNITED KINGDOM 37.84% (42.50%)			
600,000	Annington Funding PLC, senior bond, Reg S, 3.935%, 7/12/2047#	628	1.38
200,000	Arrow Global Finance PLC, senior note, first lien, Reg S, 5.125%, 9/15/2024#	191	0.42
500,000	BAE Systems PLC, senior note, Reg S, 4.125%, 6/08/2022#	532	1.17
400,000	Barclays PLC, senior bond, 3.25%, 1/17/2033#	382	0.84
500,000	Barclays PLC, sub. bond, Reg S, 2.00% to 2/07/23, FRN thereafter, 2/07/2028#	413	0.91
700,000	Bazalgette Finance PLC, secured note, Reg S, 2.375%, 11/29/2027#	709	1.56
580,000	BP Capital Markets PLC, senior note, Reg S, 1.177%, 8/12/2023#	577	1.27
350,000	British Telecommunications PLC, senior bond, 5.75%, 12/07/2028#	440	0.97
400,000	Bupa Finance PLC, sub. note, Reg S, 5.00%, 4/25/2023#	433	0.95
700,000	Cadent Finance PLC, senior bond, Reg S, 2.75%, 9/22/2046#	665	1.47
400,000	Chancellor masters and Scholars of The University Oxford, senior bond, Reg S, 2.544%, 12/08/2117#	402	0.89
200,000	Compass Group PLC, senior note, Reg S, 2.00%, 9/05/2025#	205	0.45

FRANKLIN UK CORPORATE BOND FUND

Portfolio Statement as at 31 March 2019 (continued)

(Currency – GBP)

Number of Shares or Face Value	Description	Market Value £000	% of Net Assets
	UNITED KINGDOM (continued)		
600,000	Dwr Cymru Financing Ltd., senior secured bond, Reg S, 2.50%, 3/31/2036#	618	1.36
400,000	Gatwick Funding Ltd., senior secured bond, first lien, Reg S, 4.625%, 3/27/2036#	486	1.07
400,000	GlaxoSmithKline Capital PLC, senior bond, Reg S, 3.375%, 12/20/2027#	447	0.99
500,000	Heathrow Funding Ltd., first lien, Reg S, 5.875%, 5/13/2043#	736	1.62
200,000	HSBC Bank PLC, sub. bond, Reg S, 6.25%, 1/30/2041#	284	0.63
700,000	HSBC Holdings PLC, senior note, Reg S, 2.256% to 11/13/25, FRN thereafter, 11/13/2026#	691	1.52
100,000	HSBC Holdings PLC, sub. bond, Reg S, 7.00%, 4/07/2038#	143	0.32
400,000	Lloyds Bank PLC, sub. bond, Reg S, 7.625%, 4/22/2025#	510	1.12
600,000	London Power Networks PLC, senior bond, Reg S, 6.125%, 6/07/2027#	772	1.70
500,000	Motability Operations Group PLC, senior bond, Reg S, 2.375%, 3/14/2032#	507	1.12
470,000	Northern Powergrid Holdings Co., senior bond, 7.25%, 12/15/2022#	566	1.25
400,000	Pension Insurance Corp. PLC, sub. bond, Reg S, 5.625%, 9/20/2030#	394	0.87
100,000	Pinnacle Bidco PLC, senior secured note, first lien, Reg S, 6.375%, 2/15/2025#	103	0.23
650,000	Prudential PLC, sub. bond, 11.375% to 5/29/19, FRN thereafter, 5/29/2039#	660	1.46
400,000	Prudential PLC, sub. note, Reg S, 5.625% to 10/20/31, FRN thereafter, 10/20/2051#	426	0.94
400,000	Royal Bank of Scotland Group PLC, senior note, Reg S, 3.125% to 3/27/26, FRN thereafter, 3/28/2027#	405	0.89
400,000	Sky Ltd., senior bond, Reg S, 4.00%, 11/26/2029#	469	1.03
500,000	SSE PLC, junior sub. bond, Reg S, 3.875% to 9/09/20, FRN thereafter, Perpetual#	503	1.11
400,000	The Wellcome Trust Ltd., senior bond, Reg S, 2.517%, 2/07/2118#	393	0.87
600,000	United Kingdom Treasury Bond, Reg S, 2.25%, 9/07/2023#	640	1.41
200,000	United Kingdom Treasury Bond, Reg S, 3.50%, 1/22/2045#	282	0.62
550,000	United Kingdom Treasury Bond, Reg S, 3.75%, 7/22/2052#	875	1.93
600,000	Western Power Distribution East Midlands, senior bond, Reg S, 5.25%, 1/17/2023#	679	1.50
	TOTAL - UNITED KINGDOM	17,166	37.84
	TOTAL - BONDS	42,401	93.47
	DERIVATIVES (0.00)% ((0.17)%)		
	FORWARD CURRENCY CONTRACTS Ω		
	Buy GBP 409,494 & Sell EUR 475,000, 6/11/2019	(1)	(0.00)
	FOREIGN EXCHANGE GAIN/LOSS ON OUTSTANDING FORWARD CURRENCY CONTRACTS	(1)	(0.00)
	TOTAL - DERIVATIVES	(1)	(0.00)
	TOTAL VALUE OF INVESTMENTS¥	42,400	93.47
	OTHER ASSETS	2,963	6.53
	TOTAL NET ASSETS	45,363	100.00

The total percentage figures in brackets next to each category heading represent holdings as at 31 March 2018.

Ω Derivative Contract.

¥ Including derivative liabilities.

Traded on an alternative investment market.

FRANKLIN UK CORPORATE BOND FUND

Statement of Total Return

For the year ended 31 March 2019

	Note	March 2019 £000	March 2019 £000	March 2018 £000	March 2018 £000
Income					
Net capital gains/(losses)	1		490		(245)
Revenue	2	1,222		1,304	
Expenses	3	(209)		(229)	
Net revenue before taxation		1,013		1,075	
Net revenue after taxation			1,013		1,075
Total return before distributions for the year			1,503		830
Distributions	5		(1,222)		(1,304)
Change in net assets attributable to shareholders			281		(474)

Statement of Change in Net Assets Attributable to Shareholders

For the year ended 31 March 2019

	March 2019 £000	March 2019 £000	March 2018 £000	March 2018 £000
Opening net assets attributable to shareholders		47,974		52,941
Amounts received on creation of shares	3,591		1,485	
Amounts paid on cancellation of shares	(7,693)		(7,263)	
		(4,102)		(5,778)
Change in net assets attributable to shareholders from investment activities (see above)		281		(474)
Retained distribution on accumulation shares		1,210		1,285
Closing net assets attributable to shareholders		45,363		47,974

Balance Sheet

As at 31 March 2019

	Note	March 2019 £000	March 2018 £000
Assets			
Fixed assets			
Tangible assets:			
Investment assets		42,401	47,005
Current assets			
Debtors	6	678	827
Cash and bank balances		2,365	302
Total assets		45,444	48,134
Liabilities			
Investment liabilities		(1)	(81)
Creditors			
Other creditors	7	(80)	(79)
Total liabilities		(81)	(160)
Net assets attributable to shareholders		45,363	47,974

FRANKLIN UK CORPORATE BOND FUND

Notes to the Financial Statements

	March 2019 £000	March 2018 £000
1. Net capital gains/(losses)		
The net capital gains/(losses) during the year comprise:		
Non-derivative securities gains/(losses)	585	(326)
Currency gains/(losses)	2	-
Derivative gains/(losses)	(97)	81
	<u>490</u>	<u>(245)</u>
2. Revenue		
Revenue from debt securities	1,221	1,304
Bank and other interest	1	-
	<u>1,222</u>	<u>1,304</u>
3. Expenses		
Payable to the ACD, associates of the ACD and agents of either of them		
ACD's periodic charge	163	179
ACD's administration charge	23	25
	<u>186</u>	<u>204</u>
Payable to the Depositary, associates of the Depositary and agents of either of them		
Depositary fees	10	12
Safe custody fees	3	4
	<u>13</u>	<u>16</u>
Other expenses		
Audit fees	11	12
Legal and publication fees	4	4
Printing fees	3	3
Expense cap	(8)	(10)
	<u>10</u>	<u>9</u>
	<u>209</u>	<u>229</u>
4. Taxation		
Factors affecting tax charge for the year		
The tax assessed for the year is lower (2018: lower) than the standard rate of corporation tax in the UK for Open Ended Investment Companies (20% (2018: 20%)).		
The differences are explained below:		
Net revenue before taxation	1,013	1,075
Corporation tax of 20% (2018: 20%)	203	215
Effects of:		
Interest distributions	(203)	(215)
Current tax charge for year	-	-
Open Ended Investment Companies are exempt from tax on capital gains in the UK. Therefore, any capital return is not included within the reconciliation above.		

FRANKLIN UK CORPORATE BOND FUND

Notes to the Financial Statements (continued)

	March 2019 £000	March 2018 £000
5. (a) Finance costs		
The distribution takes account of income received on the issue of shares and income deducted on the cancellation of shares, and comprise:		
Interim dividend distributions		
Accumulation	920	970
	<u>920</u>	<u>970</u>
Final dividend distributions		
Accumulation	290	316
	<u>290</u>	<u>316</u>
Add: Income deducted on cancellation of shares	31	24
Deduct: Income received on issue of shares	(19)	(6)
Total distribution	<u>1,222</u>	<u>1,304</u>
Total finance costs	<u>1,222</u>	<u>1,304</u>
(b) Difference between net revenue and distribution:		
Net revenue after taxation	1,013	1,075
ACD's periodic charge taken from capital account	163	179
Expense charge taken from capital account	<u>46</u>	<u>50</u>
Total distribution for the year	<u>1,222</u>	<u>1,304</u>
Details of the distributions in pence per share for the individual Funds are set out on the tables on pages 78 to 79.		
6. Debtors		
Accrued income	624	827
Amounts receivable for issue of shares	53	-
Capped expenses	<u>1</u>	<u>-</u>
	<u>678</u>	<u>827</u>
7. Other creditors		
Amounts payable on cancellation of shares	49	46
Accrued expenses	31	32
Capped expenses	<u>-</u>	<u>1</u>
	<u>80</u>	<u>79</u>

8. Related parties

During the year, Franklin Templeton Fund Management Limited ("ACD"), a related party, acted primarily in all transactions of the Funds. The aggregate amounts received through issues and cancellations are disclosed in the Statement of Change in Net Assets Attributable to Shareholders.

Amounts charged by the ACD and associates of the ACD in respect of the management and administration fees are disclosed in Note 3.

The amounts due to the ACD and associates of the ACD in respect of management and administration fees at 31 March 2019 are £15,000 (£16,000 as at 31 March 2018).

During the year the Fund received £6,000 (£25,000 for the year to 31 March 2018) in reimbursed expenses from the ACD.

As at 31 March 2019 the Fund was due reimbursed expenses of £1,000 (owed £1,000 to the ACD in respect of an over-reimbursement of expenses as at 31 March 2018).

As at 31 March 2019 Templeton Global Advisors Limited ("TGAL") held 100% of the shares in issue of Class W Income (100% as at 31 March 2018).

FRANKLIN UK CORPORATE BOND FUND

Notes to the Financial Statements (continued)

9. Risk management policies and disclosures

The risks inherent in the Fund's investment portfolio are as follows:

Market Risk**Currency Risk**

Fluctuations in the foreign exchange rates can adversely affect the value of a portfolio.

At the year end date, 0.03% (2018: 0.00%) of the net assets of the Fund were denominated in currencies other than sterling and as such the currency risk is not considered significant.

Interest Rate Risk**Interest rate profile of financial assets and financial liabilities**

The tables below detail the interest rate profile of the Fund's assets at the year end

	Floating rate financial assets £000	Fixed rate financial assets £000	Financial assets not carrying interest £000	Total £000
March 2019				
UK sterling	3,000	38,988	3,362	45,350
Euro	413	-	(400)	13
	<u>3,413</u>	<u>38,988</u>	<u>2,962</u>	<u>45,363</u>

	Floating rate financial assets £000	Fixed rate financial assets £000	Financial assets not carrying interest £000	Total £000
March 2018				
UK sterling	2,238	44,767	969	47,974
	<u>2,238</u>	<u>44,767</u>	<u>969</u>	<u>47,974</u>

	March 2019 Fixed rate weighted average period (years)	March 2019 Fixed rate Weighted average interest rate %	March 2018 Fixed rate weighted average period (years)	March 2018 Fixed rate weighted average interest rate (%)
-				
UK sterling	22.2	4.4	23.3	4.7

Sensitivity to Interest Rate Risk

A potential interest rate increase of 0.5% has been assumed for the sensitivity analysis and with all other variables held constant, the profit or loss after taxation and equity are expected to change as disclosed below. The actual movements of values could be different due to unpredictable market environment changes impacting the values in parallel.

Category	31 March 2019 £000	31 March 2018 £000
Fixed rate financial assets	(371)	(415)
Floating rate financial assets	(9)	(8)
Financial assets not carrying interest	-	43
Total	(380)	(380)

A potential interest rate decrease of 0.5% has been assumed for the sensitivity analysis and with all other variables held constant, the profit or loss after taxation and equity are expected to change as disclosed below. The actual movements of values could be different due to unpredictable market environment changes impacting the values in parallel.

Category	31 March 2019 £000	31 March 2018 £000
Fixed rate financial assets	407	453
Floating rate financial assets	9	8
Financial assets not carrying interest	-	(45)
Total	416	416

Other price risk

At the year end date, 93.47% (2018: 97.81%) of the net assets of the Fund were invested in bonds and forward contracts. If the market value were to change by 10%, the value of the Fund would change by 9.35% (2018: 9.78%).

There is no material difference between the value of the financial assets and liabilities, as shown in the Balance sheet, and their fair values.

FRANKLIN UK CORPORATE BOND FUND

Notes to the Financial Statements (continued)

10. Portfolio Transaction Costs

	2019			2018		
	Purchases £000	% Of Purchases	% of Average Net Asset Value	Purchases £000	% Of Purchases	% of Average Net Asset Value
Bond purchases in year before transaction costs	11,276			22,927		
Total Bonds Purchases in the year after direct transaction costs	11,276			22,927		

	2019			2018		
	Sales £000	% Of Sales	% of Average Net Asset Value	Sales £000	% Of Sales	% of Average Net Asset Value
Bond sales in year before transaction costs	14,745			24,388		
Total Bond sales in the year after direct transaction costs	14,745			24,388		

	2019			2018		
	Sales £000	% Of Sales	% of Average Net Asset Value	Sales £000	% Of Sales	% of Average Net Asset Value
Derivatives sales in year before transaction costs	(110)			80		
Commissions	(1)	0.91	-	-	-	-
Total Derivative sales in year before transaction costs	(111)			80		

In pursuance of its investment objectives the Fund incurs commissions, taxes and other charges when buying and selling investment securities. Share dealing generally incurs broker commission and Stamp duty and these are paid by the Fund on each transaction where appropriate.

In addition, there is a dealing spread between the buying and selling prices of the underlying investments. The average dealing spread which is the difference between the quoted bid and offer prices or internal administrative or holding costs, are not included in the calculation of Direct Transaction Costs. As at 31 March 2019, the average dealing spread for the underlying Fund investments is 0.49% (2018: 0.51%).

Comparing portfolio transaction costs for a range of funds may give a misleading impression of the relative costs of investing in those funds for the following reasons:

- Historic transaction costs are not an effective indicator of the future impact on performance as it may vary from year to year depending on the investment manager;
- Transaction costs for buying and selling investments due to shareholder activity on the fund are recovered from those investors; and
- Transaction costs will vary depending on the types of securities the fund is investing.

11. Creations and Cancellations of Shares

	W-Income shares	W-Accumulation shares
Opening Shares	3,998	46,580,641
Creations	-	3,475,787
Cancellations	-	(7,497,624)
Total Closing Shares	3,998	42,558,804

12. Fair Value Disclosure

In accordance with FRS 102 the Fund classifies fair value measurement under the following levels:

Level 1

Unadjusted quoted market prices in active markets for identical securities.

Level 2

Investments (other than quoted prices included within Level 1) whose fair value is based directly on observable current market prices or is indirectly being derived from market prices; and

Level 3

FRANKLIN UK CORPORATE BOND FUND

Notes to the Financial Statements (continued)

12. Fair Value Disclosure (continued)

Investments whose fair value is determined using a valuation technique based on assumptions that are not supported by observable current market prices or are not based on observable market data such as security in default or securities valued by Franklin Templeton Fair Valuation Committee.

Fair Value Hierarchy	Assets		Liabilities	
	31 March 2019 £000	31 March 2019 £000	31 March 2018 £000	31 March 2018 £000
Level 1	-	-	-	(81)
Level 2	42,401	(1)	47,005	-
Level 3	-	-	-	-
Total	42,401	(1)	47,005	(81)

13. Portfolio Statement by Credit Rating

Standard & Poor's Ratings		Market Value £000	% of Net Assets
March 2019			
Highest quality	AAA	1,790	3.95
High quality	AA	4,475	9.85
Upper medium quality	A	15,406	33.96
Medium grade	BBB	19,202	42.34
Somewhat speculative	BB	1,425	3.14
Low grade, speculative	B	103	0.23
TOTAL VALUE OF BONDS		42,401	93.47
March 2018			
Highest quality	AAA	814	1.69
High quality	AA	4,713	9.79
Upper medium quality	A	16,250	33.77
Medium grade	BBB	23,117	48.03
Somewhat speculative	BB	2,011	4.18
Low grade, speculative	B	100	0.21
TOTAL VALUE OF BONDS		47,005	97.67

14. Counterparty and Collateral Exposure

Counterparty	Forward currency contracts £000	Futures £000	Total £000
31 March 2019			
Citi	1	-	1
31 March 2018			
JP Morgan	-	81	81

As at 31 March 2019, the Fund pledged nil collateral (£153,000 as at 31 March 2018 of UK sterling cash collateral to Citi) in respect of its derivatives contracts.

FRANKLIN UK CORPORATE BOND FUND

Distribution Statement

For the period 1 April 2018 to 30 June 2018

Group 1 – Shares purchased prior to 1 April 2018

Group 2 – Shares purchased in the period 1 April 2018 to 30 June 2018

	Gross Income p	Equalisation p	30 June 2018 Pence per Share p	30 June 2017 Pence per Share p
W - Income Shares				
Group 1	0.6695	-	0.6695	0.6577
Group 2	0.6695	-	0.6695	0.6577
W - Accumulation Shares				
Group 1	0.6889	-	0.6889	0.6591
Group 2	0.0757	0.6132	0.6889	0.6591

For the period 1 July 2018 to 30 September 2018

Group 1 – Shares purchased prior to 1 April 2018

Group 2 – Shares purchased in the period 1 July 2018 to 30 September 2018

	Gross Income p	Equalisation p	30 September 2018 Pence per Share p	30 September 2017 Pence per Share p
W - Income Shares				
Group 1	0.6365	-	0.6365	0.6280
Group 2	0.6365	-	0.6365	0.6280
W - Accumulation Shares				
Group 1	0.6591	-	0.6591	0.6340
Group 2	0.2723	0.3868	0.6591	0.6340

For the period 1 October 2018 to 31 December 2018

Group 1 – Shares purchased prior to 1 October 2018

Group 2 – Shares purchased in the period 1 October 2018 to 31 December 2018

	Gross Income p	Equalisation p	31 December 2018 Pence per Share p	31 December 2017 Pence per Share p
W - Income Shares				
Group 1	0.6557	-	0.6557	0.6575
Group 2	0.6557	-	0.6557	0.6575
W - Accumulation Shares				
Group 1	0.6838	-	0.6838	0.6701
Group 2	0.3151	0.3687	0.6838	0.6701

FRANKLIN UK CORPORATE BOND FUND

Distribution Statement (continued)

For the period 1 January 2019 to 31 March 2019

Group 1 – Shares purchased prior to 1 January 2019

Group 2 – Shares purchased in the period 1 January 2019 to 31 March 2019

	Gross Income p	Equalisation p	31 March 2019 Pence per Share p	31 March 2018 Pence per Share p
W - Income Shares				
Group 1	0.6472	-	0.6472	0.6650
Group 2	0.6472	-	0.6472	0.6650
W - Accumulation Shares				
Group 1	0.6811	-	0.6811	0.6780
Group 2	0.2118	0.4693	0.6811	0.6780

Equalisation

All shareholders, within each share category, receive the same distribution per share, although the distribution to shareholders who purchased shares during the distribution period (Group 2 holdings) contains an element of equalisation which is a repayment, at an average rate per share, of the amount of accrued net income which was included in the purchase price of such shares. As the nature of this payment is capital it is not subject to income tax but must be deducted from the purchase price in any capital gains tax computation on the sale of the shares.

FRANKLIN UK EQUITY INCOME FUND

Investment Review

Performance

In the 12 months to 31 March 2019, Franklin UK Equity Income Fund (W (acc) shares) made a net return 7.45%*, outperforming the FTSE All-Share Index, which returned 6.36%.

Overview

The year under review started strongly with the UK equity market rising sharply in April and early May and reaching a new all-time high. At one point, the market was up more than 9% in less than eight weeks, but this proved to be the high point of the year and for the rest of the year returns have been negative.

Following a period of relatively low volatility over the summer months, sentiment took a turn for the worse in the autumn, as economic and political factors combined to create a perfect storm for investors. The UK equity market declined by 10% in the final quarter of 2018, undermined by rising U.S. interest rates, heightened trade rhetoric and the interminable Brexit negotiations.

The new calendar year brought a change of fortune, with the catalyst a dramatic pivot by the U.S. Federal Reserve (“Fed”). The Fed’s decision in December 2018 to increase U.S. short-term rates in the face of an obviously slowing global economy had led to increased nervousness about a policy mistake, and its volte face in January was a welcome relief to global equity markets.

The final three months of the Fund’s financial year saw markets recover much of the ground lost in the previous quarter. The U.S. 10-year bond yield had been rising sharply towards the end of 2018, but this move reversed sharply in the opening months of 2019, spurring a significant rally in equity prices, albeit from what had looked, in our view, to be a heavily oversold position.

Sentiment was further bolstered by a more constructive approach to trade negotiations by the Trump administration after the midterm elections, and by the UK parliament taking steps to reduce the likelihood of a so-called hard Brexit.

The overall performance of the UK economy in 2018 was broadly in line with expectations. The understandable downturn in business investment in the face of Brexit uncertainty has been largely offset by a more resilient consumer. The consumer has been helped by the remarkably robust labour market and the return of real wage growth as inflation has moderated.

Global economic growth moderated modestly from the previous year to 3.7%, with the United States leading the way amongst the advanced economies with growth of 2.9%, helped by the programme of tax cuts. The eurozone and Japan both experienced sharp slowdowns as their structural deficiencies once again came to the fore.

The global economy has looked increasingly fragile to us as the year progressed. The necessary steps towards some sort of normalisation of U.S. monetary policy have been hindered by the impact of trade measures and market volatility.

In terms of sector performance, the dominant features of the year were the strength of the oil and gas, pharmaceutical and mining sectors and the weakness in banks. The oil sector was particularly strong in the first half of the year, reflecting a 25% gain in the underlying oil price. In the second half of the year, the mining sector delivered robust returns, with several sector constituents up more than 25% as iron ore prices gained strongly, following the mine dam tragedy in Brazil.

From a market capitalisation perspective, small- and mid-cap stocks underperformed their larger counterparts by a wide margin. During the year to 31 March 2019, the mid-cap FTSE 250 Index fell by 1% and the FTSE SmallCap Index gained 1%, whilst the FTSE 100 Index posted a gain of 7.7%.

Significant Changes

Over the year, the most significant stock purchases included recruiter Hays PLC, wealth manager St. James’s Place Capital PLC, asset manager Jupiter Fund Management PLC and housebuilder Bellway PLC. We also added to an existing position in oil firm Royal Dutch Shell Group PLC. Hays offers the portfolio exposure

* Figure differs from comparative table performance due to alternative calculation methodology used.

FRANKLIN UK EQUITY INCOME FUND

Investment Review (continued)

Significant Changes (continued)

to the structural changes occurring in the German recruitment market. The company has a net cash balance sheet and was attractively valued, in our view, when we added it to the portfolio. The share price of Jupiter Fund Management was some 25% below where it started the year, following what has been a difficult quarter of outflows for the company. We believed, however, that these concerns were adequately reflected in the valuation, and with a yield of in excess of 6%, we built up a holding. Shares of Bellway, in line with other housebuilders, had fallen substantially on concerns over rising rates, sustainability of the 'help to buy' programme and Brexit uncertainty. We felt the share price adequately reflected these issues and therefore established a position.

The biggest stock sales included bakery chain Greggs PLC, home furnishings retailer Dunelm Group PLC, plastic packaging manufacturer RPC Group PLC, biotechnology firm Shire PLC and drug maker AstraZeneca PLC. We exited the positions in Greggs and Dunelm Group on valuation grounds, following significant share price appreciation following robust financial results. We sold RPC Group PLC after it received a bid from a U.S.-based private-equity company. We also sold Shire in 2018 following a bid from a Japanese pharmaceutical company. We trimmed exposure to AstraZeneca during the year.

Positive/Negative Contributors

At the sector level, stock selection in retail, an underweight and stock selection in banks, notably not holding Barclays PLC and Standard Chartered PLC, and security selection in travel and leisure supported relative performance. Security selection in financial services, industrial goods and services and a lack of exposure to technology detracted from relative performance.

Amongst the individual contributors were several consumer-oriented stocks that have managed to perform well, despite ongoing economic and Brexit-related uncertainty. Contributors included bakery chain Greggs, along with home furnishings retailer Dunelm Group and sofa retailer DFS Furniture PLC. Elsewhere, iron ore mining company Rio Tinto PLC contributed to relative performance. The stock was up sharply in 2019, as iron ore prices rose following a dam disaster in Brazil. With UK sterling dropping over the period on uncertainty about the ongoing Brexit negotiations, several U.S. dollar-denominated revenue earners had a positive 12 months; information and analytics firm RELX was one such contributor during the year.

The most notable detractor from performance was online trading company IG Group Holdings PLC. The stock fell sharply in September 2018, reversing the gains enjoyed over the previous few months, after a disappointing first-quarter trading update. Subsequently, the chief executive officer resigned, while regulatory issues have also hung over the stock. Cardboard manufacturer DS Smith was hurt by concerns about potential global economic weakness as well as revelations of substantial use of invoice factoring arrangements, as a mechanism to hasten cash receipts. Whilst the practice was defensible from an economic and accountancy standpoint, the prior lack of disclosure and its incorporation into valuation assumptions saw the shares marked lower. In financials, Standard Life Aberdeen PLC and Schroders curbed relative performance. Standard Life Aberdeen was weak on concerns about investment flows. Schroders also declined amidst the recent market volatility, but we believe this quality company is taking steps to pursue growth.

Outlook

The equity market momentum established in the early months of 2019 has been maintained in the opening weeks of the Fund's new financial year. Encouraged by lower bond yields, investor sentiment has greatly improved from the dark days of December 2018, and markets now appear to be much more confident of a benign outcome to trade discussions and the Brexit process.

It seems extraordinary to us that we still have no certainty on Brexit, as we approach the third anniversary of the vote. In the short term, investors have taken heart from the fact that the UK parliament took steps to greatly reduce the risk of a no deal scenario. We have, however, long believed that the real risk from Brexit is that the political upheaval leads to a change of government, and a new regime with a vastly different policy agenda. This outcome remains a real possibility, although it is not our central case expectation.

The fears of a global recession that haunted the market towards the end of 2018, when the Fed appeared determined to keep raising rates, have visibly receded in recent weeks. The policy pivot and progress on trade discussions have clearly helped, at a time when the economic data remains mixed at best.

FRANKLIN UK EQUITY INCOME FUND

Investment Review (continued)

Outlook (continued)

In the United States, economic activity has moderated, but remains solidly positive, and with long-term rates trending lower and the labour market remaining robust, we expect consumer spending to be underpinned. China has responded to its economic slowdown by providing both monetary and fiscal stimulus, and there are early signs the measures are starting to work. The eurozone remains of greater concern, with the area's structural issues remaining unaddressed and fewer policy tools available if the environment deteriorates further.

The UK economic outlook remains clouded by Brexit, and the impact of the uncertainty on business investment is becoming ever more apparent. Consumer spending is, however, a much larger part of the overall economy, and having been under pressure from a squeeze in real wages a year ago, the environment is now more supportive. Inflation is falling, wage growth is accelerating, and real wage growth is firmly re-established. Confidence for 'big ticket' item purchases remains somewhat fragile, but the overall upward trend in consumer spending is intact.

From a UK equity market perspective, it remains a difficult environment for stock selection, not made any easier by the strong recovery in market levels over the past few months. The parliamentary moves to block a no deal Brexit have inspired a sharp rally in many domestic-facing stocks and removed much of the previous valuation disparity. But at the same time the more international stocks have moved higher on the back of lower bond yields.

The forward price earnings ratio for the UK market remains a deceptively modest 13 times, which reflects an uncertain outlook for earnings growth in the face of a slowing global economy. Earnings expectations for 2019 have already fallen back, from 8% to nearer 4% over the past six months and may well have further to fall.

The positive case for the equity market rests, as ever in recent years, on the yield gap, with a forward dividend yield on UK equities of 4.5% versus a 1.1% yield on UK 10-year Gilts.

Colin Morton, Ben Russon, CFA & Mark Hall

Fund Managers

31 March 2019

FRANKLIN UK EQUITY INCOME FUND

Comparative Table

A – Income shares	31 March 2019	31 March 2018	31 March 2017
Change in net assets per share (p)			
Opening net asset value per share	233.46	243.74	215.01
Return before operating charges ¹	19.78	4.27	42.04
Operating charges ²	(3.76)	(3.88)	(3.69)
Return after operating charges* ³	16.02	0.39	38.35
Distributions on income shares	(11.1340)	(10.6727)	(9.6178)
Closing net asset value per share	238.35	233.46	243.74
*After direct transaction costs of: ⁴	0.65	0.91	1.18
Performance			
Return after charges ⁵	6.86%	0.16%	17.84%
Other information			
Closing net asset value (£)	33,969,668	33,086,153	38,001,237
Closing number of shares	14,252,256	14,171,891	15,590,829
Ongoing charges ratio ⁶	1.57%	1.57%	1.59%
Direct transaction costs ⁴	0.27%	0.37%	0.51%
Prices (p)			
Highest share price	258.48	256.69	249.28
Lowest share price	215.40	230.77	208.37

A – Accumulation shares	31 March 2019	31 March 2018	31 March 2017
Change in net assets per share (p)			
Opening net asset value per share	184.34	184.27	156.02
Return before operating charges ¹	15.88	3.07	30.97
Operating charges ²	(3.03)	(3.00)	(2.72)
Return after operating charges* ³	12.85	0.07	28.25
Closing net asset value per share	197.19	184.34	184.27
Retained distributions on accumulation shares	8.9438	8.1983	7.0490
*After direct transaction costs of: ⁴	0.52	0.70	0.87
Performance			
Return after charges ⁵	6.97%	0.04%	18.11%
Other information			
Closing net asset value (£)	2,005,743	1,169,238	1,348,348
Closing number of shares	1,017,181	634,292	731,724
Ongoing charges ratio ⁶	1.57%	1.58%	1.59%
Direct transaction costs ⁴	0.27%	0.37%	0.51%
Prices (p)			
Highest share price	204.09	199.10	186.37
Lowest share price	174.34	180.36	151.20

FRANKLIN UK EQUITY INCOME FUND

Comparative Table (continued)

W – Income shares	31 March 2019	31 March 2018	31 March 2017
Change in net assets per share (p)			
Opening net asset value per share	153.11	158.17	138.13
Return before operating charges ¹	13.02	2.74	27.01
Operating charges ²	(0.82)	(0.84)	(0.81)
Return after operating charges* ³	12.20	1.90	26.20
Distributions on income shares	(7.3393)	(6.9599)	(6.1642)
Closing net asset value per share	157.97	153.11	158.17
*After direct transaction costs of: ⁴	0.43	0.60	0.77
Performance			
Return after charges ⁵	7.97%	1.20%	18.97%
Other information			
Closing net asset value (£)	390,824,579	287,171,422	236,249,164
Closing number of shares	247,410,307	187,563,788	149,364,710
Ongoing charges ratio ⁶	0.52%	0.52%	0.54%
Direct transaction costs ⁴	0.27%	0.37%	0.51%
Prices (p)			
Highest share price	169.76	166.87	161.69
Lowest share price	142.37	151.30	134.07

W – Accumulation shares	31 March 2019	31 March 2018	31 March 2017
Change in net assets per share (p)			
Opening net asset value per share	192.38	190.30	159.57
Return before operating charges ¹	16.64	3.11	31.70
Operating charges ²	(1.05)	(1.03)	(0.97)
Return after operating charges* ³	15.59	2.08	30.73
Closing net asset value per share	207.97	192.38	190.30
Retained distributions on accumulation shares	9.3818	8.5086	7.2222
*After direct transaction costs of: ⁴	0.54	0.73	0.92
Performance			
Return after charges ⁵	8.10%	1.09%	19.26%
Other information			
Closing net asset value (£)	212,005,719	147,140,717	93,559,370
Closing number of shares	101,942,374	76,483,292	49,162,992
Ongoing charges ratio ⁶	0.52%	0.52%	0.54%
Direct transaction costs ⁴	0.27%	0.37%	0.51%
Prices (p)			
Highest share price	213.31	207.34	192.39
Lowest share price	183.38	188.19	154.88

FRANKLIN UK EQUITY INCOME FUND

Comparative Table (continued)

Y – Income shares	31 March 2019	31 March 2018	31 March 2017
Change in net assets per share (p)			
Opening net asset value per share	115.50	118.26	102.49
Return before operating charges ¹	9.84	2.02	17.19
Operating charges ²	(0.02)	(0.05)	(0.04)
Return after operating charges* ³	9.82	1.97	17.15
Distributions on income shares	(5.6184)	(4.7281)	(1.3785)
Closing net asset value per share	119.70	115.50	118.26
*After direct transaction costs of: ⁴	0.32	0.45	0.55
Performance			
Return after charges ⁵	8.50%	1.67%	16.73%
Other information			
Closing net asset value (£)	3,691	3,561	6,413
Closing number of shares	3,083	3,083	5,423
Ongoing charges ratio ⁶	0.02%	0.04%	0.04%
Direct transaction costs ⁴	0.27%	0.37%	0.51%
Prices (p)			
Highest share price	128.16	125.34	119.86
Lowest share price	107.77	113.88	99.65

Z – Income shares	31 March 2019	31 March 2018	31 March 2017
Change in net assets per share (p)			
Opening net asset value per share	149.46	155.18	136.36
Return before operating charges ¹	12.70	2.70	26.69
Operating charges ²	(1.57)	(1.61)	(1.52)
Return after operating charges* ³	11.13	1.09	25.17
Distributions on income shares	(7.1463)	(6.8112)	(6.3527)
Closing net asset value per share	153.44	149.46	155.18
*After direct transaction costs of: ⁴	0.42	0.58	0.75
Performance			
Return after charges ⁵	7.45%	0.70%	18.46%
Other information			
Closing net asset value (£)	5,710,348	2,257,911	2,510,690
Closing number of shares	3,721,668	1,510,667	1,617,873
Ongoing charges ratio ⁶	1.02%	1.02%	1.04%
Direct transaction costs ⁴	0.27%	0.37%	0.51%
Prices (p)			
Highest share price	165.61	163.58	158.67
Lowest share price	138.47	147.72	132.30

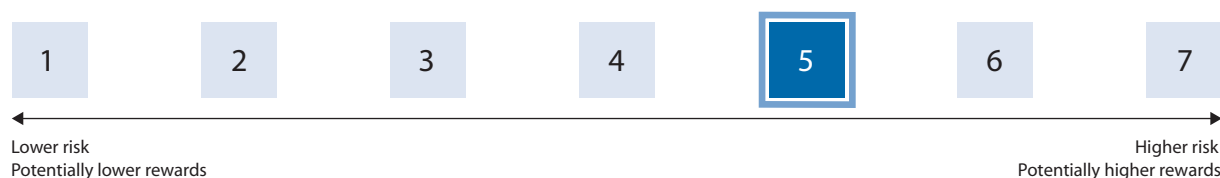
FRANKLIN UK EQUITY INCOME FUND

Comparative Table (continued)

Z – Accumulation shares	31 March 2019	31 March 2018	31 March 2017
Change in net assets per share (p)			
Opening net asset value per share	189.19	188.08	158.38
Return before operating charges ¹	16.33	3.10	31.54
Operating charges ²	(2.02)	(1.99)	(1.84)
Return after operating charges ³	14.31	1.11	29.70
Closing net asset value per share	203.50	189.19	188.08
Retained distributions on accumulation shares	9.2021	8.3901	7.1568
*After direct transaction costs of: ⁴	0.53	0.72	0.90
Performance			
Return after charges ⁵	7.56%	0.59%	18.75%
Other information			
Closing net asset value (£)	698,588	610,195	265,073
Closing number of shares	343,293	322,533	140,935
Ongoing charges ratio ⁶	1.02%	1.02%	1.04%
Direct transaction costs ⁴	0.27%	0.37%	0.51%
Prices (p)			
Highest share price	209.63	204.10	190.18
Lowest share price	179.67	185.09	153.66

- The "return before operating charges" is calculated as the "return after operating charges" plus the "operating charges".
 - The "operating charges" are calculated with reference to the total expenses for the year divided by the number of shares in issue at each valuation point.
 - The "return after operating charges" is calculated as the "closing net asset value per share" plus the "distributions" (for income share classes only) minus the "opening net asset value per share".
 - The direct transaction costs include all fees and expenses which relate directly to the sales and purchases of securities which include commissions, transfer taxes and duties. Direct transaction costs do not include any difference between the quoted bid and offer prices or internal administrative or holding costs. The "direct transaction costs" ratio is calculated by dividing the total transaction costs by the average net assets.
 - The "return after charges" is calculated as the "return after operating charges" per share divided by the "opening net asset value per share". This figure will differ from "performance return" figure disclosed under "Investment Review" section due to alternative calculation methodology used.
 - The "ongoing charges ratio" represents all operating charges and expenses of the share class in the prior 12 months as a percentage of the share class'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.

Risk Profile (W(acc) shares)



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.

For a full discussion of all the risks applicable to this Fund, please refer to the "Risk Factors" section of the current prospectus of Franklin Templeton Funds.

FRANKLIN UK EQUITY INCOME FUND

Portfolio Statement as at 31 March 2019

(Currency – GBP)

Number of Shares or Face Value	Description	Market Value £000	% of Net Assets
	EQUITIES 95.64% (96.12%)		
	AEROSPACE & DEFENCE 1.51% (1.39%)		
2,025,000	BAE Systems PLC	9,765	1.51
	BANKS 4.40% (4.63%)		
625,000	Close Brothers Group PLC	9,094	1.41
3,100,000	HSBC Holdings PLC	19,322	2.99
		28,416	4.40
	BEVERAGES 3.04% (2.74%)		
625,000	Diageo PLC	19,612	3.04
	CHEMICALS 1.49% (0.00%)		
305,000	Johnson Matthey PLC	9,580	1.49
	CONSTRUCTION & MATERIALS 1.35% (1.49%)		
3,625,000	Ibstock PLC, Reg S	8,685	1.35
	ELECTRICITY 1.27% (1.14%)		
690,000	SSE PLC	8,187	1.27
	FINANCIAL SERVICES 7.31% (5.42%)		
2,125,000	Ashmore Group PLC	9,078	1.41
2,850,000	Brewin Dolphin Holdings PLC	8,881	1.37
1,500,000	IG Group Holdings PLC	7,800	1.21
2,325,000	Jupiter Fund Management PLC	8,409	1.30
482,000	Schroders PLC	13,014	2.02
		47,182	7.31
	FIXED LINE TELECOMMUNICATIONS 1.27% (1.38%)		
3,675,000	BT Group PLC	8,192	1.27
	FOOD & DRUG RETAILERS 0.00% (1.04%)		
	GAS, WATER & MULTI-UTILITIES 2.66% (3.40%)		
1,025,000	National Grid PLC	8,720	1.35
1,040,000	United Utilities Group PLC	8,470	1.31
		17,190	2.66
	GENERAL INDUSTRIALS 2.98% (4.35%)		
2,800,000	DS Smith PLC	9,394	1.46
685,000	Smiths Group PLC	9,830	1.52
		19,224	2.98
	GENERAL RETAILERS 2.72% (2.57%)		
3,100,000	DFS Furniture PLC	7,766	1.21
175,000	Next PLC	9,761	1.51
		17,527	2.72
	HEALTH CARE EQUIPMENT & SERVICES 0.00% (0.99%)		
	HOUSEHOLD GOODS & HOME CONSTRUCTION 5.93% (4.64%)		
284,000	Bellway PLC	8,648	1.34
760,000	Bovis Homes Group PLC	8,079	1.25
205,000	Reckitt Benckiser Group PLC	13,083	2.03
4,800,000	Taylor Wimpey PLC	8,419	1.31
		38,229	5.93
	INDUSTRIAL ENGINEERING 3.01% (2.68%)		
1,260,000	Bodycote PLC	10,326	1.60
950,000	IMI PLC	9,072	1.41
		19,398	3.01

FRANKLIN UK EQUITY INCOME FUND

Portfolio Statement as at 31 March 2019 (continued)

(Currency – GBP)

Number of Shares or Face Value	Description	Market Value £000	% of Net Assets
	LIFE INSURANCE 8.43% (7.92%)		
2,070,000	Aviva PLC	8,535	1.32
5,700,000	Legal & General Group PLC	15,686	2.43
1,635,000	Phoenix Group Holdings PLC	11,077	1.72
640,000	Prudential PLC	9,840	1.53
900,000	St. James's Place Capital PLC	9,248	1.43
		<u>54,386</u>	<u>8.43</u>
	MEDIA 4.20% (5.50%)		
1,275,000	Informa PLC	9,486	1.47
1,075,000	RELX PLC	17,641	2.73
		<u>27,127</u>	<u>4.20</u>
	MINING 4.85% (4.09%)		
655,000	BHP Group PLC	12,108	1.88
430,000	Rio Tinto PLC	19,180	2.97
		<u>31,288</u>	<u>4.85</u>
	MOBILE TELECOMMUNICATIONS 1.66% (2.47%)		
7,650,000	Vodafone Group PLC	10,689	1.66
	NONLIFE INSURANCE 1.46% (1.37%)		
2,675,000	Direct Line Insurance Group PLC	9,443	1.46
	OIL & GAS PRODUCERS 10.05% (9.63%)		
5,850,000	BP PLC	32,666	5.06
1,335,000	Royal Dutch Shell PLC, A	32,207	4.99
		<u>64,873</u>	<u>10.05</u>
	PERSONAL GOODS 3.41% (3.78%)		
500,000	Unilever PLC	21,975	3.41
	PHARMACEUTICALS & BIOTECHNOLOGY 6.85% (8.91%)		
330,000	AstraZeneca PLC	20,245	3.14
1,500,000	GlaxoSmithKline PLC	23,946	3.71
		<u>44,191</u>	<u>6.85</u>
	REAL ESTATE INVESTMENT TRUSTS 2.42% (1.99%)		
1,710,000	Land Securities Group PLC§	15,616	2.42
	SUPPORT SERVICES 5.71% (4.48%)		
375,000	Bunzl PLC	9,495	1.47
197,000	Ferguson PLC	9,617	1.49
5,800,000	Hays PLC	8,700	1.35
1,925,000	PageGroup PLC	9,044	1.40
		<u>36,856</u>	<u>5.71</u>
	TOBACCO 6.14% (6.73%)		
645,000	British American Tobacco PLC	20,601	3.19
725,000	Imperial Brands PLC	19,028	2.95
		<u>39,629</u>	<u>6.14</u>
	TRAVEL & LEISURE 1.52% (1.39%)		
545,000	Compass Group PLC	9,829	1.52
	TOTAL - EQUITIES	<u>617,089</u>	<u>95.64</u>
	TOTAL VALUE OF INVESTMENTS	<u>617,089</u>	<u>95.64</u>
	OTHER ASSETS	<u>28,129</u>	<u>4.36</u>
	TOTAL NET ASSETS	<u>645,218</u>	<u>100.00</u>

The total percentage figures in brackets next to each category heading represent holdings as at 31 March 2018. Unless otherwise stated the above securities are ordinary shares or common stock and admitted to official stock exchange listings.

§ Real Estate Investment Trust (REIT).

FRANKLIN UK EQUITY INCOME FUND

Statement of Total Return

For the year ended 31 March 2019

	Note	March 2019 £000	March 2019 £000	March 2018 £000	March 2018 £000
Income					
Net capital gains/(losses)	1		18,522		(16,902)
Revenue	2	26,366		19,535	
Expenses	3	(3,312)		(2,792)	
Net revenue before taxation		23,054		16,743	
Taxation	4	(153)		(148)	
Net revenue after taxation			22,901		16,595
Total return before distributions for the year			41,423		(307)
Distributions	5		(25,803)		(19,055)
Change in net assets attributable to shareholders			15,620		(19,362)

Statement of Change in Net Assets Attributable to Shareholders

For the year ended 31 March 2019

	March 2019 £000	March 2019 £000	March 2018 £000	March 2018 £000
Opening net assets attributable to shareholders		471,439		371,940
Amounts received on creation of shares	303,431		267,431	
Amounts paid on cancellation of shares	(154,063)		(154,414)	
		149,368		113,017
Unclaimed distributions		4		3
Change in net assets attributable to shareholders from investment activities (see above)		15,620		(19,362)
Retained distribution on accumulation shares		8,787		5,841
Closing net assets attributable to shareholders		645,218		471,439

Balance Sheet

As at 31 March 2019

	Note	March 2019 £000	March 2018 £000
Assets			
Fixed assets			
Tangible assets:			
Investment assets		617,089	453,136
Current assets			
Debtors	6	9,759	7,296
Cash and bank balances		27,410	17,229
Total assets		654,258	477,661
Liabilities			
Creditors			
Distribution payable	5	(4,644)	(3,312)
Other creditors	7	(4,396)	(2,910)
Total liabilities		(9,040)	(6,222)
Net assets attributable to shareholders		645,218	471,439

FRANKLIN UK EQUITY INCOME FUND

Notes to the Financial Statements

	March 2019 £000	March 2018 £000
1. Net capital gains/(losses)		
The net capital gains/(losses) during the year comprise:		
Non-derivative securities gains/(losses)	18,522	(16,902)
	<u>18,522</u>	<u>(16,902)</u>
2. Revenue		
UK dividends	24,201	17,314
Overseas dividends	2,151	1,900
Bank and other interest	14	-
Property income dividends	-	321
	<u>26,366</u>	<u>19,535</u>
3. Expenses		
Payable to the ACD, associates of the ACD and agents of either of them		
ACD's periodic charge	2,902	2,456
ACD's administration charge	279	227
	<u>3,181</u>	<u>2,683</u>
Payable to the Depositary, associates of the Depositary and agents of either of them		
Depositary fees	72	59
Safe custody fees	39	33
	<u>111</u>	<u>92</u>
Other expenses		
Legal and publication fees	11	6
Audit fees	9	9
Printing fees	4	5
Expense cap	(4)	(3)
	<u>20</u>	<u>17</u>
	<u>3,312</u>	<u>2,792</u>
4. Taxation		
(a) Analysis of charge in the year		
Irrecoverable overseas tax	153	148
Total current tax (note 4(b))	<u>153</u>	<u>148</u>
Total taxation	<u>153</u>	<u>148</u>
(b) Factors affecting tax charge for the year		
The tax assessed for the year is lower (2018: lower) than the standard rate of corporation tax in the UK for Open Ended Investment Companies (20% (2018: 20%)).		
The differences are explained below:		
Net revenue before taxation	23,054	16,743
Corporation tax of 20% (2018: 20%)	4,611	3,349
Effects of:		
Excess management expenses	533	500
Irrecoverable overseas tax	153	148
Revenue taxable in different years	(18)	(6)
UK dividends & non-taxable overseas dividends*	<u>(5,126)</u>	<u>(3,843)</u>
Current tax charge for year (note 4(a))	<u>153</u>	<u>148</u>

*As an Open Ended Investment Company these items are not subject to corporation tax

Open-ended investment companies are exempt from tax on capital gains in the UK. Therefore, any capital return is not included within the reconciliation above.

At the year end there is a potential deferred tax asset of £3,162,000 (£2,629,000 as at 31 March 2018) in relation to excess management fees. It is unlikely the Fund will generate sufficient tax profits in the future to utilise these amounts and therefore no deferred tax assets have been recognised in the year.

FRANKLIN UK EQUITY INCOME FUND

Notes to the Financial Statements (continued)

	March 2019 £000	March 2018 £000
5. (a) Finance costs		
The distribution takes account of income received on the issue of shares and income deducted on the cancellation of shares, and comprise:		
Interim dividend distributions		
Income	13,554	10,603
Accumulation	6,495	4,327
	<u>20,049</u>	<u>14,930</u>
Final dividend distributions		
Income	4,644	3,312
Accumulation	2,291	1,514
	<u>6,935</u>	<u>4,826</u>
Add: Income deducted on cancellation of shares	868	944
Deduct: Income received on issue of shares	<u>(2,049)</u>	<u>(1,645)</u>
Total distribution	<u>25,803</u>	<u>19,055</u>
Total finance costs	<u>25,803</u>	<u>19,055</u>
(b) Difference between net revenue and distribution:		
Net revenue after taxation	22,901	16,595
ACD's periodic charge taken from capital account	2,902	2,456
Net revenue received on share class conversions	-	4
Total distribution for the year	<u>25,803</u>	<u>19,055</u>

Details of the distribution in pence per share for this Fund are set out in the table on pages from 94 - 96.

6. Debtors		
Accrued income	4,798	2,679
Amounts receivable for issue of shares	3,191	4,506
Sales awaiting settlement	1,626	-
Overseas tax recoverable	140	108
Capped expenses	4	3
	<u>9,759</u>	<u>7,296</u>
7. Other creditors		
Amounts payable on cancellation of shares	2,465	1,475
Purchases awaiting settlement	1,587	1,168
Accrued expenses	344	267
	<u>4,396</u>	<u>2,910</u>

8. Related parties

During the year, Franklin Templeton Fund Management Limited ("ACD"), a related party, acted primarily in all transactions of the Funds. The aggregate amounts received through issues and cancellations are disclosed in the Statement of Change in Net Assets Attributable to Shareholders.

Amounts charged by the ACD and associates of the ACD in respect of the management and administration fees are disclosed in Note 3.

The amounts due to the ACD and associates of the ACD in respect of management and administration fees at 31 March 2019 are £304,000 (£233,000 as at 31 March 2018).

During the year the Fund received £3,000 (£5,000 for the year to 31 March 2018) in reimbursed expenses from the ACD.

As at 31 March 2019 the Fund was due reimbursed expenses of £4,000 (£3,000 as at 31 March 2018) from the ACD.

As at 31 March 2019 Templeton Global Advisors Limited ("TGAL") held 100% (100% as at 31 March 2018) of the shares in issue of Class Y Income.

9. Risk management policies and disclosures

The risks inherent in the Fund's investment portfolio are as follows:

Market Risk**Currency risk**

Fluctuations in the foreign exchange rates can adversely affect the value of a portfolio.

FRANKLIN UK EQUITY INCOME FUND

Notes to the Financial Statements (continued)

9. Risk management policies and disclosures (continued)

At the year end date, 0.02% (2018: 0.02%) of the net assets of the Fund were denominated in currencies other than sterling and as such the currency risk is not considered significant.

Interest rate risk

The Fund does not invest in either fixed or floating rate securities and interest rate risk exposure is restricted to interest receivable on bank deposits or payable on bank overdraft positions which will be affected by fluctuations in interest rates.

Other price risk

At the year end date, 95.64% (2018: 96.12%) of the net assets of the Fund were invested in ordinary shares or stock units admitted to an official stock exchange. If the market value were to change by 10%, the value of the Fund would change by 9.56% (2018: 9.61%).

There is no material difference between the value of the financial assets and liabilities, as shown in the Balance sheet, and their fair values.

10. Portfolio Transaction Costs

	2019			2018		
	Purchases £000	% Of Purchases	% of Average Net Asset Value	Purchases £000	% Of Purchases	% of Average Net Asset Value
Equity purchases in year before transaction costs	268,094			291,698		
Commissions	113	0.04	0.02	241	0.08	0.05
Taxes	1,268	0.47	0.23	1,270	0.44	0.28
Other	47	0.02	0.01	42	0.01	0.01
Total Equity purchases in the year after direct transaction costs	269,522			293,251		

	2019			2018		
	Sales £000	% Of Sales	% of Average Net Asset Value	Sales £000	% Of Sales	% of Average Net Asset Value
Equity sales in year before transaction costs	124,567			178,945		
Commissions	(68)	(0.05)	(0.01)	(148)	(0.08)	(0.03)
Total Equity sales in the year after direct transaction costs	124,499			178,797		

In pursuance of its investment objectives the Fund incurs commissions, taxes and other charges when buying and selling investment securities. Share dealing generally incurs broker commission and stamp duty and these are paid by the Fund on each transaction where appropriate.

In addition there is a dealing spread between the buying and selling prices of the underlying investments. The average dealing spread which is the difference between the quoted bid and offer prices or internal administrative or holding costs, are not included in the calculation of Direct Transaction Costs. As at 31 March 2019, the average dealing spread for the underlying Fund investments is 0.06% (2018: 0.05%).

Comparing portfolio transaction costs for a range of funds may give a misleading impression of the relative costs of investing in those funds for the following reasons:

- Historic transaction costs are not an effective indicator of the future impact on performance as it may vary from year to year depending on the investment manager;
- Transaction costs for buying and selling investments due to shareholder activity on the fund are recovered from those investors;
- Transaction costs will vary depending on the types of securities the fund is investing.

FRANKLIN UK EQUITY INCOME FUND

Notes to the Financial Statements (continued)

11. Creations and Cancellations of Shares

	A–Income shares	A–Accumulation shares	W–Income shares	W–Accumulation shares	Y–Income shares
Opening Shares	14,171,891	634,292	187,563,788	76,483,292	3,083
Creations	4,675,846	613,841	113,243,401	56,257,734	-
Cancellations	(2,777,779)	(219,702)	(57,003,616)	(28,250,348)	-
Conversions	(1,817,702)	(11,250)	3,606,734	(2,548,304)	-
Total Closing Shares	14,252,256	1,017,181	247,410,307	101,942,374	3,083

	Z–Income shares	Z–Accumulation shares
Opening Shares	1,510,667	322,533
Creations	128,928	157,412
Cancellations	(396,793)	(156,817)
Conversions	2,478,866	20,165
Total Closing Shares	3,721,668	343,293

12. Fair Value Disclosure

In accordance with FRS 102 the Fund classifies fair value measurement under the following levels:

Level 1

Unadjusted quoted market prices in active markets for identical securities.

Level 2

Investments (other than quoted prices included within Level 1) whose fair value is based directly on observable current market prices or is indirectly being derived from market prices; and

Level 3

Investments whose fair value is determined using a valuation technique based on assumptions that are not supported by observable current market prices or are not based on observable market data such as security in default or securities valued by Franklin Templeton Fair Valuation Committee.

Fair Value Hierarchy	Assets 31 March 2019 £000	Liabilities 31 March 2019 £000	Assets 31 March 2018 £000	Liabilities 31 March 2018 £000
Level 1	617,089	-	453,136	-
Level 2	-	-	-	-
Level 3	-	-	-	-
Total	617,089	-	453,136	-

FRANKLIN UK EQUITY INCOME FUND

Distribution Statement

For the period 1 April 2018 to 30 June 2018

Group 1 – Shares purchased prior to 1 April 2018

Group 2 – Shares purchased in the period 1 April 2018 to 30 June 2018

	Net Income p	Equalisation p	30 June 2018 Pence per Share p	30 June 2017 Pence per Share p
A - Income Shares				
Group 1	3.2020	-	3.2020	3.6495
Group 2	0.9996	2.2024	3.2020	3.6495
A - Accumulation Shares				
Group 1	2.5281	-	2.5281	2.7590
Group 2	0.8231	1.7050	2.5281	2.7590
W - Income Shares				
Group 1	2.1021	-	2.1021	2.3714
Group 2	0.6505	1.4516	2.1021	2.3714
W - Accumulation Shares				
Group 1	2.6415	-	2.6415	2.8532
Group 2	1.1520	1.4895	2.6415	2.8532
Y - Income Shares				
Group 1	1.6054	-	1.6054	2.4966
Group 2	1.6054	-	1.6054	2.4966
Z - Income Shares				
Group 1	2.0511	-	2.0511	2.3245
Group 2	0.6348	1.4163	2.0511	2.3245
Z - Accumulation Shares				
Group 1	2.5959	-	2.5959	2.8187
Group 2	0.9937	1.6022	2.5959	2.8187

For the period 1 July 2018 to 30 September 2018

Group 1 - Shares purchased prior to 1 July 2018

Group 2 - Shares purchased in the period 1 July 2018 to 30 September 2018

	Net Income p	Equalisation p	30 September 2018 Pence per Share p	30 September 2017 Pence per Share p
A - Income Shares				
Group 1	2.9373	-	2.9373	2.6474
Group 2	1.6770	1.2603	2.9373	2.6474
A - Accumulation Shares				
Group 1	2.3491	-	2.3491	2.0306
Group 2	1.9670	0.3821	2.3491	2.0306
W - Income Shares				
Group 1	1.9341	-	1.9341	1.7254
Group 2	0.9192	1.0149	1.9341	1.7254
W - Accumulation Shares				
Group 1	2.4615	-	2.4615	2.1068
Group 2	1.1471	1.3144	2.4615	2.1068
Y - Income Shares				
Group 1	1.4798	-	1.4798	1.2991
Group 2	1.4798	-	1.4798	1.2991
Z - Income Shares				
Group 1	1.8845	-	1.8845	1.6889
Group 2	0.4783	1.4062	1.8845	1.6889
Z - Accumulation Shares				
Group 1	2.4155	-	2.4155	2.0773
Group 2	2.3303	0.0852	2.4155	2.0773

FRANKLIN UK EQUITY INCOME FUND

Distribution Statement (continued)

For the period 1 October 2018 to 31 December 2018

Group 1 - Shares purchased prior to 1 October 2018

Group 2 - Shares purchased in the period 1 October 2018 to 31 December 2018

	Net Income p	Equalisation p	31 December 2018 Pence per Share p	31 December 2017 Pence per Share p
A - Income Shares				
Group 1	2.4228	-	2.4228	1.9778
Group 2	0.9702	1.4526	2.4228	1.9778
A - Accumulation Shares				
Group 1	1.9606	-	1.9606	1.5338
Group 2	0.3118	1.6488	1.9606	1.5338
W - Income Shares				
Group 1	1.5992	-	1.5992	1.2911
Group 2	0.7571	0.8421	1.5992	1.2911
W - Accumulation Shares				
Group 1	2.0598	-	2.0598	1.5934
Group 2	0.7084	1.3514	2.0598	1.5934
Y - Income Shares				
Group 1	1.2272	-	1.2272	-
Group 2	1.2272	-	1.2272	-
Z - Income Shares				
Group 1	1.5564	-	1.5564	1.2636
Group 2	1.3321	0.2243	1.5564	1.2636
Z - Accumulation Shares				
Group 1	2.0195	-	2.0195	1.5716
Group 2	1.4294	0.5901	2.0195	1.5716

For the period 1 January 2019 to 31 March 2019

Group 1 - Shares purchased prior to 1 January 2019

Group 2 - Shares purchased in the period 1 January 2019 to 31 March 2019

	Net Income p	Equalisation p	31 March 2019 Pence per Share p	31 March 2018 Pence per Share p
A - Income Shares				
Group 1	2.5719	-	2.5719	2.3980
Group 2	0.7548	1.8171	2.5719	2.3980
A - Accumulation Shares				
Group 1	2.1060	-	2.1060	1.8749
Group 2	0.8741	1.2319	2.1060	1.8749
W - Income Shares				
Group 1	1.7039	-	1.7039	1.5720
Group 2	0.9243	0.7796	1.7039	1.5720
W - Accumulation Shares				
Group 1	2.2190	-	2.2190	1.9552
Group 2	1.1227	1.0963	2.2190	1.9552
Y - Income Shares				
Group 1	1.3060	-	1.3060	0.9324
Group 2	1.3060	-	1.3060	0.9324
Z - Income Shares				
Group 1	1.6543	-	1.6543	1.5342
Group 2	1.6520	0.0023	1.6543	1.5342
Z - Accumulation Shares				
Group 1	2.1712	-	2.1712	1.9225
Group 2	0.7067	1.4645	2.1712	1.9225

FRANKLIN UK EQUITY INCOME FUND

Equalisation

All shareholders, within each share category, receive the same distribution per share, although the distribution to shareholders who purchased shares during the distribution period (Group 2 holdings) contains an element of equalisation which is a repayment, at an average rate per share, of the amount of accrued net income which was included in the purchase price of such shares. As the nature of this payment is capital it is not subject to income tax but must be deducted from the purchase price in any capital gains tax computation on the sale of the shares.

FRANKLIN UK GILT FUND

Investment Review

Performance

For the 12 months to 31 March 2019, Franklin UK Gilt Fund (W (acc) shares) returned 3.37%*, compared to the FTSE UK Gilts (All) Government TR Index, which returned 3.71% (both returns in UK sterling).

Overview

Gilt yields fell over the initial part of the year, in line with moves in other bond markets, as investors sought out perceived safe havens amidst an increase in risk aversion. Towards the end of the third quarter rising U.S. Treasury yields helped to reverse sentiment, and this weak trend persisted globally until December, when fears about slowing growth and persistently low inflation began to raise questions about the pace of future rate rises. In the first quarter of 2019, major central banks began cutting growth forecasts, leading to significant yield falls.

After maintaining interest rates at the beginning of the year the Bank of England (“BoE”) raised them in August 2018 and stated that more increases would be required to ensure the UK economy’s growth did not push inflation further above the central bank’s target of 2%. Nevertheless, the BoE predictions for future UK monetary policy contained some significant assumptions, not the least of which was a reasonably positive outcome to negotiations on the terms of the United Kingdom’s (“UK”) departure from the European Union (“EU”). BoE Governor Mark Carney said he would be willing to remain in his post until 2020 to maintain stability during the UK’s departure, but also stressed that the central bank’s ability to mitigate the shock of a disorderly exit was limited.

Over the final quarter of 2018, gilt yields followed the tone of the talks with the EU, falling consistently through much of November as a negotiated deal acceptable to both parties looked less likely. By December, it was clear that the withdrawal agreement between the UK and EU that UK Prime Minister May had negotiated would struggle to get approval in the UK parliament. From then until the end of the year, parliament was unable to agree a way forward on the exit of the UK from the bloc, leading to the postponement of the previous deadline on 29th March 2019.

Significant Changes

The top purchases made by the Fund during the year included UK Treasury Bond, 1.625%, 10/22/2028, UK Treasury Bond, 4.25%, 3/07/2036, UK Treasury Bond, 4.25%, 12/07/2027, UK Treasury Bond, 4.25%, 12/07/2040, UK Treasury Bond, 4.75%, 12/07/2030, UK Treasury Note, 2.00%, 7/22/2020, UK Treasury Bond, 3.25%, 1/22/2044, UK Treasury Bond, 4.00%, 3/07/2022, UK Treasury Note, 1.75%, 7/22/2019 and UK Treasury Bond, 3.75%, 9/07/2021.

Its top sales over the year included UK Treasury Bond, 4.25%, 12/07/2027, UK Treasury Bond, 4.25%, 3/07/2036, UK Treasury Note, 1.75%, 7/22/2019, UK Treasury Bond, 4.50%, 3/07/2019, UK Treasury Note, 2.00%, 7/22/2020, UK Treasury Bond, 1.625%, 10/22/2028, UK Treasury Bond, 4.25%, 12/07/2040, UK Treasury Bond, 5.00%, 3/07/2025, UK Treasury Bond, 3.25%, 1/22/2044 and UK Treasury Bond, 4.00%, 1/22/2060.

Over the year portfolio duration was slightly extended.

Positive/Negative Contributors

The Fund’s sector allocation contributed to relative returns, largely due to allocation among shorter-dated and medium-to-long maturities. However, allocation among the longest-dated maturities slightly held back relative results.

In contrast, the Fund’s duration and yield-curve positioning held back relative performance.

The Fund’s security selection also slightly detracted from relative returns, hurt by selection among the longest-dated maturities, although this was largely offset by the positive impact of selection among medium-to-long maturities.

Outlook

The UK parliament continues to be unable to agree a way forward on the exit of the UK from the EU. There is now uncertainty over how the deadlock over the UK’s exit from the EU will be broken and how long it might take to forge an agreement. The leaders of the EU member states agreed to postpone the exit

* Figure differs from comparative table performance due to alternative calculation methodology used.

FRANKLIN UK GILT FUND

Investment Review (continued)

Outlook (continued)

date, to either the end of October or when the UK ratifies a withdrawal agreement, whichever comes first. The possibility of a further extension beyond October has not been ruled out by the EU. A full range of options remains open to the UK; depart with no deal, agree a withdrawal agreement acceptable to parliament, rescind the UK's notice of leaving the EU, a general election or even hold a new referendum. The continued uncertainty over the UK's future relationship with the EU is likely to be damaging to both parties. Given the consequences, we believe that both parties will be highly incentivised to try and secure a deal. The future performance of the UK economy and the BoE's monetary policy remain deeply dependent on the outcome of these negotiations.

David Zahn

Fund Manager

March 31, 2019

FRANKLIN UK GILT FUND

Comparative Table

W – Income shares ¹	31 March 2019	31 March 2018	31 March 2017
Change in net assets per share (p)			
Opening net asset value per share	101.58	102.26	100.00
Return before operating charges ²	3.68	0.71	2.76
Operating charges ³	(0.35)	(0.35)	(0.35)
Return after operating charges* ⁴	3.33	0.36	2.41
Distribution on income shares	(1.1272)	(1.0442)	(0.1495)
Closing net asset value per share	103.78	101.58	102.26
*After direct transaction costs of: ⁵	-	-	-
Performance			
Return after charges ⁶	3.28%	0.35%	2.41%
Other information			
Closing net asset value (£)	63,229	4,062	4,089
Closing number of shares	60,927	3,998	3,998
Ongoing charges ratio ⁷	0.35%	0.35%	0.35%
Direct transaction costs ⁵	-	-	-
Prices (p)			
Highest share price	104.47	103.20	102.26
Lowest share price	98.14	98.23	99.66

W – Accumulation shares ¹	31 March 2019	31 March 2018	31 March 2017
Change in net assets per share (p)			
Opening net asset value per share	102.86	102.42	100.00
Return before operating charges ²	3.78	0.80	2.76
Operating charges ³	(0.36)	(0.36)	(0.35)
Return after operating charges* ⁴	3.42	0.44	2.42
Distribution	(1.1447)	(1.0511)	(0.1499)
Retained distributions on accumulation shares	1.1447	1.0511	0.1499
Closing net asset value per share	106.28	102.86	102.42
*After direct transaction costs of: ⁵	-	-	-
Performance			
Return after charges ⁶	3.32%	0.43%	2.42%
Other information			
Closing net asset value (£)	87,712,370	89,884,882	98,126,025
Closing number of shares	82,531,584	87,386,613	95,806,505
Ongoing charges ratio ⁷	0.35%	0.35%	0.35%
Direct transaction costs ⁵	-	-	-
Prices (p)			
Highest share price	106.67	103.37	102.42
Lowest share price	99.91	99.21	99.66

FRANKLIN UK GILT FUND

Comparative Table (continued)

- 1 This is from share class launch on 13 February 2017.
- 2 The "return before operating charges" is calculated as the "return after operating charges" plus the "operating charges".
- 3 The "operating charges" are calculated with reference to the total expenses for the year divided by the number of shares in issue at each valuation point.
- 4 The "return after operating charges" is calculated as the "closing net asset value per share" plus the "distributions" (for income share classes only) minus the "opening net asset value per share".
- 5 The direct transaction costs include all fees and expenses which relate directly to the sales and purchases of securities which include commissions, transfer taxes and duties. Direct transaction costs do not include any difference between the quoted bid and offer prices or internal administrative or holding costs. The "direct transaction costs" ratio is calculated by dividing the total transaction costs by the average net assets.
- 6 The "return after charges" is calculated as the "return after operating charges" per share divided by the "opening net asset value per share". This figure will differ from "performance return" figure disclosed under "Investment Review" section due to alternative calculation methodology used.
- 7 The "ongoing charges ratio" represents all operating charges and expenses of the share class in the prior 12 months as a percentage of the share class'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.

Risk Profile (W(acc) shares)



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.

For a full discussion of all the risks applicable to this Fund, please refer to the "Risk Factors" section of the current prospectus of Franklin Templeton Funds.

FRANKLIN UK GILT FUND

Portfolio Statement as at 31 March 2019

(Currency – GBP)

Number of Shares or Face Value	Description	Market Value £000	% of Net Assets
	BONDS 99.23% (99.17%)		
	UNITED KINGDOM 99.23% (99.17%)		
4,800,000	United Kingdom Treasury Bond, 4.00%, 3/07/2022#	5,269	6.00
4,000,000	United Kingdom Treasury Bond, Reg S, 1.625%, 10/22/2028#	4,227	4.82
1,800,000	United Kingdom Treasury Bond, Reg S, 1.75%, 9/07/2022#	1,866	2.13
4,100,000	United Kingdom Treasury Bond, Reg S, 2.00%, 9/07/2025#	4,417	5.03
1,000,000	United Kingdom Treasury Bond, Reg S, 2.25%, 9/07/2023#	1,068	1.22
4,100,000	United Kingdom Treasury Bond, Reg S, 3.25%, 1/22/2044#	5,517	6.28
3,000,000	United Kingdom Treasury Bond, Reg S, 3.50%, 1/22/2045#	4,229	4.82
2,500,000	United Kingdom Treasury Bond, Reg S, 3.50%, 7/22/2068#	4,311	4.91
2,000,000	United Kingdom Treasury Bond, Reg S, 3.75%, 7/22/2052#	3,183	3.63
6,200,000	United Kingdom Treasury Bond, Reg S, 3.75%, 9/07/2021#	6,665	7.59
2,500,000	United Kingdom Treasury Bond, Reg S, 4.00%, 1/22/2060#	4,465	5.09
2,000,000	United Kingdom Treasury Bond, Reg S, 4.25%, 12/07/2055#	3,577	4.07
3,000,000	United Kingdom Treasury Bond, Reg S, 4.25%, 3/07/2036#	4,284	4.88
3,000,000	United Kingdom Treasury Bond, Reg S, 4.25%, 12/07/2049#	4,992	5.69
4,000,000	United Kingdom Treasury Bond, Reg S, 4.25%, 12/07/2027#	5,124	5.84
4,000,000	United Kingdom Treasury Bond, Reg S, 4.25%, 12/07/2040#	6,020	6.86
3,000,000	United Kingdom Treasury Bond, Reg S, 4.75%, 12/07/2030#	4,198	4.78
6,500,000	United Kingdom Treasury Note, Reg S, 1.50%, 1/22/2021#	6,599	7.52
2,000,000	United Kingdom Treasury Note, Reg S, 1.75%, 7/22/2019#	2,006	2.28
5,000,000	United Kingdom Treasury Note, Reg S, 2.00%, 7/22/2020#	5,087	5.79
	TOTAL - UNITED KINGDOM	87,104	99.23
	TOTAL - BONDS	87,104	99.23
	TOTAL VALUE OF INVESTMENTS	87,104	99.23
	OTHER ASSETS	672	0.77
	TOTAL NET ASSETS	87,776	100.00

The total percentage figures in brackets next to each category heading represent holdings as at 31 March 2018.

Traded on an alternative investment market.

FRANKLIN UK GILT FUND

Statement of Total Return

For the year ended 31 March 2019

	Note	March 2019 £000	March 2019 £000	March 2018 £000	March 2018 £000
Income					
Net capital gains/(losses)	1		2,109		(40)
Revenue	2	972		966	
Expenses	3	(304)		(326)	
Net revenue before taxation		668		640	
Net revenue after taxation			668		640
Total return before distributions for the year			2,777		600
Distributions	5		(972)		(966)
Change in net assets attributable to shareholders			1,805		(366)

Statement of Change in Net Assets Attributable to Shareholders

For the year ended 31 March 2019

	March 2019 £000	March 2019 £000	March 2018 £000	March 2018 £000
Opening net assets attributable to shareholders		89,890		97,867
Amounts received on creation of shares	12,214		3,752	
Amounts paid on cancellation of shares	(17,097)		(12,320)	
		(4,883)		(8,568)
Change in net assets attributable to shareholders from investment activities (see above)		1,805		(366)
Retained distribution on accumulation shares		964		957
Closing net assets attributable to shareholders		87,776		89,890

Balance Sheet

As at 31 March 2019

	Note	March 2019 £000	March 2018 £000
Assets			
Fixed assets			
Tangible assets:			
Investment assets		87,104	89,148
Current assets			
Debtors	6	460	435
Cash and bank balances		373	439
Total assets		87,937	90,022
Liabilities			
Creditors			
Other creditors	7	(161)	(132)
Total liabilities		(161)	(132)
Net assets attributable to shareholders		87,776	89,890

FRANKLIN UK GILT FUND

Notes to the Financial Statements

	March 2019 £000	March 2018 £000
1. Net capital gains/(losses)		
The net capital gains/(losses) during the year comprise:		
Non-derivative securities gains/(losses)	2,109	(40)
	<u>2,109</u>	<u>(40)</u>
2. Revenue		
Revenue from debt securities	969	966
Bank and other interest	3	-
	<u>972</u>	<u>966</u>
3. Expenses		
Payable to the ACD, associates of the ACD and agents of either of them		
ACD's periodic charge	218	234
ACD's administration charge	44	47
	<u>262</u>	<u>281</u>
Payable to the Depositary, associates of the Depositary and agents of either of them		
Depositary fees	19	21
Safe custody fees	6	7
	<u>25</u>	<u>28</u>
Other expenses		
Audit fees	11	12
Legal and publication fees	4	5
Printing fees	3	3
Expense cap	(1)	(3)
	<u>17</u>	<u>17</u>
	<u>304</u>	<u>326</u>
4. Taxation		
Factors affecting tax charge for the year		
The tax assessed for the year is lower (2018: lower) than the standard rate of corporation tax in the UK for Open Ended Investment Companies (20% (2018: 20%)).		
The differences are explained below:		
Net revenue before taxation	668	640
Corporation tax of 20% (2018: 20%)	134	128
Effects of:		
Interest distributions	(134)	(128)
Current tax charge for year	-	-
Open Ended Investment Companies are exempt from tax on capital gains in the UK. Therefore, any capital return is not included within the reconciliation above.		

FRANKLIN UK GILT FUND

Notes to the Financial Statements (continued)

	March 2019 £000	March 2018 £000
5. (a) Finance costs		
The distribution takes account of income received on the issue of shares and income deducted on the cancellation of shares, and comprise:		
Interim dividend distributions		
Accumulation	705	721
	<u>705</u>	<u>721</u>
Final dividend distributions		
Accumulation	260	236
	<u>260</u>	<u>236</u>
Add: Income deducted on cancellation of shares	31	16
Deduct: Income received on issue of shares	(24)	(7)
Total distribution	<u>972</u>	<u>966</u>
Total finance costs	<u>972</u>	<u>966</u>
(b) Difference between net revenue and distribution:		
Net revenue after taxation	668	640
ACD's periodic charge taken from capital account	218	234
Expense charge taken from capital account	86	92
Total distribution for the year	<u>972</u>	<u>966</u>
Details of the distributions in pence per share for the individual Funds are set out on the tables on pages 108 to 109.		
6. Debtors		
Accrued income	429	424
Amounts receivable for issue of shares	31	11
	<u>460</u>	<u>435</u>
7. Other creditors		
Amounts payable on cancellation of shares	122	90
Accrued expenses	39	40
Capped expenses	-	2
	<u>161</u>	<u>132</u>

8. Related parties

During the year, Franklin Templeton Fund Management Limited ("ACD"), a related party, acted primarily in all transactions of the Funds. The aggregate amounts received through issues and cancellations are disclosed in the Statement of Change in Net Assets Attributable to Shareholders.

Amounts charged by the ACD and associates of the ACD in respect of the management and administration fees are disclosed in Note 3.

The amounts due to the ACD and associates of the ACD in respect of management and administration fees at 31 March 2018 are £22,000 (£23,000 as at 31 March 2018).

During the year the Fund paid £1,000 (received £19,000 in reimbursed expenses from the ACD for the year to 31 March 2018) to the ACD in respect of an over-reimbursement of expenses.

As at 31 March 2019 the Fund owed nil to the ACD in respect of an over-reimbursement of expenses (£2,000 owed as at 31 March 2018).

As at 31 March 2019 Templeton Global Advisors Limited ("TGAL") held 6.56% of the shares in issue of Class W Income (100% as at 31 March 2018).

9. Risk management policies and disclosures

The risks inherent in the Fund's investment portfolio are as follows:

Market Risk**Currency Risk**

Fluctuations in the foreign exchange rates can adversely affect the value of a portfolio.

At the year end date, 0.00% (2018: 0.00%) of the net assets of the Fund were denominated in currencies other than sterling and as such the currency risk is not considered significant.

FRANKLIN UK GILT FUND

Notes to the Financial Statements (continued)

9. Risk management policies and disclosures (continued)

Interest Rate Risk

Interest rate profile of financial assets and financial liabilities

The tables below detail the interest rate profile of the Fund's assets at the year end

	Floating rate financial assets £000	Fixed rate financial assets £000	Financial assets not carrying interest £000	Total £000
March 2019				
UK sterling	-	87,104	672	87,776
	-	87,104	672	87,776

	Floating rate financial assets £000	Fixed rate financial assets £000	Financial assets not carrying interest £000	Total £000
March 2018				
UK sterling	-	89,148	742	89,890
	-	89,148	742	89,890

	March 2019 Fixed rate weighted average period (years)	March 2019 Fixed rate Weighted average interest rate %	March 2018 Fixed rate weighted average period (years)	March 2018 Fixed rate weighted average interest rate (%)
UK sterling	16.8	3.3	15.4	3.4

Sensitivity to Interest Rate Risk

A potential interest rate increase of 0.5% has been assumed for the sensitivity analysis and with all other variables held constant, the profit or loss after taxation and equity are expected to change as disclosed below. The actual movements of values could be different due to unpredictable market environment changes impacting the values in parallel.

Category	31 March 2019 £000	31 March 2018 £000
Fixed rate financial assets	(557)	(505)
Floating rate financial assets	-	-
Financial assets not carrying interest	-	-
Total	(557)	(505)

A potential interest rate decrease of 0.5% has been assumed for the sensitivity analysis and with all other variables held constant, the profit or loss after taxation and equity are expected to change as disclosed below. The actual movements of values could be different due to unpredictable market environment changes impacting the values in parallel.

Category	31 March 2019 £000	31 March 2018 £000
Fixed rate financial assets	627	568
Floating rate financial assets	-	-
Total	627	568

Other price risk

At the year end date, 99.23% (2018: 99.17%) of the net assets of the Fund were invested in Bonds. If the market value were to change by 10%, the value of the Fund would change by 9.92% (2018: 9.92%).

There is no material difference between the value of the financial assets and liabilities, as shown in the Balance sheet, and their fair values.

FRANKLIN UK GILT FUND

Notes to the Financial Statements (continued)

10. Portfolio Transaction Costs

	2019			2018		
	Purchases £000	% Of Purchases	% of Average Net Asset Value	Purchases £000	% Of Purchases	% of Average Net Asset Value
Gilt purchases in year before transaction costs	56,460			49,750		
Total Gilt Purchases in the year after direct transaction costs	56,460			49,750		

	2019			2018		
	Sales £000	% Of Sales	% of Average Net Asset Value	Sales £000	% Of Sales	% of Average Net Asset Value
Gilt sales in year before transaction costs	57,278			54,873		
Total Gilt sales in the year after direct transaction costs	57,278			54,873		

In pursuance of its investments objectives the Fund incurs commissions, taxes and other charges when buying and selling investment securities. Share dealing generally incurs broker commission and stamp Duty and these are paid by the Fund on each transaction where appropriate.

In addition there is a dealing spread between the buying and selling prices of the underlying investments. The average dealing spread which is the difference between the quoted bid and offer prices or internal administrative or holding costs, are not included in the calculation of Direct Transaction Costs. As at 31 March 2019, the average dealing spread for the underlying Fund investments is 0.07% (2018: 0.06%).

Comparing portfolio transaction costs for a range of funds may give misleading impression of the relative costs of investing in those funds for the following reasons:

- Historic transaction costs are not an effective indicator of the future impact on performance as it may vary from year to year depending on the investment manager;
- Transaction costs for buying and selling investments due to shareholder activity on the fund are recovered from those investors;
- Transaction costs will vary depending on the types of securities the fund is investing.

11. Creations and Cancellations of Shares

	W–Income shares	W–Accumulation shares
Opening Shares	3,998	87,386,613
Creations	58,957	11,779,987
Cancellations	(2,028)	(16,635,016)
Total Closing Shares	60,927	82,531,584

12. Fair Value Disclosure

In accordance with FRS 102 the Fund classifies fair value measurement under the following levels:

Level 1

Unadjusted quoted market prices in active markets for identical securities.

Level 2

Investments (other than quoted prices included within Level 1) whose fair value is based directly on observable current market prices or is indirectly being derived from market prices; and

Level 3

Investments whose fair value is determined using a valuation technique based on assumptions that are not supported by observable current market prices or are not based on observable market data such as security in default or securities valued by Franklin Templeton Fair Valuation Committee.

Fair Value Hierarchy	Assets 31 March 2019 £000	Liabilities 31 March 2019 £000	Assets 31 March 2018 £000	Liabilities 31 March 2018 £000
	Level 1	-	-	-
Level 2	87,104	-	89,148	-
Level 3	-	-	-	-
Total	87,104	-	89,148	-

FRANKLIN UK GILT FUND

13. Portfolio Statement by Credit Rating

Standard & Poor's Ratings		Market Value £000	% of Net Assets
March 2019			
High Quality	AA	<u>87,104</u>	<u>99.23</u>
TOTAL VALUE OF BONDS		<u>87,104</u>	<u>99.23</u>
March 2018			
High Quality	AA	<u>89,148</u>	<u>99.18</u>
TOTAL VALUE OF BONDS		<u>89,148</u>	<u>99.18</u>

FRANKLIN UK GILT FUND

Distribution Statement

For the period 1 April 2018 to 30 June 2018

Group 1 – Shares purchased prior to 1 April 2018

Group 2 – Shares purchased in the period 1 April 2018 to 30 June 2018

	Gross Income p	Equalisation p	30 June 2018 Pence per Share p	30 June 2017 Pence per Share p
W - Income Shares				
Group 1	0.2774	-	0.2774	0.2968
Group 2	0.0249	0.2525	0.2774	0.2968
W - Accumulation Shares				
Group 1	0.2793	-	0.2793	0.2991
Group 2	0.0585	0.2208	0.2793	0.2991

For the period 1 July 2018 to 30 September 2018

Group 1 - Shares purchased prior to 1 July 2018

Group 2 - Shares purchased in the period 1 July 2018 to 30 September 2018

	Gross Income p	Equalisation p	30 September 2018 Pence per Share p	30 September 2017 Pence per Share p
W - Income Shares				
Group 1	0.2470	-	0.2470	0.2308
Group 2	0.1938	0.0532	0.2470	0.2308
W - Accumulation Shares				
Group 1	0.2509	-	0.2509	0.2295
Group 2	0.0848	0.1661	0.2509	0.2295

For the period 1 October 2018 to 31 December 2018

Group 1 - Shares purchased prior to 1 October 2018

Group 2 - Shares purchased in the period 1 October 2018 to 31 December 2018

	Gross Income p	Equalisation p	31 December 2018 Pence per Share p	31 December 2017 Pence per Share p
W - Income Shares				
Group 1	0.2944	-	0.2944	0.2483
Group 2	0.0255	0.2689	0.2944	0.2483
W - Accumulation Shares				
Group 1	0.2996	-	0.2996	0.2530
Group 2	0.1252	0.1744	0.2996	0.2530

For the period 1 January 2019 to 31 March 2019

Group 1 - Shares purchased prior to 1 January 2019

Group 2 - Shares purchased in the period 1 January 2019 to 31 March 2019

	Gross Income p	Equalisation p	31 March 2019 Pence per Share p	31 March 2018 Pence per Share p
W - Income Shares				
Group 1	0.3084	-	0.3084	0.2683
Group 2	0.0655	0.2429	0.3084	0.2683
W - Accumulation Shares				
Group 1	0.3149	-	0.3149	0.2695
Group 2	0.0917	0.2232	0.3149	0.2695

FRANKLIN UK GILT FUND

Equalisation

All shareholders, within each share category, receive the same distribution per share, although the distribution to shareholders who purchased shares during the distribution period (Group 2 holdings) contains an element of equalisation which is a repayment, at an average rate per share, of the amount of accrued net income which was included in the purchase price of such shares. As the nature of this payment is capital it is not subject to income tax but must be deducted from the purchase price in any capital gains tax computation on the sale of the shares.

FRANKLIN UK MANAGERS' FOCUS FUND

Investment Review

Performance

In the 12 months to 31 March 2019, Franklin UK Managers' Focus Fund (W (acc) shares) fell by 0.47%*, compared with the benchmark FTSE All-Share Index, which returned 6.36%.

Overview

The year under review started strongly with the UK equity market rising sharply in April and early May and reaching a new all-time high. At one point, the market was up more than 9% in less than eight weeks, but this proved to be the high point of the year and for the rest of the year returns have been negative.

Following a period of relatively low volatility over the summer months, sentiment took a turn for the worse in the autumn, as economic and political factors combined to create a perfect storm for investors. The UK equity market declined by 10% in the final quarter of 2018, undermined by rising U.S. interest rates, heightened trade rhetoric and the interminable Brexit negotiations.

The new calendar year brought a change of fortune, with the catalyst a dramatic pivot by the U.S. Federal Reserve ("Fed"). The Fed's decision in December 2018 to increase U.S. short-term rates in the face of an obviously slowing global economy had led to increased nervousness about a policy mistake, and its volte face in January was a welcome relief to global equity markets.

The final three months of the Fund's financial year saw markets recover much of the ground lost in the previous quarter. The U.S. 10-year bond yield had been rising sharply towards the end of 2018, but this move reversed sharply in the opening months of 2019, spurring a significant rally in equity prices, albeit from what had looked, in our view, to be a heavily oversold position.

Sentiment was further bolstered by a more constructive approach to trade negotiations by the Trump administration after the midterm elections, and by the UK parliament taking steps to reduce the likelihood of a so-called hard Brexit.

The overall performance of the UK economy in 2018 was broadly in line with expectations. The understandable downturn in business investment in the face of Brexit uncertainty has been largely offset by a more resilient consumer. The consumer has been helped by the remarkably robust labour market and the return of real wage growth as inflation has moderated.

Global economic growth moderated modestly from the previous year to 3.7%, with the United States leading the way amongst the advanced economies with growth of 2.9%, helped by the programme of tax cuts. The eurozone and Japan both experienced sharp slowdowns as their structural deficiencies once again came to the fore.

The global economy has looked increasingly fragile to us as the year progressed. The necessary steps towards some sort of normalisation of U.S. monetary policy have been hindered by the impact of trade measures and market volatility.

In terms of sector performance, the dominant features of the year were the strength of the oil and gas, pharmaceutical and mining sectors and the weakness in banks. The oil sector was particularly strong in the first half of the year, reflecting a 25% gain in the underlying oil price. In the second half of the year, the mining sector delivered robust returns, with several sector constituents up more than 25% as iron ore prices gained strongly, following the mine dam tragedy in Brazil.

From a market capitalisation perspective, small- and mid-cap stocks underperformed their larger counterparts by a wide margin. During the year to 31 March 2019, the mid-cap FTSE 250 Index fell by 1% and the FTSE SmallCap Index gained 1%, whilst the FTSE 100 Index posted a gain of 7.7%.

Significant Changes

Major stock purchase during the year included asset manager Jupiter Fund Management PLC, fashion brand Superdry PLC, food company and retailer Associated British Foods PLC and Intermediate Capital Group PLC. Jupiter Fund Management's share price had fallen sharply since the start of the fiscal year, as

* Figure differs from comparative table performance due to alternative calculation methodology used.

FRANKLIN UK MANAGERS' FOCUS FUND

Investment Review (continued)

Significant Changes (continued)

the group had begun to experience significant fund outflows from its Dynamic Bond strategy. We believed, however, that the valuation of the group had come to reflect an overly pessimistic view and that it represented an attractive buying opportunity for long-term investors. Exposure to retail, through Primark, and sugar had weighed on sentiment around Associated British Foods, and provided what we viewed as an attractive buying opportunity.

The position in Superdry, which was acquired during the year, was later sold, amidst concerns about the company's strategy. The Fund also purchased a position in plastic packaging manufacturer RPC Group PLC, which it then sold after the company received a takeover bid.

Other disposals included biotechnology company Shire PLC, advertising agency WPP PLC, retirement specialist Just Group PLC and real estate company Workspace Group PLC. We sold the position in Shire, following a bid from a Japanese pharmaceuticals company. At WPP, the investment case changed following the departure of the group's founder, Martin Sorrell, and we were concerned that the recent trading underperformance may continue. We sold out of Just Group, due to concerns about the management team's communication with shareholders. With Workspace's shares close to net asset value, at a time when other London real estate companies traded at a big discount, we decided to dispose of the position.

Positive/Negative Contributors

The Fund's bias toward small- and mid-cap stocks proved to be a headwind for performance during the year, as these segments lagged the broader market's advance. Domestically-oriented securities struggled amidst greater economic uncertainty and worries about Brexit. At the sector level, an overweight and security selection in industrial goods and services, and stock selection in both personal and household goods and financial services curbed relative performance. On the upside, the Fund benefitted from stock selection in media and a lack of exposure to banks and telecommunications, including Vodafone PLC, Barclays PLC and HSBC Holdings PLC.

Amongst the names held, fashion brand Superdry detracted from relative performance. The company's shares plunged after warning that weather conditions, changing consumer behaviour and political and economic uncertainty were weighing on its business. Sports betting and gaming company GVC Holdings PLC detracted from relative performance during the year. The company posted solid trading results, but investors were unsettled by two directors' sizeable share sales in March 2019. The Just Group share price dropped following a badly received equity fund raising, designed to address balance sheet concerns at the retirement specialist. Scapa Group PLC fell, after a badly communicated acquisition prompted a near-term profit downgrade. Restore PLC weighed on relative performance, given the broader growth concerns, and following news of the departure of the group's highly regarded chief executive officer.

On the upside, media company Entertainment One Ltd. contributed to relative performance on the strength of its Peppa Pig franchise, which it is introducing in theme parks. ZPG PLC, which owns online real estate agency Zoopla, buoyed relative returns, as a takeover was announced by U.S. private equity firm Silver Lake. Deal news also supported shares of RPC Group PLC during the year. DFS Furniture PLC, a sofa retailer, was also a contributor, as the consumer spending environment has remained relatively robust in the United Kingdom, despite growing uncertainties surrounding the economy and Brexit. Amidst increasing concerns about the economic and political backdrop in the latter part of 2018 and early 2019, several of the Fund's holdings with relatively stable growth profiles, such as wholesaler Bunzl PLC, also outperformed.

Outlook

The equity market momentum established in the early months of 2019 has been maintained in the opening weeks of the Fund's new financial year. Encouraged by lower bond yields, investor sentiment has greatly improved from the dark days of December 2018, and markets now appear to be much more confident of a benign outcome to trade discussions and the Brexit process.

It seems extraordinary to us that we still have no certainty on Brexit, as we approach the third anniversary of the vote. In the short term, investors have taken heart from the fact that the UK parliament took steps to greatly reduce the risk of a no deal scenario. We have, however, long believed that the real risk from Brexit is that the political upheaval leads to a change of government, and a new regime with a vastly different policy agenda. This outcome remains a real possibility, although it is not our central case expectation.

FRANKLIN UK MANAGERS' FOCUS FUND

Investment Review (continued)

Outlook (continued)

The fears of a global recession that haunted the market towards the end of 2018, when the Fed appeared determined to keep raising rates, have visibly receded in recent weeks. The policy pivot and progress on trade discussions have clearly helped, at a time when the economic data remains mixed at best.

In the United States, economic activity has moderated, but remains solidly positive, and with long-term rates trending lower and the labour market remaining robust, we expect consumer spending to be underpinned. China has responded to its economic slowdown by providing both monetary and fiscal stimulus, and there are early signs the measures are starting to work. The eurozone remains of greater concern, with the area's structural issues remaining unaddressed and fewer policy tools available if the environment deteriorates further.

The UK economic outlook remains clouded by Brexit, and the impact of the uncertainty on business investment is becoming ever more apparent. Consumer spending is, however, a much larger part of the overall economy, and having been under pressure from a squeeze in real wages a year ago, the environment is now more supportive. Inflation is falling, wage growth is accelerating, and real wage growth is firmly re-established. Confidence for 'big ticket' item purchases remains somewhat fragile, but the overall upward trend in consumer spending is intact.

From a UK equity market perspective, it remains a difficult environment for stock selection, not made any easier by the strong recovery in market levels over the past few months. The parliamentary moves to block a no deal Brexit have inspired a sharp rally in many domestic-facing stocks and removed much of the previous valuation disparity. But at the same time the more international stocks have moved higher on the back of lower bond yields.

The forward price earnings ratio for the UK market remains a deceptively modest 13 times, which reflects an uncertain outlook for earnings growth in the face of a slowing global economy. Earnings expectations for 2019 have already fallen back, from 8% to nearer 4% over the past six months, and may well have further to fall.

The positive case for the equity market rests, as ever in recent years, on the yield gap, with a forward dividend yield on UK equities of 4.5% versus a 1.1% yield on UK 10-year Gilts.

Colin Morton, Paul Spencer, Richard Bullas, Ben Russon, CFA & Mark Hall

Fund Managers

31 March 2019

FRANKLIN UK MANAGERS' FOCUS FUND

Comparative Table

A – Accumulation shares	31 March 2019	31 March 2018	31 March 2017
Change in net assets per share (p)			
Opening net asset value per share	251.48	238.16	207.81
Return before operating charges ¹	2.42	17.32	33.82
Operating charges ²	(4.07)	(4.00)	(3.47)
Return after operating charges* ³	(1.65)	13.32	30.35
Closing net asset value per share	249.83	251.48	238.16
Retained distributions on accumulation shares	4.3476	3.3343	3.8305
*After direct transaction costs of: ⁴	0.54	0.63	0.84
Performance			
Return after charges ⁵	(0.66%)	5.59%	14.60%
Other information			
Closing net asset value (£)	18,857,803	26,606,761	29,243,845
Closing number of shares	7,548,322	10,579,930	12,278,855
Ongoing charges ratio ⁶	1.58%	1.58%	1.58%
Direct transaction costs ⁴	0.21%	0.25%	0.38%
Prices (p)			
Highest share price	276.85	266.25	241.40
Lowest share price	226.13	239.15	193.93

S – Accumulation shares	31 March 2019	31 March 2018	31 March 2017
Change in net assets per share (p)			
Opening net asset value per share	123.24	115.61	99.94
Return before operating charges ¹	1.15	8.41	16.36
Operating charges ²	(0.79)	(0.78)	(0.69)
Return after operating charges* ³	0.36	7.63	15.67
Closing net asset value per share	123.60	123.24	115.61
Retained distributions on accumulation shares	3.3368	2.7984	2.8634
*After direct transaction costs of: ⁴	0.26	0.31	0.41
Performance			
Return after charges ⁵	0.29%	6.60%	15.68%
Other information			
Closing net asset value (£)	66,053,097	41,478,623	5,744,965
Closing number of shares	53,442,239	33,656,677	4,969,050
Ongoing charges ratio ⁶	0.63%	0.63%	0.63%
Direct transaction costs ⁴	0.21%	0.25%	0.38%
Prices (p)			
Highest share price	135.93	130.18	117.15
Lowest share price	111.60	116.10	93.47

FRANKLIN UK MANAGERS' FOCUS FUND

Comparative Table (continued)

W – Accumulation shares	31 March 2019	31 March 2018	31 March 2017
Change in net assets per share (p)			
Opening net asset value per share	231.73	217.82	188.64
Return before operating charges ¹	2.18	15.84	30.85
Operating charges ²	(1.97)	(1.93)	(1.67)
Return after operating charges* ³	0.21	13.91	29.18
Closing net asset value per share	231.94	231.73	217.82
Retained distributions on accumulation shares	5.7943	4.7986	4.9930
*After direct transaction costs of: ⁴	0.50	0.58	0.76
Performance			
Return after charges ⁵	0.09%	6.39%	15.47%
Other information			
Closing net asset value (£)	277,466,426	268,014,159	216,002,879
Closing number of shares	119,628,096	115,656,172	99,164,118
Ongoing charges ratio ⁶	0.83%	0.83%	0.83%
Direct transaction costs ⁴	0.21%	0.25%	0.38%
Prices (p)			
Highest share price	255.50	244.91	220.74
Lowest share price	209.53	218.74	176.36

Y – Income shares	31 March 2019	31 March 2018	31 March 2017
Change in net assets per share (p)			
Opening net asset value per share	132.82	127.48	113.02
Return before operating charges ¹	1.38	9.28	18.26
Operating charges ²	(0.04)	(0.04)	(0.03)
Return after operating charges* ³	1.34	9.24	18.23
Distributions on income shares	(4.4051)	(3.8986)	(3.7719)
Closing net asset value per share	129.75	132.82	127.48
*After direct transaction costs of: ⁴	0.28	0.34	0.43
Performance			
Return after charges ⁵	1.01%	7.25%	16.13%
Other information			
Closing net asset value (£)	3,517	3,600	3,938
Closing number of shares	2,710	2,710	3,089
Ongoing charges ratio ⁶	0.03%	0.03%	0.03%
Direct transaction costs ⁴	0.21%	0.25%	0.38%
Prices (p)			
Highest share price	146.67	141.61	130.90
Lowest share price	118.63	128.04	105.87

FRANKLIN UK MANAGERS' FOCUS FUND

Comparative Table (continued)

Z – Accumulation shares	31 March 2019	31 March 2018	31 March 2017
Change in net assets per share (p)			
Opening net asset value per share	229.07	215.75	187.22
Return before operating charges ¹	2.16	15.66	30.59
Operating charges ²	(2.41)	(2.34)	(2.06)
Return after operating charges* ³	(0.25)	13.32	28.53
Closing net asset value per share	228.82	229.07	215.75
Retained distributions on accumulation shares	5.2551	4.2071	4.5533
*After direct transaction costs of: ⁴	0.49	0.57	0.76
Performance			
Return after charges ⁵	(0.11%)	6.17%	15.24%
Other information			
Closing net asset value (£)	858,260	572,278	16,120,836
Closing number of shares	375,084	249,825	7,472,069
Ongoing charges ratio ⁶	1.03%	1.03%	1.03%
Direct transaction costs ⁴	0.21%	0.25%	0.38%
Prices (p)			
Highest share price	252.46	242.21	218.64
Lowest share price	206.82	216.65	174.95

1 The "return before operating charges" is calculated as the "return after operating charges" plus the "operating charges".

2 The "operating charges" are calculated with reference to the total expenses for the year divided by the number of shares in issue at each valuation point.

3 The "return after operating charges" is calculated as the "closing net asset value per share" plus the "distributions" (for income share classes only) minus the "opening net asset value per share".

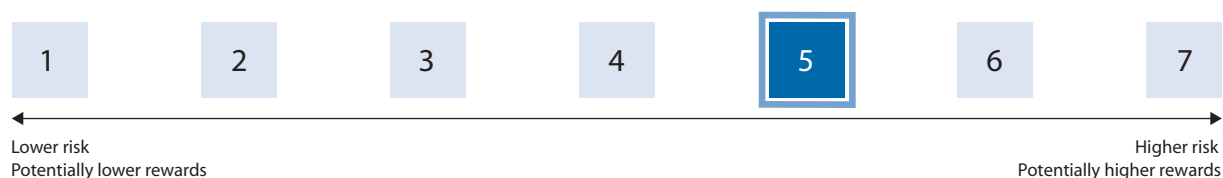
4 The direct transaction costs include all fees and expenses which relate directly to the sales and purchases of securities which include commissions, transfer taxes and duties. Direct transaction costs do not include any difference between the quoted bid and offer prices or internal administrative or holding costs. The "direct transaction costs" ratio is calculated by dividing the total transaction costs by the average net assets.

5 The "return after charges" is calculated as the "return after operating charges" per share divided by the "opening net asset value per share". This figure will differ from "performance return" figure disclosed under "Investment Review" section due to alternative calculation methodology used.

6 The "ongoing charges ratio" represents all operating charges and expenses of the share class in the prior 12 months as a percentage of the share class'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.

Risk Profile (W(acc) shares)



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.

For a full discussion of all the risks applicable to this Fund, please refer to the "Risk Factors" section of the current prospectus of Franklin Templeton Funds.

FRANKLIN UK MANAGERS' FOCUS FUND

Portfolio Statement as at 31 March 2019

(Currency – GBP)

Number of Shares or Face Value	Description	Market Value £000	% of Net Assets
	EQUITIES 97.56% (97.56%)		
	AEROSPACE & DEFENCE 1.19% (1.24%)		
333,500	Avon Rubber PLC	4,336	1.19
	CHEMICALS 1.45% (1.75%)		
1,850,000	Scapa Group PLC	5,247	1.45
	CONSTRUCTION & MATERIALS 2.31% (2.64%)		
3,500,000	Ibstock PLC, Reg S	8,386	2.31
	ELECTRONIC & ELECTRICAL EQUIPMENT 2.75% (1.86%)		
335,000	Gooch & Housego PLC	4,355	1.20
2,591,000	TT Electronics PLC	5,635	1.55
		9,990	2.75
	FINANCIAL SERVICES 10.77% (4.00%)		
900,000	Intermediate Capital Group PLC	9,576	2.64
1,806,000	JTC PLC	5,418	1.49
2,650,000	Jupiter Fund Management PLC	9,585	2.64
2,000,000	Paragon Banking Group PLC	8,716	2.40
4,226,633	XPS Pensions Group PLC	5,833	1.60
		39,128	10.77
	FOOD PRODUCERS 4.30% (0.00%)		
390,000	Associated British Foods PLC	9,508	2.62
225,000	Cranswick PLC	6,120	1.68
		15,628	4.30
	GAS, WATER & MULTI-UTILITIES 2.52% (2.61%)		
1,075,000	National Grid PLC	9,146	2.52
	GENERAL INDUSTRIALS 2.31% (2.34%)		
2,500,000	DS Smith PLC	8,387	2.31
	GENERAL RETAILERS 1.62% (1.04%)		
2,350,000	DFS Furniture PLC	5,887	1.62
	HEALTH CARE EQUIPMENT & SERVICES 2.52% (2.57%)		
600,000	Smith & Nephew PLC	9,135	2.52
	HOUSEHOLD GOODS & HOME CONSTRUCTION 2.35% (2.63%)		
134,000	Reckitt Benckiser Group PLC	8,552	2.35
	INDUSTRIAL ENGINEERING 6.84% (6.66%)		
1,150,000	Bodycote PLC	9,424	2.59
567,800	Vitec Group PLC	6,473	1.78
575,000	Weir Group PLC	8,953	2.47
		24,850	6.84
	LIFE INSURANCE 7.58% (9.38%)		
3,350,000	Legal & General Group PLC	9,219	2.54
555,000	Prudential PLC	8,533	2.35
950,000	St. James's Place Capital PLC	9,762	2.69
		27,514	7.58
	MEDIA 5.21% (9.20%)		
2,140,000	Entertainment One Ltd.	9,557	2.63
570,000	RELX PLC	9,354	2.58
		18,911	5.21
	MINING 2.70% (2.41%)		
220,000	Rio Tinto PLC	9,813	2.70

FRANKLIN UK MANAGERS' FOCUS FUND

Portfolio Statement as at 31 March 2019 (continued)

(Currency – GBP)

Number of Shares or Face Value	Description	Market Value £000	% of Net Assets
	OIL & GAS PRODUCERS 5.14% (4.91%)		
1,700,000	BP PLC	9,493	2.61
381,000	Royal Dutch Shell PLC, A	9,191	2.53
		<u>18,684</u>	<u>5.14</u>
	PERSONAL GOODS 2.47% (2.50%)		
204,000	Unilever PLC	8,966	2.47
	PHARMACEUTICALS & BIOTECHNOLOGY 4.42% (6.90%)		
150,000	AstraZeneca PLC	9,203	2.53
740,000	Clinigen Group PLC	6,856	1.89
		<u>16,059</u>	<u>4.42</u>
	REAL ESTATE INVESTMENT & SERVICES 1.26% (1.49%)		
1,695,000	Urban & Civic PLC	4,593	1.26
	REAL ESTATE INVESTMENT TRUSTS 2.44% (4.16%)		
275,000	Derwent London PLC§	8,858	2.44
	SUPPORT SERVICES 13.72% (14.72%)		
363,000	Bunzl PLC	9,191	2.53
2,395,000	Clipper Logistics PLC	6,323	1.74
2,440,000	Equiniti Group PLC, Reg S	5,063	1.39
164,000	Ferguson PLC	8,006	2.21
1,900,000	Howden Joinery Group PLC	9,221	2.54
1,750,000	Restore PLC	6,002	1.65
1,250,000	RWS Holdings PLC	6,019	1.66
		<u>49,825</u>	<u>13.72</u>
	TECHNOLOGY HARDWARE & EQUIPMENT 1.97% (2.97%)		
5,000,000	Spirent Communications PLC	7,170	1.97
	TOBACCO 5.23% (4.86%)		
305,000	British American Tobacco PLC	9,742	2.68
353,000	Imperial Brands PLC	9,264	2.55
		<u>19,006</u>	<u>5.23</u>
	TRAVEL & LEISURE 4.49% (4.72%)		
525,000	Compass Group PLC	9,468	2.61
1,225,000	GVC Holdings PLC	6,848	1.88
		<u>16,316</u>	<u>4.49</u>
	TOTAL - EQUITIES	<u>354,387</u>	<u>97.56</u>
	TOTAL VALUE OF INVESTMENTS	<u>354,387</u>	<u>97.56</u>
	OTHER ASSETS	<u>8,852</u>	<u>2.44</u>
	TOTAL NET ASSETS	<u>363,239</u>	<u>100.00</u>

The total percentage figures in brackets next to each category heading represent holdings as at 31 March 2018.

Unless otherwise stated the above securities are ordinary shares or common stock and admitted to official stock exchange listings.

§ Real Estate Investment Trust (REIT).

FRANKLIN UK MANAGERS' FOCUS FUND

Statement of Total Return

For the year ended 31 March 2019

	Note	March 2019 £000	March 2019 £000	March 2018 £000	March 2018 £000
Income					
Net capital gains/(losses)	1		(10,027)		9,917
Revenue	2	12,087		8,727	
Expenses	3	(3,128)		(2,686)	
Net revenue before taxation		8,959		6,041	
Taxation	4	(59)		(53)	
Net revenue after taxation			8,900		5,988
Total return before distributions for the year			(1,127)		15,905
Distributions	5		(8,921)		(6,014)
Change in net assets attributable to shareholders			(10,048)		9,891

Statement of Change in Net Assets Attributable to Shareholders

For the year ended 31 March 2019

	March 2019 £000	March 2019 £000	March 2018 £000	March 2018 £000
Opening net assets attributable to shareholders		336,675		267,117
Amounts received on creation of shares	150,797		152,816	
Amounts paid on cancellation of shares	(123,140)		(99,523)	
		27,657		53,293
Dilution adjustments		-		95
Change in net assets attributable to shareholders from investment activities (see above)		(10,048)		9,891
Retained distribution on accumulation shares		8,955		6,279
Closing net assets attributable to shareholders		363,239		336,675

Balance Sheet

As at 31 March 2019

	Note	March 2019 £000	March 2018 £000
Assets			
Fixed assets			
Tangible assets:			
Investment assets		354,387	328,467
Current assets			
Debtors	6	4,034	2,155
Cash and bank balances		7,510	7,118
Total assets		365,931	337,740
Liabilities			
Creditors			
Other creditors	7	(2,692)	(1,065)
Total liabilities		(2,692)	(1,065)
Net assets attributable to shareholders		363,239	336,675

FRANKLIN UK MANAGERS' FOCUS FUND

Notes to the Financial Statements

	March 2019 £000	March 2018 £000
1. Net capital gains/(losses)		
The net capital gains/(losses) during the year comprise:		
Non-derivative securities gains/(losses)	(10,027)	9,917
	<u>(10,027)</u>	<u>9,917</u>
2. Revenue		
UK dividends	10,930	7,423
Overseas dividends	1,148	1,202
Bank and other interest	9	2
Property income dividends	-	87
Underlying commission	-	13
	<u>12,087</u>	<u>8,727</u>
3. Expenses		
Payable to the ACD, associates of the ACD and agents of either of them		
ACD's periodic charge	2,846	2,446
ACD's administration charge	184	151
	<u>3,030</u>	<u>2,597</u>
Payable to the Depositary, associates of the Depositary and agents of either of them		
Depositary fees	55	47
Safe custody fees	24	25
	<u>79</u>	<u>72</u>
Other expenses		
Audit fees	9	11
Legal and publication fees	7	5
Printing fees	3	3
Expense cap	-	(2)
	<u>19</u>	<u>17</u>
	<u>3,128</u>	<u>2,686</u>
4. Taxation		
(a) Analysis of charge in the year		
Irrecoverable overseas tax	59	53
Total current tax (note 4(b))	59	53
Total taxation	59	53
(b) Factors affecting tax charge for the year		
The tax assessed for the year is lower (2018: lower) than the standard rate of corporation tax in the UK for Open Ended Investment Companies (20% (2018: 20%)).		
The differences are explained below:		
Net revenue before taxation	8,959	6,041
Corporation tax of 20% (2018: 20%)	1,792	1,208
Effects of:		
Excess management expenses	573	517
Irrecoverable overseas tax	59	53
UK dividends & non-taxable overseas dividends*	(2,365)	(1,725)
Current tax charge for year (note 4(a))	59	53

*As an Open Ended Investment Company these items are not subject to corporation tax.

Open-ended investment companies are exempt from tax on capital gains in the UK. Therefore, any capital return is not included within the reconciliation above.

At the year end there is a potential deferred tax asset of £2,209,000 (£1,636,000 as at 31 March 2018) in relation to excess management fees. It is unlikely the Fund will generate sufficient tax profits in the future to utilise these amounts and therefore no deferred tax assets have been recognised in the year.

FRANKLIN UK MANAGERS' FOCUS FUND

Notes to the Financial Statements (continued)

	March 2019 £000	March 2018 £000
5. (a) Finance costs		
The distribution takes account of income received on the issue of shares and income deducted on the cancellation of shares, and comprise:		
Interim dividend distributions		
Accumulation	5,302	4,111
	<u>5,302</u>	<u>4,111</u>
Final dividend distributions		
Accumulation	3,653	2,167
	<u>3,653</u>	<u>2,167</u>
Add: Income deducted on cancellation of shares	947	458
Deduct: Income received on issue of shares	(981)	(722)
Total distribution	<u>8,921</u>	<u>6,014</u>
Total finance costs	<u>8,921</u>	<u>6,014</u>
(b) Difference between net revenue and distribution:		
Net revenue after taxation	8,900	5,988
Net revenue received on share class conversions	<u>21</u>	<u>26</u>
Total distribution for the year	<u>8,921</u>	<u>6,014</u>

Details of the distribution in pence per share for this Fund are set out in the table on page 123.

6. Debtors		
Accrued income	1,811	714
Sales awaiting settlement	1,579	-
Amounts receivable for issue of shares	600	1,399
Overseas tax recoverable	44	40
Capped expenses	-	<u>2</u>
	<u>4,034</u>	<u>2,155</u>
7. Other creditors		
Purchases awaiting settlement	1,764	-
Amounts payable on cancellation of shares	654	800
Accrued expenses	<u>274</u>	<u>265</u>
	<u>2,692</u>	<u>1,065</u>

8. Related parties

During the year, Franklin Templeton Fund Management Limited ("ACD"), a related party, acted primarily in all transactions of the Funds. The aggregate amounts received through issues and cancellations are disclosed in the Statement of Change in Net Assets Attributable to Shareholders.

Amounts charged by the ACD and associates of the ACD in respect of the management and administration fees are disclosed in Note 3.

The amounts due to the ACD and associates of the ACD in respect of management and administration fees at 31 March 2019 are £247,000 (£238,000 as at 31 March 2018).

During the year the Fund received £2,000 (nil for the year to 31 March 2018) in reimbursed expenses from the ACD.

As at 31 March 2019 the Fund was due reimbursed expenses of nil (£2,000 as at 31 March 2018) from the ACD.

As at 31 March 2019 Templeton Global Advisors Limited ("TGAL") held 100% (100% as at 31 March 2018) of the shares in issue of Class Y Income

9. Risk management policies and disclosures

The risks inherent in the Fund's investment portfolio are as follows:

Market Risk**Currency risk**

Fluctuations in the foreign exchange rates can adversely affect the value of a portfolio.

At the year end date, 0.01% (2018: 0.01%) of the net assets of the Fund were denominated in currencies other than sterling and as such the currency risk is not considered significant.

FRANKLIN UK MANAGERS' FOCUS FUND

Notes to the Financial Statements (continued)

9. Risk management policies and disclosures (continued)

Interest rate risk

The Fund does not invest in either fixed or floating rate securities and interest rate risk exposure is restricted to interest receivable on bank deposits or payable on bank overdraft positions which will be affected by fluctuations in interest rates.

Other price risk

At the year end date, 97.56% (2018: 97.56%) of the net assets of the Fund were invested in ordinary shares or stock units admitted to an official stock exchange. If the market value were to change by 10%, the value of the Fund would change by 9.76% (2018: 9.76%).

There is no material difference between the value of the financial assets and liabilities, as shown in the Balance sheet, and their fair values.

10. Portfolio Transaction Costs

	2019			2018		
	Purchases £000	% Of Purchases	% of Average Net Asset Value	Purchases £000	% Of Purchases	% of Average Net Asset Value
Equity purchases in year before transaction costs	140,477			148,869		
Commissions	77	0.05	0.02	117	0.08	0.04
Taxes	561	0.40	0.15	508	0.34	0.17
Other	76	0.05	0.02	18	0.01	0.01
Total Equity purchases in the year after direct transaction costs	141,191			149,512		

	2019			2018		
	Sales £000	% Of Sales	% of Average Net Asset Value	Sales £000	% Of Sales	% of Average Net Asset Value
Equity sales in year before transaction costs	83,063			95,132		
Commissions	(47)	(0.06)	(0.01)	(97)	(0.10)	(0.03)
Total Equity Sales in the year after direct transaction costs	83,016			95,035		

In pursuance of its investment objectives the Fund incurs commissions, taxes and other charges when buying and selling investment securities. Share dealing generally incurs broker commission and stamp duty and these are paid by the Fund on each transaction where appropriate.

In addition there is a dealing spread between the buying and selling prices of the underlying investments. The average dealing spread which is the difference between the quoted bid and offer prices or internal administrative or holding costs, are not included in the calculation of Direct Transaction Costs. As at 31 March 2019, the average dealing spread for the underlying Fund investments is 0.34% (2018: 0.26%).

Comparing portfolio transaction costs for a range of funds may give a misleading impression of the relative costs of investing in those funds for the following reasons:

- Historic transaction costs are not an effective indicator of the future impact on performance as it may vary from year to year depending on the investment manager;
- Transaction costs for buying and selling investments due to shareholder activity on the fund are recovered from those investors;
- Transaction costs will vary depending on the types of securities the fund is investing.

11. Creations and Cancellations of Shares

	A-Accumulation shares	S-Accumulation shares	W-Accumulation shares	Y-Income shares	Z-Accumulation shares
Opening Shares	10,579,930	33,656,677	115,656,172	2,710	249,825
Creations	1,302,446	17,214,465	53,132,475	-	38,244
Cancellations	(3,173,281)	(14,426,143)	(41,147,626)	-	(127,657)
Conversions	(1,160,774)	16,997,240	(8,012,925)	-	214,672
Total Closing Shares	7,548,321	53,442,239	119,628,096	2,710	375,084

FRANKLIN UK MANAGERS' FOCUS FUND

Notes to the Financial Statements (continued)

12. Fair Value Disclosure

In accordance with FRS 102 the Fund classifies fair value measurement under the following levels:

Level 1

Unadjusted quoted market prices in active markets for identical securities.

Level 2

Investments (other than quoted prices included within Level 1) whose fair value is based directly on observable current market prices or is indirectly being derived from market prices; and

Level 3

Investments whose fair value is determined using a valuation technique based on assumptions that are not supported by observable current market prices or are not based on observable market data such as security in default or securities valued by Franklin Templeton Fair Valuation Committee.

Fair Value Hierarchy	Assets 31 March 2019 £000	Liabilities 31 March 2019 £000	Assets 31 March 2018 £000	Liabilities 31 March 2018 £000
Level 1	354,387	-	328,467	-
Level 2	-	-	-	-
Level 3	-	-	-	-
Total	354,387	-	328,467	-

FRANKLIN UK MANAGERS' FOCUS FUND

Distribution Statement

For the period 1 April 2018 to 30 September 2018

Group 1 - Shares purchased prior to 1 April 2018

Group 2 - Shares purchased in the period 1 April 2018 to 30 September 2018

	Net Income p	Equalisation p	30 September 2018 Pence per Share p	30 September 2017 Pence per Share p
A - Accumulation Shares				
Group 1	2.7404	-	2.7404	2.6261
Group 2	2.0558	0.6846	2.7404	2.6261
S - Accumulation Shares				
Group 1	1.9721	-	1.9721	1.8577
Group 2	0.8958	1.0763	1.9721	1.8577
W - Accumulation Shares				
Group 1	3.4588	-	3.4588	3.2667
Group 2	1.6612	1.7976	3.4588	3.2667
Y - Income Shares				
Group 1	2.5656	-	2.5656	2.4635
Group 2	2.5656	-	2.5656	2.4635
Z - Accumulation Shares				
Group 1	3.1708	-	3.1708	2.9248
Group 2	1.8105	1.3603	3.1708	2.9248

For the period 1 October 2018 to 31 March 2019

Group 1 - Shares purchased prior to 1 October 2018

Group 2 - Shares purchased in the period 1 October 2018 to 31 March 2019

	Net Income p	Equalisation p	31 March 2019 Pence per Share p	31 March 2018 Pence per Share p
A - Accumulation Shares				
Group 1	1.6072	-	1.6072	0.7082
Group 2	0.9759	0.6313	1.6072	0.7082
S - Accumulation Shares				
Group 1	1.3647	-	1.3647	0.9407
Group 2	1.2231	0.1416	1.3647	0.9407
W - Accumulation Shares				
Group 1	2.3355	-	2.3355	1.5319
Group 2	1.1647	1.1708	2.3355	1.5319
Y - Income Shares				
Group 1	1.8395	-	1.8395	1.4351
Group 2	1.8395	-	1.8395	1.4351
Z - Accumulation Shares				
Group 1	2.0843	-	2.0843	1.2823
Group 2	1.9924	0.0919	2.0843	1.2823

Equalisation

All shareholders, within each share category, receive the same distribution per share, although the distribution to shareholders who purchased shares during the distribution period (Group 2 holdings) contains an element of equalisation which is a repayment, at an average rate per share, of the amount of accrued net income which was included in the purchase price of such shares. As the nature of this payment is capital it is not subject to income tax but must be deducted from the purchase price in any capital gains tax computation on the sale of the shares.

FRANKLIN UK MID CAP FUND

Investment Review

Performance

For the year ended 31 March 2019, Franklin UK Mid Cap Fund (W (acc) shares) made a net return of -1.27%*, compared with the FTSE 250 (excluding investment trusts) Index's -0.86% return.

Overview

The year under review started strongly with the UK equity market rising sharply in April and early May and reaching a new all-time high. At one point, the market was up more than 9% in less than eight weeks, but this proved to be the high point of the year and for the rest of the year returns have been negative.

Following a period of relatively low volatility over the summer months, sentiment took a turn for the worse in the autumn, as economic and political factors combined to create a perfect storm for investors. The UK equity market declined by 10% in the final quarter of 2018, undermined by rising U.S. interest rates, heightened trade rhetoric and the interminable Brexit negotiations.

The new calendar year brought a change of fortune, with the catalyst a dramatic pivot by the U.S. Federal Reserve ("Fed"). The Fed's decision in December 2018 to increase U.S. short-term rates in the face of an obviously slowing global economy had led to increased nervousness about a policy mistake, and its volte face in January was a welcome relief to global equity markets.

The final three months of the Fund's financial year saw markets recover much of the ground lost in the previous quarter. The U.S. 10-year bond yield had been rising sharply towards the end of 2018, but this move reversed sharply in the opening months of 2019, spurring a significant rally in equity prices, albeit from what had looked, in our view, to be a heavily oversold position.

Sentiment was further bolstered by a more constructive approach to trade negotiations by the Trump administration after the midterm elections, and by the UK parliament taking steps to reduce the likelihood of a so-called hard Brexit.

The overall performance of the UK economy in 2018 was broadly in line with expectations. The understandable downturn in business investment in the face of Brexit uncertainty has been largely offset by a more resilient consumer. The consumer has been helped by the remarkably robust labour market and the return of real wage growth as inflation has moderated.

Global economic growth moderated modestly from the previous year to 3.7%, with the United States leading the way amongst the advanced economies with growth of 2.9%, helped by the programme of tax cuts. The eurozone and Japan both experienced sharp slowdowns as their structural deficiencies once again came to the fore.

The global economy has looked increasingly fragile to us as the year progressed. The necessary steps towards some sort of normalisation of U.S. monetary policy have been hindered by the impact of trade measures and market volatility.

In terms of sector performance, the dominant features of the year were the strength of the oil and gas, pharmaceutical and mining sectors and the weakness in banks. The oil sector was particularly strong in the first half of the year, reflecting a 25% gain in the underlying oil price. In the second half of the year, the mining sector delivered robust returns, with several sector constituents up more than 25% as iron ore prices gained strongly, following the mine dam tragedy in Brazil.

From a market capitalisation perspective, small- and mid-cap stocks underperformed their larger counterparts by a wide margin. During the year to 31 March 2019, the mid-cap FTSE 250 Index fell by 1% and the FTSE SmallCap Index gained 1%, whilst the FTSE 100 Index posted a gain of 7.7%.

Significant Changes

Amongst the biggest stock purchases during the year were auto components company TI Fluid Systems PLC, defence contractor Meggitt PLC, telecom equipment testing firm Spirent Communications PLC and pork and poultry producer Cranswick PLC. TI Fluid Systems PLC traded on modest valuation multiples,

* Figure differs from comparative table performance due to alternative calculation methodology used.

FRANKLIN UK MID CAP FUND

Investment Review (continued)

Significant Changes (continued)

according to our analysis, in part reflecting its lack of a track record after its recent flotation. Shares in Meggitt had fallen almost 20% since October 2018, as cyclical names were out of favour and concerns about restructuring costs weighed on investor sentiment. We believe that these concerns were overdone and that the shares offer significant upside from current levels. Finally, the company operates across various niche end-markets in its technology segment, which make it an attractive takeover target, in our view. The Spirent share price has gone sideways over much of the past five years, but we believe technology cycles are at long last turning in the company's favour, and with a new chief executive about to take up the reins, we see better times ahead. Cranswick is a company we have long held in high regard, and we believe the recent share price weakness provides an opportunity to re-engage, as the company attempts to replicate its success in pork in the poultry category. We also re-established a position in GVC Group Holdings PLC, a sports betting and gaming firm, after disposing of the position earlier in the year.

The biggest stock sales included plastic packaging manufacturer RPC Group PLC, retirement housebuilder McCarthy & Stone PLC, insurer Hiscox and specialist lender Close Brothers Group PLC. We sold our position in RPC Group PLC, after it received a takeover offer from a U.S.-based private-equity firm.

Positive/Negative Contributors

At the sector level, an overweight in media and an underweight in banks contributed to relative performance, as did stock selection in real estate. In contrast, security selection in personal and household goods, insurance and an underweight in food and beverage weighed on relative performance.

On the upside, media company Entertainment One Ltd. contributed to relative performance on the strength of its Peppa Pig franchise, which benefitted from rising interest from the Chinese market during its Year of the Pig. Industrial software maker AVEVA Group PLC was also a positive standout, following reassuring financial figures. The company continues to benefit from strong underlying growth. ZPG PLC, which owns online real estate agency Zoopla, buoyed relative returns, as a takeover was announced by U.S. private equity firm Silver Lake. Several consumer-oriented companies also contributed to relative performance, as the UK consumer has remained relatively resilient, despite economic and Brexit-related uncertainties. Both sofa retailer DFS Furniture PLC and pub chain Greene King PLC contributed to relative performance, as earnings have remained robust.

Amongst the detractors, fashion brand Superdry PLC hurt relative performance. The company's shares plunged after warning that weather conditions, changing consumer behaviour and political and economic uncertainty were weighing on its business. The Just Group PLC share price dropped by almost 40%, following a badly received equity fund raising designed to address balance sheet concerns at the retirement specialist. Private hospital operator Spire Healthcare Group PLC curbed relative performance, as it received lower revenues from the National Health Service, which has reduced visibility into its earnings profile. Speciality chemicals company Elementis PLC was a negative influence amidst concerns surrounding its recent acquisition of an industrial talc producer. Automotive parts company TI Fluid Systems PLC was also a detractor as the market fretted over the outlook for global automotive sales.

Outlook

The equity market momentum established in the early months of 2019 has been maintained in the opening weeks of the Fund's new financial year. Encouraged by lower bond yields, investor sentiment has greatly improved from the dark days of December 2018, and markets now appear to be much more confident of a benign outcome to trade discussions and the Brexit process.

It seems extraordinary to us that we still have no certainty on Brexit, as we approach the third anniversary of the vote. In the short term, investors have taken heart from the fact that the UK parliament took steps to greatly reduce the risk of a no deal scenario. We have, however, long believed that the real risk from Brexit is that the political upheaval leads to a change of government, and a new regime with a vastly different policy agenda. This outcome remains a real possibility, although it is not our central case expectation.

The fears of a global recession that haunted the market towards the end of 2018, when the Fed appeared determined to keep raising rates, have visibly receded in recent weeks. The policy pivot and progress on trade discussions have clearly helped, at a time when the economic data remains mixed at best.

FRANKLIN UK MID CAP FUND

Investment Review (continued)

Outlook (continued)

In the United States, economic activity has moderated, but remains solidly positive, and with long-term rates trending lower and the labour market remaining robust, we expect consumer spending to be underpinned. China has responded to its economic slowdown by providing both monetary and fiscal stimulus, and there are early signs the measures are starting to work. The eurozone remains of greater concern, with the area's structural issues remaining unaddressed and fewer policy tools available if the environment deteriorates further.

The UK economic outlook remains clouded by Brexit, and the impact of the uncertainty on business investment is becoming ever more apparent. Consumer spending is, however, a much larger part of the overall economy, and having been under pressure from a squeeze in real wages a year ago, the environment is now more supportive. Inflation is falling, wage growth is accelerating, and real wage growth is firmly re-established. Confidence for 'big ticket' item purchases remains somewhat fragile, but the overall upward trend in consumer spending is intact.

From a UK equity market perspective, it remains a difficult environment for stock selection, not made any easier by the strong recovery in market levels over the past few months. The parliamentary moves to block a no deal Brexit have inspired a sharp rally in many domestic-facing stocks and removed much of the previous valuation disparity. But at the same time the more international stocks have moved higher on the back of lower bond yields.

The forward price earnings ratio for the UK market remains a deceptively modest 13 times, which reflects an uncertain outlook for earnings growth in the face of a slowing global economy. Earnings expectations for 2019 have already fallen back, from 8% to nearer 4% over the past six months, and may well have further to fall.

The positive case for the equity market rests, as ever in recent years, on the yield gap, with a forward dividend yield on UK equities of 4.5% versus a 1.1% yield on UK 10-year Gilts.

Paul Spencer, Mark Hall & Richard Bullas

Fund Managers

31 March 2019

FRANKLIN UK MID CAP FUND

Comparative Table

A – Income shares	31 March 2019	31 March 2018	31 March 2017
Change in net assets per share (p)			
Opening net asset value per share	614.55	542.46	511.06
Return before operating charges ¹	2.51	89.68	51.02
Operating charges ²	(9.70)	(9.42)	(8.00)
Return after operating charges* ³	(7.19)	80.26	43.02
Distributions on income shares	(11.491)	(8.1652)	(11.6211)
Closing net asset value per share	595.87	614.55	542.46
*After direct transaction costs of: ⁴	1.48	1.68	1.53
Performance			
Return after charges ⁵	(1.17%)	14.80%	8.42%
Other information			
Closing net asset value (£)	66,221,279	87,692,262	137,335,238
Closing number of shares	11,113,342	14,269,356	25,317,146
Ongoing charges ratio ⁶	1.57%	1.57%	1.57%
Direct transaction costs ⁴	0.24%	0.28%	0.30%
Prices (p)			
Highest share price	675.15	647.40	562.90
Lowest share price	531.90	544.78	440.21

S – Income shares ⁷	31 March 2019	31 March 2018	31 March 2017
Change in net assets per share (p)			
Opening net asset value per share	103.98	100.00	n/a
Return before operating charges ¹	(2.53)	4.64	n/a
Operating charges ²	(0.65)	(0.66)	n/a
Return after operating charges* ³	(3.18)	3.98	n/a
Closing net asset value per share	100.80	103.98	n/a
*After direct transaction costs of: ⁴	0.25	0.30	n/a
Performance			
Return after charges ⁵	(3.06%)	3.98%	n/a
Other information			
Closing net asset value (£)	220,214,770	231,027,073	n/a
Closing number of shares	218,460,409	222,185,905	n/a
Ongoing charges ratio ⁶	0.62%	0.62%	n/a
Direct transaction costs ⁴	0.24%	0.28%	n/a
Prices (p)			
Highest share price	114.46	109.38	n/a
Lowest share price	90.41	99.07	n/a

FRANKLIN UK MID CAP FUND

Comparative Table (continued)

S – Accumulation shares	31 March 2019	31 March 2018	31 March 2017
Change in net assets per share (p)			
Opening net asset value per share	128.47	110.84	101.21
Return before operating charges ¹	(0.49)	18.41	10.26
Operating charges ²	(0.80)	(0.78)	(0.63)
Return after operating charges* ³	(0.31)	17.63	9.63
Closing net asset value per share	128.16	128.47	110.84
Retained distributions on accumulation shares	3.6481	2.8542	3.2931
*After direct transaction costs of: ⁴	0.31	0.35	0.31
Performance			
Return after charges ⁵	(0.24%)	15.91%	9.51%
Other information			
Closing net asset value (£)	71,704,121	96,611,627	46,469,386
Closing number of shares	55,947,402	75,201,919	41,926,234
Ongoing charges ratio ⁶	0.62%	0.62%	0.62%
Direct transaction costs ⁴	0.24%	0.28%	0.30%
Prices (p)			
Highest share price	141.41	133.98	113.46
Lowest share price	112.66	111.32	87.39

W – Income shares	31 March 2019	31 March 2018	31 March 2017
Change in net assets per share (p)			
Opening net asset value per share	182.83	161.36	151.96
Return before operating charges ¹	(0.74)	26.72	15.26
Operating charges ²	(1.51)	(1.47)	(1.25)
Return after operating charges* ³	(0.77)	25.25	14.01
Distributions on income shares	(4.8034)	(3.7813)	(4.6089)
Closing net asset value per share	177.26	182.83	161.36
*After direct transaction costs of: ⁴	0.44	0.50	0.46
Performance			
Return after charges ⁵	(0.42%)	15.65%	9.22%
Other information			
Closing net asset value (£)	314,865,810	325,146,527	468,471,449
Closing number of shares	177,634,159	177,836,608	290,321,099
Ongoing charges ratio ⁶	0.82%	0.82%	0.82%
Direct transaction costs ⁴	0.24%	0.28%	0.30%
Prices (p)			
Highest share price	201.17	193.34	168.29
Lowest share price	158.82	162.07	131.16

FRANKLIN UK MID CAP FUND

Comparative Table (continued)

W – Accumulation shares	31 March 2019	31 March 2018	31 March 2017
Change in net assets per share (p)			
Opening net asset value per share	232.04	200.59	183.53
Return before operating charges ¹	0.90	33.29	18.57
Operating charges ²	(1.92)	(1.84)	(1.51)
Return after operating charges* ³	(1.02)	31.45	17.06
Closing net asset value per share	231.02	232.04	200.59
Retained distributions on accumulation shares	6.1146	4.7110	5.5848
*After direct transaction costs of: ⁴	0.56	0.63	0.55
Performance			
Return after charges ⁵	(0.44%)	15.68%	9.30%
Other information			
Closing net asset value (£)	255,246,794	238,954,187	247,793,282
Closing number of shares	110,487,606	102,977,786	123,530,888
Ongoing charges ratio ⁶	0.82%	0.82%	0.82%
Direct transaction costs ⁴	0.24%	0.28%	0.30%
Prices (p)			
Highest share price	255.32	242.12	205.36
Lowest share price	203.19	201.47	158.40

Y – Income shares	31 March 2019	31 March 2018	31 March 2017
Change in net assets per share (p)			
Opening net asset value per share	137.39	121.25	114.12
Return before operating charges ¹	0.54	20.11	11.54
Operating charges ²	(0.03)	(0.03)	(0.02)
Return after operating charges* ³	0.51	20.08	11.52
Distributions on income shares	(4.7386)	(3.9432)	(4.388)
Closing net asset value per share	133.16	137.39	121.25
*After direct transaction costs of: ⁴	0.33	0.38	0.34
Performance			
Return after charges ⁵	0.37%	16.56%	10.09%
Other information			
Closing net asset value (£)	3,958	4,084	3,604
Closing number of shares	2,972	2,972	2,972
Ongoing charges ratio ⁶	0.02%	0.02%	0.02%
Direct transaction costs ⁴	0.24%	0.28%	0.30%
Prices (p)			
Highest share price	151.43	145.88	127.14
Lowest share price	119.80	121.79	98.71

FRANKLIN UK MID CAP FUND

Comparative Table (continued)

Z – Accumulation shares	31 March 2019	31 March 2018	31 March 2017
Change in net assets per share (p)			
Opening net asset value per share	229.38	198.69	182.15
Return before operating charges ¹	0.90	32.96	18.40
Operating charges ²	(2.37)	(2.27)	(1.86)
Return after operating charges* ³	(1.47)	30.69	16.54
Closing net asset value per share	227.91	229.38	198.69
Retained distributions on accumulation shares	5.5774	4.2189	5.1718
*After direct transaction costs of: ⁴	0.56	0.62	0.55
Performance			
Return after charges ⁵	(0.64%)	15.45%	9.08%
Other information			
Closing net asset value (£)	5,897,256	7,025,421	5,690,020
Closing number of shares	2,587,488	3,062,743	2,863,778
Ongoing charges ratio ⁶	1.02%	1.02%	1.02%
Direct transaction costs ⁴	0.24%	0.28%	0.30%
Prices (p)			
Highest share price	252.29	239.45	203.42
Lowest share price	200.57	199.55	157.12

1 The "return before operating charges" is calculated as the "return after operating charges" plus the "operating charges".

2 The "operating charges" are calculated with reference to the total expenses for the year divided by the number of shares in issue at each valuation point.

3 The "return after operating charges" is calculated as the "closing net asset value per share" plus the "distributions" (for income share classes only) minus the "opening net asset value per share".

4 The direct transaction costs include all fees and expenses which relate directly to the sales and purchases of securities which include commissions, transfer taxes and duties. Direct transaction costs do not include any difference between the quoted bid and offer prices or internal administrative or holding costs. The "direct transaction costs" ratio is calculated by dividing the total transaction costs by the average net assets.

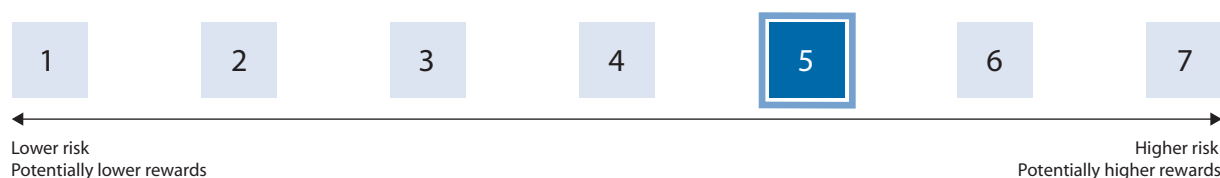
5 The "return after charges" is calculated as the "return after operating charges" per share divided by the "opening net asset value per share". This figure will differ from "performance return" figure disclosed under "Investment Review" section due to alternative calculation methodology used.

6 The "ongoing charges ratio" represents all operating charges and expenses of the share class in the prior 12 months as a percentage of the share class'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.

7 This is from share class launch on 31 August 2017.

Risk Profile (W(acc) shares)



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.

For a full discussion of all the risks applicable to this Fund, please refer to the "Risk Factors" section of the current prospectus of Franklin Templeton Funds.

FRANKLIN UK MID CAP FUND

Portfolio Statement as at 31 March 2019

(Currency – GBP)

Number of Shares or Face Value	Description	Market Value £000	% of Net Assets
	EQUITIES 96.56% (97.98%)		
	AEROSPACE & DEFENCE 3.37% (0.00%)		
6,250,000	Meggitt PLC	31,425	3.37
	AUTOMOBILES & PARTS 2.97% (0.00%)		
15,250,000	TI Fluid Systems PLC, Reg S	27,770	2.97
	BANKS 0.00% (1.82%)		
	CHEMICALS 2.09% (2.99%)		
12,000,000	Elementis PLC	19,500	2.09
	CONSTRUCTION & MATERIALS 6.09% (6.05%)		
12,000,000	Ibstock PLC, Reg S	28,752	3.08
7,000,000	Polypipe Group PLC	28,098	3.01
		56,850	6.09
	ELECTRONIC & ELECTRICAL EQUIPMENT 3.36% (3.55%)		
1,250,000	Spectris PLC	31,337	3.36
	FINANCIAL SERVICES 17.08% (13.03%)		
8,000,000	Ashmore Group PLC	34,176	3.66
3,500,000	Intermediate Capital Group PLC	37,240	3.99
9,500,000	Jupiter Fund Management PLC	34,361	3.68
7,750,000	Paragon Banking Group PLC	33,775	3.61
900,000	Rathbone Brothers PLC	20,016	2.14
		159,568	17.08
	FOOD PRODUCERS 2.62% (0.00%)		
900,000	Cranswick PLC	24,480	2.62
	GENERAL INDUSTRIALS 0.00% (2.74%)		
	GENERAL RETAILERS 3.05% (2.24%)		
11,373,929	DFS Furniture PLC	28,492	3.05
	HOUSEHOLD GOODS & HOME CONSTRUCTION 3.91% (4.60%)		
1,200,000	Bellway PLC	36,540	3.91
	INDUSTRIAL ENGINEERING 8.38% (8.81%)		
4,000,000	Bodycote PLC	32,780	3.51
1,500,000	IMI PLC	14,325	1.53
2,000,000	Weir Group PLC	31,140	3.34
		78,245	8.38
	INDUSTRIAL TRANSPORTATION 2.06% (2.11%)		
7,750,000	BBA Aviation PLC	19,267	2.06
	LIFE INSURANCE 1.62% (3.79%)		
24,785,104	Just Group PLC	15,168	1.62
	MEDIA 6.01% (8.99%)		
8,500,000	Entertainment One Ltd.	37,961	4.06
1,450,000	Euromoney Institutional Investor PLC	18,212	1.95
		56,173	6.01
	NONLIFE INSURANCE 5.70% (4.56%)		
4,000,000	Beazley PLC	20,580	2.20
5,000,000	Lancashire Holdings Ltd.	32,675	3.50
		53,255	5.70
	PERSONAL GOODS 0.00% (1.97%)		
	PHARMACEUTICALS & BIOTECHNOLOGY 0.00% (1.53%)		

FRANKLIN UK MID CAP FUND

Portfolio Statement as at 31 March 2019 (continued)

(Currency – GBP)

Number of Shares or Face Value	Description	Market Value £000	% of Net Assets
	REAL ESTATE INVESTMENT & SERVICES 4.10% (2.81%)		
10,000,000	Grainger PLC	23,640	2.53
1,600,000	Unite Group PLC§	14,680	1.57
		<u>38,320</u>	<u>4.10</u>
	REAL ESTATE INVESTMENT TRUSTS 5.48% (7.06%)		
1,100,000	Derwent London PLC§	35,431	3.79
11,000,000	Tritax Big Box REIT PLC§	15,796	1.69
		<u>51,227</u>	<u>5.48</u>
	SOFTWARE & COMPUTER SERVICES 2.59% (1.79%)		
750,000	Aveva Group PLC	24,195	2.59
	SUPPORT SERVICES 8.84% (9.04%)		
2,500,000	HomeServe PLC	25,625	2.74
6,650,000	Howden Joinery Group PLC	32,272	3.46
5,250,000	PageGroup PLC	24,665	2.64
		<u>82,562</u>	<u>8.84</u>
	TECHNOLOGY HARDWARE & EQUIPMENT 3.07% (3.55%)		
20,000,000	Spirent Communications PLC	28,680	3.07
	TRAVEL & LEISURE 4.17% (4.95%)		
2,500,000	Greene King PLC	16,610	1.78
4,000,000	GVC Holdings PLC	22,360	2.39
		<u>38,970</u>	<u>4.17</u>
	TOTAL - EQUITIES	<u>902,024</u>	<u>96.56</u>
	TOTAL VALUE OF INVESTMENTS	<u>902,024</u>	<u>96.56</u>
	OTHER ASSETS	<u>32,130</u>	<u>3.44</u>
	TOTAL NET ASSETS	<u>934,154</u>	<u>100.00</u>

The total percentage figures in brackets next to each category heading represent holdings as at 31 March 2018. Unless otherwise stated the above securities are ordinary shares or common stock and admitted to official stock exchange listings.

§ Real Estate Investment Trust (REIT).

FRANKLIN UK MID CAP FUND

Statement of Total Return

For the year ended 31 March 2019

	Note	March 2019 £000	March 2019 £000	March 2018 £000	March 2018 £000
Income					
Net capital gains/(losses)	1		(32,032)		118,061
Revenue	2	34,417		28,746	
Expenses	3	(8,172)		(8,697)	
Net revenue before taxation		26,245		20,049	
Taxation	4	(47)		(7)	
Net revenue after taxation			26,198		20,042
Total return before distributions for the year			(5,834)		138,103
Distributions	5		(26,246)		(19,008)
Change in net assets attributable to shareholders			(32,080)		119,095

Statement of Change in Net Assets Attributable to Shareholders

For the year ended 31 March 2019

	March 2019 £000	March 2019 £000	March 2018 £000	March 2018 £000
Opening net assets attributable to shareholders		986,461		905,763
Amounts received on creation of shares	217,146		164,191	
Amounts paid on cancellation of shares	(197,077)		(209,709)	
In-specie out	(49,660)		-	
		(29,591)		(45,518)
Unclaimed distributions		15		1
Change in net assets attributable to shareholders from investment activities (see above)		(32,080)		119,095
Retained distribution on accumulation shares		9,349		7,120
Closing net assets attributable to shareholders		934,154		986,461

Balance Sheet

As at 31 March 2019

	Note	March 2019 £000	March 2018 £000
Assets			
Fixed assets			
Tangible assets:			
Investment assets		902,024	966,514
Current assets			
Debtors	6	13,006	5,210
Cash and bank balances		36,501	31,981
Total assets		951,531	1,003,705
Liabilities			
Creditors			
Distribution payable	5	(11,139)	(7,067)
Other creditors	7	(6,238)	(10,177)
Total liabilities		(17,377)	(17,244)
Net assets attributable to shareholders		934,154	986,461

FRANKLIN UK MID CAP FUND

Notes to the Financial Statements

	March 2019 £000	March 2018 £000
1. Net capital gains/(losses)		
The net capital gains/(losses) during the year comprise:		
Non-derivative securities gains/(losses)	(32,032)	118,061
	<u>(32,032)</u>	<u>118,061</u>
2. Revenue		
UK dividends	32,052	24,801
Overseas dividends	2,333	2,101
Bank and other interest	32	7
Property income dividends	-	1,791
Underwriting commission	-	46
	<u>34,417</u>	<u>28,746</u>
3. Expenses		
Payable to the ACD, associates of the ACD and agents of either of them		
ACD's periodic charge	7,457	7,996
ACD's administration charge	501	488
	<u>7,958</u>	<u>8,484</u>
Payable to the Depositary, associates of the Depositary and agents of either of them		
Depositary fees	123	113
Safe custody fees	64	76
	<u>187</u>	<u>189</u>
Other expenses		
Legal and publication fees	16	13
Audit fees	9	10
Printing fees	3	4
Expense cap	(1)	(3)
	<u>27</u>	<u>24</u>
	<u>8,172</u>	<u>8,697</u>
4. Taxation		
(a) Analysis of charge in the year		
Irrecoverable overseas tax	47	7
Total current tax (note 4(b))	47	7
Total taxation	47	7
(b) Factors affecting tax charge for the year		
The tax assessed for the year is lower (2018: lower) than the standard rate of corporation tax in the UK for Open Ended Investment Companies (20% (2018: 20%)).		
The differences are explained below:		
Net revenue before taxation	26,245	20,049
Corporation tax of 20% (2018: 20%)	5,249	4,010
Effects of:		
Irrecoverable overseas tax	47	7
Excess management expenses	1,171	1,367
Revenue taxable in different years	-	4
UK dividends & non-taxable overseas dividends*	(6,420)	(5,381)
Current tax charge for year (note 4(a))	47	7

* As an Open Ended Investment Company these items are not subject to corporation tax.

Open Ended Investment Companies are exempt from tax on capital gains in the UK. Therefore, any capital return is not included within the reconciliation above.

At the year end there is a potential deferred tax asset of £13,873,000 (£12,702,000 as at 31 March 2018) in relation to excess management expenses. It is unlikely the Fund will generate sufficient tax profits in the future to utilise these amounts and therefore no deferred tax assets have been recognised in the year.

FRANKLIN UK MID CAP FUND

Notes to the Financial Statements (continued)

	March 2019 £000	March 2018 £000
5. (a) Finance costs		
The distribution takes account of income received on the issue of shares and income deducted on the cancellation of shares, and comprise:		
Interim dividend distributions		
Income	5,160	4,479
Accumulation	<u>3,199</u>	<u>2,455</u>
	<u>8,359</u>	<u>6,934</u>
Final dividend distributions		
Income	11,139	7,067
Accumulation	<u>6,150</u>	<u>4,665</u>
	<u>17,289</u>	<u>11,732</u>
Add: Income deducted on cancellation of shares	3,090	1,953
Deduct: Income received on issue of shares	<u>(2,492)</u>	<u>(1,611)</u>
Total distribution	<u>26,246</u>	<u>19,008</u>
Total finance costs	<u>26,246</u>	<u>19,008</u>
(b) Difference between net revenue and distribution:		
Net revenue after taxation	26,198	20,042
Net revenue received/(paid) on share class conversions	<u>48</u>	<u>(1,034)</u>
Total distribution for the year	<u>26,246</u>	<u>19,008</u>
Details of the distribution in pence per share for this Fund are set out in the table on pages from 138 - 139.		
6. Debtors		
Sales awaiting settlement	6,384	-
Accrued income	4,035	2,312
Amounts receivable for issue of shares	2,586	2,895
Capped expenses	<u>1</u>	<u>3</u>
	<u>13,006</u>	<u>5,210</u>
7. Other creditors		
Amounts payable on cancellation of shares	2,957	3,141
Purchases awaiting settlement	2,588	6,297
Accrued expenses	<u>693</u>	<u>739</u>
	<u>6,238</u>	<u>10,177</u>

8. Related parties

During the year, Franklin Templeton Fund Management Limited ("ACD"), a related party, acted primarily in all transactions of the Funds. The aggregate amounts received through issues and cancellations are disclosed in the Statement of Change in Net Assets Attributable to Shareholders.

Amounts charged by the ACD and associates of the ACD in respect of the management and administration fees are disclosed in Note 3.

The amounts due to the ACD and associates of the ACD in respect of management and administration fees at 31 March 2019 are £643,000 (£683,000 as at 31 March 2018).

During the year the Fund received £3,000 (£4,000 for the year to 31 March 2018) in reimbursed expenses from the ACD.

As at 31 March 2019 the Fund was due reimbursed expenses of £1,000 (£3,000 as at 31 March 2018) from the ACD.

As at 31 March 2019 Templeton Global Advisors Limited ("TGAL") held 100% (100% as at 31 March 2018) of the shares in issue of Class Y income.

9. Risk management policies and disclosures

The risks inherent in the Fund's investment portfolio are as follows:

Market Risk**Currency risk**

Fluctuations in the foreign exchange rates can adversely affect the value of a portfolio.

At the year end date, 0.00% (2018: 0.00%) of the net assets of the Fund were denominated in currencies other than sterling and as such the currency risk is not considered significant.

FRANKLIN UK MID CAP FUND

Notes to the Financial Statements (continued)

9. Risk management policies and disclosures (continued)

Interest rate risk

The Fund does not invest in either fixed or floating rate securities and interest rate risk exposure is restricted to interest receivable on bank deposits or payable on bank overdraft positions which will be affected by fluctuations in interest rates.

Other price risk

At the year end date, 96.56% (2018: 97.98%) of the net assets of the Fund were invested in ordinary shares or stock units admitted to an official stock exchange. If the market value were to change by 10%, the value of the Fund would change by 9.66% (2018: 9.80%).

There is no material difference between the value of the financial assets and liabilities, as shown in the Balance sheet, and their fair values.

10. Portfolio Transaction Costs

	2019			2018		
	Purchases £000	% Of Purchases	% of Average Net Asset Value	Purchases £000	% Of Purchases	% of Average Net Asset Value
Equity purchases in year before transaction costs	445,015			443,650		
Commissions	263	0.06	0.03	429	0.10	0.04
Taxes	1,854	0.42	0.19	1,757	0.40	0.17
Other	137	0.03	0.01	219	0.05	0.02
Total Equity purchases in the year after direct transaction costs	447,269			446,055		

	2019			2018		
	Sales £000	% Of Sales	% of Average Net Asset Value	Sales £000	% Of Sales	% of Average Net Asset Value
Equity sales in year before transaction costs	347,615			498,364		
Commissions	(198)	(0.06)	(0.02)	(498)	(0.10)	(0.05)
Total Equity Sales in the year after direct transaction costs	347,417			497,866		

In pursuance of its investment objectives the Fund incurs commissions, taxes and other charges when buying and selling investment securities. Share dealing generally incurs broker commission and stamp duty and these are paid by the Fund on each transaction where appropriate.

In addition there is a dealing spread between the buying and selling prices of the underlying investments. The average dealing spread which is the difference between the quoted bid and offer prices or internal administrative or holding costs, are not included in the calculation of Direct Transaction Costs. As at 31 March 2019, the average dealing spread for the underlying Fund investments is 0.15% (2018: 0.12%).

Comparing portfolio transaction costs for a range of funds may give a misleading impression of the relative costs of investing in those funds for the following reasons:

- Historic transaction costs are not an effective indicator of the future impact on performance as it may vary from year to year depending on the investment manager;
- Transaction costs for buying and selling investments due to shareholder activity on the fund are recovered from those investors;
- Transaction costs will vary depending on the types of securities the fund is investing.

11. Creations and Cancellations of Shares

	A–Income shares	S–Income shares	S–Accumulation shares	W–Income shares	W–Accumulation shares	Y–Income shares	Z–Accumulation shares
Opening Shares	14,269,356	222,185,905	75,201,919	177,836,608	102,977,786	2,972	3,062,743
Creations	732,366	20,115,913	31,362,719	39,468,293	33,923,013	-	305,095
Cancellations	(2,420,433)	(31,010,829)	(53,678,034)	(38,136,597)	(26,032,325)	-	(1,336,380)
Conversions	(1,467,947)	7,169,420	3,060,799	(1,534,145)	(380,868)	-	556,030
Total Closing Shares	11,113,342	218,460,409	55,947,402	177,634,159	110,487,606	2,972	2,587,488

FRANKLIN UK MID CAP FUND

Notes to the Financial Statements (continued)

12. Fair Value Disclosure

In accordance with FRS 102 the Fund classifies fair value measurement under the following levels:

Level 1

Unadjusted quoted market prices in active markets for identical securities.

Level 2

Investments (other than quoted prices included within Level 1) whose fair value is based directly on observable current market prices or is indirectly being derived from market prices; and

Level 3

Investments whose fair value is determined using a valuation technique based on assumptions that are not supported by observable current market prices or are not based on observable market data such as security in default or securities valued by Franklin Templeton Fair Valuation Committee.

Fair Value Hierarchy	Assets 31 March 2019 £000	Liabilities 31 March 2019 £000	Assets 31 March 2018 £000	Liabilities 31 March 2018 £000
Level 1	902,024	-	966,514	-
Level 2	-	-	-	-
Level 3	-	-	-	-
Total	902,024	-	966,514	-

FRANKLIN UK MID CAP FUND

Distribution Statement

For the period 1 April 2018 to 30 September 2018

Group 1 – Shares purchased prior to 1 April 2018

Group 2 – Shares purchased in the period 1 April 2018 to 30 September 2018

	Net Income p	Equalisation p	30 September 2018 Pence per Share p	30 September 2017 Pence per Share p
A - Income Shares				
Group 1	3.8457	-	3.8457	3.3328
Group 2	-	3.8457	3.8457	3.3328
S - Income Shares				
Group 1	0.9128	-	0.9128	0.1503
Group 2	-	0.9128	0.9128	0.1503
S - Accumulation Shares				
Group 1	1.1280	-	1.128	0.9664
Group 2	-	1.128	1.128	0.9664
W - Income Shares				
Group 1	1.5079	-	1.5079	1.3193
Group 2	-	1.5079	1.5079	1.3193
W - Accumulation Shares				
Group 1	1.9138	-	1.9138	1.6400
Group 2	-	1.9138	1.9138	1.6400
Y - Income Shares				
Group 1	1.4292	-	1.4292	1.2576
Group 2	1.4292	-	1.4292	1.2576
Z - Accumulation Shares				
Group 1	1.7699	-	1.7699	1.5168
Group 2	-	1.7699	1.7699	1.5168

For the period 1 October 2018 to 31 March 2019

Group 1 – Shares purchased prior to 1 October 2018

Group 2 – Shares purchased in the period 1 October 2018 to 31 March 2019

	Net Income p	Equalisation p	31 March 2019 Pence per Share p	31 March 2018 Pence per Share p
A - Income Shares				
Group 1	7.6453	-	7.6453	4.8324
Group 2	2.0960	5.5493	7.6453	4.8324
S - Income Shares				
Group 1	2.0301	-	2.0301	0.8995
Group 2	1.2252	0.8049	2.0301	0.8995
S - Accumulation Shares				
Group 1	2.5201	-	2.5201	1.8878
Group 2	0.7646	1.7555	2.5201	1.8878
W - Income Shares				
Group 1	3.2955	-	3.2955	2.4620
Group 2	0.9763	2.3192	3.2955	2.4620
W - Accumulation Shares				
Group 1	4.2008	-	4.2008	3.0710
Group 2	1.2309	2.9699	4.2008	3.0710
Y - Income Shares				
Group 1	3.3094	-	3.3094	2.6856
Group 2	3.3094	-	3.3094	2.6856
Z - Accumulation Shares				
Group 1	3.8075	-	3.8075	2.7021
Group 2	3.5024	0.3051	3.8075	2.7021

FRANKLIN UK MID CAP FUND

Equalisation

All shareholders, within each share category, receive the same distribution per share, although the distribution to shareholders who purchased shares during the distribution period (Group 2 holdings) contains an element of equalisation which is a repayment, at an average rate per share, of the amount of accrued net income which was included in the purchase price of such shares. As the nature of this payment is capital it is not subject to income tax but must be deducted from the purchase price in any capital gains tax computation on the sale of the shares.

FRANKLIN UK OPPORTUNITIES FUND

Investment Review

Performance

For the year ended 31 March 2019, Franklin UK Opportunities Fund (W (acc) shares) returned 5.21%*, underperforming the FTSE All-Share Index, which returned 6.36%.

Overview

The year under review started strongly with the UK equity market rising sharply in April and early May and reaching a new all-time high. At one point, the market was up more than 9% in less than eight weeks, but this proved to be the high point of the year and for the rest of the year returns have been negative.

Following a period of relatively low volatility over the summer months, sentiment took a turn for the worse in the autumn, as economic and political factors combined to create a perfect storm for investors. The UK equity market declined by 10% in the final quarter of 2018, undermined by rising U.S. interest rates, heightened trade rhetoric and the interminable Brexit negotiations.

The new calendar year brought a change of fortune, with the catalyst a dramatic pivot by the U.S. Federal Reserve (“Fed”). The Fed’s decision in December 2018 to increase U.S. short-term rates in the face of an obviously slowing global economy had led to increased nervousness about a policy mistake, and its volte face in January was a welcome relief to global equity markets.

The final three months of the Fund’s financial year saw markets recover much of the ground lost in the previous quarter. The U.S. 10-year bond yield had been rising sharply towards the end of 2018, but this move reversed sharply in the opening months of 2019, spurring a significant rally in equity prices, albeit from what had looked, in our view, to be a heavily oversold position.

Sentiment was further bolstered by a more constructive approach to trade negotiations by the Trump administration after the midterm elections, and by the UK parliament taking steps to reduce the likelihood of a so-called hard Brexit.

The overall performance of the UK economy in 2018 was broadly in line with expectations. The understandable downturn in business investment in the face of Brexit uncertainty has been largely offset by a more resilient consumer. The consumer has been helped by the remarkably robust labour market and the return of real wage growth as inflation has moderated.

Global economic growth moderated modestly from the previous year to 3.7%, with the United States leading the way amongst the advanced economies with growth of 2.9%, helped by the programme of tax cuts. The eurozone and Japan both experienced sharp slowdowns as their structural deficiencies once again came to the fore.

The global economy has looked increasingly fragile to us as the period under review progressed. The necessary steps towards some sort of normalisation of U.S. monetary policy have been hindered by the impact of trade measures and market volatility.

In terms of sector performance, the dominant features of the year were the strength of the oil and gas, pharmaceutical and mining sectors and the weakness in banks. The oil sector was particularly strong in the first half of the year, reflecting a 25% gain in the underlying oil price. In the second half of the year, the mining sector delivered robust returns, with several sector constituents up more than 25% as iron ore prices gained strongly, following the mine dam tragedy in Brazil.

From a market capitalisation perspective, small- and mid-cap stocks underperformed their larger counterparts by a wide margin. During the year to 31 March 2019, the mid-cap FTSE 250 Index fell by 1% and the FTSE SmallCap Index gained 1%, whilst the FTSE 100 Index posted a gain of 7.7%.

Significant Changes

The most significant stock purchases during the year included real estate firm Land Securities Group PLC, sports betting and gaming company GVC Holdings PLC, heat treatment specialist Bodycote PLC, recruiter Hays PLC and media company Entertainment One Ltd. Share sales included biotechnology firm Shire PLC,

* Figure differs from comparative table performance due to alternative calculation methodology used.

FRANKLIN UK OPPORTUNITIES FUND

Investment Review (continued)

Significant Changes (continued)

gaming company Paddy Power Betfair PLC, business services firm Diploma PLC and water utility Pennon Group PLC.

We sold our holding in water utility Pennon as the shares recovered from weakness, and we used the proceeds to initiate a new holding in Land Securities, a UK real estate investment trust, which we believed was trading at a significant discount to the net asset value of its property portfolio. The repeal of legislation prohibiting online sports gambling in the United States resulted in meaningful share price reactions across the UK names in that space. As a result, the Fund sold out of its holding in Paddy Power Betfair and used the proceeds to acquire a holding in GVC. The valuation case for GVC at time of purchase was more compelling, despite having similar investment drivers to Paddy Power Betfair.

In terms of other new additions, Bodycote is a global industrial engineer that has a net cash balance sheet position, while Hays, a global recruitment business, is also managed with net cash on the balance sheet. The Fund initiated a new holding in Entertainment One Ltd. the television and film production and distribution business. Its management have set out a clear path to improve the cash flow profile of the business, alongside the growth and development of their family entertainment division.

We sold our position in biotechnology firm Shire, after it was acquired by a Japanese pharmaceutical firm. We sold out of the Fund's position in Diploma, following an extended period of share price strength. While we still recognise the strengths of the company's business model, given the rise in the share price, we were less comfortable with the risk/reward profile. We also reduced exposure to spirits maker Diageo PLC during the year.

Positive/Negative Contributors

Stock selection and an overweight in industrial goods and services, stock selection in telecommunications and an overweight in automobiles and parts detracted from relative performance during the year. A lack of exposure to banks, notably Barclays PLC and HSBC Holdings PLC, along with stock selection in health care and real estate supported relative performance.

Sports betting and gaming company GVC Holdings PLC detracted from relative performance during the year. The company has posted solid trading results, but investors were unsettled by two directors' sizeable share sales in March 2019. Cardboard manufacturer DS Smith was hurt by concerns about potential global economic weakness as well as revelations of substantial use of invoice factoring arrangements, as a mechanism to hasten cash receipts. Whilst the practice was defensible from an economic and accountancy standpoint, the prior lack of disclosure and its incorporation into valuation assumptions saw the shares marked lower. Shares of Equiniti Group were under scrutiny early in the year, with questions being raised regarding the integration of a U.S. acquisition and the use of certain accounting policies, though the shares did begin to recover in late 2018. Automotive parts company TI Fluid Systems PLC was also a detractor. We remain attracted to the company's strong market positions, wide international exposure, improving cash flow profile and modest rating. In addition, engineering firm Weir Group detracted, affected by concerns about weaker demand for its equipment in the near term, given a slowdown in U.S. shale production.

Amidst the economic uncertainty in the latter part of 2018 and early 2019, a number of the Fund's holdings with relatively stable growth profiles outperformed. They included wholesaler Bunzl PLC, catering company Compass Group PLC and information and analytics firm RELX PLC. Catering business Compass Group, for instance, released characteristically robust full-year results, which supported the share price. Smith & Nephew, the medical devices manufacturer, was also a contributor. Its shares rose during the year on improved sentiment towards the business, given the recent management changes. Additionally, the company has made some bolt-on acquisitions to further expand its product profile and bolster growth over the longer term. Finally, Paddy Power Betfair contributed to relative performance, as the stock jumped following a court ruling legalising sports betting in the United States.

Outlook

The equity market momentum established in the early months of 2019 has been maintained in the opening weeks of the Fund's new financial year. Encouraged by lower bond yields, investor sentiment has greatly improved from the dark days of December 2018, and markets now appear to be much more confident of a benign outcome to trade discussions and the Brexit process.

FRANKLIN UK OPPORTUNITIES FUND

Investment Review (continued)

Outlook (continued)

It seems extraordinary to us that we still have no certainty on Brexit, as we approach the third anniversary of the vote. In the short term, investors have taken heart from the fact that the UK parliament took steps to greatly reduce the risk of a no deal scenario. We have, however, long believed that the real risk from Brexit is that the political upheaval leads to a change of government, and a new regime with a vastly different policy agenda. This outcome remains a real possibility, although it is not our central case expectation.

The fears of a global recession that haunted the market towards the end of 2018, when the Fed appeared determined to keep raising rates, have visibly receded in recent weeks. The policy pivot and progress on trade discussions have clearly helped, at a time when the economic data remains mixed at best.

In the United States, economic activity has moderated, but remains solidly positive, and with long-term rates trending lower and the labour market remaining robust, we expect consumer spending to be underpinned. China has responded to its economic slowdown by providing both monetary and fiscal stimulus, and there are early signs the measures are starting to work. The eurozone remains of greater concern, with the area's structural issues remaining unaddressed and fewer policy tools available if the environment deteriorates further.

The UK economic outlook remains clouded by Brexit, and the impact of the uncertainty on business investment is becoming ever more apparent. Consumer spending is, however, a much larger part of the overall economy, and having been under pressure from a squeeze in real wages a year ago, the environment is now more supportive. Inflation is falling, wage growth is accelerating, and real wage growth is firmly re-established. Confidence for 'big ticket' item purchases remains somewhat fragile, but the overall upward trend in consumer spending is intact.

From a UK equity market perspective, it remains a difficult environment for stock selection, not made any easier by the strong recovery in market levels over the past few months. The parliamentary moves to block a no deal Brexit have inspired a sharp rally in many domestic-facing stocks and removed much of the previous valuation disparity. But at the same time the more international stocks have moved higher on the back of lower bond yields.

The forward price earnings ratio for the UK market remains a deceptively modest 13 times, which reflects an uncertain outlook for earnings growth in the face of a slowing global economy. Earnings expectations for 2019 have already fallen back, from 8% to nearer 4% over the past six months and may well have further to fall.

The positive case for the equity market rests, as ever in recent years, on the yield gap, with a forward dividend yield on UK equities of 4.5% versus a 1.1% yield on UK 10-year Gilts.

Ben Russon, CFA, Mark Hall & Colin Morton
Fund Managers
31 March 2019

FRANKLIN UK OPPORTUNITIES FUND

Comparative Table

A – Income shares	31 March 2019	31 March 2018	31 March 2017
Change in net assets per share (p)			
Opening net asset value per share	357.90	367.88	334.95
Return before operating charges ¹	23.12	5.51	46.64
Operating charges ²	(5.91)	(6.04)	(5.70)
Return after operating charges* ³	17.21	(0.53)	40.94
Distributions on income shares	(9.2145)	(9.4538)	(8.0068)
Closing net asset value per share	365.90	357.90	367.88
*After direct transaction costs of: ⁴	0.33	0.53	0.96
Performance			
Return after charges ⁵	4.81%	(0.14%)	12.22%
Other information			
Closing net asset value (£)	17,732,871	22,116,544	27,374,163
Closing number of shares	4,846,429	6,179,572	7,441,040
Ongoing charges ratio ⁶	1.60%	1.60%	1.60%
Direct transaction costs ⁴	0.09%	0.14%	0.27%
Prices (p)			
Highest share price	395.22	393.00	377.58
Lowest share price	331.01	353.42	325.83

W – Income shares	31 March 2019	31 March 2018	31 March 2017
Change in net assets per share (p)			
Opening net asset value per share	111.41	114.54	104.26
Return before operating charges ¹	7.23	1.71	14.48
Operating charges ²	(0.63)	(0.65)	(0.61)
Return after operating charges* ³	6.60	1.06	13.87
Distributions on income shares	(4.0856)	(4.1902)	(3.5901)
Closing net asset value per share	113.92	111.41	114.54
*After direct transaction costs of: ⁴	0.10	0.16	0.30
Performance			
Return after charges ⁵	5.92%	0.93%	13.30%
Other information			
Closing net asset value (£)	25,796,067	32,943,867	26,104,605
Closing number of shares	22,644,990	29,570,777	22,790,177
Ongoing charges ratio ⁶	0.55%	0.55%	0.55%
Direct transaction costs ⁴	0.09%	0.14%	0.27%
Prices (p)			
Highest share price	123.21	122.71	117.57
Lowest share price	103.29	110.59	101.58

FRANKLIN UK OPPORTUNITIES FUND

Comparative Table (continued)

W – Accumulation shares	31 March 2019	31 March 2018	31 March 2017
Change in net assets per share (p)			
Opening net asset value per share	174.95	173.49	153.05
Return before operating charges ¹	11.32	2.45	21.36
Operating charges ²	(1.01)	(0.99)	(0.92)
Return after operating charges* ³	10.31	1.46	20.44
Closing net asset value per share	185.26	174.95	173.49
Retained distributions on accumulation shares	6.4713	6.3930	5.3151
*After direct transaction costs of: ⁴	0.16	0.25	0.45
Performance			
Return after charges ⁵	5.89%	0.84%	13.36%
Other information			
Closing net asset value (£)	10,916,224	17,851,302	37,408,929
Closing number of shares	5,892,284	10,203,385	21,562,996
Ongoing charges ratio ⁶	0.55%	0.55%	0.55%
Direct transaction costs ⁴	0.09%	0.14%	0.27%
Prices (p)			
Highest share price	193.48	190.02	175.77
Lowest share price	165.23	171.25	149.12

Z – Accumulation shares	31 March 2019	31 March 2018	31 March 2017
Change in net assets per share (p)			
Opening net asset value per share	172.03	171.45	151.90
Return before operating charges ¹	11.10	2.45	21.28
Operating charges ²	(1.88)	(1.87)	(1.73)
Return after operating charges* ³	9.22	0.58	19.55
Closing net asset value per share	181.25	172.03	171.45
Retained distributions on accumulation shares	5.4505	5.4193	4.5582
*After direct transaction costs of: ⁴	0.16	0.25	0.44
Performance			
Return after charges ⁵	5.36%	0.34%	12.87%
Other information			
Closing net asset value (£)	1,484,589	439,605	454,690
Closing number of shares	819,085	255,536	265,210
Ongoing charges ratio ⁶	1.05%	1.05%	1.05%
Direct transaction costs ⁴	0.09%	0.14%	0.27%
Prices (p)			
Highest share price	190.12	187.06	174.13
Lowest share price	161.86	168.41	147.93

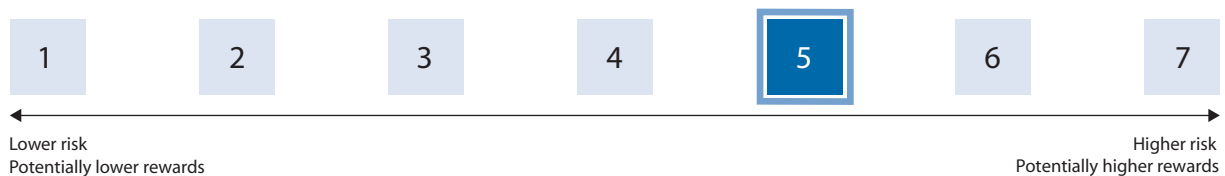
FRANKLIN UK OPPORTUNITIES FUND

Comparative Table (continued)

- 1 The "return before operating charges" is calculated as the "return after operating charges" plus the "operating charges".
- 2 The "operating charges" are calculated with reference to the total expenses for the year divided by the number of shares in issue at each valuation point.
- 3 The "return after operating charges" is calculated as the "closing net asset value per share" plus the "distributions" (for income share classes only) minus the "opening net asset value per share".
- 4 The direct transaction costs include all fees and expenses which relate directly to the sales and purchases of securities which include commissions, transfer taxes and duties. Direct transaction costs do not include any difference between the quoted bid and offer prices or internal administrative or holding costs. The "direct transaction costs" ratio is calculated by dividing the total transaction costs by the average net assets.
- 5 The "return after charges" is calculated as the "return after operating charges" per share divided by the "opening net asset value per share". This figure will differ from "performance return" figure disclosed under "Investment Review" section due to alternative calculation methodology used.
- 6 The "ongoing charges ratio" represents all operating charges and expenses of the share class in the prior 12 months as a percentage of the share class'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.

Risk Profile (W(acc) shares)



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.

For a full discussion of all the risks applicable to this Fund, please refer to the "Risk Factors" section of the current prospectus of Franklin Templeton Funds.

FRANKLIN UK OPPORTUNITIES FUND

Portfolio Statement as at 31 March 2019

(Currency – GBP)

Number of Shares or Face Value	Description	Market Value £000	% of Net Assets
	EQUITIES 99.10% (96.72%)		
	AUTOMOBILES & PARTS 0.98% (0.00%)		
300,000	TI Fluid Systems PLC, Reg S	546	0.98
	BEVERAGES 3.53% (3.58%)		
63,000	Diageo PLC	1,977	3.53
	CONSTRUCTION & MATERIALS 1.59% (1.84%)		
370,000	Ibstock PLC, Reg S	887	1.59
	ELECTRICITY 1.87% (1.62%)		
88,000	SSE PLC	1,044	1.87
	FINANCIAL SERVICES 3.84% (5.35%)		
288,000	Brewin Dolphin Holdings PLC	898	1.61
117,500	Intermediate Capital Group PLC	1,250	2.23
		<u>2,148</u>	<u>3.84</u>
	FIXED LINE TELECOMMUNICATIONS 0.00% (1.37%)		
	FOOD PRODUCERS 3.60% (1.15%)		
58,000	Associated British Foods PLC	1,414	2.53
22,000	Cranswick PLC	598	1.07
		<u>2,012</u>	<u>3.60</u>
	GAS, WATER & MULTI-UTILITIES 2.80% (4.29%)		
184,000	National Grid PLC	1,565	2.80
	GENERAL INDUSTRIALS 2.20% (2.12%)		
367,000	DS Smith PLC	1,231	2.20
	GENERAL RETAILERS 1.59% (1.49%)		
16,000	Next PLC	892	1.59
	HEALTH CARE EQUIPMENT & SERVICES 3.02% (2.96%)		
111,000	Smith & Nephew PLC	1,690	3.02
	HOUSEHOLD GOODS & HOME CONSTRUCTION 4.37% (3.94%)		
77,000	Bovis Homes Group PLC	819	1.46
25,500	Reckitt Benckiser Group PLC	1,627	2.91
		<u>2,446</u>	<u>4.37</u>
	INDUSTRIAL ENGINEERING 4.40% (1.60%)		
120,000	Bodycote PLC	983	1.76
55,000	Vitec Group PLC	627	1.12
54,500	Weir Group PLC	849	1.52
		<u>2,459</u>	<u>4.40</u>
	INDUSTRIAL TRANSPORTATION 0.00% (1.38%)		
	LIFE INSURANCE 6.58% (5.71%)		
155,000	Phoenix Group Holdings PLC	1,050	1.88
101,700	Prudential PLC	1,564	2.80
103,700	St. James's Place Capital PLC	1,065	1.90
		<u>3,679</u>	<u>6.58</u>
	MEDIA 5.08% (4.84%)		
217,000	Entertainment One Ltd.	969	1.73
114,000	RELX PLC	1,871	3.35
		<u>2,840</u>	<u>5.08</u>
	MINING 4.33% (3.90%)		
63,500	BHP Group PLC	1,174	2.10
28,000	Rio Tinto PLC	1,249	2.23
		<u>2,423</u>	<u>4.33</u>

FRANKLIN UK OPPORTUNITIES FUND

Portfolio Statement as at 31 March 2019 (continued)

(Currency – GBP)

Number of Shares or Face Value	Description	Market Value £000	% of Net Assets
870,000	MOBILE TELECOMMUNICATIONS 2.17% (2.94%) Vodafone Group PLC	1,216	2.17
505,000	OIL & GAS PRODUCERS 10.00% (9.42%) BP PLC	2,820	5.04
115,000	Royal Dutch Shell PLC, A	2,774	4.96
		<u>5,594</u>	<u>10.00</u>
43,000	PERSONAL GOODS 3.38% (3.40%) Unilever PLC	1,890	3.38
33,000	PHARMACEUTICALS & BIOTECHNOLOGY 7.89% (8.97%) AstraZeneca PLC	2,024	3.62
149,500	GlaxoSmithKline PLC	2,387	4.27
		<u>4,411</u>	<u>7.89</u>
114,000	REAL ESTATE INVESTMENT & SERVICES 1.87% (1.99%) Unite Group PLC§	1,046	1.87
142,500	REAL ESTATE INVESTMENT TRUSTS 2.33% (0.00%) Land Securities Group PLC§	1,301	2.33
203,500	SOFTWARE & COMPUTER SERVICES 2.55% (2.57%) The Sage Group PLC	1,427	2.55
66,000	SUPPORT SERVICES 8.71% (9.03%) Bunzl PLC	1,671	2.99
460,000	Equiniti Group PLC, Reg S	954	1.70
29,000	Ferguson PLC	1,416	2.53
554,000	Hays PLC	831	1.49
		<u>4,872</u>	<u>8.71</u>
64,000	TOBACCO 6.42% (6.89%) British American Tobacco PLC	2,044	3.65
59,000	Imperial Brands PLC	1,549	2.77
		<u>3,593</u>	<u>6.42</u>
89,000	TRAVEL & LEISURE 4.00% (4.37%) Compass Group PLC	1,605	2.87
113,000	GVC Holdings PLC	632	1.13
		<u>2,237</u>	<u>4.00</u>
	TOTAL - EQUITIES	<u>55,426</u>	<u>99.10</u>
	TOTAL VALUE OF INVESTMENTS	55,426	99.10
	OTHER ASSETS	504	0.90
	TOTAL NET ASSETS	<u>55,930</u>	<u>100.00</u>

The total percentage figures in brackets next to each category heading represent holdings as at 31 March 2018. Unless otherwise stated the above securities are ordinary shares or common stock and admitted to official stock exchange listings.

§ Real Estate Investment Trust (REIT).

FRANKLIN UK OPPORTUNITIES FUND

Statement of Total Return

For the year ended 31 March 2019

	Note	March 2019 £000	March 2019 £000	March 2018 £000	March 2018 £000
Income					
Net capital gains/(losses)	1		1,723		(1,182)
Revenue	2	2,725		3,266	
Expenses	3	(586)		(690)	
Net revenue before taxation		2,139		2,576	
Taxation	4	(13)		(34)	
Net revenue after taxation			2,126		2,542
Total return before distributions for the year			3,849		1,360
Distributions	5		(2,131)		(2,544)
Change in net assets attributable to shareholders			1,718		(1,184)

Statement of Change in Net Assets Attributable to Shareholders

For the year ended 31 March 2019

	March 2019 £000	March 2019 £000	March 2018 £000	March 2018 £000
Opening net assets attributable to shareholders		73,351		91,342
Amounts received on creation of shares	3,234		15,549	
Amounts paid on cancellation of shares	(22,828)		(33,076)	
		(19,594)		(17,527)
Dilution adjustments		3		42
Unclaimed distributions		1		2
Change in net assets attributable to shareholders from investment activities (see above)		1,718		(1,184)
Retained distribution on accumulation shares		451		676
Closing net assets attributable to shareholders		55,930		73,351

Balance Sheet

As at 31 March 2019

	Note	March 2019 £000	March 2018 £000
Assets			
Fixed assets			
Tangible assets:			
Investment assets		55,426	70,945
Current assets			
Debtors	6	344	375
Cash and bank balances		926	2,987
Total assets		56,696	74,307
Liabilities			
Creditors			
Distribution payable	5	(634)	(659)
Other creditors	7	(132)	(297)
Total liabilities		(766)	(956)
Net assets attributable to shareholders		55,930	73,351

FRANKLIN UK OPPORTUNITIES FUND

Notes to the Financial Statements

	March 2019 £000	March 2018 £000
1. Net capital gains/(losses)		
The net capital gains/(losses) during the year comprise:		
Non-derivative securities gains/(losses)	1,723	(1,182)
	<u>1,723</u>	<u>(1,182)</u>
2. Revenue		
UK dividends	2,386	2,851
Overseas dividends	338	379
Bank and other interest	1	1
Property income dividends	-	35
	<u>2,725</u>	<u>3,266</u>
3. Expenses		
Payable to the ACD, associates of the ACD and agents of either of them		
ACD's periodic charge	521	617
ACD's administration charge	33	39
	<u>554</u>	<u>656</u>
Payable to the Depositary, associates of the Depositary and agents of either of them		
Depositary fees	16	15
Safe custody fees	4	6
	<u>20</u>	<u>21</u>
Other expenses		
Audit fees	8	9
Printing fees	3	4
Legal and publication fees	2	1
Expense cap	(1)	(1)
	<u>12</u>	<u>13</u>
	<u>586</u>	<u>690</u>
4. Taxation		
(a) Analysis of charge in the year		
Irrecoverable overseas tax	13	34
Total current tax (note 4(b))	13	34
Total taxation	13	34
(b) Factors affecting tax charge for the year		
The tax assessed for the year is lower (2018: lower) than the standard rate of corporation tax in the UK for Open Ended Investment Companies (20% (2018: 20%)).		
The differences are explained below:		
Net revenue before taxation	2,139	2,576
Corporation tax of 20% (2018: 20%)	428	515
Effects of:		
Excess management expenses	97	131
Revenue taxable in different years	(3)	-
Irrecoverable overseas tax	13	34
UK dividends & non-taxable overseas dividends*	(522)	(646)
Current tax charge for year (note 4(a))	<u>13</u>	<u>34</u>

*As an Open Ended Investment Company these items are not subject to corporation tax.

Open Ended Investment Companies are exempt from tax on capital gains in the UK. Therefore, any capital return is not included within the reconciliation above.

At the year end there is a potential deferred tax asset of £1,860,000 (£1,763,000 as at 31 March 2018) in relation to excess management fees. It is unlikely the Fund will generate sufficient tax profits in the future to utilise these amounts and therefore no deferred tax assets have been recognised in the year.

FRANKLIN UK OPPORTUNITIES FUND

Notes to the Financial Statements (continued)

	March 2019 £000	March 2018 £000
5. (a) Finance costs		
The distribution takes account of income received on the issue of shares and income deducted on the cancellation of shares, and comprise:		
Interim dividend distributions		
Income	862	1,105
Accumulation	<u>252</u>	<u>421</u>
	<u>1,114</u>	<u>1,526</u>
Final dividend distributions		
Income	634	659
Accumulation	<u>199</u>	<u>255</u>
	<u>833</u>	<u>914</u>
Add: Income deducted on cancellation of shares	208	298
Deduct: Income received on issue of shares	<u>(24)</u>	<u>(194)</u>
Total distribution	<u>2,131</u>	<u>2,544</u>
Total finance costs	<u>2,131</u>	<u>2,544</u>
(b) Difference between net revenue and distribution:		
Net revenue after taxation	2,126	2,542
Net revenue received on share class conversions	<u>5</u>	<u>2</u>
Total distribution for the year	<u>2,131</u>	<u>2,544</u>

Details of the distribution in pence per share for this Fund are set out in the table on page 153.

6. Debtors		
Accrued income	313	282
Overseas tax recoverable	22	29
Amounts receivable for issue of shares	<u>9</u>	<u>64</u>
	<u>344</u>	<u>375</u>
7. Other creditors		
Amounts payable on cancellation of shares	77	230
Accrued expenses	<u>55</u>	<u>67</u>
	<u>132</u>	<u>297</u>

- 8. Related parties**
During the year, Franklin Templeton Fund Management Limited ("ACD"), a related party, acted primarily in all transactions of the Funds. The aggregate amounts received through issues and cancellations are disclosed in the Statement of Change in Net Assets Attributable to Shareholders.

Amounts charged by the ACD and associates of the ACD in respect of the management and administration fees are disclosed in Note 3.

The amounts due to the ACD and associates of the ACD in respect of management and administration fees at 31 March 2019 are £41,000 (£51,000 as at 31 March 2018).

During the year the Fund received £1,000 (nil for the year to 31 March 2018) in reimbursed expenses from the ACD.

- 9. Risk management policies and disclosures**
The risks inherent in the Fund's investment portfolio are as follows:

Market Risk

Currency risk

Fluctuations in the foreign exchange rates can adversely affect the value of a portfolio.

At the year end date, 0.03% (2018: 0.02%) of the net assets of the Fund were denominated in currencies other than sterling and as such the currency risk is not considered significant.

Interest rate risk

The Fund does not invest in either fixed or floating rate securities and interest rate risk exposure is restricted to interest receivable on bank deposits or payable on bank overdraft positions which will be affected by fluctuations in interest rates.

FRANKLIN UK OPPORTUNITIES FUND

Notes to the Financial Statements (continued)

9. Risk management policies and disclosures (continued)

Other price risk

At the year end date, 99.10% (2018: 96.72%) of the net assets of the Fund were invested in ordinary shares or stock units admitted to an official stock exchange. If the market value were to change by 10%, the value of the Fund would change by 9.91% (2018: 9.67%).

There is no material difference between the value of the financial assets and liabilities, as shown in the Balance sheet, and their fair values.

10. Portfolio Transaction Costs

	2019			2018		
	Purchases £000	% of Purchases	% of Average Net Asset Value	Purchases £000	% of Purchases	% of Average Net Asset Value
Equity purchases in year before transaction costs	10,435			16,138		
Commissions	5	0.05	0.01	11	0.07	0.01
Taxes	42	0.40	0.06	58	0.36	0.08
Other	<u>1</u>	0.01	-	<u>21</u>	0.13	0.03
Total Equity purchases in the year after direct transaction costs	10,483			16,228		

	2019			2018		
	Sales £000	% Of Sales	% of Average Net Asset Value	Sales £000	% Of Sales	% of Average Net Asset Value
Equity sales in year before transaction costs	28,038			33,901		
Commissions	<u>(13)</u>	(0.05)	(0.02)	<u>(21)</u>	(0.06)	(0.03)
Total Equity sales in the year after direct transaction costs	28,025			33,880		

In pursuance of its investment objectives the Fund incurs commissions, taxes and other charges when buying and selling investment securities. Share dealing generally incurs broker commission and stamp duty and these are paid by the Fund on each transaction where appropriate.

In addition there is a dealing spread between the buying and selling prices of the underlying investments. The average dealing spread which is the difference between the quoted bid and offer prices or internal administrative or holding costs, are not included in the calculation of Direct Transaction Costs. As at 31 March 2019, the average dealing spread for the underlying Fund investments is 0.06% (2018: 0.06%).

Comparing portfolio transaction costs for a range of funds may give a misleading impression of the relative costs of investing in those funds for the following reasons:

- Historic transaction costs are not an effective indicator of the future impact on performance as it may vary from year to year depending on the investment manager;
- Transaction costs for buying and selling investments due to shareholder activity on the fund are recovered from those investors;
- Transaction costs will vary depending on the types of securities the fund is investing.

11. Creations and Cancellations of Shares

	A–Income shares	W–Income shares	W–Accumulation shares	Z–Accumulation shares
Opening Shares	6,179,572	29,570,777	10,203,385	255,536
Creations	134,373	966,538	899,704	6,040
Cancellations	(988,419)	(8,423,136)	(5,226,009)	(67,153)
Conversions	<u>(479,097)</u>	<u>530,811</u>	<u>15,204</u>	<u>624,662</u>
Total Closing Shares	4,846,429	22,644,990	5,892,284	819,085

FRANKLIN UK OPPORTUNITIES FUND

Notes to the Financial Statements (continued)

12. Fair Value Disclosure

In accordance with FRS 102 the Fund classifies fair value measurement under the following levels:

Level 1

Unadjusted quoted market prices in active markets for identical securities.

Level 2

Investments (other than quoted prices included within Level 1) whose fair value is based directly on observable current market prices or is indirectly being derived from market prices; and

Level 3

Investments whose fair value is determined using a valuation technique based on assumptions that are not supported by observable current market prices or are not based on observable market data such as security in default or securities valued by Franklin Templeton Fair Valuation Committee.

Fair Value Hierarchy	Assets 31 March 2019 £000	Liabilities 31 March 2019 £000	Assets 31 March 2018 £000	Assets 31 March 2018 £000
Level 1	55,426	-	70,945	-
Level 2	-	-	-	-
Level 3	-	-	-	-
Total	55,426	-	70,945	-

FRANKLIN UK OPPORTUNITIES FUND

Distribution Statement

For the period 1 April 2018 to 30 September 2018

Group 1 - Shares purchased prior to 1 April 2018

Group 2 - Shares purchased in the period 1 April 2018 to 30 September 2018

	Net Income p	Equalisation p	30 September 2018 Pence per Share p	30 September 2017 Pence per Share p
A - Income Shares				
Group 1	4.9980	-	4.9980	6.3617
Group 2	2.6475	2.3505	4.9980	6.3617
W - Income Shares				
Group 1	2.1905	-	2.1905	2.6083
Group 2	1.3342	0.8563	2.1905	2.6083
W - Accumulation Shares				
Group 1	3.4401	-	3.4401	3.9442
Group 2	2.0437	1.3964	3.4401	3.9442
Z - Accumulation Shares				
Group 1	2.9142	-	2.9142	3.4556
Group 2	2.8457	0.0685	2.9142	3.4556

For the period 1 October 2018 to 31 March 2019

Group 1 - Shares purchased prior to 1 October 2018

Group 2 - Shares purchased in the period 1 October 2018 to 31 March 2019

	Net Income p	Equalisation p	31 March 2019 Pence per Share p	31 March 2018 Pence per Share p
A - Income Shares				
Group 1	4.2165	-	4.2165	3.0921
Group 2	2.2007	2.0158	4.2165	3.0921
W - Income Shares				
Group 1	1.8951	-	1.8951	1.5819
Group 2	1.4375	0.4576	1.8951	1.5819
W - Accumulation Shares				
Group 1	3.0312	-	3.0312	2.4488
Group 2	1.6794	1.3518	3.0312	2.4488
Z - Accumulation Shares				
Group 1	2.5363	-	2.5363	1.9637
Group 2	2.5310	0.0053	2.5363	1.9637

Equalisation

All shareholders, within each share category, receive the same distribution per share, although the distribution to shareholders who purchased shares during the distribution period (Group 2 holdings) contains an element of equalisation which is a repayment, at an average rate per share, of the amount of accrued net income which was included in the purchase price of such shares. As the nature of this payment is capital it is not subject to income tax but must be deducted from the purchase price in any capital gains tax computation on the sale of the shares.

FRANKLIN UK RISING DIVIDENDS FUND

Investment Review

Performance

In the 12 months to 31 March 2019, Franklin UK Rising Dividends Fund recorded a return of 7.29% * (W (acc) shares), outperforming the FTSE All-Share Index, which returned 6.36%.

Overview

The year under review started strongly with the UK equity market rising sharply in April and early May and reaching a new all-time high. At one point, the market was up more than 9% in less than eight weeks, but this proved to be the high point of the year and for the rest of the year returns have been negative.

Following a period of relatively low volatility over the summer months, sentiment took a turn for the worse in the autumn, as economic and political factors combined to create a perfect storm for investors. The UK equity market declined by 10% in the final quarter of 2018, undermined by rising U.S. interest rates, heightened trade rhetoric and the interminable Brexit negotiations.

The new calendar year brought a change of fortune, with the catalyst a dramatic pivot by the U.S. Federal Reserve ("Fed"). The Fed's decision in December 2018 to increase U.S. short-term rates in the face of an obviously slowing global economy had led to increased nervousness about a policy mistake, and its volte face in January was a welcome relief to global equity markets.

The final three months of the Fund's financial year saw markets recover much of the ground lost in the previous quarter. The U.S. 10-year bond yield had been rising sharply towards the end of 2018, but this move reversed sharply in the opening months of 2019, spurring a significant rally in equity prices, albeit from what had looked, in our view, to be a heavily oversold position.

Sentiment was further bolstered by a more constructive approach to trade negotiations by the Trump administration after the midterm elections, and by the UK parliament taking steps to reduce the likelihood of a so-called hard Brexit.

The overall performance of the UK economy in 2018 was broadly in line with expectations. The understandable downturn in business investment in the face of Brexit uncertainty has been largely offset by a more resilient consumer. The consumer has been helped by the remarkably robust labour market and the return of real wage growth as inflation has moderated.

Global economic growth moderated modestly from the previous year to 3.7%, with the United States leading the way amongst the advanced economies with growth of 2.9%, helped by the programme of tax cuts. The eurozone and Japan both experienced sharp slowdowns as their structural deficiencies once again came to the fore.

The global economy has looked increasingly fragile to us as the year progressed. The necessary steps towards some sort of normalisation of U.S. monetary policy have been hindered by the impact of trade measures and market volatility.

In terms of sector performance, the dominant features of the year were the strength of the oil and gas, pharmaceutical and mining sectors and the weakness in banks. The oil sector was particularly strong in the first half of the year, reflecting a 25% gain in the underlying oil price. In the second half of the year, the mining sector delivered robust returns, with several sector constituents up more than 25% as iron ore prices gained strongly, following the mine dam tragedy in Brazil.

From a market capitalisation perspective, small- and mid-cap stocks underperformed their larger counterparts by a wide margin. During the year to 31 March 2019, the mid-cap FTSE 250 Index fell by 1% and the FTSE SmallCap Index gained 1%, whilst the FTSE 100 Index posted a gain of 7.7%.

Significant Changes

During the year, the biggest stock purchases included gaming firm Paddy Power Betfair PLC, pork and poultry producer Cranswick PLC, high-performance polymer solutions supplier Victrex PLC, soft drinks group Britvic PLC and flooring products company James Halstead PLC. Significant stock sales included

* Figure differs from comparative table performance due to alternative calculation methodology used.

FRANKLIN UK RISING DIVIDENDS FUND

Investment Review (continued)

Significant Changes (continued)

bakery chain Greggs PLC, home furnishings retailer Dunelm PLC, plastic packaging manufacturer RPC Group PLC, James Halstead and biotechnology company Shire PLC.

At time of purchase, the share price of Paddy Power was well below the highs reached in early 2016, due to concerns of increased regulation and tax in the gaming industry. We believed these concerns were adequately reflected in the valuation, and with the shares offering a yield of in excess of 3%, as well as the company instigating a buy-back to return some £500 million of surplus cash to shareholders, we established a position. Cranswick has an excellent long-term track record in the pork industry, with the share price having performed strongly over the past 20 years. With the company now turning its attention to the poultry market, we believe there is substantial upside potential in the price if the company can repeat its success in the pork market. Victrex, meanwhile, is a world leader in high-performance thermoplastics, and has a strong track record of profitability and dividend growth. Britvic is coming towards the end of an extensive capital expenditure programme that was required to reshape the business, but we believe should result in a sharp improvement in free cash flow. With the shares trading at a discount to peers during the year and offering a yield of around 3.5%, we established a position. James Halstead has an excellent long-term track record in the commercial flooring market, though its shares have suffered recently on the back of tougher underlying markets. With a net cash balance sheet and a yield of over 3%, we used the recent weakness to establish a position.

We exited the positions in Greggs and Dunelm in 2019, as we believed the valuations looked stretched, following share price strength. Meanwhile, we disposed of the position in RPC Group PLC after it received a bid from a U.S.-based private-equity company. We also sold Shire in 2018, following a bid from a Japanese pharmaceutical company.

Positive/Negative Contributors

At the sector level, an underweight and stock selection in banks, notably not holding Barclays PLC, HSBC Group PLC or Standard Chartered PLC, as well as security selection in travel and leisure and retail, boosted relative performance. On the downside, security selection in financial services, a lack of exposure to basic resources stocks like Rio Tinto PLC and an overweight in industrial goods and services hindered relative returns.

Amongst the stocks held, several consumer-oriented stocks fared particularly well over the year, despite the ongoing Brexit-related uncertainty. Contributors included less-economically sensitive companies like soft drink producer Britvic, pubs chain Greene King PLC and bakery chain Greggs. All three reported robust financials over the course of the year. Home furnishings retailer Dunelm and commercial flooring company James Halstead also performed well, on strong consumer demand and upbeat financial results. We exited Dunelm during the year on this strength, while trimming exposure to James Halstead, after its shares jumped on strong financial guidance.

The most notable detractor from performance was online trading company IG Group Holdings PLC. The stock fell sharply in September 2018, reversing the gains enjoyed over the previous few months, after a disappointing first-quarter trading update. Subsequently, the chief executive officer resigned, while regulatory issues have also hung over the stock. Environmental consultancy RPS Group PLC was another detractor, but we believe it should benefit from a recovery in the energy markets over time, and the company is working on reorganising its business. Shipping broker Clarkson PLC was weak on fears about a slowdown in global trade, while market volatility hit financials stock Schroders PLC during the year.

Outlook

The equity market momentum established in the early months of 2019 has been maintained in the opening weeks of the Fund's new financial year. Encouraged by lower bond yields, investor sentiment has greatly improved from the dark days of December 2018, and markets now appear to be much more confident of a benign outcome to trade discussions and the Brexit process.

It seems extraordinary to us that we still have no certainty on Brexit, as we approach the third anniversary of the vote. In the short term, investors have taken heart from the fact that the UK parliament took steps to greatly reduce the risk of a no deal scenario. We have, however, long believed that the real risk from Brexit is that the political upheaval leads to a change of government, and a new regime with a vastly different policy agenda. This outcome remains a real possibility, although it is not our central case expectation.

FRANKLIN UK RISING DIVIDENDS FUND

Investment Review (continued)

Outlook (continued)

The fears of a global recession that haunted the market towards the end of 2018, when the Fed appeared determined to keep raising rates, have visibly receded in recent weeks. The policy pivot and progress on trade discussions have clearly helped, at a time when the economic data remains mixed at best.

In the United States, economic activity has moderated, but remains solidly positive, and with long-term rates trending lower and the labour market remaining robust, we expect consumer spending to be underpinned. China has responded to its economic slowdown by providing both monetary and fiscal stimulus, and there are early signs the measures are starting to work. The eurozone remains of greater concern, with the area's structural issues remaining unaddressed and fewer policy tools available if the environment deteriorates further.

The UK economic outlook remains clouded by Brexit, and the impact of the uncertainty on business investment is becoming ever more apparent. Consumer spending is, however, a much larger part of the overall economy, and having been under pressure from a squeeze in real wages a year ago, the environment is now more supportive. Inflation is falling, wage growth is accelerating, and real wage growth is firmly re-established. Confidence for 'big ticket' item purchases remains somewhat fragile, but the overall upward trend in consumer spending is intact.

From a UK equity market perspective, it remains a difficult environment for stock selection, not made any easier by the strong recovery in market levels over the past few months. The parliamentary moves to block a no deal Brexit have inspired a sharp rally in many domestic-facing stocks and removed much of the previous valuation disparity. But at the same time the more international stocks have moved higher on the back of lower bond yields.

The forward price earnings ratio for the UK market remains a deceptively modest 13 times, which reflects an uncertain outlook for earnings growth in the face of a slowing global economy. Earnings expectations for 2019 have already fallen back, from 8% to nearer 4% over the past six months and may well have further to fall.

The positive case for the equity market rests, as ever in recent years, on the yield gap, with a forward dividend yield on UK equities of 4.5% versus a 1.1% yield on UK 10-year Gilts.

Colin Morton, Ben Russon, CFA & Mark Hall

Fund Managers

31 March 2019

FRANKLIN UK RISING DIVIDENDS FUND

Comparative Table

A – Income shares	31 March 2019	31 March 2018	31 March 2017
Change in net assets per share (p)			
Opening net asset value per share	492.61	515.92	450.65
Return before operating charges ¹	41.36	3.34	89.15
Operating charges ²	(8.12)	(8.36)	(7.72)
Return after operating charges* ³	33.24	(5.02)	81.43
Distributions on income shares	(18.7208)	(18.2946)	(16.1594)
Closing net asset value per share	507.13	492.61	515.92
*After direct transaction costs of: ⁴	1.22	1.62	3.09
Performance			
Return after charges ⁵	6.75%	(0.97%)	18.07%
Other information			
Closing net asset value (£)	6,065,192	8,952,785	11,142,133
Closing number of shares	1,195,989	1,817,427	2,159,673
Ongoing charges ratio ⁶	1.60%	1.60%	1.60%
Direct transaction costs ⁴	0.24%	0.31%	0.64%
Prices (p)			
Highest share price	538.07	546.78	523.50
Lowest share price	463.07	487.98	434.84

W – Income shares	31 March 2019	31 March 2018	31 March 2017
Change in net assets per share (p)			
Opening net asset value per share	111.06	115.09	99.56
Return before operating charges ¹	9.35	0.71	19.71
Operating charges ²	(0.63)	(0.64)	(0.60)
Return after operating charges* ³	8.72	0.07	19.11
Distributions on income shares	(4.2433)	(4.1005)	(3.5837)
Closing net asset value per share	115.54	111.06	115.09
*After direct transaction costs of: ⁴	0.28	0.36	0.70
Performance			
Return after charges ⁵	7.85%	0.06%	19.19%
Other information			
Closing net asset value (£)	38,476,678	29,091,121	27,184,317
Closing number of shares	33,302,094	26,194,963	23,619,487
Ongoing charges ratio ⁶	0.55%	0.55%	0.55%
Direct transaction costs ⁴	0.24%	0.31%	0.64%
Prices (p)			
Highest share price	121.52	122.20	116.74
Lowest share price	105.21	109.98	96.21

FRANKLIN UK RISING DIVIDENDS FUND

Comparative Table (continued)

W – Accumulation shares	31 March 2019	31 March 2018	31 March 2017
Change in net assets per share (p)			
Opening net asset value per share	189.81	189.90	158.93
Return before operating charges ¹	16.19	0.99	31.94
Operating charges ²	(1.10)	(1.08)	(0.97)
Return after operating charges* ³	15.09	(0.09)	30.97
Closing net asset value per share	204.90	189.81	189.90
Retained distributions on accumulation shares	7.3519	6.8534	5.7965
*After direct transaction costs of: ⁴	0.48	0.61	1.13
Performance			
Return after charges ⁵	7.95%	(0.05%)	19.49%
Other information			
Closing net asset value (£)	40,243,122	30,057,479	16,512,999
Closing number of shares	19,640,238	15,835,856	8,695,522
Ongoing charges ratio ⁶	0.55%	0.55%	0.55%
Direct transaction costs ⁴	0.24%	0.31%	0.64%
Prices (p)			
Highest share price	208.75	204.16	191.02
Lowest share price	183.35	186.46	153.58

Z – Income shares	31 March 2019	31 March 2018	31 March 2017
Change in net assets per share (p)			
Opening net asset value per share	109.77	114.33	99.35
Return before operating charges ¹	9.22	0.72	19.72
Operating charges ²	(1.19)	(1.22)	(1.15)
Return after operating charges* ³	8.03	(0.50)	18.57
Distributions on income shares	(4.1840)	(4.0641)	(3.5912)
Closing net asset value per share	113.62	109.77	114.33
*After direct transaction costs of: ⁴	0.27	0.36	0.70
Performance			
Return after charges ⁵	7.32%	(0.44%)	18.69%
Other information			
Closing net asset value (£)	2,900,999	267,082	223,228
Closing number of shares	2,553,308	243,317	195,249
Ongoing charges ratio ⁶	1.05%	1.05%	1.05%
Direct transaction costs ⁴	0.24%	0.31%	0.64%
Prices (p)			
Highest share price	119.99	121.28	115.99
Lowest share price	103.61	108.72	95.97

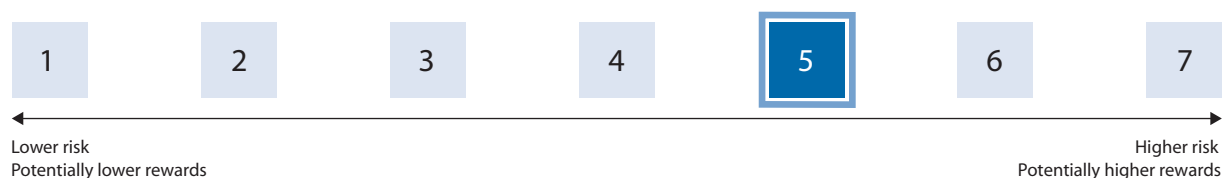
FRANKLIN UK RISING DIVIDENDS FUND

Comparative Table (continued)

Z- Accumulation shares	31 March 2019	31 March 2018	31 March 2017
Change in net assets per share (p)			
Opening net asset value per share	186.63	187.66	157.72
Return before operating charges ¹	15.89	1.00	31.75
Operating charges ²	(2.05)	(2.03)	(1.81)
Return after operating charges* ³	13.84	(1.03)	29.94
Closing net asset value per share	200.47	186.63	187.66
Retained distributions on accumulation shares	7.2115	6.7567	5.7355
*After direct transaction costs of: ⁴	0.47	0.60	1.10
Performance			
Return after charges ⁵	7.42%	(0.55%)	18.98%
Other information			
Closing net asset value (£)	314,329	296,605	274,125
Closing number of shares	156,799	158,928	146,077
Ongoing charges ratio ⁶	1.05%	1.05%	1.05%
Direct transaction costs ⁴	0.24%	0.31%	0.64%
Prices (p)			
Highest share price	204.89	200.97	188.79
Lowest share price	179.61	183.36	152.35

- 1 The "return before operating charges" is calculated as the "return after operating charges" plus the "operating charges".
 - 2 The "operating charges" are calculated with reference to the total expenses for the year divided by the number of shares in issue at each valuation point.
 - 3 The "return after operating charges" is calculated as the "closing net asset value per share" plus the "distributions" (for income share classes only) minus the "opening net asset value per share".
 - 4 The direct transaction costs include all fees and expenses which relate directly to the sales and purchases of securities which include commissions, transfer taxes and duties. Direct transaction costs do not include any difference between the quoted bid and offer prices or internal administrative or holding costs. The "direct transaction costs" ratio is calculated by dividing the total transaction costs by the average net assets.
 - 5 The "return after charges" is calculated as the "return after operating charges" per share divided by the "opening net asset value per share". This figure will differ from "performance return" figure disclosed under "Investment Review" section due to alternative calculation methodology used.
 - 6 The "ongoing charges ratio" represents all operating charges and expenses of the share class in the prior 12 months as a percentage of the share class'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.

Risk Profile (W(acc) shares)



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.

For a full discussion of all the risks applicable to this Fund, please refer to the "Risk Factors" section of the current prospectus of Franklin Templeton Funds.

FRANKLIN UK RISING DIVIDENDS FUND

Portfolio Statement as at 31 March 2019

(Currency – GBP)

Number of Shares or Face Value	Description	Market Value £000	% of Net Assets
	EQUITIES 96.32% (94.84%)		
	AEROSPACE & DEFENCE 2.14% (2.24%)		
390,000	BAE Systems PLC	1,881	2.14
	BANKS 2.40% (2.46%)		
145,000	Close Brothers Group PLC	2,110	2.40
	BEVERAGES 6.91% (3.46%)		
200,000	Britvic PLC	1,903	2.16
133,000	Diageo PLC	4,174	4.75
		6,077	6.91
	CHEMICALS 4.03% (1.62%)		
58,000	Johnson Matthey PLC	1,822	2.07
80,000	Victrix PLC	1,720	1.96
		3,542	4.03
	ELECTRICITY 1.42% (1.78%)		
105,000	SSE PLC	1,246	1.42
	ELECTRONIC & ELECTRICAL EQUIPMENT 2.05% (2.25%)		
72,000	Spectris PLC	1,805	2.05
	FINANCIAL SERVICES 6.88% (7.44%)		
550,000	Brewin Dolphin Holdings PLC	1,714	1.95
249,000	IG Group Holdings PLC	1,295	1.47
58,000	Rathbone Brothers PLC	1,290	1.47
65,000	Schroders PLC	1,755	1.99
		6,054	6.88
	FOOD & DRUG RETAILERS 0.00% (1.70%)		
	FOOD PRODUCERS 4.14% (1.56%)		
77,000	Associated British Foods PLC	1,877	2.13
65,000	Cranswick PLC	1,768	2.01
		3,645	4.14
	GAS, WATER & MULTI-UTILITIES 2.80% (3.46%)		
150,000	National Grid PLC	1,276	1.45
160,000	Pennon Group PLC	1,190	1.35
		2,466	2.80
	GENERAL INDUSTRIALS 0.00% (2.20%)		
	GENERAL RETAILERS 1.90% (3.53%)		
30,000	Next PLC	1,673	1.90
	HEALTH CARE EQUIPMENT & SERVICES 1.73% (1.74%)		
100,000	Smith & Nephew PLC	1,522	1.73
	HOUSEHOLD GOODS & HOME CONSTRUCTION 2.97% (2.81%)		
41,000	Reckitt Benckiser Group PLC	2,617	2.97
	INDUSTRIAL ENGINEERING 5.97% (6.34%)		
240,000	Bodycote PLC	1,967	2.23
195,000	IMI PLC	1,862	2.12
125,000	Vitec Group PLC	1,425	1.62
		5,254	5.97
	INDUSTRIAL TRANSPORTATION 1.57% (1.67%)		
58,000	Clarkson PLC	1,378	1.57

FRANKLIN UK RISING DIVIDENDS FUND

Portfolio Statement as at 31 March 2019 (continued)

(Currency – GBP)

Number of Shares or Face Value	Description	Market Value £000	% of Net Assets
	LIFE INSURANCE 5.45% (5.16%)		
158,000	Prudential PLC	2,429	2.76
230,000	St. James's Place Capital PLC	2,363	2.69
		<u>4,792</u>	<u>5.45</u>
	MEDIA 5.28% (5.22%)		
600,000	Bloomsbury Publishing PLC	1,368	1.55
200,000	RELX PLC	3,282	3.73
		<u>4,650</u>	<u>5.28</u>
	NONLIFE INSURANCE 2.02% (2.09%)		
345,000	Beazley PLC	1,775	2.02
	OIL & GAS PRODUCERS 4.93% (3.94%)		
180,000	Royal Dutch Shell PLC, A	4,342	4.93
	PERSONAL GOODS 4.89% (4.09%)		
98,000	Unilever PLC	4,307	4.89
	PHARMACEUTICALS & BIOTECHNOLOGY 6.67% (8.25%)		
45,500	AstraZeneca PLC	2,791	3.17
193,000	GlaxoSmithKline PLC	3,081	3.50
		<u>5,872</u>	<u>6.67</u>
	SOFTWARE & COMPUTER SERVICES 2.07% (2.00%)		
260,000	The Sage Group PLC	1,823	2.07
	SUPPORT SERVICES 5.26% (6.57%)		
70,000	Bunzl PLC	1,772	2.01
100,000	Diploma PLC	1,456	1.66
750,000	RPS Group PLC	1,403	1.59
		<u>4,631</u>	<u>5.26</u>
	TOBACCO 6.69% (7.00%)		
89,000	British American Tobacco PLC	2,843	3.23
116,000	Imperial Brands PLC	3,044	3.46
		<u>5,887</u>	<u>6.69</u>
	TRAVEL & LEISURE 6.15% (4.26%)		
140,000	Compass Group PLC	2,525	2.87
220,000	Greene King PLC	1,461	1.66
24,000	Paddy Power Betfair PLC	1,427	1.62
		<u>5,413</u>	<u>6.15</u>
	TOTAL - EQUITIES	<u>84,762</u>	<u>96.32</u>
	TOTAL VALUE OF INVESTMENTS	84,762	96.32
	OTHER ASSETS	3,238	3.68
	TOTAL NET ASSETS	<u>88,000</u>	<u>100.00</u>

The total percentage figures in brackets next to each category heading represent holdings as at 31 March 2018. Unless otherwise stated the above securities are ordinary shares or common stock and admitted to official stock exchange listings.

FRANKLIN UK RISING DIVIDENDS FUND

Statement of Total Return

For the year ended 31 March 2019

	Note	March 2019 £000	March 2019 £000	March 2018 £000	March 2018 £000
Income					
Net capital gains/(losses)	1		2,972		(2,004)
Revenue	2	3,143		2,127	
Expenses	3	(548)		(429)	
Net revenue before taxation		2,595		1,698	
Taxation	4	(22)		(15)	
Net revenue after taxation			2,573		1,683
Total return before distributions for the year			5,545		(321)
Distributions	5		(3,042)		(2,056)
Change in net assets attributable to shareholders			2,503		(2,377)

Statement of Change in Net Assets Attributable to Shareholders

For the year ended 31 March 2019

	March 2019 £000	March 2019 £000	March 2018 £000	March 2018 £000
Opening net assets attributable to shareholders		68,665		55,337
Amounts received on creation of shares	34,943		35,845	
Amounts paid on cancellation of shares	(19,549)		(20,958)	
		15,394		14,887
Dilution adjustments		-		36
Unclaimed distributions		2		1
Change in net assets attributable to shareholders from investment activities (see above)		2,503		(2,377)
Retained distribution on accumulation shares		1,436		781
Closing net assets attributable to shareholders		88,000		68,665

Balance Sheet

As at 31 March 2019

	Note	March 2019 £000	March 2018 £000
Assets			
Fixed assets			
Tangible assets:			
Investment assets		84,762	65,122
Current assets			
Debtors	6	1,041	818
Cash and bank balances		3,092	3,751
Total assets		88,895	69,691
Liabilities			
Creditors			
Distribution payable	5	(436)	(312)
Other creditors	7	(459)	(714)
Total liabilities		(895)	(1,026)
Net assets attributable to shareholders		88,000	68,665

FRANKLIN UK RISING DIVIDENDS FUND

Notes to the Financial Statements

	March 2019 £000	March 2018 £000
1. Net capital gains/(losses)		
The net capital gains/(losses) during the year comprise:		
Non-derivative securities gains/(losses)	2,972	(2,004)
	<u>2,972</u>	<u>(2,004)</u>
2. Revenue		
UK dividends	2,869	1,927
Overseas dividends	266	199
Other revenue	6	-
Bank and other interest	<u>2</u>	<u>1</u>
	<u>3,143</u>	<u>2,127</u>
3. Expenses		
Payable to the ACD, associates of the ACD and agents of either of them		
ACD's periodic charge	469	373
ACD's administration charge	<u>41</u>	<u>28</u>
	<u>510</u>	<u>401</u>
Payable to the Depositary, associates of the Depositary and agents of either of them		
Depositary fees	18	12
Safe custody fees	<u>6</u>	<u>4</u>
	<u>24</u>	<u>16</u>
Other expenses		
Audit fees	9	8
Legal and publication fees	3	2
Printing fees	3	4
Expense cap	<u>(1)</u>	<u>(2)</u>
	<u>14</u>	<u>12</u>
	<u>548</u>	<u>429</u>
4. Taxation		
(a) Analysis of charge in the year		
Irrecoverable overseas tax	<u>22</u>	<u>15</u>
Total current tax (note 4(b))	<u>22</u>	<u>15</u>
Total taxation	<u>22</u>	<u>15</u>
(b) Factors affecting tax charge for the year		
The tax assessed for the year is lower (2018: lower) than the standard rate of corporation tax in the UK for Open Ended Investment Companies (20% (2018: 20%)).		
The differences are explained below:		
Net revenue before taxation	<u>2,595</u>	<u>1,698</u>
Corporation tax of 20% (2018: 20%)	519	340
Effects of:		
Excess management expenses	108	86
Irrecoverable overseas tax	22	15
UK dividends & non-taxable overseas dividends*	<u>(627)</u>	<u>(426)</u>
Current tax charge for year (note 4(a))	<u>22</u>	<u>15</u>

*As an Open Ended Investment Company these items are not subject to corporation tax

Open Ended Investment Companies are exempt from tax on capital gains in the UK. Therefore, any capital return is not included within the reconciliation above.

At the year end there is a potential deferred tax asset of £584,000 (£476,000 as at 31 March 2018) in relation to excess management fees. It is unlikely the Fund will generate sufficient tax profits in the future to utilise these amounts and therefore no deferred tax assets have been recognised in the year.

FRANKLIN UK RISING DIVIDENDS FUND

Notes to the Financial Statements (continued)

	March 2019 £000	March 2018 £000
5. (a) Finance costs		
The distribution takes account of income received on the issue of shares and income deducted on the cancellation of shares, and comprise:		
Interim dividend distributions		
Income	1,225	1,029
Accumulation	<u>1,067</u>	<u>536</u>
	<u>2,292</u>	<u>1,565</u>
Final dividend distributions		
Income	436	312
Accumulation	<u>369</u>	<u>245</u>
	<u>805</u>	<u>557</u>
Add: Income deducted on cancellation of shares	97	104
Deduct: Income received on issue of shares	<u>(152)</u>	<u>(170)</u>
Total distribution	<u>3,042</u>	<u>2,056</u>
Total finance costs	<u>3,042</u>	<u>2,056</u>
(b) Difference between net revenue and distribution:		
Net revenue after taxation	2,573	1,683
ACD's periodic charge taken from capital account	<u>469</u>	<u>373</u>
Total distribution for the year	<u>3,042</u>	<u>2,056</u>
Details of the distribution in pence per share for this Fund are set out in the table on pages from 167 - 168.		
6. Debtors		
Amounts receivable for issue of shares	424	598
Sales awaiting settlement	313	-
Accrued income	281	209
Overseas tax recoverable	<u>23</u>	<u>11</u>
	<u>1,041</u>	<u>818</u>
7. Other creditors		
Amounts payable on cancellation of shares	397	110
Accrued expenses	62	51
Purchases awaiting settlement	-	552
Capped expenses	<u>-</u>	<u>1</u>
	<u>459</u>	<u>714</u>

8. Related parties

During the year, Franklin Templeton Fund Management Limited ("ACD"), a related party, acted primarily in all transactions of the Funds. The aggregate amounts received through issues and cancellations are disclosed in the Statement of Change in Net Assets Attributable to Shareholders.

Amounts charged by the ACD and associates of the ACD in respect of the management and administration fees are disclosed in Note 3.

The amounts due to the ACD and associates of the ACD in respect of management and administration fees at 31 March 2019 are £45,000 (£36,000 as at 31 March 2018).

During the year the Fund received nil (£4,000 for the year to 31 March 2018) in reimbursed expenses from the ACD.

As at 31 March 2019 the Fund owed nil to the ACD in respect of an over-reimbursement of expenses (£1,000 owed to the ACD as at 31 March 2018).

9. Risk management policies and disclosures

The risks inherent in the Fund's investment portfolio are as follows:

Market Risk**Currency risk**

Fluctuations in the foreign exchange rates can adversely affect the value of a portfolio.

At the year end date, 0.02% (2018: 0.02%) of the net assets of the Fund were denominated in currencies other than sterling and as such the currency risk is not considered significant.

FRANKLIN UK RISING DIVIDENDS FUND

Notes to the Financial Statements (continued)

9. Risk management policies and disclosures (continued)

Interest rate risk

The Fund does not invest in either fixed or floating rate securities and interest rate risk exposure is restricted to interest receivable on bank deposits or payable on bank overdraft positions which will be affected by fluctuations in interest rates.

Other price risk

At the year end date, 96.32% (2018: 94.84%) of the net assets of the Fund were invested in ordinary shares or stock units admitted to an official stock exchange. If the market value were to change by 10%, the value of the Fund would change by 9.63% (2018: 9.48%).

There is no material difference between the value of the financial assets and liabilities, as shown in the Balance sheet, and their fair values.

10. Portfolio Transaction Costs

	2019			2018		
	Purchases £000	% Of Purchases	% of Average Net Asset Value	Purchases £000	% Of Purchases	% of Average Net Asset Value
Equity purchases in year before transaction costs	34,000			30,089		
Commissions	14	0.04	0.02	22	0.07	0.04
Taxes	170	0.50	0.21	138	0.46	0.23
Other	2	0.01	-	7	0.02	0.01
Total Equity purchases in the year after direct transaction costs	34,186			30,256		

	2019			2018		
	Sales £000	% Of Sales	% of Average Net Asset Value	Sales £000	% Of Sales	% of Average Net Asset Value
Equity sales in year before transaction costs	17,332			16,577		
Commissions	(10)	(0.06)	(0.01)	(16)	(0.10)	(0.03)
Total Equity sales in the year after direct transaction costs	17,322			16,561		

In pursuance of its investment objectives the Fund incurs commissions, taxes and other charges when buying and selling investment securities. Share dealing generally incurs broker commission and stamp duty and these are paid by the Fund on each transaction where appropriate.

In addition there is a dealing spread between the buying and selling prices of the underlying investments. The average dealing spread which is the difference between the quoted bid and offer prices or internal administrative or holding costs, are not included in the calculation of Direct Transaction Costs. As at 31 March 2019, the average dealing spread for the underlying Fund investments is 0.15% (2018: 0.09%).

Comparing portfolio transaction costs for a range of funds may give a misleading impression of the relative costs of investing in those funds for the following reasons:

- Historic transaction costs are not an effective indicator of the future impact on performance as it may vary from year to year depending on the investment manager;
- Transaction costs for buying and selling investments due to shareholder activity on the fund are recovered from those investors;
- Transaction costs will vary depending on the types of securities the fund is investing.

11. Creations and Cancellations of Shares

	A–Income shares	W–Income shares	W–Accumulation shares	Z–Income shares	Z–Accumulation shares
Opening Shares	1,817,427	26,194,963	15,835,856	243,317	158,928
Creations	79,093	12,362,685	10,166,890	8,697	9,824
Cancellations	(168,362)	(5,291,817)	(6,356,050)	(48,773)	(11,953)
Conversions	(532,169)	36,263	(6,458)	2,350,067	-
Total Closing Shares	1,195,989	33,302,094	19,640,238	2,553,308	156,799

FRANKLIN UK RISING DIVIDENDS FUND

Notes to the Financial Statements (continued)

12. Fair Value Disclosure

In accordance with FRS 102 the Fund classifies fair value measurement under the following levels:

Level 1

Unadjusted quoted market prices in active markets for identical securities.

Level 2

Investments (other than quoted prices included within Level 1) whose fair value is based directly on observable current market prices or is indirectly being derived from market prices; and

Level 3

Investments whose fair value is determined using a valuation technique based on assumptions that are not supported by observable current market prices or are not based on observable market data such as security in default or securities valued by Franklin Templeton Fair Valuation Committee.

Fair Value Hierarchy	Assets 31 March 2019 £000	Liabilities 31 March 2019 £000	Assets 31 March 2018 £000	Liabilities 31 March 2018 £000
Level 1	84,762	-	65,122	-
Level 2	-	-	-	-
Level 3	-	-	-	-
Total	84,762	-	65,122	-

FRANKLIN UK RISING DIVIDENDS FUND

Distribution Statement

For the period 1 April 2018 to 30 June 2018

Group 1 – Shares purchased prior to 1 April 2018

Group 2 – Shares purchased in the period 1 April 2018 to 30 June 2018

	Net Income p	Equalisation p	30 June 2018 Pence per Share p	30 June 2017 Pence per Share p
A - Income Shares				
Group 1	5.2901	-	5.2901	6.1631
Group 2	1.4090	3.8811	5.2901	6.1631
W - Income Shares				
Group 1	1.1937	-	1.1937	1.3769
Group 2	0.3707	0.8230	1.1937	1.3769
W - Accumulation Shares				
Group 1	2.0403	-	2.0403	2.2717
Group 2	1.0100	1.0303	2.0403	2.2717
Z - Income Shares				
Group 1	1.1793	-	1.1793	1.3670
Group 2	1.0546	0.1247	1.1793	1.3670
Z - Accumulation Shares				
Group 1	2.0050	-	2.0050	2.2433
Group 2	0.3189	1.6861	2.0050	2.2433

For the period 1 July 2018 to 30 September 2018

Group 1 – Shares purchased prior to 1 July 2018

Group 2 – Shares purchased in the period 1 July 2018 to 30 September 2018

	Net Income p	Equalisation p	30 September 2018 Pence per Share p	30 September 2017 Pence per Share p
A - Income Shares				
Group 1	4.8553	-	4.8553	5.1759
Group 2	1.5161	3.3392	4.8553	5.1759
W - Income Shares				
Group 1	1.0990	-	1.0990	1.1592
Group 2	0.7952	0.3038	1.0990	1.1592
W - Accumulation Shares				
Group 1	1.8971	-	1.8971	1.9356
Group 2	1.2466	0.6505	1.8971	1.9356
Z - Income Shares				
Group 1	1.0842	-	1.0842	1.1496
Group 2	0.8664	0.2178	1.0842	1.1496
Z - Accumulation Shares				
Group 1	1.8621	-	1.8621	1.9094
Group 2	0.1487	1.7134	1.8621	1.9094

FRANKLIN UK RISING DIVIDENDS FUND

Distribution Statement (continued)

For the period 1 October 2018 to 31 December 2018

Group 1 – Shares purchased prior to 1 October 2018

Group 2 – Shares purchased in the period 1 October 2018 to 31 December 2018

	Net Income p	Equalisation p	31 December 2018 Pence per Share p	31 December 2017 Pence per Share p
A - Income Shares				
Group 1	3.9188	-	3.9188	2.9377
Group 2	1.3545	2.5643	3.9188	2.9377
W - Income Shares				
Group 1	0.8894	-	0.8894	0.6597
Group 2	0.3749	0.5145	0.8894	0.6597
W - Accumulation Shares				
Group 1	1.5499	-	1.5499	1.1123
Group 2	0.8308	0.7191	1.5499	1.1123
Z - Income Shares				
Group 1	0.8763	-	0.8763	0.6531
Group 2	0.2086	0.6677	0.8763	0.6531
Z - Accumulation Shares				
Group 1	1.5192	-	1.5192	1.0954
Group 2	0.9260	0.5932	1.5192	1.0954

For the period 1 January 2019 to 31 March 2019

Group 1 – Shares purchased prior to 1 January 2019

Group 2 – Shares purchased in the period 1 January 2019 to 31 March 2019

	Net Income p	Equalisation p	31 March 2019 Pence per Share p	31 March 2018 Pence per Share p
A - Income Shares				
Group 1	4.6566	-	4.6566	4.0179
Group 2	1.0130	3.6436	4.6566	4.0179
W - Income Shares				
Group 1	1.0612	-	1.0612	0.9047
Group 2	0.5334	0.5278	1.0612	0.9047
W - Accumulation Shares				
Group 1	1.8646	-	1.8646	1.5338
Group 2	0.9508	0.9138	1.8646	1.5338
Z - Income Shares				
Group 1	1.0442	-	1.0442	0.8944
Group 2	1.0436	0.0006	1.0442	0.8944
Z - Accumulation Shares				
Group 1	1.8252	-	1.8252	1.5086
Group 2	0.6174	1.2078	1.8252	1.5086

Equalisation

All shareholders, within each share category, receive the same distribution per share, although the distribution to shareholders who purchased shares during the distribution period (Group 2 holdings) contains an element of equalisation which is a repayment, at an average rate per share, of the amount of accrued net income which was included in the purchase price of such shares. As the nature of this payment is capital it is not subject to income tax but must be deducted from the purchase price in any capital gains tax computation on the sale of the shares.

FRANKLIN UK SMALLER COMPANIES FUND

Investment Review

Performance

In the 12 months to 31 March 2019, the Franklin UK Smaller Companies Fund (W (acc) shares) recorded a return of -7.00%*, compared with a return of -1.24% registered by the benchmark Numis Smaller Companies (ex-Investment Trusts) Index.

Overview

The year under review started strongly with the UK equity market rising sharply in April and early May and reaching a new all-time high. At one point, the market was up more than 9% in less than eight weeks, but this proved to be the high point of the year and for the rest of the year returns have been negative.

Following a period of relatively low volatility over the summer months, sentiment took a turn for the worse in the autumn, as economic and political factors combined to create a perfect storm for investors. The UK equity market declined by 10% in the final quarter of 2018, undermined by rising U.S. interest rates, heightened trade rhetoric and the interminable Brexit negotiations. Small-cap stocks fared much worse during this “risk-off” period, with the Fund’s benchmark index falling 13% and the FTSE Aim Index falling 22% during the fourth quarter of 2018.

The new calendar year brought a change of fortune, with the catalyst a dramatic pivot by the U.S. Federal Reserve (“Fed”). The Fed’s decision in December 2018 to increase U.S. short-term rates in the face of an obviously slowing global economy had led to increased nervousness about a policy mistake, and its volte face in January was a welcome relief to global equity markets.

The final three months of the Fund’s financial year saw markets recover much of the ground lost in the previous quarter. The U.S. 10-year bond yield had been rising sharply towards the end of 2018, but this move reversed sharply in the opening months of 2019, spurring a significant rally in equity prices, albeit from what had looked, in our view, to be a heavily oversold position.

Sentiment was further bolstered by a more constructive approach to trade negotiations by the Trump administration after the midterm elections, and by the UK parliament taking steps to reduce the likelihood of a so-called hard Brexit.

The overall performance of the UK economy in 2018 was broadly in line with expectations. The understandable downturn in business investment in the face of Brexit uncertainty has been largely offset by a more resilient consumer. The consumer has been helped by the remarkably robust labour market and the return of real wage growth as inflation has moderated.

Global economic growth moderated modestly from the previous year to 3.7%, with the United States leading the way amongst the advanced economies with growth of 2.9%, helped by the programme of tax cuts. The eurozone and Japan both experienced sharp slowdowns as their structural deficiencies once again came to the fore.

The global economy has looked increasingly fragile to us as the year progressed. The necessary steps towards some sort of normalisation of U.S. monetary policy have been hindered by the impact of trade measures and market volatility.

Significant Changes

The largest stock purchases over the year included new positions in pipe manufacturer Polypipe Group PLC, cyber security firm NCC Group PLC, and pork and poultry producer Cranswick PLC. Other stock purchases included business services firm Restore PLC and media firm Entertainment One Ltd.

Polypipe Group PLC is making good progress in delivering on its strategic objectives, which include leveraging its competitive advantages within a number of structural growth markets and expanding into adjacent markets. The valuation looked attractive at the time of purchase, in our view, backed by a strong balance sheet and cash generation. NCC Group PLC, a cybersecurity assurance business, was added to the portfolio, after full-year results demonstrated that the relatively new management team had been successful in restructuring the business, and had begun to implement changes for sustainable growth and margin progression. Cranswick

* Figure differs from comparative table performance due to alternative calculation methodology used.

FRANKLIN UK SMALLER COMPANIES FUND

Investment Review (continued)

Significant Changes (continued)

has an excellent long-term track record in the pork industry, with the share price having performed strongly over the past 20 years. With the company now turning its attention to the poultry market, we believe there is substantial upside potential in the price, if the company can repeat its success in the pork industry.

Stock sales included reduced exposure to Entertainment One Ltd. and photonics technology firm Gooch & Housego PLC on share price strength during the year. We also reduced our exposure to financial platform IntegraFin Holdings PLC. We disposed of positions in housebuilder Telford Homes PLC and leisure technology company Accesso Technology Group PLC. Accesso was the smallest position in our portfolio, as we awaited clarity from a strategic update before making an investment decision. The company subsequently announced that increased investment would be needed to develop and integrate its product suite, pushing expected profitability out by at least three years, so we exited our position.

Positive/Negative Contributors

At the sector level, security selection in the industrial goods and services, technology and chemicals sectors detracted from relative performance. Stock selection in health care, financial services and personal and household goods buoyed relative returns during the year.

Individual detractors included document management and relocation specialist Restore PLC, which weighed on relative performance given broader growth concerns, and following news of the departure of the group's highly regarded chief executive officer. Adhesives manufacturer Scapa Group PLC declined significantly in late 2018, after a badly communicated acquisition prompted a near-term profit downgrade. Footwear retailer Footasylum PLC fell sharply after issuing a profit warning, continuing the disappointing news flow since purchase, with a material reduction in profit expectations due to a period of weaker trading, and also a change in strategic direction. We exited the position. Patisserie Holdings was a detractor, following the unearthing of fraud and accounting irregularities disclosed in the fourth quarter of 2018. The business went into administration following the discovery of unknown sizeable liabilities. We completely wrote down the value of this position. Alfa Financial Software Holdings PLC, an asset management software firm, also fell over the year, due to a reduction in profit expectations following a major customer delaying the implementation of a software project. The position was subsequently sold.

On the upside, Entertainment One Ltd. was a contributor, on continued strength in its Peppa Pig franchise and news it was expanding the brand into theme parks. IntegraFin Holdings PLC boosted relative performance. Through its Transact platform, IntegraFin Holdings PLC is a leading independent wrap platform provider, offering administration and investment services to the UK financial advisor marketplace. Having invested heavily in its own technology offering over a number of years, we believe the group is in a strong position to leverage this scalable model. Historic asset flow has been strong, as advisors have increasingly adopted the on-platform offering and existing clients transfer more client assets onto the Transact platform. Other contributors included domestic and consumer-oriented companies like sofa retailer DFS Furniture PLC and City Pub Group PLC. City Pub runs a high-quality portfolio of branded pubs, and we see opportunity for significant expansion over the next three years. SimplyBiz PLC, meanwhile, contributed, as investors reacted well to its acquisition of financial ratings and data business Defaqto in March 2019.

Outlook

The equity market momentum established in the early months of 2019 has been maintained in the opening weeks of the Fund's new financial year. Encouraged by lower bond yields, investor sentiment has greatly improved from the dark days of December 2018, and markets now appear to be much more confident of a benign outcome to trade discussions and the Brexit process.

It seems extraordinary to us that we still have no certainty on Brexit, as we approach the third anniversary of the vote. In the short term, investors have taken heart from the fact that the UK parliament took steps to greatly reduce the risk of a no deal scenario. We have, however, long believed that the real risk from Brexit is that the political upheaval leads to a change of government, and a new regime with a vastly different policy agenda. This outcome remains a real possibility, although it is not our central case expectation.

The fears of a global recession that haunted the market towards the end of 2018, when the Fed appeared determined to keep raising rates, have visibly receded in recent weeks. The policy pivot and progress on trade discussions have clearly helped, at a time when the economic data remains mixed at best.

FRANKLIN UK SMALLER COMPANIES FUND

Investment Review (continued)

Outlook (continued)

In the United States, economic activity has moderated, but remains solidly positive, and with long-term rates trending lower and the labour market remaining robust, we expect consumer spending to be underpinned. China has responded to its economic slowdown by providing both monetary and fiscal stimulus, and there are early signs the measures are starting to work. The eurozone remains of greater concern, with the area's structural issues remaining unaddressed and fewer policy tools available if the environment deteriorates further.

The UK economic outlook remains clouded by Brexit, and the impact of the uncertainty on business investment is becoming ever more apparent. Consumer spending is, however, a much larger part of the overall economy, and having been under pressure from a squeeze in real wages a year ago, the environment is now more supportive. Inflation is falling, wage growth is accelerating, and real wage growth is firmly re-established. Confidence for 'big ticket' item purchases remains somewhat fragile, but the overall upward trend in consumer spending is intact.

From a UK equity market perspective, it remains a difficult environment for stock selection, not made any easier by the strong recovery in market levels over the past few months. The parliamentary moves to block a no deal Brexit have inspired a sharp rally in many domestic-facing stocks and removed much of the previous valuation disparity. But at the same time the more international stocks have moved higher on the back of lower bond yields.

The forward price earnings ratio for the UK market remains a deceptively modest 13 times, which reflects an uncertain outlook for earnings growth in the face of a slowing global economy. Earnings expectations for 2019 have already fallen back, from 8% to nearer 4% over the past six months and may well have further to fall.

The positive case for the equity market rests, as ever in recent years, on the yield gap, with a forward dividend yield on UK equities of 4.5% versus a 1.1% yield on UK 10-year Gilts.

Paul Spencer, Richard Bullas, Mark Hall & Dan Green, CFA

Fund Managers

31 March 2019

FRANKLIN UK SMALLER COMPANIES FUND

Comparative Table

A – Income shares	31 March 2019	31 March 2018	31 March 2017
Change in net assets per share (p)			
Opening net asset value per share	1,146.65	970.87	901.37
Return before operating charges ¹	(67.06)	197.32	89.10
Operating charges ²	(18.25)	(17.58)	(14.14)
Return after operating charges* ³	(85.31)	179.74	74.96
Distributions on income shares	(6.0317)	(3.9625)	(5.4583)
Closing net asset value per share	1,055.31	1,146.65	970.87
*After direct transaction costs of: ⁴	1.62	0.78	1.07
Performance			
Return after charges ⁵	(7.44%)	18.51%	8.32%
Other information			
Closing net asset value (£)	13,196,250	30,584,963	29,792,464
Closing number of shares	1,250,463	2,667,322	3,068,649
Ongoing charges ratio ⁶	1.58%	1.58%	1.58%
Direct transaction costs ⁴	0.14%	0.07%	0.12%
Prices (p)			
Highest share price	1,256.18	1,216.89	995.29
Lowest share price	985.41	977.34	753.570

W – Income shares	31 March 2019	31 March 2018	31 March 2017
Change in net assets per share (p)			
Opening net asset value per share	126.76	107.31	99.59
Return before operating charges ¹	(7.48)	21.84	9.90
Operating charges ²	(1.04)	(1.03)	(0.83)
Return after operating charges* ³	(8.52)	20.81	9.07
Distributions on income shares	(1.6125)	(1.3628)	(1.3519)
Closing net asset value per share	116.63	126.76	107.31
*After direct transaction costs of: ⁴	0.17	0.09	0.12
Performance			
Return after charges ⁵	(6.72%)	19.39%	9.11%
Other information			
Closing net asset value (£)	96,536,969	37,435,565	16,030,174
Closing number of shares	82,771,843	29,531,718	14,937,678
Ongoing charges ratio ⁶	0.83%	0.83%	0.83%
Direct transaction costs ⁴	0.14%	0.07%	0.12%
Prices (p)			
Highest share price	139.08	135.05	110.56
Lowest share price	109.33	108.03	83.42

FRANKLIN UK SMALLER COMPANIES FUND

Comparative Table (continued)

W – Accumulation shares	31 March 2019	31 March 2018	31 March 2017
Change in net assets per share (p)			
Opening net asset value per share	258.07	216.10	197.98
Return before operating charges ¹	(15.36)	44.04	19.77
Operating charges ²	(2.13)	(2.07)	(1.65)
Return after operating charges* ³	(17.49)	41.97	18.12
Closing net asset value per share	240.58	258.07	216.10
Retained distributions on accumulation shares	3.2859	2.7476	2.6910
*After direct transaction costs of: ⁴	0.36	0.17	0.24
Performance			
Return after charges ⁵	(6.78%)	19.42%	9.15%
Other information			
Closing net asset value (£)	186,355,313	235,623,092	205,751,242
Closing number of shares	77,461,117	91,303,686	95,210,824
Ongoing charges ratio ⁶	0.83%	0.83%	0.83%
Direct transaction costs ⁴	0.14%	0.07%	0.12%
Prices (p)			
Highest share price	283.15	273.08	220.85
Lowest share price	223.62	217.55	165.84

Z – Accumulation shares	31 March 2019	31 March 2018	31 March 2017
Change in net assets per share (p)			
Opening net asset value per share	255.06	214.01	196.45
Return before operating charges ¹	(15.15)	43.59	19.58
Operating charges ²	(2.61)	(2.54)	(2.02)
Return after operating charges* ³	(17.76)	41.05	17.56
Closing net asset value per share	237.30	255.06	214.01
Retained distributions on accumulation shares	2.7393	2.2253	2.2746
*After direct transaction costs of: ⁴	0.35	0.17	0.24
Performance			
Return after charges ⁵	(6.96%)	19.18%	8.94%
Other information			
Closing net asset value (£)	4,911,261	2,228,952	2,278,642
Closing number of shares	2,069,664	873,902	1,064,752
Ongoing charges ratio ⁶	1.03%	1.03%	1.03%
Direct transaction costs ⁴	0.14%	0.07%	0.12%
Prices (p)			
Highest share price	279.74	270.01	218.73
Lowest share price	220.68	215.44	164.47

FRANKLIN UK SMALLER COMPANIES FUND

Comparative Table (continued)

- 1 The "return before operating charges" is calculated as the "return after operating charges" plus the "operating charges".
- 2 The "operating charges" are calculated with reference to the total expenses for the year divided by the number of shares in issue at each valuation point.
- 3 The "return after operating charges" is calculated as the "closing net asset value per share" plus the "distributions" (for income share classes only) minus the "opening net asset value per share".
- 4 The direct transaction costs include all fees and expenses which relate directly to the sales and purchases of securities which include commissions, transfer taxes and duties. Direct transaction costs do not include any difference between the quoted bid and offer prices or internal administrative or holding costs. The "direct transaction costs" ratio is calculated by dividing the total transaction costs by the average net assets.
- 5 The "return after charges" is calculated as the "return after operating charges" per share divided by the "opening net asset value per share". This figure will differ from "performance return" figure disclosed under "Investment Review" section due to alternative calculation methodology used.
- 6 The "ongoing charges ratio" represents all operating charges and expenses of the share class in the prior 12 months as a percentage of the share class'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.

Risk Profile (W(acc) shares)



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.

For a full discussion of all the risks applicable to this Fund, please refer to the "Risk Factors" section of the current prospectus of Franklin Templeton Funds.

FRANKLIN UK SMALLER COMPANIES FUND

Portfolio Statement as at 31 March 2019

(Currency – GBP)

Number of Shares or Face Value	Description	Market Value £000	% of Net Assets
	EQUITIES 94.66% (93.92%)		
	AEROSPACE & DEFENCE 2.68% (3.54%)		
387,000	Avon Rubber PLC	5,031	1.67
2,187,000	Chemring Group PLC	3,036	1.01
		<u>8,067</u>	<u>2.68</u>
	CHEMICALS 3.36% (4.00%)		
2,200,000	Elementis PLC	3,575	1.19
2,300,000	Scapa Group PLC	6,523	2.17
		<u>10,098</u>	<u>3.36</u>
	CONSTRUCTION & MATERIALS 6.32% (4.54%)		
3,100,000	Ibstock PLC, Reg S	7,428	2.47
1,800,000	Polypipe Group PLC	7,225	2.40
2,600,000	Volusion Group PLC	4,368	1.45
		<u>19,021</u>	<u>6.32</u>
	ELECTRONIC & ELECTRICAL EQUIPMENT 8.46% (8.66%)		
2,582,000	discoverIE Group PLC	10,173	3.38
424,000	Gooch & Housego PLC	5,512	1.83
4,500,000	TT Electronics PLC	9,788	3.25
		<u>25,473</u>	<u>8.46</u>
	FINANCIAL SERVICES 10.87% (12.50%)		
1,350,000	IntegraFin Holdings PLC, Reg S	4,722	1.57
2,595,000	JTC PLC	7,785	2.59
1,219,000	Polar Capital Holdings PLC	6,241	2.07
2,505,000	Premier Asset Management Group Ltd.	5,411	1.80
6,193,000	XPS Pensions Group PLC	8,546	2.84
		<u>32,705</u>	<u>10.87</u>
	FOOD PRODUCERS 3.48% (1.45%)		
235,000	Cranswick PLC	6,392	2.12
1,239,200	Hotel Chocolat Group Ltd.	4,089	1.36
		<u>10,481</u>	<u>3.48</u>
	GENERAL RETAILERS 3.63% (3.84%)		
2,795,071	DFS Furniture PLC	7,001	2.32
5,182,613	Topps Tiles PLC	3,939	1.31
		<u>10,940</u>	<u>3.63</u>
	HOUSEHOLD GOODS & HOME CONSTRUCTION 1.76% (1.32%)		
1,000,000	IG Design Group PLC	5,300	1.76
	INDUSTRIAL ENGINEERING 5.57% (4.77%)		
653,135	Bodycote PLC	5,352	1.78
1,000,000	Vitec Group PLC	11,400	3.79
		<u>16,752</u>	<u>5.57</u>
	INDUSTRIAL TRANSPORTATION 4.10% (5.06%)		
240,000	Clarkson PLC	5,700	1.89
2,553,000	Eddie Stobart Logistics PLC	2,502	0.83
210,000	James Fisher & Sons PLC	4,141	1.38
		<u>12,343</u>	<u>4.10</u>
	LEISURE GOODS 1.76% (0.99%)		
4,165,000	Sumo Group PLC	5,310	1.76
	MEDIA 2.75% (1.05%)		
1,850,000	Entertainment One Ltd.	8,262	2.75

FRANKLIN UK SMALLER COMPANIES FUND

Portfolio Statement as at 31 March 2019 (continued)

(Currency – GBP)

Number of Shares or Face Value	Description	Market Value £000	% of Net Assets
	PHARMACEUTICALS & BIOTECHNOLOGY 4.70% (3.76%)		
7,955,000	Alliance Pharma PLC	5,569	1.85
925,000	Clinigen Group PLC	8,570	2.85
		<u>14,139</u>	<u>4.70</u>
	REAL ESTATE INVESTMENT & SERVICES 3.67% (3.51%)		
600,000	Unite Group PLC§	5,505	1.83
2,050,000	Urban & Civic PLC	5,556	1.84
		<u>11,061</u>	<u>3.67</u>
	REAL ESTATE INVESTMENT TRUSTS 4.44% (3.45%)		
4,203,000	Londonmetric Property PLC§	8,393	2.79
510,000	Workspace Group PLC§	4,978	1.65
		<u>13,371</u>	<u>4.44</u>
	SOFTWARE & COMPUTER SERVICES 6.76% (9.62%)		
8,200,000	Dotdigital Group PLC	7,626	2.53
1,365,000	iomart Group PLC	4,730	1.57
3,050,000	NCC Group PLC	4,270	1.42
590,074	Tracsis PLC	3,717	1.24
		<u>20,343</u>	<u>6.76</u>
	SUPPORT SERVICES 16.67% (18.65%)		
2,142,000	Clipper Logistics PLC	5,655	1.88
1,960,000	Equiniti Group PLC, Reg S	4,067	1.35
3,300,000	Restore PLC	11,319	3.76
910,000	Ricardo PLC	5,788	1.92
1,434,000	Robert Walters PLC	8,633	2.87
1,891,840	RWS Holdings PLC	9,109	3.03
2,702,628	The Simplybiz Group PLC	5,594	1.86
		<u>50,165</u>	<u>16.67</u>
	TECHNOLOGY HARDWARE & EQUIPMENT 1.67% (0.00%)		
3,500,000	Spirent Communications PLC	5,019	1.67
	TRAVEL & LEISURE 2.01% (3.21%)		
1,077,428	Patisserie Holdings PLC*	0	0.00
2,860,000	The City Pub Group PLC, Reg S	6,063	2.01
		<u>6,063</u>	<u>2.01</u>
	TOTAL - EQUITIES	<u>284,913</u>	<u>94.66</u>
	TOTAL VALUE OF INVESTMENTS	<u>284,913</u>	<u>94.66</u>
	OTHER ASSETS	<u>16,087</u>	<u>5.34</u>
	TOTAL NET ASSETS	<u>301,000</u>	<u>100.00</u>

The total percentage figures in brackets next to each category heading represent holdings as at 31 March 2018.

Unless otherwise stated the above securities are ordinary shares or common stock and admitted to official stock exchange listings.

* These securities are fair valued by the manager.

§ Real Estate Investment Trust (REIT).

FRANKLIN UK SMALLER COMPANIES FUND

Statement of Total Return

For the year ended 31 March 2019

	Note	March 2019 £000	March 2019 £000	March 2018 £000	March 2018 £000
Income					
Net capital gains/(losses)	1		(34,953)		44,755
Revenue	2	7,413		5,464	
Expenses	3	(3,131)		(2,573)	
Net revenue before taxation		4,282		2,891	
Taxation	4	(11)		-	
Net revenue after taxation			4,271		2,891
Total return before distributions for the year			(30,682)		47,646
Distributions	5		(4,286)		(2,904)
Change in net assets attributable to shareholders			(34,968)		44,742

Statement of Change in Net Assets Attributable to Shareholders

For the year ended 31 March 2019

	March 2019 £000	March 2019 £000	March 2018 £000	March 2018 £000
Opening net assets attributable to shareholders		305,873		253,853
Amounts received on creation of shares	154,792		83,819	
Amounts paid on cancellation of shares	(97,481)		(79,051)	
In-specie out	(30,242)		-	
		27,069		4,768
Dilution adjustments		198		-
Change in net assets attributable to shareholders from investment activities (see above)		(34,968)		44,742
Retained distribution on accumulation shares		2,828		2,510
Closing net assets attributable to shareholders		301,000		305,873

Balance Sheet

As at 31 March 2019

	Note	March 2019 £000	March 2018 £000
Assets			
Fixed assets			
Tangible assets:			
Investment assets		284,913	287,273
Current assets			
Debtors	6	1,786	1,853
Cash and bank balances		16,421	21,992
Total assets		303,120	311,118
Liabilities			
Creditors			
Distribution payable	5	(866)	(293)
Other creditors	7	(1,254)	(4,952)
Total liabilities		(2,120)	(5,245)
Net assets attributable to shareholders		301,000	305,873

FRANKLIN UK SMALLER COMPANIES FUND

Notes to the Financial Statements

	March 2019 £000	March 2018 £000
1. Net capital gains/(losses)		
The net capital gains/(losses) during the year comprise:		
Non-derivative securities gains/(losses)	(34,953)	44,755
	<u>(34,953)</u>	<u>44,755</u>
2. Revenue		
UK dividends	6,974	4,792
Overseas dividends	424	206
Bank and other interest	15	3
Property income dividends	-	463
	<u>7,413</u>	<u>5,464</u>
3. Expenses		
Payable to the ACD, associates of the ACD and agents of either of them		
ACD's periodic charge	2,862	2,350
ACD's administration charge	176	141
	<u>3,038</u>	<u>2,491</u>
Payable to the Depositary, associates of the Depositary and agents of either of them		
Depositary fees	53	41
Safe custody fees	22	23
	<u>75</u>	<u>64</u>
Other expenses		
Audit fees	9	9
Legal and publication fees	6	5
Printing fees	3	4
	<u>18</u>	<u>18</u>
	<u>3,131</u>	<u>2,573</u>
4. Taxation		
(a) Analysis of charge in the year		
Irrecoverable overseas tax	11	-
Total current tax (note 4(b))	11	-
Total taxation	11	-
(b) Factors affecting tax charge for the year		
The tax assessed for the year is lower (2018: lower) than the standard rate of corporation tax in the UK for Open Ended Investment Companies (20% (2018: 20%)).		
The differences are explained below:		
Net revenue before taxation	4,282	2,891
Corporation tax of 20% (2018: 20%)	856	578
Effects of:		
Excess management expenses	498	432
Irrecoverable overseas tax	11	-
Revenue taxable in different year	(5)	(11)
UK dividends & non-taxable overseas dividends*	(1,349)	(999)
Current tax charge for year (note 4(a))	11	-

*As an Open Ended Investment Company these items are not subject to corporation tax

Open-ended investment companies are exempt from tax on capital gains in the UK. Therefore, any capital return is not included within the reconciliation above.

At the year end there is a potential deferred tax asset of £2,266,000 (£1,767,000 as at 31 March 2018) in relation to excess management fees. It is unlikely the Fund will generate sufficient tax profits in the future to utilise these amounts and therefore no deferred tax assets have been recognised in the year.

FRANKLIN UK SMALLER COMPANIES FUND

Notes to the Financial Statements (continued)

	March 2019 £000	March 2018 £000
5. (a) Finance costs		
The distribution takes account of income received on the issue of shares and income deducted on the cancellation of shares, and comprise:		
Interim dividend distributions		
Income	566	158
Accumulation	1,208	910
	<u>1,774</u>	<u>1,068</u>
Final dividend distributions		
Income	866	293
Accumulation	1,620	1,600
	<u>2,486</u>	<u>1,893</u>
Add: Income deducted on cancellation of shares	764	391
Deduct: Income received on issue of shares	(738)	(448)
Total distribution	<u>4,286</u>	<u>2,904</u>
Total finance costs	<u>4,286</u>	<u>2,904</u>
(b) Difference between net revenue and distribution:		
Net revenue after taxation	4,271	2,891
Net revenue received on share class conversions	15	13
Total distribution for the year	<u>4,286</u>	<u>2,904</u>

Details of the distribution in pence per share for this Fund are set out in the table on page 182.

6. Debtors		
Amounts receivable for issue of shares	1,088	1,561
Sales awaiting settlement	441	93
Accrued income	257	199
	<u>1,786</u>	<u>1,853</u>
7. Other creditors		
Amounts payable on cancellation of shares	1,014	467
Accrued expenses	240	254
Purchases awaiting settlement	-	4,231
	<u>1,254</u>	<u>4,952</u>

- 8. Related parties**
During the year, Franklin Templeton Fund Management Limited ("ACD"), a related party, acted primarily in all transactions of the Funds. The aggregate amounts received through issues and cancellations are disclosed in the Statement of Change in Net Assets Attributable to Shareholders.

Amounts charged by the ACD and associates of the ACD in respect of the management and administration fees are disclosed in Note 3.

The amounts due to the ACD and associates of the ACD in respect of management and administration fees at 31 March 2019 are £215,000 (£228,000 as at 31 March 2018).

- 9. Risk management policies and disclosures**
The risks inherent in the Fund's investment portfolio are as follows:

Market Risk

Currency risk

Fluctuations in the foreign exchange rates can adversely affect the value of a portfolio.

At the year end date, 0.00% (2018: 0.00%) of the net assets of the Fund were denominated in currencies other than sterling and as such the currency risk is not considered significant.

Interest rate risk

The Fund does not invest in either fixed or floating rate securities and interest rate risk exposure is restricted to interest receivable on bank deposits or payable on bank overdraft positions which will be affected by fluctuations in interest rates.

FRANKLIN UK SMALLER COMPANIES FUND

Notes to the Financial Statements (continued)

9. Risk management policies and disclosures (continued)

Other price risk

At the year end date, 94.66% (2018: 93.92%) of the net assets of the Fund were invested in ordinary shares or stock units admitted to an official stock exchange. If the market value were to change by 10%, the value of the Fund would change by 9.47% (2018: 9.39%).

There is no material difference between the value of the financial assets and liabilities, as shown in the Balance sheet, and their fair values.

10. Portfolio Transaction Costs

	2019			2018		
	Purchases £000	% Of Purchases	% of Average Net Asset Value	Purchases £000	% Of Purchases	% of Average Net Asset Value
Equity purchases in year before transaction costs	121,836			72,489		
Commissions	70	0.06	0.02	23	0.03	0.01
Taxes	328	0.27	0.09	66	0.09	0.02
Other	63	0.05	0.02	17	0.02	0.01
Total Equity purchases in the year after direct transaction costs	122,297			72,595		

	2019			2018		
	Sales £000	% Of Sales	% of Average Net Asset Value	Sales £000	% Of Sales	% of Average Net Asset Value
Equity sales in year before transaction costs	59,913			75,048		
Commissions	(35)	(0.06)	(0.01)	(78)	(0.10)	(0.03)
Total Equity sales in the year after direct transaction costs	59,878			74,970		

In pursuance of its investments objectives the Fund incurs commissions, taxes and other charges when buying and selling investment securities. Share dealing generally incurs broker commission and stamp Duty and these are paid by the Fund on each transaction where appropriate.

In addition there is a dealing spread between the buying and selling prices of the underlying investments. The average dealing spread which is the difference between the quoted bid and offer prices or internal administrative or holding costs, are not included in the calculation of Direct Transaction Costs. As at 31 March 2019, the average dealing spread for the underlying Fund investments is 1.37% (2019: 0.97%)

Comparing portfolio transaction costs for a range of funds may give misleading impression of the relative costs of investing in those funds for the following reasons:

- Historic transaction costs are not an effective indicator of the future impact on performance as it may vary from year to year depending on the investment manager;
- Transaction costs for buying and selling investments due to shareholder activity on the fund are recovered from those investors;
- Transaction costs will vary depending on the types of securities the fund is investing.

11. Creations and Cancellations of Shares

	A–Income shares	W–Income shares	W–Accumulation shares	Z–Accumulation shares
Opening Shares	2,667,322	29,531,718	91,303,686	873,902
Creations	1,616,917	61,995,120	21,546,097	34,298
Cancellations	(2,695,882)	(9,222,306)	(35,367,403)	(135,636)
Conversions	(337,894)	467,311	(21,263)	1,297,100
Total Closing Shares	1,250,463	82,771,843	77,461,117	2,069,664

FRANKLIN UK SMALLER COMPANIES FUND

Notes to the Financial Statements (continued)

12. Fair Value Disclosure

In accordance with FRS 102 the Fund classifies fair value measurement under the following levels:

Level 1

Unadjusted quoted market prices in active markets for identical securities.

Level 2

Investments (other than quoted prices included within Level 1) whose fair value is based directly on observable current market prices or is indirectly being derived from market prices; and

Level 3

Investments whose fair value is determined using a valuation technique based on assumptions that are not supported by observable current market prices or are not based on observable market data such as security in default or securities valued by Franklin Templeton Fair Valuation Committee.

Fair Value Hierarchy	Assets 31 March 2019 £000	Liabilities 31 March 2019 £000	Assets 31 March 2018 £000	Liabilities 31 March 2018 £000
Level 1	284,913	-	287,273	-
Level 2	-	-	-	-
Level 3	-	-	-	-
Total	284,913	-	287,273	-

FRANKLIN UK SMALLER COMPANIES FUND

Distribution Statement

For the period 1 April 2018 to 30 September 2018

Group 1 – Shares purchased prior to 1 April 2018

Group 2 - Shares purchased in the period 1 April 2018 to 30 September 2018

	Net Income p	Equalisation p	30 September 2018 Pence per Share p	30 September 2017 Pence per share p
A - Income Shares				
Group 1	3.2182	-	3.2182	2.5168
Group 2	-	3.2182	3.2182	2.5168
W - Income Shares				
Group 1	0.6085	-	0.6085	0.5003
Group 2	0.1750	0.4335	0.6085	0.5003
W - Accumulation Shares				
Group 1	1.2387	-	1.2387	1.0077
Group 2	-	1.2387	1.2387	1.0077
Z - Accumulation Shares				
Group 1	1.0884	-	1.0884	0.8789
Group 2	0.5272	0.5612	1.0884	0.8789

For the period 1 October 2018 to 31 March 2019

Group 1 – Shares purchased prior to 1 October 2018

Group 2 - Shares purchased in the period 1 October 2018 to 31 March 2019

	Net Income p	Equalisation p	31 March 2019 Pence per Share p	31 March 2018 Pence per Share p
A - Income Shares				
Group 1	2.8135	-	2.8135	1.4457
Group 2	-	2.8135	2.8135	1.4457
W - Income Shares				
Group 1	1.0040	-	1.0040	0.8625
Group 2	0.1482	0.8558	1.0040	0.8625
W - Accumulation Shares				
Group 1	2.0472	-	2.0472	1.7399
Group 2	0.2571	1.7901	2.0472	1.7399
Z - Accumulation Shares				
Group 1	1.6509	-	1.6509	1.3464
Group 2	1.6321	0.0188	1.6509	1.3464

Equalisation

All shareholders, within each share category, receive the same distribution per share, although the distribution to shareholders who purchased shares during the distribution period (Group 2 holdings) contains an element of equalisation which is a repayment, at an average rate per share, of the amount of accrued net income which was included in the purchase price of such shares. As the nature of this payment is capital it is not subject to income tax but must be deducted from the purchase price in any capital gains tax computation on the sale of the shares.

FRANKLIN US OPPORTUNITIES FUND

Investment Review

Performance

For the year ended 31 March 2019, Franklin US Opportunities Fund (W (acc) shares returned 18.18%*, while its benchmark, the Russell 3000® Growth Index,¹ returned 20.63% (both returns in UK sterling).

Overview

The U.S. economy grew during the year. After accelerating in 2018's second quarter, U.S. gross domestic product ("GDP") growth moderated in the next two quarters. In the fourth quarter, growth in consumer spending, business investment, exports and inventory investment was partly offset by declines in housing investment and government spending as well as an increase in imports (a subtraction from GDP calculations). The manufacturing and services sectors expanded during the year. The unemployment rate fluctuated during the year, beginning at 4.0% in March 2018 and ending at 3.8%. The annual inflation rate, as measured by the Consumer Price Index, also varied, hitting a six-year high of 2.9% in summer 2018 and ending at 1.9%.

The U.S. Federal Reserve ("Fed") raised its target range for the federal funds rate by 25 basis points three times during the year, to 2.25%–2.50%, and continued reducing its balance sheet as part of its plan to normalise monetary policy. At its March 2019 meeting, the Fed kept rates unchanged and lowered its forecasts for economic growth in 2019 and 2020. Furthermore, the Fed mentioned it would cease its balance sheet normalisation by the end of September 2019.

U.S. equity markets overall rose during the year, benefitting from upbeat economic data and better U.S. corporate earnings. However, markets reflected concerns about tighter regulation of technology companies, the Fed's interest-rate path, U.S. political uncertainties, and the impact of U.S. trade disputes with China and other trading partners on global growth and corporate earnings. Later in the year, these concerns were partially alleviated by easing trade tensions and optimism about a potential U.S.-China trade deal. Markets also benefitted from the Fed's pivot to a patient approach regarding its monetary policy decisions. After reaching a new all-time high in September 2018, the broad U.S. stock market, as measured by the Standard & Poor's® 500 Index (S&P 500), sold off sharply during 2018's fourth quarter but rallied in 2019's first quarter.

Significant Changes

For the year ended 31 March 2019, the portfolio's weightings increased in the information technology and health care sectors and decreased in the consumer discretionary and communication services sectors. The remaining sectors in the portfolio remained relatively stable over the year. These changes reflected a combination of performance by existing holdings as well as purchases and sales. The information technology, health care, industrials and consumer discretionary sectors were the Fund's largest areas of investment during the year.

The following positions were added or increased during the year: MSCI, Lamb Weston Holdings, West Pharmaceutical Services, Veeva Systems and Verisk Analytics.

MSCI is a leading provider of investment decision support tools worldwide, including indices, analytical tools, data, real estate benchmarks and ESG (environmental, social and governance) research. MSCI has been benefitting from the secular tailwind of the shift in the investment business to passive management, and the strong flows in ETFs (exchange-traded funds) linked to the company's indices. The strong prospect for MSCI as an acquisition target is a second order input to our constructive investment thesis. Lamb Weston is a leading supplier of frozen potato, sweet potato, and vegetable products to restaurants and retailers around the world. Overall industry demand has continued to be high and capacity is likely to remain tight, given poor crop trends in Europe. In our view, Lamb Weston's organic growth rate driven by robust volume trends and strong pricing power is unique in the packaged foods industry. West Pharmaceutical Services is a leading manufacturer of packaging components and delivery systems for injectable drugs and healthcare products. Our new position in West Pharmaceutical comes at a positive inflection point for the firm's operating results, driven by a shift to higher value products and strong end-market demand, which we believe is sustainable, given the company's dominant market share and defensive moat. Veeva is a

* Figure differs from comparative table performance due to alternative calculation methodology used.

¹ Russell® is a trademark/servicemark of the Frank Russell Company. The index is unmanaged and includes reinvestment of any income or distributions.

FRANKLIN US OPPORTUNITIES FUND

Investment Review (continued)

Significant Changes (continued)

leading global provider of industry-specific, cloud-based software solutions for the life sciences industry. We believe there is a meaningful runway for growth for Veeva as it continuously and efficiently builds a pipeline of products that serve the pharma/biotech industry across clinical operations, and we took advantage market weakness in 4Q18 to initiate our position. Verisk is a leading data analytics provider serving customers in insurance, energy and specialized markets, and financial services. We initiated our position in VRSK early in the year predicated on the company's attractive and resilient earnings compounding ability and strong prospects for revaluation based on improving environment, social and governance metrics.

The following positions were decreased or liquidated during the year: Facebook, Amazon.com, Mastercard, Visa and Broadcom.

Facebook develops social media applications for mobile devices, personal computers, and other surfaces. Its products include Facebook, Instagram, Messenger, WhatsApp and Oculus. Our investment thesis for Facebook eroded over the year given ongoing user data privacy concerns and mounting prospects for increased regulation of social media platforms. Amazon.com provides online retail shopping services, and electronic storage and database services for start-ups, enterprises, government agencies, and academic institutions through its Amazon Web Services division. Amazon remains our top holding as of 31 March 2019. However, over the year we took steps to mitigate risk from single stock exposure owing to the stock's outsized performance. MasterCard's and VISA's global payments processing networks connect consumers, financial institutions, merchants, governments and businesses in more than 200 countries. There is a global secular trend of cash transactions moving to electronic, either through credit cards or mobile devices. Together these companies form a virtual duopoly in payment processing infrastructure that all transactions must go through, and they continue to invest in growth and find operating efficiencies that will help grow earnings over time. Our constructive thesis on both MasterCard and VISA remains intact, and each is amongst our Top-5 holdings as of 31 March 2019. However, we trimmed our positions in each during the year to control portfolio risk through position-sizing. Broadcom is a diversified global semiconductor leader serving four primary end-markets: wired infrastructure, wireless communications, enterprise storage and industrial. Broadcom's announced intention to acquire CA Technologies informed our liquidation of the position early in the year. There is a poor track record for semiconductor companies acquiring enterprise software firms, and we saw better risk-reward at other semiconductor peers at the time.

Positive/Negative Contributors

The Fund underperformed its benchmark index for the year ended 31 March 2019, with stock selection in the consumer discretionary, communication services and health care sectors largely detracting from relative returns. In contrast, the materials, industrials and energy sectors contributed to relative performance.

A position in casino operator Wynn Resorts undermined performance in the consumer discretionary sector. Overall, major gaming operators have been pressured by softness in the Macau VIP market and reduced expectations around lodging activity in Las Vegas.

An underweighting in rising shares of Facebook was a detractor from relative returns in the communication services sector. The social media company has been benefitting from advertising growth and an expanding user community despite pressures related to data privacy and potential regulation. Although health care was a relative detractor at the sector level, the Fund's investments in Guardant Health and AbbVie benefitted results.

There were some detractors in the information technology sector, including an underweighting in software giant Microsoft and positions in education technology provider 2U and graphics chipmaker NVIDIA. Conversely, top contributors from the sector over the year included cloud services providers ServiceNow and Zendesk, payment processor Mastercard, cloud-based communication specialist Twilio and semiconductor company Xilinx.

Elsewhere, trade war concerns and rising bond yields pressured the industrials sector, including our position in U.S. defence contractor Raytheon, while supply chain inflation and a higher tax rate weighed on the shares of alcoholic beverage company Constellation Brands in the consumer staples sector.

FRANKLIN US OPPORTUNITIES FUND

Investment Review (continued)

Outlook

We maintain a constructive view of the US economy and do not see systemic deterioration in market fundamentals nor broad-based weakness in corporate fundamentals at this time. Despite elevated geopolitical headlines and trade tensions, growth fundamentals have continued to be positive as the two main pillars of the U.S. economy—consumer spending and corporate earnings—have remained solid.

We believe the U.S. consumer has continued to benefit from a strong labour market, rising wages, relatively low inflation and low interest rates by historical standards. Corporate profits have not taken a sharp downturn and many companies posted stronger-than-expected profits in the recent quarter.

As active managers, we look beyond short-term market volatility and seek to take advantage of market weakness to build on our investment themes. A leading growth theme for us has been "digital transformation" as companies use data to better understand and serve their customers. We have been finding compelling investment opportunities in cutting-edge technologies, such as cloud computing, robotics and artificial intelligence.

Grant Bowers & Sara Araghi, CFA

Fund Managers

31 March 2019

FRANKLIN US OPPORTUNITIES FUND

Comparative Table

A – Accumulation shares	31 March 2019	31 March 2018	31 March 2017
Change in net assets per share (p)			
Opening net asset value per share	392.46	364.36	276.91
Return before operating charges ¹	73.58	34.15	92.510
Operating charges ²	(6.91)	(6.05)	(5.06)
Return after operating charges* ³	66.67	28.10	87.45
Closing net asset value per share	459.13	392.46	364.36
*After direct transaction costs of: ⁴	0.09	0.08	0.13
Performance			
Return after charges ⁵	16.99%	7.71%	31.58%
Other information			
Closing net asset value (£)	9,089,479	7,734,388	7,846,309
Closing number of shares	1,979,721	1,970,724	2,153,449
Ongoing charges ratio ⁶	1.59%	1.58%	1.58%
Direct transaction costs ⁴	0.02%	0.02%	0.04%
Prices (p)			
Highest share price	479.80	419.63	376.32
Lowest share price	377.36	352.95	267.29

W – Accumulation shares	31 March 2019	31 March 2018	31 March 2017
Change in net assets per share (p)			
Opening net asset value per share	247.22	227.80	171.84
Return before operating charges ¹	46.48	21.42	57.61
Operating charges ²	(2.31)	(2.00)	(1.65)
Return after operating charges* ³	44.17	19.42	55.96
Closing net asset value per share	291.39	247.22	227.80
*After direct transaction costs of: ⁴	0.05	0.05	0.08
Performance			
Return after charges ⁵	17.87%	8.53%	32.57%
Other information			
Closing net asset value (£)	73,860,079	95,162,838	102,811,694
Closing number of shares	25,347,632	38,493,366	45,132,207
Ongoing charges ratio ⁶	0.84%	0.83%	0.83%
Direct transaction costs ⁴	0.02%	0.02%	0.04%
Prices (p)			
Highest share price	303.22	264.22	235.19
Lowest share price	239.02	220.75	166.15

FRANKLIN US OPPORTUNITIES FUND

Comparative Table (continued)

Y – Income shares	31 March 2019	31 March 2018	31 March 2017
Change in net assets per share (p)			
Opening net asset value per share	188.33	172.99	130.09
Return before operating charges ¹	35.52	16.51	43.81
Operating charges ²	(0.08)	(0.07)	(0.05)
Return after operating charges* ³	35.44	16.44	43.76
Distributions on income shares	(1.0834)	(1.0951)	(0.8602)
Closing net asset value per share	222.69	188.33	172.99
*After direct transaction costs of: ⁴	0.04	0.04	0.06
Performance			
Return after charges ⁵	18.82%	9.50%	33.64%
Other information			
Closing net asset value (£)	4,378	3,703	119,756
Closing number of shares	1,966	1,966	69,228
Ongoing charges ratio ⁶	0.04%	0.04%	0.03%
Direct transaction costs ⁴	0.02%	0.02%	0.04%
Prices (p)			
Highest share price	231.80	202.39	179.42
Lowest share price	183.17	167.70	126.02

Z – Accumulation shares	31 March 2019	31 March 2018	31 March 2017
Change in net assets per share (p)			
Opening net asset value per share	414.16	382.39	289.03
Return before operating charges ¹	77.80	35.92	96.86
Operating charges ²	(4.79)	(4.15)	(3.50)
Return after operating charges* ³	73.01	31.77	93.36
Closing net asset value per share	487.17	414.16	382.39
*After direct transaction costs of: ⁴	0.09	0.08	0.14
Performance			
Return after charges ⁵	17.63%	8.31%	32.30%
Other information			
Closing net asset value (£)	978,101	481,090	461,746
Closing number of shares	200,772	116,162	120,753
Ongoing charges ratio ⁶	1.04%	1.03%	1.03%
Direct transaction costs ⁴	0.02%	0.02%	0.04%
Prices (p)			
Highest share price	507.53	442.69	394.84
Lowest share price	399.83	370.52	279.33

FRANKLIN US OPPORTUNITIES FUND

Comparative Table (continued)

- 1 The "return before operating charges" is calculated as the "return after operating charges" plus the "operating charges".
- 2 The "operating charges" are calculated with reference to the total expenses for the year divided by the number of shares in issue at each valuation point.
- 3 The "return after operating charges" is calculated as the "closing net asset value per share" plus the "distributions" (for income share classes only) minus the "opening net asset value per share".
- 4 The direct transaction costs include all fees and expenses which relate directly to the sales and purchases of securities which include commissions, transfer taxes and duties. Direct transaction costs do not include any difference between the quoted bid and offer prices or internal administrative or holding costs. The "direct transaction costs" ratio is calculated by dividing the total transaction costs by the average net assets.
- 5 The "return after charges" is calculated as the "return after operating charges" per share divided by the "opening net asset value per share". This figure will differ from "performance return" figure disclosed under "Investment Review" section due to alternative calculation methodology used.
- 6 The "ongoing charges ratio" represents all operating charges and expenses of the share class in the prior 12 months as a percentage of the share class'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.

Risk Profile (W(acc) shares)



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.

For a full discussion of all the risks applicable to this Fund, please refer to the "Risk Factors" section of the current prospectus of Franklin Templeton Funds.

FRANKLIN US OPPORTUNITIES FUND

Portfolio Statement as at 31 March 2019

(Currency – GBP)

Number of Shares or Face Value	Description	Market Value £000	% of Net Assets
	EQUITIES 99.35% (94.75%)		
	AEROSPACE & DEFENCE 2.84% (3.82%)		
9,512	Raytheon Co.	1,330	1.58
3,601	The Boeing Co.	1,054	1.26
		<u>2,384</u>	<u>2.84</u>
	AIRLINES 0.00% (0.23%)		
	APPAREL, ACCESSORIES & LUXURY GOODS 0.20% (0.00%)		
9,100	Levi Strauss & Co., A	164	0.20
	APPLICATION SOFTWARE 9.95% (6.09%)		
17,706	2U Inc.	963	1.15
8,228	Adobe Inc.	1,683	2.00
7,054	Autodesk Inc.	844	1.01
4,939	DocuSign Inc.	196	0.23
5,962	Guidewire Software Inc.	445	0.53
13,249	Nutanix Inc., A	384	0.46
13,621	Pluralsight Inc., A	332	0.39
4,980	PTC Inc.	352	0.42
12,111	Salesforce.com Inc.	1,472	1.75
3,292	Tyler Technologies Inc.	517	0.62
17,841	Zendesk Inc.	1,164	1.39
		<u>8,352</u>	<u>9.95</u>
	AUTO PARTS & EQUIPMENT 0.82% (0.40%)		
11,219	Aptiv PLC	685	0.82
	BIOTECHNOLOGY 2.76% (2.77%)		
15,023	Array BioPharma Inc.	281	0.34
42,241	Heron Therapeutics Inc.	792	0.94
17,094	PTC Therapeutics Inc.	494	0.59
6,140	Sage Therapeutics Inc.	750	0.89
		<u>2,317</u>	<u>2.76</u>
	CABLE & SATELLITE 0.98% (1.49%)		
11,705	Liberty Broadband Corp., C	824	0.98
	CASINOS & GAMING 0.00% (1.06%)		
	DATA PROCESSING & OUTSOURCED SERVICES 11.58% (10.38%)		
11,456	Fiserv Inc.	776	0.93
24,291	Mastercard Inc., A	4,388	5.23
14,581	PayPal Holdings Inc.	1,162	1.38
28,309	Visa Inc., A	3,394	4.04
		<u>9,720</u>	<u>11.58</u>
	DISTILLERS & VINTNERS 1.01% (1.60%)		
6,310	Constellation Brands Inc., A	849	1.01
	ELECTRICAL COMPONENTS & EQUIPMENT 0.80% (0.64%)		
5,011	Rockwell Automation Inc.	675	0.80
	ELECTRONIC COMPONENTS 0.00% (0.22%)		
	FINANCIAL EXCHANGES & DATA 4.65% (3.20%)		
14,824	Intercontinental Exchange Inc.	866	1.03
3,483	MarketAxess Holdings Inc.	658	0.78
8,327	MSCI Inc.	1,271	1.52
6,876	S&P Global Inc.	1,111	1.32
		<u>3,906</u>	<u>4.65</u>

FRANKLIN US OPPORTUNITIES FUND

Portfolio Statement as at 31 March 2019 (continued)

(Currency – GBP)

Number of Shares or Face Value	Description	Market Value £000	% of Net Assets
	HEALTH CARE EQUIPMENT 4.95% (3.85%)		
2,675	ABIOMED Inc.	586	0.70
8,502	Edwards Lifesciences Corp.	1,249	1.49
3,618	IDEXX Laboratories Inc.	621	0.74
2,115	Intuitive Surgical Inc.	926	1.10
16,148	Nevro Corp.	775	0.92
		<u>4,157</u>	<u>4.95</u>
	HEALTH CARE SERVICES 0.52% (0.00%)		
7,400	Guardant Health Inc.	436	0.52
	HEALTH CARE SUPPLIES 1.26% (0.00%)		
12,528	West Pharmaceutical Services Inc.	1,060	1.26
	HEALTH CARE TECHNOLOGY 1.38% (0.00%)		
11,905	Veeva Systems Inc.	1,159	1.38
	HOME ENTERTAINMENT SOFTWARE 0.73% (0.85%)		
7,811	Electronic Arts Inc.	609	0.73
	INDUSTRIAL CONGLOMERATES 2.14% (1.73%)		
5,165	Honeywell International Inc.	630	0.75
4,447	Roper Technologies Inc.	1,168	1.39
		<u>1,798</u>	<u>2.14</u>
	INDUSTRIAL MACHINERY 0.83% (0.87%)		
6,654	Stanley Black & Decker Inc.	695	0.83
	INTEGRATED TELECOMMUNICATION SERVICES 2.72% (2.35%)		
14,892	SBA Communications Corp., A§	2,282	2.72
	INTERNET RETAIL 9.14% (9.19%)		
2,800	Alibaba Group Holding Ltd., ADR†	392	0.47
4,764	Amazon.com Inc.	6,512	7.76
2,791	Netflix Inc.	764	0.91
		<u>7,668</u>	<u>9.14</u>
	INTERNET SERVICES & INFRASTRUCTURE 1.30% (0.00%)		
10,995	Twilio Inc., A	1,090	1.30
	INTERNET SOFTWARE & SERVICES 4.60% (9.04%)		
3,638	Alphabet Inc., A	3,284	3.91
4,525	Facebook Inc., A	579	0.69
		<u>3,863</u>	<u>4.60</u>
	INVESTMENT BANKING & BROKERAGE 1.04% (1.68%)		
26,507	The Charles Schwab Corp.	870	1.04
	IT CONSULTING & OTHER SERVICES 1.02% (0.82%)		
16,749	InterXion Holding NV	858	1.02
	LIFE & HEALTH INSURANCE 0.43% (0.86%)		
11,603	Athene Holding Ltd., A	363	0.43
	LIFE SCIENCES TOOLS & SERVICES 0.98% (0.00%)		
3,438	Illumina Inc.	820	0.98
	MANAGED HEALTH CARE 2.92% (2.08%)		
15,838	Centene Corp.	646	0.77
9,528	UnitedHealth Group Inc.	1,808	2.15
		<u>2,454</u>	<u>2.92</u>
	MOVIES & ENTERTAINMENT 0.74% (0.63%)		
7,300	The Walt Disney Co.	622	0.74

FRANKLIN US OPPORTUNITIES FUND

Portfolio Statement as at 31 March 2019 (continued)

(Currency – GBP)

Number of Shares or Face Value	Description	Market Value £000	% of Net Assets
	OIL & GAS EXPLORATION & PRODUCTION 0.74% (1.05%)		
8,025	Diamondback Energy Inc.	625	0.74
	PACKAGED FOODS & MEATS 2.06% (1.01%)		
21,595	Lamb Weston Holdings Inc.	1,242	1.48
31,001	Nomad Foods Ltd.	487	0.58
		<u>1,729</u>	<u>2.06</u>
	PHARMACEUTICALS 0.87% (0.71%)		
11,919	Elanco Animal Health Inc.	294	0.35
3,350	GW Pharmaceuticals PLC, ADR†	433	0.52
		<u>727</u>	<u>0.87</u>
	REGIONAL BANKS 0.46% (0.86%)		
2,288	SVB Financial Group	390	0.46
	RESEARCH & CONSULTING SERVICES 4.55% (3.02%)		
4,769	CoStar Group Inc.	1,707	2.04
17,693	IHS Markit Ltd.	739	0.88
13,414	Verisk Analytics Inc.	1,369	1.63
		<u>3,815</u>	<u>4.55</u>
	SEMICONDUCTOR EQUIPMENT 0.00% (1.13%)		
	SEMICONDUCTORS 4.67% (5.23%)		
10,630	Analog Devices Inc.	859	1.02
8,284	Monolithic Power Systems	862	1.03
6,087	NVIDIA Corp.	839	1.00
13,975	Xilinx Inc.	1,360	1.62
		<u>3,920</u>	<u>4.67</u>
	SOFT DRINKS 0.94% (1.00%)		
18,889	Monster Beverage Corp.	791	0.94
	SPECIALIZED REIT'S 1.04% (1.87%)		
5,761	American Tower Corp.§	871	1.04
	SPECIALTY CHEMICALS 0.54% (1.64%)		
5,610	Ingevity Corp.	455	0.54
	SYSTEMS SOFTWARE 7.62% (5.69%)		
45,967	Microsoft Corp.	4,162	4.96
11,786	ServiceNow Inc.	2,230	2.66
		<u>6,392</u>	<u>7.62</u>
	TECHNOLOGY HARDWARE, STORAGE & PERIPHERALS 2.80% (4.83%)		
16,130	Apple Inc.	2,352	2.80
	TRADING COMPANIES & DISTRIBUTORS 0.61% (0.86%)		
29,992	Univar Inc.	510	0.61
	TRUCKING 0.16% (0.00%)		
2,200	Lyft Inc., A	132	0.16
	TOTAL - EQUITIES	<u>83,389</u>	<u>99.35</u>
	TOTAL VALUE OF INVESTMENTS	<u>83,389</u>	<u>99.35</u>
	OTHER ASSETS	<u>543</u>	<u>0.65</u>
	TOTAL NET ASSETS	<u>83,932</u>	<u>100.00</u>

The total percentage figures in brackets next to each category heading represent holdings as at 31 March 2018.

Unless otherwise stated the above securities are ordinary shares or common stock and admitted to official stock exchange listings.

† American Depositary Receipt.

§ Real Estate Investment Trust (REIT).

FRANKLIN US OPPORTUNITIES FUND

Statement of Total Return

For the year ended 31 March 2019

	Note	March 2019 £000	March 2019 £000	March 2018 £000	March 2018 £000
Income					
Net capital gains/(losses)	1		20,264		8,348
Revenue	2	631		722	
Expenses	3	(906)		(887)	
Finance costs – interest		(1)		-	
Net expense before taxation		(276)		(165)	
Taxation	4	(91)		(99)	
Net expense after taxation			(367)		(264)
Total return before distributions for the year			19,897		8,084
Distributions	5		-		(1)
Change in net assets attributable to shareholders			19,897		8,083

Statement of Change in Net Assets Attributable to Shareholders

For the year ended 31 March 2019

	March 2019 £000	March 2019 £000	March 2018 £000	March 2018 £000
Opening net assets attributable to shareholders		103,383		111,389
Amounts received on creation of shares	71,356		34,521	
Amounts paid on cancellation of shares	(110,708)		(50,615)	
		(39,352)		(16,094)
Dilution adjustments		4		5
Change in net assets attributable to shareholders from investment activities (see above)		19,897		8,083
Closing net assets attributable to shareholders		83,932		103,383

Balance Sheet

As at 31 March 2019

	Note	March 2019 £000	March 2018 £000
Assets			
Fixed assets			
Tangible assets:			
Investment assets		83,389	97,959
Current assets			
Debtors	6	1,367	1,182
Cash and bank balances		413	5,264
Total assets		85,169	104,405
Liabilities			
Creditors			
Other creditors	7	(1,237)	(1,022)
Total liabilities		(1,237)	(1,022)
Net assets attributable to shareholders		83,932	103,383

FRANKLIN US OPPORTUNITIES FUND

Notes to the Financial Statements

	March 2019 £000	March 2018 £000
1. Net capital gains/(losses)		
The net capital gains/(losses) during the year comprise:		
Non-derivative securities gains/(losses)	20,416	8,357
Currency gains/(losses)	(152)	(9)
	<u>20,264</u>	<u>8,348</u>
2. Revenue		
Overseas dividends	628	718
Bank and other interest	3	4
	<u>631</u>	<u>722</u>
3. Expenses		
Payable to the ACD, associates of the ACD and agents of either of them		
ACD's periodic charge	822	804
ACD's administration charge	50	50
	<u>872</u>	<u>854</u>
Payable to the Depositary, associates of the Depositary and agents of either of them		
Depositary fees	19	18
Safe custody fees	1	1
	<u>20</u>	<u>19</u>
Other expenses		
Audit fees	8	8
Legal and publication fees	3	3
Printing fees	3	3
	<u>14</u>	<u>14</u>
	<u>906</u>	<u>887</u>
4. Taxation		
(a) Analysis of charge in the year		
Irrecoverable overseas tax	91	99
Total current tax (note 4(b))	91	99
Total taxation	<u>91</u>	<u>99</u>
(b) Factors affecting tax charge for the year		
The tax assessed for the year is higher (2018: higher) than the standard rate of corporation tax in the UK for Open Ended Investment Companies (20% (2018: 20%)).		
The differences are explained below:		
Net revenue before taxation	(276)	(165)
Corporation tax of 20% (2018: 20%)	(55)	(33)
Effects of:		
Overseas tax expensed		
Excess management expenses	177	169
Irrecoverable overseas tax	91	99
Non-taxable revenue	-	1
Overseas tax expensed	(1)	(2)
UK dividends & non-taxable overseas dividends*	(121)	(135)
Current tax charge for year (note 4(a))	<u>91</u>	<u>99</u>

*As an Open Ended Investment Company these items are not subject to corporation tax.

Open Ended Investment Companies are exempt from tax on capital gains in the UK. Therefore, any capital return is not included within the reconciliation above.

At the year end there is a potential deferred tax asset of £1,026,000 (£849,000 as at 31 March 2018) in relation to excess management expenses. It is unlikely the Fund will generate sufficient tax profits in the future to utilise these amounts and therefore no deferred tax assets have been recognised in the year.

FRANKLIN US OPPORTUNITIES FUND

Notes to the Financial Statements (continued)

	March 2019 £000	March 2018 £000
5. (a) Finance costs		
The distribution takes account of income received on the issue of shares and income deducted on the cancellation of shares, and comprise:		
Dividend distributions		
Income deducted on cancellation of shares	-	1
Total distribution	-	1
Interest	1	-
Total finance costs	1	1
(b) Difference between net revenue and distribution:		
Net expense after taxation	(367)	(264)
Revenue deficit payable from capital	367	265
Total distribution for the year	-	1

Details of the distribution in pence per share for this Fund are set out in the table on page 197.

6. Debtors		
Sales awaiting settlement	1,145	607
Amounts receivable for issue of shares	216	565
Accrued income	6	10
	1,367	1,182
7. Other creditors		
Amounts payable on cancellation of shares	936	203
Purchases awaiting settlement	225	728
Accrued expenses	76	91
	1,237	1,022

- 8. Related parties**
During the year, Franklin Templeton Fund Management Limited (“ACD”), a related party, acted primarily in all transactions of the Funds. The aggregate amounts received through issues and cancellations are disclosed in the Statement of Change in Net Assets Attributable to Shareholders.

Amounts charged by the ACD and associates of the ACD in respect of the management and administration fees are disclosed in Note 3.

The amounts due to the ACD and associates of the ACD in respect of management and administration fees at 31 March 2019 are £62,000 (£77,000 as at 31 March 2018).

As at 31 March 2019 Templeton Global Advisors Limited (“TGAL”) held 100% (100% as at 31 March 2018) of the shares in issue of Class Y income.

- 9. Risk management policies and disclosures**
The risks inherent in the Fund’s investment portfolio are as follows:

Market Risk

Currency risk

An analysis of monetary assets and liabilities (including equity investments), in foreign currencies at the year end is shown below.

Currency	Net foreign currency assets and (liabilities) 31 March 2019			Net foreign currency assets and (liabilities) 31 March 2018		
	Monetary exposures £000	Non-Monetary exposures £000	Total £000	Monetary exposures £000	Non-Monetary exposures £000	Total £000
US dollar	345	83,389	83,734	(65)	96,996	96,931
Hong Kong dollar	-	-	-	-	963	963
	345	83,389	83,734	(65)	97,959	97,894

With reference to the foreign currency assets and liabilities table above, any movement in exchange rates would lead to a corresponding change in the value of the assets.

FRANKLIN US OPPORTUNITIES FUND

Notes to the Financial Statements (continued)

9. Risk management policies and disclosures (continued)

Interest rate risk

The Fund does not invest in either fixed or floating rate securities and interest rate risk exposure is restricted to interest receivable on bank deposits or payable on bank overdraft positions which will be affected by fluctuations in interest rates.

Other price risk

At the year end date, 99.35% (2018: 94.75%) of the net assets of the Fund were invested in ordinary shares or stock units admitted to an official stock exchange. If the market value were to change by 10%, the value of the Fund would change by 9.93% (2018: 9.48%).

There is no material difference between the value of the financial assets and liabilities, as shown in the Balance sheet, and their fair values.

10. Portfolio Transaction Costs

	2019			2018		
	Purchases £000	% Of Purchases	% of Average Net Asset Value	Purchases £000	% Of Purchases	% of Average Net Asset Value
Equity purchases in year before transaction costs	53,441			25,420		
Commissions	8	0.01	0.01	8	0.03	0.01
Taxes	-	-	-	1	-	-
Total Equity purchases in the year after direct transaction costs	53,449			25,429		

	2019			2018		
	Sales £000	% Of Sales	% of Average Net Asset Value	Sales £000	% Of Sales	% of Average Net Asset Value
Equity sales in year before transaction costs	88,387			45,489		
Commissions	(9)	(0.01)	(0.01)	(13)	(0.03)	(0.01)
Other	(1)	-	-	(1)	-	-
Total Equity sales in the year after direct transaction costs	88,377			45,475		

In pursuance of its investment objectives the Fund incurs commissions, taxes and other charges when buying and selling investment securities. Share dealing generally incurs broker commission and stamp duty and these are paid by the Fund on each transaction where appropriate.

In addition there is a dealing spread between the buying and selling prices of the underlying investments. The average dealing spread which is the difference between the quoted bid and offer prices or internal administrative or holding costs, are not included in the calculation of Direct Transaction Costs. As at 31 March 2019, the average dealing spread for the underlying Fund investments is 0.03% (2018: 0.03%).

Comparing portfolio transaction costs for a range of funds may give a misleading impression of the relative costs of investing in those funds for the following reasons:

- Historic transaction costs are not an effective indicator of the future impact on performance as it may vary from year to year depending on the investment manager;
- Transaction costs for buying and selling investments due to shareholder activity on the fund are recovered from those investors;
- Transaction costs will vary depending on the types of securities the fund is investing.

11. Creations and Cancellations of Shares

	A-Accumulation shares	W-Accumulation shares	Y-Income shares	Z-Accumulation shares
Opening Shares	1,970,724	38,493,366	1,966	116,162
Creations	1,418,345	23,507,605	-	116,037
Cancellations	(1,391,193)	(36,679,460)	-	(32,924)
Conversions	(18,155)	26,121	-	1,497
Total Closing Shares	1,979,721	25,347,632	1,966	200,772

FRANKLIN US OPPORTUNITIES FUND

Notes to the Financial Statements (continued)

12. Fair Value Disclosure

In accordance with FRS 102 the Fund classifies fair value measurement under the following levels:

Level 1

Unadjusted quoted market prices in active markets for identical securities.

Level 2

Investments (other than quoted prices included within Level 1) whose fair value is based directly on observable current market prices or is indirectly being derived from market prices; and

Level 3

Investments whose fair value is determined using a valuation technique based on assumptions that are not supported by observable current market prices or are not based on observable market data such as security in default or securities valued by Franklin Templeton Fair Valuation Committee.

Fair Value Hierarchy	Assets 31 March 2019 £000	Liabilities 31 March 2019 £000	Assets 31 March 2018 £000	Liabilities 31 March 2018 £000
Level 1	83,389	-	97,959	-
Level 2	-	-	-	-
Level 3	-	-	-	-
Total	83,389	-	97,959	-

FRANKLIN US OPPORTUNITIES FUND

Distribution Statement

For the period 1 April 2018 to 31 March 2019

Group 1 – Shares purchased prior to 1 April 2018

Group 2 – Shares purchased in the period 1 April 2018 to 31 March 2019

	Net Income p	Equalisation p	31 March 2019 Pence per Share p	31 March 2018 Pence per Share p
A - Accumulation Shares				
Group 1	-	-	-	-
Group 2	-	-	-	-
I - Accumulation Shares				
Group 1	-	-	-	-
Group 2	-	-	-	-
W - Accumulation Shares				
Group 1	-	-	-	-
Group 2	-	-	-	-
Y - Income Shares				
Group 1	1.0834	-	1.0834	1.0951
Group 2	1.0834	-	1.0834	1.0951
Z - Accumulation Shares				
Group 1	-	-	-	-
Group 2	-	-	-	-

TEMPLETON GLOBAL EMERGING MARKETS FUND

Investment Review

Performance

For the year ended 31 March 2019, Templeton Global Emerging Markets Fund (W (acc) shares) returned 2.57%*, while the MSCI Emerging Markets Index returned 0.10% (both returns in UK sterling).

Overview

Emerging-markets (“EM”) equities delivered broadly flat returns over the year, underperforming developed-markets stocks. The global economy expanded over the year, despite weakness in certain regions. Global developed and EM stocks were aided by upbeat economic data in some regions, encouraging corporate earnings reports, the U.S. Federal Reserve’s (“Fed”) pivot to a patient approach regarding its monetary policy decisions and optimism about a potential U.S.-China trade deal.

However, various factors weighed on global markets, including concerns about Brexit, political uncertainties in the United States and the European Union, the Fed’s interest-rate path, and the European Central Bank’s unwinding of its bond purchase programme. Markets were also pressured by U.S. trade disputes with China and other trading partners, and their impact on global growth and corporate earnings.

In EMs, Brazil’s quarterly gross domestic product (“GDP”) growth was flat in 2018’s second quarter, accelerated in the third quarter and eased in the fourth quarter. After accelerating in 2018’s second quarter, Russia’s annual GDP growth held steady in 2018’s third quarter and accelerated in the fourth quarter. The Bank of Russia increased its key interest rate twice during the year. China’s quarterly GDP growth moderated in 2018’s third and fourth quarters. The People’s Bank of China left its benchmark interest rate unchanged, but it took measures to improve financial liquidity to mitigate the effects of the trade dispute with the United States and support economic growth.

Significant Changes

During the year, we took the opportunity to invest in companies that we believed demonstrated sustainable earnings power, and at valuations that we found attractive. These included China Construction Bank and Brilliance China Automotive, which we expect to continue benefitting from long-term growth in luxury auto demand as rising incomes drive “premiumisation” in consumption. In addition, we purchased several global leaders in the information technology (“IT”) space, including IT Services business Cognizant Technology Solutions, which has a significant presence in India, China-based internet services business Tencent and chip maker Taiwan Semiconductor Manufacturing Company (TSMC).

We sold positions in favour of what we believed were more compelling investment opportunities elsewhere. South Africa-based Naspers, which has a significant stake in Tencent, was among the sales/reductions. South Korea-based chip and phone maker Samsung Electronics and Taiwan-based Largan Precision, a maker of lenses for smartphones and digital cameras, were also significant sales. Among resources stocks, sales included Peru-based precious metals business Compania De Minas Buenaventura and Russia-based energy business Lukoil.

Positive/Negative Contributors

The Fund finished the year slightly higher in absolute terms. From a relative perspective the Fund outperformed the benchmark index, which was broadly flat over the year.

From a sector perspective, security selection in financials aided relative performance the most, followed by selection in communication services health care and energy. In contrast, underweight exposure to the real estate sector detracted, and as did a lack of exposure to utilities.

The financial sector contributed to relative returns as a holding in India-based private-sector lender ICICI Bank advanced strongly over the year. We are positive on ICICI’s longer-term potential as it aims to bolster its asset quality and grow its retail franchise. In addition, China-based Ping An Bank and Brazil-based Banco Bradesco also added to relative performance. However, Sberbank of Russia detracted somewhat from the sector’s returns as its shares declined over the year.

An underweight to China-based Tencent added to returns in the communication services sector as the company’s shares weakened over the year. Positions in IMAX, a U.S.-listed large-screen cinema company

* Figure differs from comparative table performance due to alternative calculation methodology used.

TEMPLETON GLOBAL EMERGING MARKETS FUND

Investment Review (continued)

Positive/Negative Contributors (continued)

with operations throughout emerging markets, and China Mobile also contributed to the communication services sector.

In the energy sector, Russia-based integrated oil company Lukoil rose and contributed to relative performance. We believe that the management team has a strong track record and that it has a disciplined focus on its capital expenditure and share buyback programme. However, the Fund's return was held back due to its lack of a position in India-based energy and telecommunications conglomerate Reliance Industries, which advanced during the year.

Elsewhere, in the consumer discretionary sector, South Korea-based sportswear company Fila Korea was among the top individual contributors. The company is continuing to see improvements in its home market, while its global royalty business, U.S. wholesale operations and China joint venture have been performing well in recent results. In the same sector, Cambodia-based gaming and hotel business NagaCorp added to returns. In contrast, in China, Brilliance China Automotive and BAIC Motor Corporation detracted from the consumer discretionary sector's overall relative performance. Despite recent pressures on China's auto industry, we continue to expect robust structural growth in the premium segment on the back of rising incomes.

In the consumer staples sector, UK-based consumer goods company Unilever, which is based in the UK and generates more than half of its sales in EMs, contributed. However, South Africa-based food retailer Massmart detracted from returns in consumer staples. Among materials companies, Peru-based Compania De Minas Buenaventura contributed, while among industrials, South Korea's HDC holdings also added to returns. In contrast, IT stocks Catcher Technology and Hon Hai Precision, which are both based in Taiwan, detracted.

Outlook

Solid economic growth, increased risk appetite and the availability of attractive investment opportunities in EM have been key drivers of recent fund flows into the asset class. Supported by indications that the Fed will take a data dependent approach to raising interest rates in 2019, this trend could continue. EM valuations also remain lower when compared to their DM counterparts. A key risk, however, remains the U.S.-China trade negotiations which could weigh on investor confidence should talks falter.

For us, Asia remains a key area of interest. Improving corporate governance in South Korea, technology leadership in Taiwan, premiumisation in China and increasing penetration in India are just a number of key trends we are witnessing in the region. The opportunity set of listed companies in Asia is large with countries at varied stages of development. However, at the same time, idiosyncratic considerations aside, there are country-specific risks that investors need to be aware of. Currency, political events, economic policies and regulations are some of the broader risks that many of the Asian countries face.

We believe that EMs should be a staple investment for global investors given the large and wide investment opportunity it offers. Some of the most compelling reasons for considering EM equities remain the growing consumer market, technological advances and attractive valuations.

Chetan Sehgal
Fund Manager
31 March 2019

TEMPLETON GLOBAL EMERGING MARKETS FUND

Comparative Table

A – Accumulation shares	31 March 2019	31 March 2018	31 March 2017
Change in net assets per share (p)			
Opening net asset value per share	263.60	238.53	167.85
Return before operating charges ¹	9.11	29.28	74.70
Operating charges ²	(4.12)	(4.21)	(4.02)
Return after operating charges* ³	4.99	25.07	70.68
Closing net asset value per share	268.59	263.60	238.53
Retained distributions on accumulation shares	1.8339	0.1435	0.5878
*After direct transaction costs of: ⁴	0.18	0.47	0.33
Performance			
Return after charges ⁵	1.89%	10.51%	42.11%
Other information			
Closing net asset value (£)	6,366,987	7,077,493	6,843,957
Closing number of shares	2,370,529	2,684,896	2,869,174
Ongoing charges ratio ⁶	1.60%	1.60%	1.95%
Direct transaction costs ⁴	0.07%	0.18%	0.16%
Prices (p)			
Highest share price	270.49	286.66	242.26
Lowest share price	236.68	234.46	160.15

W – Accumulation shares	31 March 2019	31 March 2018	31 March 2017
Change in net assets per share (p)			
Opening net asset value per share	132.99	119.64	83.56
Return before operating charges ¹	4.63	14.83	37.32
Operating charges ²	(1.43)	(1.48)	(1.24)
Return after operating charges* ³	3.20	13.35	36.08
Closing net asset value per share	136.19	132.99	119.64
Retained distributions on accumulation shares	1.5772	0.8568	1.0621
*After direct transaction costs of: ⁴	0.09	0.24	0.17
Performance			
Return after charges ⁵	2.41%	11.16%	43.18%
Other information			
Closing net asset value (£)	14,400,833	14,741,893	7,825,398
Closing number of shares	10,574,165	11,084,655	6,540,962
Ongoing charges ratio ⁶	1.10%	1.10%	1.20%
Direct transaction costs ⁴	0.07%	0.18%	0.16%
Prices (p)			
Highest share price	136.59	144.50	121.47
Lowest share price	119.73	117.63	79.81

TEMPLETON GLOBAL EMERGING MARKETS FUND

Comparative Table (continued)

Y – Income shares	31 March 2019	31 March 2018	31 March 2017
Change in net assets per share (p)			
Opening net asset value per share	130.38	118.02	83.05
Return before operating charges ¹	4.58	14.68	37.27
Operating charges ²	(0.15)	(0.17)	(0.30)
Return after operating charges* ³	4.43	14.51	36.97
Distributions on income shares	(2.8063)	(2.1494)	(1.9975)
Closing net asset value per share	132.00	130.38	118.02
*After direct transaction costs of: ⁴	0.09	0.24	0.16
Performance			
Return after charges ⁵	3.40%	12.29%	44.52%
Other information			
Closing net asset value (£)	15,050,312	14,865,288	3,508
Closing number of shares	11,401,763	11,401,763	2,972
Ongoing charges ratio ⁶	0.12%	0.13%	0.29%
Direct transaction costs ⁴	0.07%	0.18%	0.16%
Prices (p)			
Highest share price	134.66	143.78	121.78
Lowest share price	117.98	116.12	79.44

Z – Accumulation shares	31 March 2019	31 March 2018	31 March 2017
Change in net assets per share (p)			
Opening net asset value per share	132.24	119.08	83.25
Return before operating charges ¹	4.59	14.74	37.19
Operating charges ²	(1.55)	(1.58)	(1.36)
Return after operating charges* ³	3.04	13.16	35.83
Closing net asset value per share	135.28	132.24	119.08
Retained distributions on accumulation shares	1.4402	0.7167	0.9800
*After direct transaction costs of: ⁴	0.09	0.24	0.17
Performance			
Return after charges ⁵	2.30%	11.05%	43.04%
Other information			
Closing net asset value (£)	485,655	187,936	191,486
Closing number of shares	359,008	142,117	160,808
Ongoing charges ratio ⁶	1.20%	1.20%	1.30%
Direct transaction costs ⁴	0.07%	0.18%	0.16%
Prices (p)			
Highest share price	135.79	143.71	120.91
Lowest share price	118.98	117.08	79.51

TEMPLETON GLOBAL EMERGING MARKETS FUND

Comparative Table (continued)

- 1 The "return before operating charges" is calculated as the "return after operating charges" plus the "operating charges".
- 2 The "operating charges" are calculated with reference to the total expenses for the year divided by the number of shares in issue at each valuation point.
- 3 The "return after operating charges" is calculated as the "closing net asset value per share" plus the "distributions" (for income share classes only) minus the "opening net asset value per share".
- 4 The direct transaction costs include all fees and expenses which relate directly to the sales and purchases of securities which include commissions, transfer taxes and duties. Direct transaction costs do not include any difference between the quoted bid and offer prices or internal administrative or holding costs. The "direct transaction costs" ratio is calculated by dividing the total transaction costs by the average net assets.
- 5 The "return after charges" is calculated as the "return after operating charges" per share divided by the "opening net asset value per share". This figure will differ from "performance return" figure disclosed under "Investment Review" section due to alternative calculation methodology used.
- 6 The "ongoing charges ratio" represents all operating charges and expenses of the share class in the prior 12 months as a percentage of the share class'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.

Risk Profile (W(acc) shares)



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.

For a full discussion of all the risks applicable to this Fund, please refer to the "Risk Factors" section of the current prospectus of Franklin Templeton Funds.

TEMPLETON GLOBAL EMERGING MARKETS FUND

Portfolio Statement as at 31 March 2019

(Currency – GBP)

Number of Shares or Face Value	Description	Market Value £000	% of Net Assets
	EQUITIES 98.27% (100.82%)		
	AFRICA 7.25% (9.38%)		
	KENYA		
47,500	East African Breweries Ltd.	75	0.21
	SOUTH AFRICA		
56,488	Massmart Holdings Ltd.	239	0.66
13,469	MultiChoice Group Ltd.	86	0.24
12,593	Naspers Ltd., N	2,230	6.14
		<u>2,555</u>	<u>7.04</u>
	TOTAL - AFRICA	<u>2,630</u>	<u>7.25</u>
	ASIA 64.97% (64.81%)		
	CAMBODIA		
398,400	NagaCorp Ltd.	426	1.17
	CHINA		
13,618	Alibaba Group Holding Ltd., ADR†	1,907	5.25
980,900	BAIC Motor Corp. Ltd., H	491	1.35
1,140	Baidu Inc., ADR†	144	0.40
1,657,600	Brilliance China Automotive Holdings Ltd.	1,256	3.46
1,057,000	China Construction Bank Corp., H	696	1.92
49,800	China Merchants Bank Co. Ltd., A	193	0.53
65,500	China Mobile Ltd.	512	1.41
459,900	China Petroleum & Chemical Corp., H	279	0.77
218,700	China Resources Cement Holdings Ltd.	173	0.48
397,300	CNOOC Ltd.	570	1.57
5,107	COSCO Shipping Ports Ltd.	4	0.01
27,200	Health & Happiness H&H International Holdings Ltd.	131	0.36
935	NetEase Inc., ADR†	173	0.48
384,500	Ping An Bank Co. Ltd., A	563	1.55
40,000	Ping An Insurance (Group) Co. of China Ltd., H	344	0.95
23,400	Tencent Holdings Ltd.	826	2.27
299,800	Uni-President China Holdings Ltd.	225	0.62
53,512	Weifu High-Technology Co. Ltd., B	88	0.24
		<u>8,575</u>	<u>23.62</u>
	HONG KONG		
8,200	Dairy Farm International Holdings Ltd.	53	0.14
47,600	MGM China Holdings Ltd.	76	0.21
		<u>129</u>	<u>0.35</u>
	INDIA		
10,852	Bajaj Holdings & Investment Ltd.	411	1.13
45,761	Coal India Ltd.	120	0.33
47,102	Glenmark Pharmaceuticals Ltd.	338	0.93
318,248	ICICI Bank Ltd.	1,414	3.89
45,547	Infosys Ltd.	376	1.04
26,400	Tata Chemicals Ltd.	173	0.48
34,966	Tata Investment Corp. Ltd.	323	0.89
37,504	Tata Motors Ltd., A	36	0.10
		<u>3,191</u>	<u>8.79</u>
	INDONESIA		
1,167,800	Astra International Tbk PT	460	1.27
	MACAO		
50,400	Sands China Ltd.	194	0.53

TEMPLETON GLOBAL EMERGING MARKETS FUND

Portfolio Statement as at 31 March 2019 (continued)

(Currency – GBP)

Number of Shares or Face Value	Description	Market Value £000	% of Net Assets
PAKISTAN			
63,768	MCB Bank Ltd.	68	0.19
210,000	United Bank Ltd.	160	0.44
		<u>228</u>	<u>0.63</u>
PHILIPPINES			
17,405	BDO Unibank Inc.	34	0.09
SOUTH KOREA			
11,630	Fila Korea Ltd.	611	1.68
1,230	GS Home Shopping Inc.	148	0.41
997	Hankook Tire Co. Ltd.	25	0.07
11,500	Hankook Tire Worldwide Co. Ltd.	121	0.33
12,924	Hanon Systems	98	0.27
8,265	HDC Hyundai Development Co-Engineering & Construction	283	0.78
12,750	Hite Jinro Co. Ltd.	159	0.44
31,151	Interpark Holdings Corp.	50	0.14
19,939	KT Skylife Co. Ltd.	159	0.44
9,388	LG Corp.	491	1.35
7,129	Naver Corp.	594	1.64
2,045	POSCO	349	0.96
87,611	Samsung Electronics Co. Ltd.	2,636	7.26
9,662	Sebang Global Battery Co. Ltd.	301	0.83
5,045	SK Hynix Inc.	252	0.69
1,008	SK Innovation Co. Ltd.	122	0.34
		<u>6,399</u>	<u>17.63</u>
TAIWAN			
46,000	Catcher Technology Co. Ltd.	271	0.75
45,000	CTBC Financial Holding Co. Ltd.	23	0.06
186,400	FIT Hon Teng Ltd.	69	0.19
133,344	Hon Hai Precision Industry Co. Ltd.	244	0.67
51,206	PChome Online Inc.	165	0.46
55,000	Primax Electronics Ltd.	83	0.23
390,200	Taiwan Semiconductor Manufacturing Co. Ltd.	2,378	6.55
		<u>3,233</u>	<u>8.91</u>
THAILAND			
90,100	Kasikornbank PCL, fgn.	410	1.13
105,700	Kiatnakin Bank PCL, fgn.	177	0.49
248,400	Land and Houses PCL, NVDR	64	0.17
142,800	Thai Beverage PCL, fgn.	68	0.19
		<u>719</u>	<u>1.98</u>
TOTAL - ASIA		<u>23,588</u>	<u>64.97</u>
CENTRAL AMERICA 2.07% (1.85%)			
MEXICO			
138,158	Banco Santander Mexico SA Institucion de Banca Multiple Grupo Financiero Santander, ADR†	718	1.98
79,583	Nemak SAB de CV	35	0.09
TOTAL - CENTRAL AMERICA		<u>753</u>	<u>2.07</u>
EUROPE - NON EU 7.71% (8.91%)			
RUSSIA			
35,500	Gazprom PJSC, ADR#†	123	0.34
14,020	LUKOIL PJSC, ADR†	964	2.66
15,989	Mail.Ru Group Ltd., GDR, Reg S^	302	0.83
5,200	MMC Norilsk Nickel PJSC, ADR#†	84	0.23
74,078	Sberbank of Russia PJSC, ADR†	753	2.07
27,037	TMK PAO, GDR, Reg S^	69	0.19
19,154	Yandex NV, A	505	1.39
TOTAL EUROPE - NON EU		<u>2,800</u>	<u>7.71</u>

TEMPLETON GLOBAL EMERGING MARKETS FUND

Portfolio Statement as at 31 March 2019 (continued)

(Currency – GBP)

Number of Shares or Face Value	Description	Market Value £000	% of Net Assets
	EUROPE - OTHER EU 1.45% (1.58%)		
	CZECH REPUBLIC		
72,390	Moneta Money Bank AS	192	0.53
	HUNGARY		
23,270	Richter Gedeon Nyrt	335	0.92
	TOTAL - EUROPE - OTHER EU	527	1.45
	MIDDLE EAST 0.55% (1.06%)		
	SAUDIA ARABIA		
6,955	Saudi Dairy & Foodstuff Co.	147	0.41
	TURKEY		
28,000	Migros Ticaret AS	52	0.14
	TOTAL - MIDDLE EAST	199	0.55
	NORTH AMERICA 2.51% (0.83%)		
	UNITED STATES		
10,586	Cognizant Technology Solutions Corp., A	589	1.62
18,450	IMAX Corp.	321	0.89
	TOTAL - NORTH AMERICA	910	2.51
	SOUTH AMERICA 8.41% (9.39%)		
	ARGENTINA		
8,600	BBVA Banco Frances SA, ADR†	63	0.17
	BRAZIL		
11,000	B2W Cia Digital	91	0.25
49,900	B3 SA - Brasil Bolsa Balcao	314	0.86
82,735	Banco Bradesco SA, ADR, pfd.†	692	1.91
114,411	Itau Unibanco Holding SA, ADR, pfd.†	773	2.13
118,280	Lojas Americanas SA	306	0.84
7,200	M. Dias Branco SA	61	0.17
29,700	Mahle-Metal Leve SA	142	0.39
6,500	Totvs SA	50	0.14
		2,429	6.69
	PERU		
22,440	Compania de Minas Buenaventura SA, ADR†	298	0.82
7,570	Intercorp Financial Services Inc., Reg S	264	0.73
		562	1.55
	TOTAL - SOUTH AMERICA	3,054	8.41
	UNITED KINGDOM 3.35% (3.01%)		
27,677	Unilever PLC	1,216	3.35
	TOTAL - UNITED KINGDOM	1,216	3.35
	TOTAL - EQUITIES	35,677	98.27
	TOTAL VALUE OF INVESTMENTS	35,677	98.27
	OTHER ASSETS	627	1.73
	TOTAL NET ASSETS	36,304	100.00

The total percentage figures in brackets next to each category heading represent holdings as at 31 March 2018.

Unless otherwise stated the above securities are ordinary shares or common stock and admitted to official stock exchange listings.

^ Global Depository Receipt.

† American Depository Receipt.

Traded on an alternative investment market.

TEMPLETON GLOBAL EMERGING MARKETS FUND

Statement of Total Return

For the year ended 31 March 2019

	Note	March 2019 £000	March 2019 £000	March 2018 £000	March 2018 £000
Income					
Net capital gains/(losses)	1		633		2,671
Revenue	2	861		697	
Expenses	3	(266)		(298)	
Net revenue before taxation		595		399	
Taxation	4	(116)		(75)	
Net revenue after taxation			479		324
Total return before distributions for the year			1,112		2,995
Distributions	5		(522)		(325)
Change in net assets attributable to shareholders			590		2,670

Statement of Change in Net Assets Attributable to Shareholders

For the year ended 31 March 2019

	March 2019 £000	March 2019 £000	March 2018 £000	March 2018 £000
Opening net assets attributable to shareholders		36,872		14,864
Amounts received on creation of shares	5,970		27,784	
Amounts paid on cancellation of shares	(7,348)		(8,616)	
		(1,378)		19,168
Dilution adjustments		5		70
Change in net assets attributable to shareholders from investment activities (see above)		590		2,670
Retained distribution on accumulation shares		215		100
Closing net assets attributable to shareholders		36,304		36,872

Balance Sheet

As at 31 March 2019

	Note	March 2019 £000	March 2018 £000
Assets			
Fixed assets			
Tangible assets:			
Investment assets		35,677	37,176
Current assets			
Debtors	6	249	151
Cash and bank balances		971	153
Total assets		36,897	37,480
Liabilities			
Creditors			
Distribution payable	5	(320)	(245)
Other creditors	7	(273)	(363)
Total liabilities		(593)	(608)
Net assets attributable to shareholders		36,304	36,872

TEMPLETON GLOBAL EMERGING MARKETS FUND

Notes to the Financial Statements

	March 2019 £000	March 2018 £000
1. Net capital gains/(losses)		
The net capital gains/(losses) during the year comprise:		
Non-derivative securities gains/(losses)	640	2,679
Currency gains/(losses)	(7)	(8)
	<u>633</u>	<u>2,671</u>
2. Revenue		
Overseas dividends	771	603
Interest on capital	54	84
UK dividends	35	9
Bank and other interest	<u>1</u>	<u>1</u>
	<u>861</u>	<u>697</u>
3. Expenses		
Payable to the ACD, associates of the ACD and agents of either of them		
ACD's periodic charge	228	256
ACD's administration charge	<u>10</u>	<u>10</u>
	<u>238</u>	<u>266</u>
Payable to the Depositary, associates of the Depositary and agents of either of them		
Safe custody fees	13	17
Depositary fees	<u>7</u>	<u>7</u>
	<u>20</u>	<u>24</u>
Other expenses		
Audit fees	10	12
Legal and publication fees	9	7
Printing fees	3	3
Expense cap	<u>(14)</u>	<u>(14)</u>
	<u>8</u>	<u>8</u>
	<u>266</u>	<u>298</u>

TEMPLETON GLOBAL EMERGING MARKETS FUND

Notes to the Financial Statements (continued)

	March 2019 £000	March 2018 £000
4. Taxation		
(a) Analysis of charge in the year		
Irrecoverable overseas tax	75	73
Overseas capital tax	-	2
Total current tax (note 4(b))	75	75
Current year reversal of timing differences	41	31
Total deferred tax (note 4(c))	41	31
Total taxation	116	106
(b) Factors affecting tax charge for the year		
The tax assessed for the year is lower (2018: higher) than the standard rate of corporation tax in the UK for Open Ended Investment Companies (20% (2018: 20%)).		
The differences are explained below:		
Net revenue before taxation	595	398
Corporation tax of 20% (2018: 20%)	119	80
Effects of:		
Overseas capital tax	-	2
Overseas tax expensed	(4)	(4)
Excess management expenses	28	43
Irrecoverable overseas tax	75	73
Non taxable revenue	-	2
UK dividends & non-taxable overseas dividends*	(143)	(121)
Current tax charge for year (note 4(a))	75	75
(c) Provision for deferred tax		
Current year reversal of timing differences	41	31
Deferred tax for the year (note 4(a))	41	31

*As an Open Ended Investment Company these items are not subject to corporation tax.

Open Ended Investment Companies are exempt from tax on capital gains in the UK. Therefore, any capital return is not included within the reconciliation above.

At the year end there is a potential deferred tax asset of £430,000 (£403,000 as at 31 March 2018) in relation to excess management expenses. It is unlikely the Fund will generate sufficient tax profits in the future to utilise these amounts and therefore no deferred tax assets have been recognised in the year.

5. (a) Finance costs

The distribution takes account of income received on the issue of shares and income deducted on the cancellation of shares, and comprise:

Final dividend distributions

Income	320	245
Accumulation	215	100
	535	345
Add: Income deducted on cancellation of shares	38	40
Deduct: Income received on issue of shares	(51)	(60)
Total distribution	522	325
Total finance costs	522	325

(b) Difference between net revenue and distribution:

Net revenue after taxation	479	324
Tax charge taken from capital account	41	-
Net revenue received on share class conversions	2	1
Total distribution for the year	522	325

Details of the distribution in pence per share for this Fund are set out in the table on page 213.

TEMPLETON GLOBAL EMERGING MARKETS FUND

Notes to the Financial Statements (continued)

	March 2019 £000	March 2018 £000
6. Debtors		
Accrued income	100	125
Amounts receivable for issue of shares	72	18
Sales awaiting settlement	49	-
Overseas tax recoverable	26	6
Capped expenses	<u>2</u>	<u>2</u>
	249	151
7. Other creditors		
Purchases awaiting settlement	94	-
Tax payable	76	35
Amounts payable on cancellation of shares	62	284
Accrued expenses	<u>41</u>	<u>44</u>
	273	363

8. Related parties

During the year, Franklin Templeton Fund Management Limited (“ACD”), a related party, acted primarily in all transactions of the Funds. The aggregate amounts received through issues and cancellations are disclosed in the Statement of Change in Net Assets Attributable to Shareholders.

Amounts charged by the ACD and associates of the ACD in respect of the management and administration fees are disclosed in Note 3.

The amounts due to the ACD and associates of the ACD in respect of management and administration fees at 31 March 2019 are £21,000 (£24,000 as at 31 March 2018).

During the year the Fund received £14,000 (£11,000 for the year to 31 March 2018) in reimbursed expenses from the ACD.

As at 31 March 2019 the Fund was due reimbursed expenses of £2,000 (£2,000 as at 31 March 2018) from the ACD.

As at 31 March 2019 Templeton Global Advisors Limited (“TGAL”) held 100% (100% as at 31 March 2018) of the shares in issue of Class Y income.

TEMPLETON GLOBAL EMERGING MARKETS FUND

Notes to the Financial Statements (continued)

9. Risk management policies and disclosures

The risks inherent in the Fund's investment portfolio are as follows:

Market Risk

Currency risk

An analysis of monetary assets and liabilities (including equity investments), in foreign currencies at the year end is shown below.

Currency	Net foreign currency assets and (liabilities) 31 March 2019			Net foreign currency assets and (liabilities) 31 March 2018		
	Monetary exposures £000	Non-Monetary exposures £000	Total £000	Monetary exposures £000	Non-Monetary exposures £000	Total £000
US Dollar	(66)	8,794	8,728	1	9,179	9,180
South Korean won	67	6,399	6,466	114	7,705	7,819
Hong Kong dollar	49	6,360	6,409	-	5,532	5,532
Taiwanese dollar	26	3,164	3,190	7	3,973	3,980
Indian rupee	(29)	3,191	3,162	66	2,188	2,254
South African rand	4	2,555	2,559	-	3,367	3,367
Brazilian real	5	964	969	5	1,105	1,110
Chinese yuan	-	756	756	-	752	752
Thai baht	-	651	651	-	496	496
Indonesian rupiah	-	460	460	-	481	481
Hungarian forint	-	335	335	-	289	289
Pakistani rupee	4	228	232	6	356	362
Czech koruna	-	192	192	-	293	293
Saudi riyal	-	147	147	-	-	-
Kenyan shilling	1	75	76	-	90	90
Singapore dollar	-	68	68	-	61	61
Turkish lira	-	52	52	-	120	120
Mexican peso	1	35	36	1	47	48
Philippine peso	-	34	34	-	33	33
Egyptian pound	-	-	-	2	-	2
Peruvian sol	(54)	-	(54)	(35)	-	(35)
	8	34,460	34,468	167	36,067	36,234

With reference to the foreign currency assets and liabilities table above, any movement in exchange rates would lead to a corresponding change in the value of the assets.

Interest rate risk

The Fund does not invest in either fixed or floating rate securities and interest rate risk exposure is restricted to interest receivable on bank deposits or payable on bank overdraft positions which will be affected by fluctuations in interest rates.

Other price risk

At the year end date, 98.27% (2018: 100.82%) of the net assets of the Fund were invested in ordinary shares or stock units admitted to an official stock exchange. If the market value were to change by 10%, the value of the Fund would change by 9.83% (2018: 10.08%).

There is no material difference between the value of the financial assets and liabilities, as shown in the Balance sheet, and their fair values.

TEMPLETON GLOBAL EMERGING MARKETS FUND

Notes to the Financial Statements (continued)

10. Portfolio Transaction Costs

	2019			2018		
	Purchases £000	% of Purchases	% of Average Net Asset Value	Purchases £000	% of Purchases	% of Average Net Asset Value
Equity purchases in year before transaction costs	5,528			25,853		
Commissions	4	0.07	0.01	38	0.15	0.11
Taxes	4	0.07	0.01	13	0.05	0.04
Other	-	-	-	4	0.02	0.01
Total Equity purchases in the year after direct transaction costs	5,536			25,908		

	2019			2018		
	Sales £000	% Of Sales	% of Average Net Asset Value	Sales £000	% Of Sales	% of Average Net Asset Value
Equity sales in year before transaction costs	7,662			5,700		
Commissions	(6)	(0.08)	(0.02)	(5)	(0.09)	(0.01)
Taxes	(10)	(0.13)	(0.03)	(4)	(0.07)	(0.01)
Other	(1)	(0.01)	-	(2)	(0.04)	(0.01)
Total Equity sales in the year after direct transaction costs	7,645			5,689		

In pursuance of its investment objectives the Fund incurs commissions, taxes and other charges when buying and selling investment securities. Share dealing generally incurs broker commission and stamp duty and these are paid by the Fund on each transaction where appropriate.

In addition there is a dealing spread between the buying and selling prices of the underlying investments. The average dealing spread which is the difference between the quoted bid and offer prices or internal administrative or holding costs, are not included in the calculation of Direct Transaction Costs. As at 31 March 2019, the average dealing spread for the underlying Fund investments is 0.19% (2018: 0.20%).

Comparing portfolio transaction costs for a range of funds may give a misleading impression of the relative costs of investing in those funds for the following reasons:

- Historic transaction costs are not an effective indicator of the future impact on performance as it may vary from year to year depending on the investment manager;
- Transaction costs for buying and selling investments due to shareholder activity on the fund are recovered from those investors;
- Transaction costs will vary depending on the types of securities the fund is investing.

11. Creations and Cancellations of Shares

	A-Accumulation shares	W-Accumulation shares	Y-Income shares	Z-Accumulation shares
Opening Shares	2,684,896	11,084,655	11,401,763	142,117
Creations	278,894	4,196,879	-	1,745
Cancellations	(434,282)	(4,804,602)	-	(2,744)
Conversions	(158,979)	97,233	-	217,890
Total Closing Shares	2,370,529	10,574,165	11,401,763	359,008

TEMPLETON GLOBAL EMERGING MARKETS FUND

Notes to the Financial Statements (continued)

12. Fair Value Disclosure

In accordance with FRS 102 the Fund classifies fair value measurement under the following levels:

Level 1

Unadjusted quoted market prices in active markets for identical securities.

Level 2

Investments (other than quoted prices included within Level 1) whose fair value is based directly on observable current market prices or is indirectly being derived from market prices; and

Level 3

Investments whose fair value is determined using a valuation technique based on assumptions that are not supported by observable current market prices or are not based on observable market data such as security in default or securities valued by Franklin Templeton Fair Valuation Committee.

Fair Value Hierarchy	Assets		Liabilities	
	31 March 2019 £000	31 March 2019 £000	31 March 2018 £000	31 March 2018 £000
Level 1	35,677	-	36,623	-
Level 2	-	-	553	-
Level 3	-	-	-	-
Total	35,677	-	37,176	-

TEMPLETON GLOBAL EMERGING MARKETS FUND

Distribution Statement

For the period 1 April 2018 to 31 March 2019

Group 1 – Shares purchased prior to 1 April 2018

Group 2 – Shares purchased in the period 1 April 2018 to 31 March 2019

	Net Income p	Equalisation p	31 March 2019 Pence per Share p	31 March 2018 Pence per Share p
A - Accumulation Shares				
Group 1	1.8339	-	1.8339	0.1435
Group 2	0.0866	1.7473	1.8339	0.1435
W - Accumulation Shares				
Group 1	1.5772	-	1.5772	0.8568
Group 2	0.4504	1.1268	1.5772	0.8568
Y - Income Shares				
Group 1	2.8063	-	2.8063	2.1494
Group 2	2.8063	-	2.8063	2.1494
Z - Accumulation Shares				
Group 1	1.4402	-	1.4402	0.7167
Group 2	1.4325	0.0077	1.4402	0.7167

Equalisation

All shareholders, within each share category, receive the same distribution per share, although the distribution to shareholders who purchased shares during the distribution period (Group 2 holdings) contains an element of equalisation which is a repayment, at an average rate per share, of the amount of accrued net income which was included in the purchase price of such shares. As the nature of this payment is capital it is not subject to income tax but must be deducted from the purchase price in any capital gains tax computation on the sale of the shares.

TEMPLETON GLOBAL TOTAL RETURN BOND FUND

Investment Review

Performance

For the year ended 31 March 2019, Templeton Global Total Return Bond Fund (W (acc) shares) returned 6.34%*, while the benchmark Bloomberg Barclays Multiverse Index returned 7.35%.

Overview

Before the year period began, reflation sentiments initially drove a period of sharply rising yields in the U.S. and Europe. However, the implementation of U.S. protectionist policies (steel and aluminium tariffs, and sector-specific tariffs on China) appeared to briefly stall those trends in March 2018. As the year began in April, reflation sentiments began to return to markets, driving the 10-year U.S. Treasury (“UST”) note’s yield above 3.0% for the first time in more than four years. Rising yield trends in the U.S. and core Europe continued until the second half of May, when political turmoil in Italy raised concerns over Italian debt sustainability and the viability of the euro, leading to an escalation of risk aversion across global bond markets. Yields in Italy, Spain and much of peripheral Europe rose sharply, while yields in Germany, France and the U.S. declined on flights to quality. Several Latin American countries concurrently saw rising yields and sharp depreciations of their exchange rates on regional volatility.

In mid-June, European Central Bank (“ECB”) President Mario Draghi indicated that the bank’s net asset purchase programme would be reduced to €15 billion per month for October, November and December, and would conclude at the end 2018. However, Draghi also indicated that rates would likely remain unchanged until at least the summer of 2019, quelling any remaining expectations for a potential 2018 rate hike. In the U.S., yields briefly rose in July as economic activity continued to strengthen. Annualised second-quarter U.S. gross domestic product (“GDP”) came in at its highest level since 2014 (4.2%), boosting market sentiment.

Improving market confidence once again proved temporary as a wave a broad-based risk aversion arrived in late August, driving emerging market exchange rates sharply lower against the U.S. dollar. Several perceived safe-haven assets rallied, including USTs. We viewed much of the late summer selloffs as fear-driven overreactions that often exceeded the fundamental risks in individual countries. As an asset category, emerging markets showed the highest level of undervaluation across the global fixed income markets, in our assessment, and we expected select countries with healthier or improving underlying fundamentals to rebound from the heightened volatility.

By mid-September, risk aversion across emerging markets began to diminish, as several security valuations incrementally stabilised and improved. UST yields rose during the month on expectations that the U.S. Federal Reserve (“Fed”) would hike rates at its 26 September meeting. Those trends continued through October, with the 10-year UST reaching its highest yield of the year on 8 November, at 3.24%. However, market volatility escalated in December as global growth uncertainties and trade policy concerns led to rallies in perceived safe-haven assets. The 10-year UST yield dropped sharply to finish 2018 at 2.69%, despite the Fed’s fourth rate hike of the calendar year on 19 December.

The new year initially brought renewed confidence, as financial markets broadly recovered from the volatility in December and largely stabilised. Some of the strongest rallies in January 2019 were seen across emerging markets, most notably in Latin America. Most global currencies strengthened against a broadly weaker U.S. dollar during the month. Adding fuel to global market sentiment was the Fed’s dovish turn at its 30 January meeting, which markets appeared to interpret as intentions to pause the rate-hike cycle. That dovish tone deepened at the FOMC’s (Federal Open Market Committee’s) 20 March meeting, as the committee downgraded growth estimates for the year and reduced its expectations for rate hikes in 2019 to zero. UST yields declined sharply, with the yield on the 10-year note dropping to 2.41% by the end of March.

On the whole, duration exposures in the U.S. and in several parts of the world faced headwinds from rising rates during the spring and fall months of 2018, but ultimately benefitted from the tailwinds of declining rates over the final four months of the year. Select local-currency bond markets fared better than others, as valuations strengthened in places like Brazil and India but weakened in places like Argentina. Overall, long exposure to the U.S. dollar proved important to global fixed income investors during the year, as did long duration exposures in Europe, the U.S. and a select subset of emerging markets.

* Figure differs from comparative table performance due to alternative calculation methodology used.

TEMPLETON GLOBAL TOTAL RETURN BOND FUND

Investment Review (continued)

Significant Changes

The top five buys during the year were:

1. Government of India, senior bond, 8.33%, 7/09/2026
2. Government of India, senior bond, 8.24%, 2/15/2027
3. Mexico Cetes, 5/23/2019
4. Government of India, senior note, 6.79%, 5/15/2027
5. Argentine Bonos del Tesoro, 16.00%, 10/17/2023

The top five sells during the year were:

1. Government of Mexico, senior note, M, 4.75%, 6/14/2018
2. Korea Treasury Bond, senior bond, 4.25%, 06/10/2021
3. Korea Treasury Bond, senior note, 1.50%, 06/10/2019
4. Korea Treasury Bond, senior note, 2.00%, 03/10/2021
5. Korea Treasury Bond, senior note, 1.375%, 09/10/2021

Positive/Negative Contributors

For the year ended 31 March 2019, interest-rate strategies detracted from the Fund's relative performance. Currency positions contributed to relative results, while overall credit exposures had a largely neutral effect.

The Fund maintained a defensive approach regarding interest rates in developed markets, while holding duration exposures in select emerging markets. Underweighted duration exposure in the United States and Japan detracted from relative performance, as did select underweighted duration exposures in Europe. Select overweighted duration exposures in Latin America also detracted from relative results (Argentina detracted, while Brazil contributed). However, select overweighted duration exposures in Africa (Ghana) and Asia ex Japan (India) contributed to relative results.

Amongst currencies, the Fund's underweighted positions in the euro, the Japanese yen and the Australian dollar contributed to relative performance. However, overweighted currency positions in Latin America (the Argentine peso, Brazilian real and the Colombian peso) and Africa (the Ghanaian cedi) detracted from relative results.

Outlook

In the U.S., we expect ongoing labour market strength and continued expansion of the U.S. economy. U.S. growth is likely to moderate from its 2018 pace, but remain at or above potential in 2019, in our view. On the whole, resilient consumer spending in the U.S. should continue to fuel U.S. growth and support global growth, as the economy moves deeper into the late-cycle phase of expansion. Fiscal stimulus should continue to have an additive effect on the U.S. economy before beginning to fade in the second half of 2019.

Interest-rate risks remain significantly underappreciated by markets, in our view. We expect 10-year UST yields to rise back towards 3.0% in upcoming quarters on resilience in the U.S. economy, as well as growing wage and inflation pressures. Barring a major financial market shock, real growth should remain above 2.0% for 2019, unemployment is expected to remain below 4.0%, annualised wage growth has increased to 3.2% and core inflation remains around 2.0%. Taken together, U.S. labour markets and U.S. consumer dynamics remain robust, which should continue to fuel the U.S. economy and underpin global growth. Justifications against continued policy normalisation from the Fed appear more substantiated by external conditions related to slowdowns in Europe and China, as well as uncertainty related to Brexit, than the health of the U.S. economy, which remains resilient in our assessment. Conditions in the U.S. economy should justify continued policy normalisation, in our view.

The Fed's dovish shift in rate guidance at its 20 March meeting should have more impact on the front end of the yield curve than the long end, which is driven more by economics and longer-term inflation expectations. The recent inversion of the UST yield curve overstates the likelihood for a rate cut in 2019, in our view. We do not expect a U.S. recession in the next 12 months and do not see domestic conditions that would justify rate cuts. Overall, we expect longer-maturity yields to rise given the aforementioned fundamental factors, as well as technical pressures from a lack of foreign and domestic official buying, along with growing levels of Treasury debt issuance. The U.S. fiscal deficit continues to trend higher, heading for a

TEMPLETON GLOBAL TOTAL RETURN BOND FUND

Investment Review (continued)

Outlook (continued)

4.4% of GDP average over the next 10 years in our analysis, which we expect to drive Treasury debt levels higher. Taken together, fundamental conditions in the U.S. economy along with supply dynamics present significant interest-rate risks across an overvalued UST market, in our opinion. Thus we continue to maintain negative duration exposure to USTs.

In Brazil, sovereign bond valuations have notably strengthened since the heightened volatility in the third quarter of 2018. Needed reforms are likely to continue to be pursued under the new government, in our view (Jair Bolsonaro was sworn in as president on 1 January). There appears to be broad consensus that pension reform needs to be passed this year. Risk-adjusted yields in local-currency bonds remain highly compelling, with the 10-year Brazilian bond yielding around 9.0% (as at 31 March 2019). Brazil continues to trend towards fundamental improvement as its institutions continue to uphold their responsibilities despite recent periods of political disruption. The country has an orthodox, independent central bank and a finance ministry that is committed to appropriate policy measures. Minister of Economy Paulo Guedes has pledged to steer the country “towards a market-driven economy,” and to reform Brazil’s unsustainable pension programme by mid-summer, with projections to save US\$350 billion over the next 10 years. On the whole, the political will to move Brazil beyond its failed state intervention policies of the past remains strong. The structural reforms underway represent massive structural shifts that should unlock the domestic drivers of the economy.

In Mexico, the country’s institutional strength should preserve much of the fiscal advances the country has made over the past several years. The new government has maintained a prudent fiscal budget for 2019. Additionally, the central bank has strong independence, and a long track record of credibility with orthodox policy responses—we expect that independence to continue. Renegotiations of NAFTA (North American Free Trade Agreement) into the USMCA (United States-Mexico-Canada Agreement) should largely maintain the extensive networks of trade with the U.S. Mexico also continues to benefit from the implementation of structural reforms over the past few years, high international reserves and a flexible credit line from the International Monetary Fund.

In Indonesia, growth has remained strong while the country has demonstrated continued resilience to external shocks, benefitting from ongoing reforms over the last decade that have sought to balance its growth drivers and accelerate domestic development. Indonesia’s central bank raised rates 175 bps from May to November to support its exchange rate against a broadly strengthening U.S. dollar. The Indonesian rupiah depreciated sharply from August to mid-October on broad-based fears across emerging markets, but it has more recently rebounded and largely retained its range of value, appreciating 6.7% against the U.S. dollar from the end of October 2018 through the end of March 2019. Overall, we anticipate ongoing policy continuity after the presidential election on 17 April.

China’s economy remains in a soft landing, but weaker economic momentum is likely to be partially offset by policy support, in our assessment. Moderately slowing economic growth in China should have a limited impact on global growth in 2019, in our assessment. China appears to have the fiscal levers to prevent a deep economic slowdown, unless there is an exogenous financial shock. It has the tools to manage its capital accounts, its exchange rate, its banking system and ultimately its economic growth. Overall, the government has extensive ability to maintain short-term economic stability. However, ongoing government command of an economic system presents longer-term questions. Ongoing rebalancing will be needed for the long term.

Overall, we see a subset of countries with domestically strong economies that have demonstrated their resiliencies to global shocks, including potential trade disruptions. We are focused on specific countries that are less externally vulnerable and more domestically driven, and that have orthodox fiscal and monetary policies. Certainly, 20 years ago it may have been difficult for a number of countries to weather a protectionist trade shock, a commodity price shock and an exchange rate shock all at the same time, but today specific countries have greatly reduced those external vulnerabilities. We see additional scope for strengthening valuations in specific countries.

In Europe, growth continues to show signs of moderation. We expect the euro to weaken against the U.S. dollar given the differences in projected growth and the widening rate differentials between the U.S. and the eurozone. ECB President Mario Draghi has indicated that rates are likely to remain unchanged in 2019. Subdued inflation and slowing growth give the ECB cause to keep rates highly accommodative for longer.

TEMPLETON GLOBAL TOTAL RETURN BOND FUND

Investment Review (continued)

Outlook (continued)

The peak rate differential between the eurozone and the U.S. is still ahead, in our view. Additionally, the euro remains vulnerable to unresolved structural and political risks across Europe, in our view, notably including recent debt sustainability and banking concerns in Italy. Draghi's term is up at the end of October.

Overall, we continue to maintain low portfolio duration while aiming at a negative correlation with UST returns. Looking ahead, we anticipate wage and inflation pressures in the U.S. to drive UST yields higher. We also continue to hold select local-currency duration exposures in countries that we view as having healthy and/or improving fundamentals, along with attractive risk-adjusted yields.

Michael Hasenstab, PhD & Calvin Ho, PhD

Fund Managers

31 March 2019

TEMPLETON GLOBAL TOTAL RETURN BOND FUND

Comparative Table

A – Income shares	31 March 2019	31 March 2018	31 March 2017
Change in net assets per share (p)			
Opening net asset value per share	144.47	170.02	138.29
Return before operating charges ¹	10.14	(15.91)	41.54
Operating charges ²	(1.97)	(2.13)	(2.08)
Return after operating charges* ³	8.17	(18.04)	39.46
Distribution on income shares	(10.6311)	(7.5145)	(7.7264)
Closing net asset value per share	142.01	144.47	170.02
*After direct transaction costs of: ⁴	-	-	-
Performance			
Return after charges ⁵	5.66%	(10.61%)	28.53%
Other information			
Closing net asset value (£)	2,141,636	2,480,860	4,280,843
Closing number of shares	1,508,117	1,717,265	2,517,854
Ongoing charges ratio ⁶	1.34%	1.35%	1.35%
Direct transaction costs ⁴	-	-	-
Prices (p)			
Highest share price	154.30	173.33	176.12
Lowest share price	140.97	142.35	132.96

A – Income Hedge shares	31 March 2019	31 March 2018	31 March 2017
Change in net assets per share (p)			
Opening net asset value per share	107.49	114.68	107.17
Return before operating charges ¹	(2.73)	(0.38)	14.47
Operating charges ²	(1.37)	(1.52)	(1.46)
Return after operating charges* ³	(4.10)	(1.90)	13.01
Distribution on income shares	(7.3408)	(5.2896)	(5.4996)
Closing net asset value per share	96.05	107.49	114.68
*After direct transaction costs of: ⁴	-	-	-
Performance			
Return after charges ⁵	(3.81%)	(1.66%)	12.14%
Other information			
Closing net asset value (£)	1,013,927	2,204,808	2,980,839
Closing number of shares	1,055,678	2,051,212	2,599,198
Ongoing charges ratio ⁶	1.34%	1.37%	1.35%
Direct transaction costs ⁴	-	-	-
Prices (p)			
Highest share price	108.10	115.75	115.92
Lowest share price	96.04	106.61	103.95

TEMPLETON GLOBAL TOTAL RETURN BOND FUND

Comparative Table (continued)

A – Accumulation shares	31 March 2019	31 March 2018	31 March 2017
Change in net assets per share (p)			
Opening net asset value per share	208.11	233.18	182.50
Return before operating charges ¹	14.87	(22.11)	55.52
Operating charges ²	(2.91)	(2.96)	(2.78)
Return after operating charges* ³	11.96	(25.07)	52.74
Distribution	(15.7482)	(10.4644)	(10.2762)
Retained distributions on accumulation shares	15.7482	10.4644	8.2210
Closing net asset value per share	220.07	208.11	233.18
*After direct transaction costs of: ⁴	-	-	-
Performance			
Return after charges ⁵	5.75%	(10.75%)	28.90%
Other information			
Closing net asset value (£)	3,286,698	3,730,097	5,439,064
Closing number of shares	1,493,450	1,792,410	2,332,516
Ongoing charges ratio ⁶	1.34%	1.35%	1.35%
Direct transaction costs ⁴	-	-	-
Prices (p)			
Highest share price	229.87	237.73	238.52
Lowest share price	204.05	202.45	175.45

A – Accumulation Hedge shares	31 March 2019	31 March 2018	31 March 2017
Change in net assets per share (p)			
Opening net asset value per share	129.32	131.72	118.17
Return before operating charges ¹	(2.89)	(0.62)	16.42
Operating charges ²	(1.68)	(1.78)	(1.65)
Return after operating charges* ³	(4.57)	(2.40)	14.77
Distribution	(9.0828)	(6.1556)	(6.1091)
Retained distributions on accumulation shares	9.0828	6.1556	4.8873
Closing net asset value per share	124.75	129.32	131.72
*After direct transaction costs of: ⁴	-	-	-
Performance			
Return after charges ⁵	(3.53%)	(1.82%)	12.50%
Other information			
Closing net asset value (£)	11,368,558	15,152,761	14,076,627
Closing number of shares	9,112,799	11,717,134	10,686,611
Ongoing charges ratio ⁶	1.34%	1.37%	1.35%
Direct transaction costs ⁴	-	-	-
Prices (p)			
Highest share price	130.10	132.95	131.72
Lowest share price	118.16	126.73	114.97

TEMPLETON GLOBAL TOTAL RETURN BOND FUND

Comparative Table (continued)

W – Income shares	31 March 2019	31 March 2018	31 March 2017
Change in net assets per share (p)			
Opening net asset value per share	97.42	114.65	93.22
Return before operating charges ¹	6.83	(10.74)	28.06
Operating charges ²	(0.78)	(0.87)	(0.84)
Return after operating charges* ³	6.05	(11.61)	27.22
Distribution on income shares	(7.7208)	(5.6176)	(5.7908)
Closing net asset value per share	95.75	97.42	114.65
*After direct transaction costs of: ⁴	-	-	-
Performance			
Return after charges ⁵	6.21%	(10.13%)	29.20%
Other information			
Closing net asset value (£)	23,845,563	37,338,760	44,541,349
Closing number of shares	24,902,837	38,328,695	38,849,402
Ongoing charges ratio ⁶	0.79%	0.82%	0.80%
Direct transaction costs ⁴	-	-	-
Prices (p)			
Highest share price	104.13	116.90	118.88
Lowest share price	95.19	96.11	89.71

W – Income Hedge shares	31 March 2019	31 March 2018	31 March 2017
Change in net assets per share (p)			
Opening net asset value per share	99.66	106.57	99.44
Return before operating charges ¹	(2.48)	(0.60)	13.57
Operating charges ²	(0.75)	(0.85)	(0.81)
Return after operating charges* ³	(3.23)	(1.45)	12.76
Distribution on income shares	(7.3310)	(5.4595)	(5.6308)
Closing net asset value per share	89.10	99.66	106.57
*After direct transaction costs of: ⁴	-	-	-
Performance			
Return after charges ⁵	(3.24%)	(1.36%)	12.83%
Other information			
Closing net asset value (£)	53,653,323	76,810,548	74,131,474
Closing number of shares	60,219,358	77,068,998	69,563,999
Ongoing charges ratio ⁶	0.79%	0.82%	0.80%
Direct transaction costs ⁴	-	-	-
Prices (p)			
Highest share price	100.24	107.57	107.84
Lowest share price	89.09	98.98	96.52

TEMPLETON GLOBAL TOTAL RETURN BOND FUND

Comparative Table (continued)

W – Accumulation shares	31 March 2019	31 March 2018	31 March 2017
Change in net assets per share (p)			
Opening net asset value per share	116.54	129.89	101.19
Return before operating charges ¹	8.34	(12.35)	30.91
Operating charges ²	(0.96)	(1.00)	(0.93)
Return after operating charges* ³	7.38	(13.35)	29.98
Distribution	(9.5166)	(6.4914)	(6.3921)
Retained distributions on accumulation shares	9.5166	6.4914	5.1137
Closing net asset value per share	123.92	116.54	129.89
*After direct transaction costs of: ⁴	-	-	-
Performance			
Return after charges ⁵	6.33%	(10.28%)	29.63%
Other information			
Closing net asset value (£)	69,348,274	90,821,532	114,470,077
Closing number of shares	55,962,801	77,933,243	88,125,146
Ongoing charges ratio ⁶	0.79%	0.82%	0.80%
Direct transaction costs ⁴	-	-	-
Prices (p)			
Highest share price	129.34	132.45	132.83
Lowest share price	114.29	113.36	97.38

W – Accumulation Hedge shares	31 March 2019	31 March 2018	31 March 2017
Change in net assets per share (p)			
Opening net asset value per share	104.90	106.06	94.62
Return before operating charges ¹	(2.30)	(0.30)	13.31
Operating charges ²	(0.81)	(0.86)	(0.78)
Return after operating charges* ³	(3.11)	(1.16)	12.53
Distribution	(7.9593)	(5.5484)	(5.4516)
Retained distributions on accumulation shares	7.9593	5.5484	4.3613
Closing net asset value per share	101.79	104.90	106.06
*After direct transaction costs of: ⁴	-	-	-
Performance			
Return after charges ⁵	(2.96%)	(1.09%)	13.24%
Other information			
Closing net asset value (£)	10,730,200	12,209,272	13,535,801
Closing number of shares	10,541,280	11,639,498	12,762,502
Ongoing charges ratio ⁶	0.79%	0.82%	0.80%
Direct transaction costs ⁴	-	-	-
Prices (p)			
Highest share price	105.53	107.08	106.05
Lowest share price	96.16	102.74	92.13

TEMPLETON GLOBAL TOTAL RETURN BOND FUND

Comparative Table (continued)

Y – Income shares	31 March 2019	31 March 2018	31 March 2017
Change in net assets per share (p)			
Opening net asset value per share	106.51	125.38	101.93
Return before operating charges ¹	7.48	(11.77)	30.73
Operating charges ²	(0.10)	(0.15)	(0.11)
Return after operating charges* ³	7.38	(11.92)	30.62
Distribution on income shares	(9.2100)	(6.9544)	(7.1668)
Closing net asset value per share	104.68	106.51	125.38
*After direct transaction costs of: ⁴	-	-	-
Performance			
Return after charges ⁵	6.93%	(9.51%)	30.04%
Other information			
Closing net asset value (£)	3,111	3,166	3,726
Closing number of shares	2,972	2,972	2,972
Ongoing charges ratio ⁶	0.09%	0.13%	0.10%
Direct transaction costs ⁴	-	-	-
Prices (p)			
Highest share price	113.92	127.86	130.18
Lowest share price	104.22	105.26	98.21

Z – Income Hedge shares	31 March 2019	31 March 2018	31 March 2017
Change in net assets per share (p)			
Opening net asset value per share	100.44	107.09	100.06
Return before operating charges ¹	(2.39)	(0.31)	13.48
Operating charges ²	(0.94)	(1.06)	(1.01)
Return after operating charges* ³	(3.33)	(1.37)	12.47
Distribution on income shares	(7.1989)	(5.2828)	(5.430)
Closing net asset value per share	89.91	100.44	107.09
*After direct transaction costs of: ⁴	-	-	-
Performance			
Return after charges ⁵	(3.32%)	(1.28%)	12.46%
Other information			
Closing net asset value (£)	245,371	236,497	427,744
Closing number of shares	272,919	235,456	399,441
Ongoing charges ratio ⁶	0.99%	1.02%	1.00%
Direct transaction costs ⁴	-	-	-
Prices (p)			
Highest share price	101.02	108.09	108.32
Lowest share price	89.90	99.74	97.05

TEMPLETON GLOBAL TOTAL RETURN BOND FUND

Comparative Table (continued)

Z – Accumulation shares	31 March 2019	31 March 2018	31 March 2017
Change in net assets per share (p)			
Opening net asset value per share	197.82	220.94	172.40
Return before operating charges ¹	14.16	(20.99)	52.59
Operating charges ²	(2.05)	(2.13)	(1.94)
Return after operating charges* ³	12.11	(23.12)	50.65
Distribution	(15.7146)	(10.6506)	(10.548)
Retained distributions on accumulation shares	15.7146	10.6506	8.4384
Closing net asset value per share	209.93	197.82	220.94
*After direct transaction costs of: ⁴	-	-	-
Performance			
Return after charges ⁵	6.12%	(10.46%)	29.38%
Other information			
Closing net asset value (£)	537,908	776,770	1,163,724
Closing number of shares	256,236	392,666	526,724
Ongoing charges ratio ⁶	0.99%	1.02%	1.00%
Direct transaction costs ⁴	-	-	-
Prices (p)			
Highest share price	219.17	225.27	225.96
Lowest share price	194.00	192.43	165.85

1 The "return before operating charges" is calculated as the "return after operating charges" plus the "operating charges".

2 The "operating charges" are calculated with reference to the total expenses for the year divided by the number of shares in issue at each valuation point.

3 The "return after operating charges" is calculated as the "closing net asset value per share" plus the "distributions" (for income share classes only) minus the "opening net asset value per share".

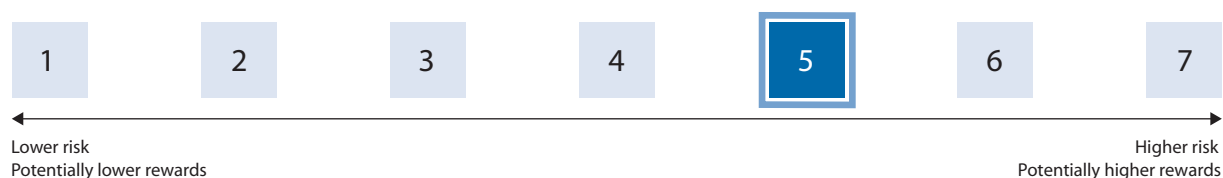
4 The direct transaction costs include all fees and expenses which relate directly to the sales and purchases of securities which include commissions, transfer taxes and duties. Direct transaction costs do not include any difference between the quoted bid and offer prices or internal administrative or holding costs. The "direct transaction costs" ratio is calculated by dividing the total transaction costs by the average net assets.

5 The "return after charges" is calculated as the "return after operating charges" per share divided by the "opening net asset value per share". This figure will differ from "performance return" figure disclosed under "Investment Review" section due to alternative calculation methodology used.

6 The "ongoing charges ratio" represents all operating charges and expenses of the share class in the prior 12 months as a percentage of the share class'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.

Risk Profile (W(acc) - shares)



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.

For a full discussion of all the risks applicable to this Fund, please refer to the "Risk Factors" section of the current prospectus of Franklin Templeton Funds.

TEMPLETON GLOBAL TOTAL RETURN BOND FUND

Portfolio Statement as at 31 March 2019

(Currency – GBP)

Number of Shares or Face Value	Description	Market Value £000	% of Net Assets
	EQUITIES 0.02% (0.03%)		
	AFRICA 0.00% (0.00%)		
	SOUTH AFRICA		
12,082,204	K2016470219 South Africa Ltd., A#*	6	0.00
1,447,454	K2016470219 South Africa Ltd., B#*	1	0.00
	TOTAL - AFRICA	7	0.00
	EUROPE - NON EU 0.02% (0.00%)		
	SWITZERLAND		
1,420	CEVA Logistics AG	33	0.02
	TOTAL EUROPE - NON EU	33	0.02
	TOTAL - EQUITIES	40	0.02
	WARRANTS 0.00% (0.00%)		
	AFRICA 0.00% (0.00%)		
	SOUTH AFRICA		
793	Edcon Holdings Ltd., wts., F, 2/20/2049#*	0	0.00
14,192,433	Edcon Holdings Ltd., wts., F1, 2/20/2049#*	0	0.00
1,149,303	Edcon Holdings Ltd., wts., F2, 2/20/2049#*	0	0.00
	TOTAL - AFRICA	0	0.00
	TOTAL - WARRANTS	0	0.00
	BONDS 82.14% (88.64%)		
	AFRICA 5.37% (7.92%)		
	GHANA		
990,000	Ghana Treasury Note, 16.50%, 2/17/2020#	135	0.08
250,000	Ghana Treasury Note, 16.50%, 3/16/2020#	34	0.02
290,000	Ghana Treasury Note, 17.18%, 1/06/2020#	40	0.02
50,000	Ghana Treasury Note, 17.24%, 11/11/2019#	7	0.00
360,000	Ghana Treasury Note, 19.95%, 5/06/2019#	50	0.03
460,000	Government of Ghana, 16.50%, 2/06/2023#	58	0.03
80,000	Government of Ghana, 17.60%, 11/28/2022#	11	0.01
2,240,000	Government of Ghana, 18.75%, 1/24/2022#	307	0.17
6,940,000	Government of Ghana, 19.00%, 11/02/2026#	934	0.53
2,180,000	Government of Ghana, 19.75%, 3/25/2024#	304	0.17
180,000	Government of Ghana, 21.00%, 3/23/2020#	26	0.02
1,880,000	Government of Ghana, 24.50%, 4/22/2019#	264	0.15
620,000	Government of Ghana, 24.50%, 5/27/2019#	87	0.05
11,040,000	Government of Ghana, 24.50%, 6/21/2021#	1,671	0.95
100,000	Government of Ghana, 24.75%, 3/01/2021#	15	0.01
8,000,000	Government of Ghana, 24.75%, 7/19/2021#	1,218	0.69
6,240,000	Government of Ghana, senior bond, 19.75%, 3/15/2032#	825	0.47
250,000	Government of Ghana, senior note, 16.25%, 4/07/2025#	31	0.02
50,000	Government of Ghana, senior note, 16.50%, 3/22/2021#	7	0.00
570,000	Government of Ghana, senior note, 18.25%, 9/21/2020#	79	0.05
1,500,000	Government of Ghana, senior note, 18.25%, 7/25/2022#	202	0.11
980,000	Government of Ghana, senior note, 18.50%, 6/01/2020#	136	0.08
260,000	Government of Ghana, senior note, 21.50%, 3/09/2020#	37	0.02
9,540,000	Government of Ghana, senior note, 24.00%, 11/23/2020#	1,411	0.80
		7,889	4.48
	KENYA		
1,971,000	Government of Kenya, senior note, Reg S, 6.875%, 6/24/2024#	1,552	0.88

TEMPLETON GLOBAL TOTAL RETURN BOND FUND

Portfolio Statement as at 31 March 2019 (continued)

(Currency – GBP)

Number of Shares or Face Value	Description	Market Value £000	% of Net Assets
SOUTH AFRICA			
943,421	K2016470219 South Africa Ltd., senior secured note, Reg S, PIK, 3.00%, 12/31/2022#	1	0.00
397,575	K2016470219 South Africa Ltd., senior secured note, Reg S, PIK, 8.00%, 12/31/2022#	3	0.00
243,462	K2016470260 South Africa Ltd., senior secured note, Reg S, PIK, 25.00%, 12/31/2022#	8	0.01
		<u>12</u>	<u>0.01</u>
	TOTAL - AFRICA	<u>9,453</u>	<u>5.37</u>
ASIA 33.09% (34.84%)			
INDIA			
770,000,000	Government of India, senior bond, 8.24%, 2/15/2027#	8,921	5.06
920,000,000	Government of India, senior bond, 8.33%, 7/09/2026#	10,759	6.11
480,000,000	Government of India, senior note, 6.79%, 5/15/2027#	5,115	2.90
		<u>24,795</u>	<u>14.07</u>
INDONESIA			
1,225,000,000	Government of Indonesia, senior bond, FR39, 11.75%, 8/15/2023#	77	0.05
350,000,000	Government of Indonesia, senior bond, FR40, 11.00%, 9/15/2025#	22	0.01
8,059,000,000	Government of Indonesia, senior bond, FR42, 10.25%, 7/15/2027#	499	0.28
306,000,000	Government of Indonesia, senior bond, FR43, 10.25%, 7/15/2022#	18	0.01
733,000,000	Government of Indonesia, senior bond, FR44, 10.00%, 9/15/2024#	44	0.03
9,760,000,000	Government of Indonesia, senior bond, FR46, 9.50%, 7/15/2023#	570	0.32
11,684,000,000	Government of Indonesia, senior bond, FR53, 8.25%, 7/15/2021#	648	0.37
163,595,000,000	Government of Indonesia, senior bond, FR56, 8.375%, 9/15/2026#	9,199	5.22
5,860,000,000	Government of Indonesia, senior bond, FR61, 7.00%, 5/15/2022#	316	0.18
7,296,000,000	Government of Indonesia, senior bond, FR63, 5.625%, 5/15/2023#	373	0.21
81,136,000,000	Government of Indonesia, senior bond, FR70, 8.375%, 3/15/2024#	4,575	2.60
		<u>16,341</u>	<u>9.28</u>
PHILIPPINES			
9,040,000	Government of the Philippines, senior note, 3.375%, 8/20/2020#	128	0.07
99,310,000	Government of the Philippines, senior note, 7-56, 3.875%, 11/22/2019#	1,433	0.82
		<u>1,561</u>	<u>0.89</u>
SOUTH KOREA			
5,340,800,000	Korea Treasury Bond, senior bond, 4.25%, 6/10/2021#	3,799	2.16
3,029,100,000	Korea Treasury Bond, senior note, 2.00%, 3/10/2021#	2,054	1.16
		<u>5,853</u>	<u>3.32</u>
THAILAND			
26,300,000	Bank of Thailand Bill, 5/23/2019#	635	0.36
10,958,000	Bank of Thailand Bill, 8/15/2019#	264	0.15
13,872,000	Bank of Thailand Bill, 9/05/2019#	333	0.19
165,810,000	Bank of Thailand Bond, senior note, 1.49%, 8/28/2019#	4,006	2.27
82,917,000	Bank of Thailand Bond, senior note, 1.77%, 3/27/2020#	2,004	1.14
94,619,000	Bank of Thailand Bond, senior note, 1.95%, 11/26/2020#	2,291	1.30
8,905,000	Government of Thailand, senior bond, 3.875%, 6/13/2019#	216	0.12
		<u>9,749</u>	<u>5.53</u>
	TOTAL - ASIA	<u>58,299</u>	<u>33.09</u>

TEMPLETON GLOBAL TOTAL RETURN BOND FUND

Portfolio Statement as at 31 March 2019 (continued)

(Currency – GBP)

Number of Shares or Face Value	Description	Market Value £000	% of Net Assets
	CENTRAL AMERICA 18.87% (17.61%)		
	MEXICO		
23,800	Government of Mexico, senior bond, 6.50%, 6/09/2022#	91	0.05
35,700	Government of Mexico, senior bond, 8.00%, 12/07/2023#	142	0.08
570,200	Government of Mexico, senior bond, M, 6.50%, 6/10/2021#	2,197	1.25
395,100	Government of Mexico, senior bond, M, 8.00%, 6/11/2020#	1,567	0.89
14,400	Government of Mexico, senior bond, M 20, 10.00%, 12/05/2024#	62	0.04
3,651,500	Government of Mexico, senior note, M, 5.00%, 12/11/2019#	14,150	8.03
121,000	Government of Mexico, senior note, M, 7.25%, 12/09/2021#	472	0.27
19,089	Mexican Udibonos, Index Linked, 2.50%, 12/10/2020#	74	0.04
24,158	Mexican Udibonos, Index Linked, 4.00%, 6/13/2019#	95	0.05
392,950	Mexico Treasury Bill, 4/25/2019#	155	0.09
12,775,240	Mexico Treasury Bill, 5/23/2019#	8,517	4.83
2,648,330	Mexico Treasury Bill, 6/06/2019#	1,032	0.59
3,698,340	Mexico Treasury Bill, 7/04/2019#	1,432	0.81
1,034,550	Mexico Treasury Bill, 7/18/2019#	399	0.23
104,730	Mexico Treasury Bill, 8/01/2019#	40	0.02
993,120	Mexico Treasury Bill, 11/07/2019#	374	0.21
4,442,350	Mexico Treasury Bill, 1/02/2020#	1,653	0.94
2,148,940	Mexico Treasury Bill, 2/27/2020#	790	0.45
	TOTAL - CENTRAL AMERICA	33,242	18.87
	EUROPE - NON EU 0.50% (0.79%)		
	UKRAINE		
1,819,000	Government of Ukraine, Reg S, VRI, GDP Linked Security, 5/31/2040#	889	0.50
	TOTAL EUROPE - NON EU	889	0.50
	NORTH AMERICA 0.00% (0.76%)		
	UNITED STATES		
75,000	NewPage Corp., Escrow Account, 11.375%, 12/31/2014#*‡	0	0.00
	TOTAL - NORTH AMERICA	0	0.00
	SOUTH AMERICA 24.31% (26.72%)		
	ARGENTINA		
11,552,000	Argentina Treasury Bill, 4/30/2019#	254	0.14
10,369,000	Argentina Treasury Bill, 5/10/2019#	188	0.11
38,637,000	Argentina Treasury Bill, 5/31/2019#	818	0.46
23,143,000	Argentina Treasury Bill, 6/28/2019#	450	0.26
151,276,000	Argentina Treasury Bill, 9/30/2019#	3,238	1.84
92,605,000	Argentina Treasury Bill, 10/31/2019#	1,899	1.08
471,000	Argentina Treasury Bill, 2/28/2020#	8	0.00
1,885,000	Argentina Treasury Bill, Strip, 4/30/2020#	37	0.02
6,599,000	Argentina Treasury Bill, Strip, 7/31/2020#	112	0.06
172,943,100	Argentine Bonos del Tesoro, 16.00%, 10/17/2023#	2,254	1.28
116,618,000	Argentine Bonos del Tesoro, 18.20%, 10/03/2021#	1,487	0.84
305,215,900	Argentine Bonos del Tesoro, senior note, 15.50%, 10/17/2026#	3,747	2.13
1,450,000	Government of Argentina, FRN, 42.819%, 6/21/2020#•	28	0.02
543,000	Government of Argentina, Index Linked, 4.00%, 3/06/2020#	14	0.01
		14,534	8.25
	BRAZIL		
35,535	Brazil Notas do Tesouro Nacional, 10.00%, 1/01/2021#	7,269	4.12
21,854	Brazil Notas do Tesouro Nacional, 10.00%, 1/01/2023#	4,522	2.57
14,256	Brazil Notas do Tesouro Nacional, 10.00%, 1/01/2025#	2,963	1.68
340	Brazil Notas do Tesouro Nacional, 10.00%, 1/01/2027#	71	0.04
28,550	Letra Tesouro Nacional, Strip, 7/01/2019#	5,510	3.13
22,800	Letra Tesouro Nacional, Strip, 7/01/2020#	4,117	2.34
630	Letra Tesouro Nacional, Strip, 7/01/2021#	105	0.06
		24,557	13.94

TEMPLETON GLOBAL TOTAL RETURN BOND FUND

Portfolio Statement as at 31 March 2019 (continued)

(Currency – GBP)

Number of Shares or Face Value	Description	Market Value £000	% of Net Assets
	COLOMBIA		
111,000,000	Government of Colombia, senior bond, 4.375%, 3/21/2023#	26	0.01
1,650,000,000	Government of Colombia, senior bond, 7.75%, 4/14/2021#	415	0.23
176,000,000	Government of Colombia, senior bond, 9.85%, 6/28/2027#	52	0.03
1,649,000,000	Titulos de Tesoreria, senior bond, B, 7.00%, 5/04/2022#	416	0.24
2,822,700,000	Titulos de Tesoreria, senior bond, B, 7.50%, 8/26/2026#	734	0.42
7,305,000,000	Titulos de Tesoreria, senior bond, B, 10.00%, 7/24/2024#	2,093	1.19
		<u>3,736</u>	<u>2.12</u>
	TOTAL - SOUTH AMERICA	42,827	24.31
	TOTAL - BONDS	144,710	82.14
	DERIVATIVES (2.10)% ((1.44)%)		
	FORWARD CURRENCY CONTRACTS Ω		
	Buy MXN 205,526,788 & Sell USD 9,951,907, 5/06/2019	441	0.25
	Buy USD 4,705,248 & Sell EUR 4,074,471, 4/11/2019	99	0.06
	Buy USD 5,735,225 & Sell EUR 4,985,808, 5/02/2019	96	0.05
	Buy USD 5,328,523 & Sell EUR 4,636,240, 4/23/2019	89	0.05
	Buy USD 4,728,793 & Sell EUR 4,115,000, 4/23/2019	78	0.04
	Buy USD 3,448,924 & Sell EUR 2,982,190, 4/15/2019	75	0.04
	Buy USD 3,056,435 & Sell JPY 328,800,000, 4/09/2019	66	0.04
	Buy USD 4,050,314 & Sell JPY 439,165,378, 4/08/2019	64	0.04
	Buy USD 4,479,466 & Sell EUR 3,912,300, 4/24/2019	62	0.04
	Buy USD 3,032,416 & Sell JPY 327,000,000, 4/10/2019	60	0.03
	Buy USD 3,045,488 & Sell JPY 328,800,000, 4/11/2019	57	0.03
	Buy USD 4,566,339 & Sell AUD 6,338,000, 4/15/2019	50	0.03
	Buy USD 4,489,713 & Sell AUD 6,234,500, 4/23/2019	47	0.03
	Buy USD 5,815,411 & Sell EUR 5,112,000, 5/15/2019	43	0.02
	Buy USD 4,307,915 & Sell JPY 470,000,000, 4/25/2019	43	0.02
	Buy USD 1,659,433 & Sell EUR 1,429,375, 4/15/2019	41	0.02
	Buy USD 5,526,207 & Sell EUR 4,856,240, 5/21/2019	40	0.02
	Buy USD 10,573,453 & Sell MXN 205,526,788, 5/06/2019	35	0.02
	Buy USD 2,161,448 & Sell KRW 2,411,203,317, 4/10/2019	32	0.02
	Buy USD 4,962,937 & Sell EUR 4,357,800, 6/18/2019	30	0.02
	Buy USD 4,177,527 & Sell EUR 3,674,409, 5/20/2019	28	0.02
	Buy USD 1,379,227 & Sell JPY 148,580,000, 4/16/2019	28	0.02
	Buy USD 4,466,271 & Sell AUD 6,234,500, 5/22/2019	27	0.02
	Buy USD 1,795,548 & Sell JPY 194,960,640, 4/08/2019	27	0.02
	Buy USD 1,217,560 & Sell EUR 1,053,426, 4/09/2019	26	0.02
	Buy USD 3,395,329 & Sell EUR 2,984,668, 5/20/2019	24	0.01
	Buy USD 2,531,388 & Sell EUR 2,220,603, 5/21/2019	22	0.01
	Buy USD 1,229,784 & Sell EUR 1,068,179, 4/30/2019	21	0.01
	Buy USD 1,126,508 & Sell EUR 980,186, 4/08/2019	20	0.01
	Buy USD 1,106,584 & Sell EUR 961,678, 4/30/2019	19	0.01
	Buy MXN 19,704,000 & Sell USD 975,759, 7/08/2019	18	0.01
	Buy USD 2,769,933 & Sell EUR 2,438,515, 5/20/2019	17	0.01
	Buy USD 3,327,462 & Sell EUR 2,932,705, 5/21/2019	17	0.01
	Buy USD 996,103 & Sell EUR 867,067, 4/23/2019	16	0.01
	Buy USD 2,388,245 & Sell KRW 2,690,000,000, 5/16/2019	16	0.01
	Buy USD 2,115,952 & Sell KRW 2,379,387,773, 5/28/2019	16	0.01
	Buy USD 1,208,495 & Sell EUR 1,053,426, 6/05/2019	15	0.01
	Buy USD 993,706 & Sell EUR 867,938, 4/25/2019	14	0.01
	Buy USD 1,099,991 & Sell EUR 961,678, 4/29/2019	14	0.01
	Buy USD 891,750 & Sell EUR 778,345, 4/25/2019	13	0.01
	Buy USD 1,051,092 & Sell EUR 916,000, 6/04/2019	13	0.01
	Buy USD 1,873,437 & Sell JPY 205,316,000, 4/26/2019	12	0.01
	Buy USD 604,346 & Sell EUR 524,431, 4/30/2019	11	0.01
	Buy USD 1,699,858 & Sell EUR 1,492,334, 6/18/2019	11	0.01
	Buy USD 780,229 & Sell EUR 682,000, 4/24/2019	10	0.01
	Buy USD 494,762 & Sell JPY 53,368,000, 4/10/2019	10	0.01
	Buy USD 988,492 & Sell EUR 866,855, 5/21/2019	9	0.01
	Buy USD 807,473 & Sell EUR 705,550, 5/28/2019	9	0.01
	Buy USD 752,272 & Sell EUR 656,000, 6/03/2019	9	0.01
	Buy USD 920,020 & Sell EUR 809,243, 4/08/2019	9	0.01

TEMPLETON GLOBAL TOTAL RETURN BOND FUND

Portfolio Statement as at 31 March 2019 (continued)

(Currency – GBP)

Number of Shares or Face Value	Description	Market Value £000	% of Net Assets
	FORWARD CURRENCY CONTRACTS Ω (continued)		
	Buy USD 999,631 & Sell EUR 866,855, 9/23/2019	9	0.01
	Buy USD 1,422,324 & Sell INR 99,136,000, 7/05/2019	9	0.01
	Buy USD 2,780,070 & Sell JPY 305,374,000, 5/28/2019	9	0.01
	Buy USD 807,516 & Sell AUD 1,123,000, 4/15/2019	8	0.00
	Buy USD 924,370 & Sell EUR 809,757, 6/07/2019	8	0.00
	Buy USD 1,075,409 & Sell EUR 943,614, 6/07/2019	8	0.00
	Buy MXN 3,871,000 & Sell USD 187,821, 6/14/2019	7	0.00
	Buy USD 1,274,672 & Sell INR 88,786,000, 6/20/2019	7	0.00
	Buy USD 898,891 & Sell KRW 1,007,612,227, 8/26/2019	7	0.00
	Buy USD 429,374 & Sell EUR 375,161, 4/25/2019	6	0.00
	Buy USD 367,041 & Sell EUR 319,458, 4/29/2019	6	0.00
	Buy USD 636,663 & Sell EUR 556,993, 5/28/2019	6	0.00
	Buy USD 610,384 & Sell EUR 534,089, 5/28/2019	6	0.00
	Buy USD 3,357,961 & Sell EUR 2,982,190, 4/12/2019	6	0.00
	Buy USD 1,046,725 & Sell INR 72,941,000, 6/20/2019	6	0.00
	Buy USD 1,296,692 & Sell JPY 142,248,425, 5/21/2019	6	0.00
	Buy USD 2,471,301 & Sell JPY 271,490,000, 6/03/2019	6	0.00
	Buy USD 219,583 & Sell EUR 190,000, 4/16/2019	5	0.00
	Buy USD 347,431 & Sell EUR 302,450, 4/29/2019	5	0.00
	Buy USD 501,360 & Sell EUR 439,000, 5/21/2019	5	0.00
	Buy USD 1,199,814 & Sell AUD 1,681,000, 5/21/2019	4	0.00
	Buy USD 187,250 & Sell EUR 161,869, 4/15/2019	4	0.00
	Buy USD 267,167 & Sell EUR 232,250, 4/30/2019	4	0.00
	Buy USD 316,595 & Sell EUR 275,650, 6/05/2019	4	0.00
	Buy USD 1,204,917 & Sell EUR 1,068,236, 4/15/2019	4	0.00
	Buy USD 379,000 & Sell GBP 286,876, 4/25/2019	4	0.00
	Buy USD 1,003,979 & Sell MXN 19,704,000, 7/08/2019	4	0.00
	Buy USD 403,028 & Sell AUD 561,500, 4/11/2019	3	0.00
	Buy USD 149,609 & Sell EUR 129,500, 4/16/2019	3	0.00
	Buy USD 612,812 & Sell EUR 534,089, 9/30/2019	3	0.00
	Buy USD 203,928 & Sell JPY 22,136,636, 4/26/2019	3	0.00
	Buy USD 189,161 & Sell JPY 20,540,000, 4/26/2019	3	0.00
	Buy USD 968,015 & Sell JPY 106,366,900, 5/21/2019	3	0.00
	Buy USD 1,167,428 & Sell JPY 128,348,220, 5/21/2019	3	0.00
	Buy USD 2,907,427 & Sell AUD 4,088,000, 5/15/2019	2	0.00
	Buy USD 143,023 & Sell EUR 124,875, 4/04/2019	2	0.00
	Buy USD 80,730 & Sell EUR 70,000, 4/11/2019	2	0.00
	Buy USD 95,367 & Sell EUR 83,000, 4/17/2019	2	0.00
	Buy USD 215,545 & Sell EUR 189,000, 5/21/2019	2	0.00
	Buy USD 143,234 & Sell EUR 124,875, 6/04/2019	2	0.00
	Buy USD 793,679 & Sell JPY 87,240,000, 5/28/2019	2	0.00
	Buy USD 199,503 & Sell MXN 3,871,000, 6/14/2019	2	0.00
	Buy USD 142,223 & Sell AUD 199,150, 4/09/2019	1	0.00
	Buy USD 944,004 & Sell AUD 1,327,107, 5/15/2019	1	0.00
	Buy USD 142,372 & Sell AUD 199,150, 6/03/2019	1	0.00
	Buy USD 39,271 & Sell EUR 34,118, 4/30/2019	1	0.00
	Buy USD 36,832 & Sell EUR 32,000, 4/30/2019	1	0.00
	Buy USD 105,819 & Sell EUR 93,000, 5/14/2019	1	0.00
	Buy USD 598,087 & Sell EUR 529,000, 6/11/2019	1	0.00
	Buy USD 184,350 & Sell EUR 161,869, 6/18/2019	1	0.00
	Buy USD 1,299,068 & Sell INR 91,086,000, 6/19/2019	1	0.00
	Buy USD 46,283 & Sell JPY 5,020,000, 4/26/2019	1	0.00
	Buy USD 355,050 & Sell JPY 39,074,000, 5/15/2019	1	0.00
	Buy USD 238,519 & Sell JPY 26,195,000, 5/21/2019	1	0.00
	Buy USD 787,964 & Sell JPY 86,715,399, 5/31/2019	1	0.00
	Buy USD 256,832 & Sell AUD 362,000, 5/20/2019	0	0.00
	Buy USD 219,444 & Sell AUD 308,000, 5/21/2019	0	0.00
	Buy USD 18,230 & Sell EUR 15,843, 4/30/2019	0	0.00
	Buy USD 18,021 & Sell EUR 16,000, 4/11/2019	0	0.00
	Buy USD 18,454 & Sell EUR 16,157, 9/30/2019	0	0.00
	Buy USD 32,000 & Sell GBP 24,238, 4/25/2019	0	0.00
	Buy USD 718,000 & Sell GBP 550,781, 4/25/2019	0	0.00
	Buy USD 974,352 & Sell JPY 107,843,700, 4/15/2019	0	0.00

TEMPLETON GLOBAL TOTAL RETURN BOND FUND

Portfolio Statement as at 31 March 2019 (continued)

(Currency – GBP)

Number of Shares or Face Value	Description	Market Value £000	% of Net Assets
	FORWARD CURRENCY CONTRACTS Ω (continued)		
	Buy USD 97,684 & Sell JPY 10,750,000, 4/17/2019	0	0.00
	Buy USD 284,304 & Sell JPY 31,414,722, 4/18/2019	0	0.00
	Buy USD 107,208 & Sell JPY 11,800,000, 5/22/2019	0	0.00
	Buy USD 253,376 & Sell JPY 27,870,000, 5/31/2019	0	0.00
	Buy USD 176,020 & Sell JPY 19,464,000, 6/04/2019	0	0.00
	Buy USD 73,777 & Sell JPY 8,169,958, 4/12/2019	0	0.00
	Buy USD 443,966 & Sell JPY 49,200,000, 4/12/2019	0	0.00
	Buy USD 44,817 & Sell JPY 4,943,000, 6/13/2019	0	0.00
	Buy USD 162,457 & Sell JPY 17,970,000, 4/26/2019	0	0.00
	Buy USD 110,791 & Sell JPY 12,231,000, 6/14/2019	0	0.00
	Buy USD 43,057 & Sell JPY 4,800,000, 4/18/2019	0	0.00
	Buy USD 125,706 & Sell JPY 13,901,000, 4/25/2019	0	0.00
	Buy GBP 82,641 & Sell USD 109,000, 4/25/2019	(1)	(0.00)
	Buy GBP 485,270 & Sell USD 634,000, 4/25/2019	(1)	(0.00)
	Buy USD 681,795 & Sell JPY 75,460,000, 4/23/2019	(1)	(0.00)
	Buy USD 176,586 & Sell JPY 19,607,547, 5/07/2019	(1)	(0.00)
	Buy USD 226,783 & Sell JPY 25,250,000, 4/11/2019	(1)	(0.00)
	Buy USD 2,378,297 & Sell JPY 263,350,042, 4/12/2019	(1)	(0.00)
	Buy USD 501,038 & Sell JPY 55,261,000, 6/13/2019	(1)	(0.00)
	Buy USD 282,149 & Sell JPY 31,420,386, 4/18/2019	(1)	(0.00)
	Buy USD 101,566 & Sell JPY 11,310,000, 4/18/2019	(1)	(0.00)
	Buy GBP 203,950 & Sell USD 269,000, 4/25/2019	(2)	(0.00)
	Buy GBP 162,279 & Sell USD 214,000, 4/25/2019	(2)	(0.00)
	Buy USD 87,933 & Sell INR 6,281,000, 4/16/2019	(2)	(0.00)
	Buy USD 564,416 & Sell INR 39,828,000, 6/17/2019	(2)	(0.00)
	Buy USD 671,923 & Sell INR 47,300,000, 6/18/2019	(2)	(0.00)
	Buy GBP 310,908 & Sell USD 410,000, 4/25/2019	(3)	(0.00)
	Buy USD 938,822 & Sell AUD 1,327,107, 5/13/2019	(3)	(0.00)
	Buy USD 358,602 & Sell INR 25,379,000, 6/12/2019	(3)	(0.00)
	Buy USD 1,205,395 & Sell INR 84,902,000, 6/19/2019	(3)	(0.00)
	Buy USD 1,967,889 & Sell JPY 217,990,000, 4/22/2019	(3)	(0.00)
	Buy USD 1,025,521 & Sell JPY 113,758,000, 5/07/2019	(3)	(0.00)
	Buy USD 524,243 & Sell JPY 58,100,000, 6/18/2019	(3)	(0.00)
	Buy USD 940,907 & Sell AUD 1,331,787, 4/15/2019	(4)	(0.00)
	Buy USD 7,517,740 & Sell JPY 829,165,379, 6/04/2019	(4)	(0.00)
	Buy USD 960,050 & Sell JPY 106,409,900, 6/18/2019	(5)	(0.00)
	Buy USD 1,398,979 & Sell INR 98,628,000, 6/14/2019	(6)	(0.00)
	Buy USD 509,597 & Sell JPY 57,104,653, 5/20/2019	(6)	(0.00)
	Buy INR 99,136,000 & Sell USD 1,439,466, 4/04/2019	(7)	(0.00)
	Buy USD 457,437 & Sell INR 32,677,000, 6/12/2019	(7)	(0.00)
	Buy USD 848,487 & Sell INR 60,153,500, 6/14/2019	(7)	(0.00)
	Buy USD 1,283,367 & Sell JPY 142,248,425, 6/18/2019	(7)	(0.00)
	Buy USD 922,140 & Sell INR 65,382,000, 6/11/2019	(8)	(0.00)
	Buy GBP 831,867 & Sell USD 1,097,000, 4/25/2019	(9)	(0.00)
	Buy USD 1,696,699 & Sell INR 119,999,000, 6/17/2019	(10)	(0.01)
	Buy USD 973,363 & Sell INR 69,211,000, 6/12/2019	(10)	(0.01)
	Buy USD 1,659,533 & Sell JPY 184,545,000, 5/21/2019	(10)	(0.01)
	Buy GBP 1,009,312 & Sell USD 1,331,000, 4/25/2019	(11)	(0.01)
	Buy USD 1,366,001 & Sell INR 96,829,000, 6/18/2019	(11)	(0.01)
	Buy USD 1,775,230 & Sell JPY 197,955,000, 4/18/2019	(11)	(0.01)
	Buy USD 2,723,895 & Sell JPY 303,160,000, 4/11/2019	(12)	(0.01)
	Buy GBP 1,248,768 & Sell USD 1,646,000, 4/25/2019	(13)	(0.01)
	Buy USD 980,807 & Sell INR 69,836,366, 4/11/2019	(19)	(0.01)
	Buy USD 4,759,595 & Sell JPY 529,916,592, 4/11/2019	(22)	(0.01)
	Buy USD 1,110,106 & Sell INR 79,800,000, 5/20/2019	(24)	(0.01)
	Buy USD 1,048,448 & Sell INR 76,391,000, 7/22/2019	(27)	(0.01)
	Buy USD 1,173,223 & Sell INR 84,612,000, 5/22/2019	(28)	(0.02)
	Buy USD 1,370,181 & Sell INR 98,701,000, 6/06/2019	(29)	(0.02)
	Buy USD 1,672,270 & Sell INR 119,880,858, 6/11/2019	(29)	(0.02)
	Buy USD 1,691,059 & Sell INR 120,516,688, 4/15/2019	(33)	(0.02)
	Buy USD 1,627,686 & Sell INR 117,119,300, 6/06/2019	(33)	(0.02)
	Buy USD 1,691,030 & Sell INR 120,623,000, 4/15/2019	(34)	(0.02)
	Buy GBP 3,271,323 & Sell USD 4,313,000, 4/25/2019	(35)	(0.02)

TEMPLETON GLOBAL TOTAL RETURN BOND FUND

Portfolio Statement as at 31 March 2019 (continued)

(Currency – GBP)

Number of Shares or Face Value	Description	Market Value £000	% of Net Assets
	FORWARD CURRENCY CONTRACTS Ω (continued)		
	Buy GBP 3,281,461 & Sell USD 4,327,000, 4/25/2019	(35)	(0.02)
	Buy USD 1,384,968 & Sell INR 99,136,000, 4/04/2019	(35)	(0.02)
	Buy GBP 3,618,705 & Sell USD 4,770,000, 4/25/2019	(38)	(0.02)
	Buy GBP 3,556,130 & Sell USD 4,688,000, 4/25/2019	(38)	(0.02)
	Buy USD 1,619,556 & Sell INR 116,149,700, 4/05/2019	(43)	(0.02)
	Buy USD 2,071,163 & Sell INR 149,277,000, 5/28/2019	(47)	(0.03)
	Buy GBP 5,645,396 & Sell USD 7,446,000, 4/25/2019	(62)	(0.03)
	Buy GBP 12,289,433 & Sell USD 16,201,000, 4/25/2019	(130)	(0.07)
	Buy GBP 20,952,999 & Sell USD 27,625,000, 4/25/2019	(223)	(0.13)
	Buy GBP 20,748,150 & Sell USD 27,361,000, 4/25/2019	(226)	(0.13)
	FOREIGN EXCHANGE GAIN/LOSS ON OUTSTANDING FORWARD CURRENCY CONTRACTS	874	0.50
	INTEREST RATE SWAPS (USD) Ω		
(10,600,000)	Citibank Na, 2.855%, 04/9/2028#	(321)	(0.18)
(17,700,000)	Citibank Na, 2.903%, 04/9/2048#	(939)	(0.53)
(13,440,000)	Citibank NA, 3.209%, 11/21/2048#	(1,401)	(0.80)
(10,450,000)	JPMorgan Chase & Co., 3.848%, 08/22/2043#	(1,910)	(1.09)
	TOTAL INTEREST RATE SWAPS	(4,571)	(2.60)
	TOTAL - DERIVATIVES	(3,697)	(2.10)
	TOTAL VALUE OF INVESTMENTS¥	141,053	80.06
	OTHER ASSETS	35,122	19.94
	TOTAL NET ASSETS	176,175	100.00

The total percentage figures in brackets next to each category heading represent holdings as at 31 March 2018.

* These securities are fair valued by the manager.

‡ These securities are currently in an escrow position. An escrow account is an account established to hold monies pledged and to be used solely for a designed purpose, typically to pay debt service or an outstanding issue in an advance refunding.

• Securities shown as FRNs represent Floating Rate Notes – debt instruments that pay a Floating Rate of interest, usually based on an accepted market benchmark rate such as LIBOR.

Ω Derivative Contract.

¥ Including derivative liabilities.

Traded on an alternative investment market.

TEMPLETON GLOBAL TOTAL RETURN BOND FUND

Statement of Total Return

For the year ended 31 March 2019

	Note	March 2019 £000	March 2019 £000	March 2018 £000	March 2018 £000
Income					
Net capital gains/(losses)	1		(11,743)		(32,061)
Revenue	2	17,724		17,110	
Expenses	3	(1,826)		(2,849)	
Finance costs – interest		(46)		(16)	
Net revenue before taxation		15,852		14,245	
Taxation	4	(576)		(649)	
Net revenue after taxation			15,276		13,596
Total return before distributions for the year			3,533		(18,465)
Distributions	5		(15,400)		(13,596)
Change in net assets attributable to shareholders			(11,867)		(32,061)

Statement of Change in Net Assets Attributable to Shareholders

For the year ended 31 March 2019

	March 2019 £000	March 2019 £000	March 2018 £000	March 2018 £000
Opening net assets attributable to shareholders		241,765		275,051
Amounts received on creation of shares	51,385		91,831	
Amounts paid on cancellation of shares	(112,782)		(100,091)	
		(61,397)		(8,260)
Change in net assets attributable to shareholders from investment activities (see above)		(11,867)		(32,061)
Retained distribution on accumulation shares		7,674		7,035
Closing net assets attributable to shareholders		176,175		241,765

Balance Sheet

As at 31 March 2019

	Note	March 2019 £000	March 2018 £000
Assets			
Fixed assets			
Tangible assets:			
Investment assets		147,012	217,614
Current assets			
Debtors	6	3,415	4,963
Cash and bank balances		34,867	29,441
Total assets		185,294	252,018
Liabilities			
Investment liabilities		(5,959)	(6,708)
Creditors			
Distribution payable	5	(1,662)	(1,672)
Other creditors	7	(1,498)	(1,873)
Total liabilities		(9,119)	(10,253)
Net assets attributable to shareholders		176,175	241,765

TEMPLETON GLOBAL TOTAL RETURN BOND FUND

Notes to the Financial Statements

	March 2019 £000	March 2018 £000
1. Net capital gains/(losses)		
The net capital gains/(losses) during the year comprise:		
Derivative gains/(losses)	5,889	(3,179)
Currency gains/(losses)	1,854	(4,478)
Non-derivative securities gains/(losses)	<u>(19,486)</u>	<u>(24,404)</u>
	(11,743)	(32,061)
2. Revenue		
Revenue from debt securities	17,601	16,856
Bank and other interest	123	251
Other revenue	<u>-</u>	<u>3</u>
	17,724	17,110
3. Expenses		
Payable to the ACD, associates of the ACD and agents of either of them		
ACD's periodic charge	1,429	1,825
ACD's administration charge	<u>101</u>	<u>129</u>
	1,530	1,954
Payable to the Depositary, associates of the Depositary and agents of either of them		
Safe custody fees	138	248
Depositary fees	<u>29</u>	<u>33</u>
	167	281
Other expenses		
Net swap expense	110	586
Audit fees	11	12
Legal and publication fees	5	14
Printing fees	3	4
Expense cap	<u>-</u>	<u>(2)</u>
	129	614
	1,826	2,849

TEMPLETON GLOBAL TOTAL RETURN BOND FUND

Notes to the Financial Statements (continued)

	March 2019 £000	March 2018 £000
4. Taxation		
(a) Analysis of charge in the year		
Irrecoverable overseas tax	452	520
Prior year adjustment in respect of Income tax adjustments on distributions paid	-	127
Overseas capital tax	254	2
Total current tax (note 4(b))	706	649
Current year reversal of timing differences	(130)	(11)
Total deferred tax (note 4(c))	(130)	(11)
Total taxation	576	638
(b) Factors affecting tax charge for the year		
The tax assessed for the year is lower (2018: lower) than the standard rate of corporation tax in the UK for Open Ended Investment Companies (20% (2018: 20%)).		
The differences are explained below:		
Net revenue before taxation	15,852	14,245
Corporate Tax at 20% (2018: 20%)	3,170	2,849
Effects of:		
Adjustment in respect of prior years	-	127
Interest distributions	(3,170)	(2,720)
Irrecoverable overseas tax	452	391
Overseas Capital Tax	254	2
Current tax charge for year (note 4(a))	706	649
(c) Provision for deferred tax		
Current year reversal of timing differences	(130)	(11)
Deferred tax for the year (note 4(a))	(130)	(11)
Open Ended Investment Companies are exempt from tax on capital gains in the UK. Therefore, any capital return is not included within the reconciliation above.		

5. (a) Finance costs		
The distribution takes account of income received on the issue of shares and income deducted on the cancellation of shares, and comprise:		
Interim interest distributions		
Income	5,477	4,844
Accumulation	5,769	5,346
	11,246	10,190
Final interest distributions		
Income	1,662	1,672
Accumulation	1,905	1,689
	3,567	3,361
Add: Income deducted on cancellation of shares	1,127	669
Deduct: Income received on issue of shares	(540)	(624)
Total distribution	15,400	13,596
Interest	46	16
Total finance costs	15,446	13,612
(b) Difference between net revenue and distribution:		
Net revenue after taxation	15,276	13,596
Tax charge taken from capital account	124	-
Net revenue received on share class conversions	-	16
Total distribution for the year	15,400	13,612

Details of the distribution in pence per share for this Fund are set out in the table on pages 239 to 242.

TEMPLETON GLOBAL TOTAL RETURN BOND FUND

Notes to the Financial Statements (continued)

	March 2019 £000	March 2018 £000
6. Debtors		
Accrued income	2,800	3,742
Amounts receivable for issue of shares	556	1,221
Overseas tax recoverable	59	-
	<u>3,415</u>	<u>4,963</u>
7. Other creditors		
Amounts payable on cancellation of shares	741	1,132
Tax payable	311	461
Net swap expense payable*	264	42
Accrued expenses	182	238
	<u>1,498</u>	<u>1,873</u>

*Prior year Debtor (Net accrued interest receivable on interest rate swaps) and prior year Other creditor (Swaps interest payable) have been merged and disclosed as Other creditor (Net swap expense payable).

8. Related parties

During the year, Franklin Templeton Fund Management Limited (“ACD”), a related party, acted primarily in all transactions of the Funds. The aggregate amounts received through issues and cancellations are disclosed in the Statement of Change in Net Assets Attributable to Shareholders.

Amounts charged by the ACD and associates of the ACD in respect of the management and administration fees are disclosed in Note 3.

The amounts due to the ACD and associates of the ACD in respect of management and administration fees at 31 March 2019 are £116,000 (£155,000 as at 31 March 2018).

During the year the Fund received nil (£13,000 for the year to 31 March 2018) in reimbursed expenses from the ACD.

As at 31 March 2019 Templeton Global Advisors Limited (“TGAL”) held 100% (100% as at 31 March 2018) of the shares in issue of Class Y Income.

9. Risk management policies and disclosures

The risks inherent in the Fund’s investment portfolio are as follows:

Market Risk

Currency Risk

An analysis of monetary assets and liabilities (including equity investments), in foreign currencies at the year end is shown below.

Currency	Net foreign currency assets and (liabilities) 31 March 2019			Net foreign currency assets and (liabilities) 31 March 2018		
	Monetary £000	Non-Monetary £000	Total £000	Monetary £000	Non-Monetary £000	Total £000
US dollar	125,194	(2,122)	123,072	140,520	5,051	145,571
Mexican peso	121	33,243	33,364	13,280	42,576	55,856
Brazilian real	353	24,557	24,910	400	32,974	33,374
Indonesian rupiah	55	16,341	16,396	(74)	24,614	24,540
Argentine peso	908	14,534	15,442	1,698	18,027	19,725
Thai baht	23	9,749	9,772	50	17,736	17,786
Ghanaian cedi	813	7,889	8,702	790	12,543	13,333
Columbian peso	401	3,736	4,137	461	13,600	14,061
Philippine peso	72	1,561	1,633	40	2,892	2,932
Indian rupee	(23,814)	24,795	981	23,663	-	23,663
South Korean won	(5,782)	5,853	71	(37,874)	38,988	1,114
Swiss franc	-	33	33	-	-	-
South African rand	-	7	7	-	8	8
Australian dollar	(17,279)	-	(17,279)	(24,771)	-	(24,771)
Japanese yen	(50,673)	-	(50,673)	(88,051)	-	(88,051)
Euro	(72,147)	3	(72,144)	(103,337)	10	(103,327)
Egyptian pound	-	-	-	-	5,088	5,088
	<u>(41,755)</u>	<u>140,179</u>	<u>98,424</u>	<u>(73,205)</u>	<u>214,107</u>	<u>140,902</u>

TEMPLETON GLOBAL TOTAL RETURN BOND FUND

Notes to the Financial Statements (continued)

9. Risk management policies and disclosures (continued)

Interest Rate Risk

Interest rate profile of financial assets and financial liabilities

The tables below detail the interest rate profile of the Fund's assets at the year end

	Floating rate financial assets £000	Fixed rate financial assets £000	Financial assets not carrying interest £000	Total £000
March 2019				
US dollar	(3,683)	1,552	125,203	123,072
UK sterling	-	-	77,751	77,751
Mexican peso	169	18,682	14,513	33,364
Brazilian real	-	14,825	10,085	24,910
Indonesian rupiah	-	16,341	55	16,396
Argentinian peso	28	7,502	7,912	15,442
Thai baht	-	8,518	1,254	9,772
Ghanaian cedi	-	7,889	813	8,702
Colombian peso	-	3,736	401	4,137
Philippine peso	-	1,561	72	1,633
Indian rupee	-	24,795	(23,814)	981
South Korean won	-	5,853	(5,782)	71
Swiss franc	-	-	33	33
South African rand	-	-	7	7
Australian dollar	-	-	(17,279)	(17,279)
Japanese yen	-	-	(50,673)	(50,673)
Euro	-	-	(72,144)	(72,144)
	(3,486)	111,254	68,407	176,175

	Floating rate financial assets £000	Fixed rate financial assets £000	Financial assets not carrying interest £000	Total £000
March 2018				
US dollar	1,641	3,304	140,625	145,570
UK sterling	-	-	100,864	100,864
Mexican peso	161	31,676	24,019	55,856
Brazilian real	17,043	-	16,331	33,374
Indonesian rupiah	-	24,614	(74)	24,540
Indian rupee	-	-	23,663	23,663
Argentinian peso	-	12,881	6,845	19,726
Thai baht	-	17,736	50	17,786
Colombian peso	-	13,600	461	14,061
Ghanaian cedi	-	12,543	790	13,333
Egyptian pound	-	-	5,088	5,088
Philippine peso	-	2,892	40	2,932
South Korean won	-	38,987	(37,874)	1,113
South African rand	-	-	8	8
Australian dollar	-	-	(24,771)	(24,771)
Japanese yen	-	-	(88,051)	(88,051)
Euro	-	-	(103,327)	(103,327)
	18,845	158,233	64,687	241,765

TEMPLETON GLOBAL TOTAL RETURN BOND FUND

Notes to the Financial Statements (continued)

9. Risk management policies and disclosures (continued) Fixed rate financial assets

	March 2019 Fixed rate weighted average period (years)	March 2019 Fixed rate Weighted average interest rate %	March 2018 Fixed rate weighted average period (years)	March 2018 Fixed rate weighted average interest rate (%)
Argentinian peso	5.6	16.2	5.9	16.1
Brazilian real	3.2	10.0	-	-
Colombian peso	5.2	8.9	8.8	8.0
Ghanaian cedi	3.9	22.2	4.3	22.2
Indian rupee	7.7	8.0	-	-
Indonesian rupiah	6.3	8.4	8.0	8.7
Mexican peso	1.0	5.5	1.2	5.3
Philippine peso	0.7	3.8	1.7	3.9
South Korean won	2.1	3.5	2.5	2.4
Thai baht	0.9	1.7	1.3	1.9
US dollar	5.2	6.9	3.1	4.9

10. Portfolio Transaction Costs

	2019			2018		
	Purchases £000	% Of Purchases	% of Average Net Asset Value	Purchases £000	% Of Purchases	% of Average Net Asset Value
Bond purchases in year before transaction costs	<u>79,004</u>			<u>36,683</u>		
Total Bonds purchases in the year after direct transaction costs	79,004			36,683		

	2019			2018		
	Sales £000	% Of Sales	% of Average Net Asset Value	Sales £000	% Of Sales	% of Average Net Asset Value
Bond sales in year before transaction costs	<u>96,841</u>			<u>35,347</u>		
Total Bond sales in the year after direct transaction costs	96,841			35,347		

In pursuance of its investment objectives the Fund incurs commissions, taxes and other charges when buying and selling investment securities. Share dealing generally incurs broker commission and Stamp duty and these are paid by the Fund on each transaction where appropriate.

In addition, there is a dealing spread between the buying and selling prices of the underlying investments. The average dealing spread which is the difference between the quoted bid and offer prices or internal administrative or holding costs, are not included in the calculation of Direct Transaction Costs. As at 31 March 2019, the average dealing spread for the underlying Fund investments is 0.37% (2018: 0.26%).

Comparing portfolio transaction costs for a range of funds may give a misleading impression of the relative costs of investing in those funds for the following reasons:

- Historic transaction costs are not an effective indicator of the future impact on performance as it may vary from year to year depending on the investment manager;
- Transaction costs for buying and selling investments due to shareholder activity on the fund are recovered from those investors; and
- Transaction costs will vary depending on the types of securities the fund is investing.

TEMPLETON GLOBAL TOTAL RETURN BOND FUND

Notes to the Financial Statements (continued)

11. Creations and Cancellations of Shares

	A–Income shares	A–Income Hedge shares	A–Accumulation shares	A–Accumulation Hedge shares	W–Income shares	W–Income Hedge shares
Opening Shares	1,717,265	2,051,212	1,792,410	11,717,134	38,328,695	77,068,998
Creations	245,847	190,988	159,016	619,068	8,720,484	22,530,104
Cancellations	(442,672)	(1,186,522)	(448,492)	(3,223,403)	(22,171,046)	(39,388,170)
Conversions	(12,323)	-	(9,484)	-	24,704	8,426
Total Closing Shares	1,508,117	1,055,678	1,493,450	9,112,799	24,902,837	60,219,358

	W–Accumulation shares	W–Accumulation Hedge shares	Y–Income shares	Z–Income Hedge shares	Z–Accumulation shares
Opening Shares	77,933,243	11,639,498	2,972	235,456	392,666
Creations	14,162,634	2,758,712	-	44,204	11,794
Cancellations	(36,156,356)	(3,864,303)	-	(6,741)	(133,699)
Conversions	23,280	7,373	-	-	(14,525)
Total Closing Shares	55,962,801	10,541,280	2,972	272,919	256,236

12. Fair Value Disclosure

In accordance with FRS 102 the Fund classifies fair value measurement under the following levels:

Level 1

Unadjusted quoted market prices in active markets for identical securities.

Level 2

Investments (other than quoted prices included within Level 1) whose fair value is based directly on observable current market prices or is indirectly being derived from market prices; and

Level 3

Investments whose fair value is determined using a valuation technique based on assumptions that are not supported by observable current market prices or are not based on observable market data such as security in default or securities valued by Franklin Templeton Fair Valuation Committee.

Fair Value Hierarchy	Assets	Liabilities	Assets	Liabilities
	31 March 2019 £000	31 March 2019 £000	31 March 2018 £000	31 March 2018 £000
Level 1	33	-	-	-
Level 2	146,972	(5,959)	217,560	(6,708)
Level 3	7	-	54	-
Total	147,012	(5,959)	217,614	(6,708)

13. Portfolio Statement by Credit Rating

Standard & Poor's Ratings		Market Value £000	% of Net Assets
March 2019			
High quality	AA	5,854	3.33
Upper medium quality	A	19,067	10.82
Medium grade	BBB	30,558	17.34
Somewhat speculative	BB	24,557	13.95
Low grade, speculative	B	16,234	9.21
Not Rated	Not Rated	48,440	27.49
TOTAL VALUE OF BONDS		144,710	82.14
March 2018			
High quality	AA	30,611	12.65
Upper medium quality	A	34,608	14.32
Medium grade	BBB	41,059	16.99
Somewhat speculative	BB	32,869	13.58
Low grade, speculative	B	27,683	11.45
Not Rated	Not Rated	47,478	19.65
TOTAL VALUE OF BONDS		214,308	88.64

TEMPLETON GLOBAL TOTAL RETURN BOND FUND

Notes to the Financial Statements (continued)

14. Counterparty and Collateral Exposure

Counterparty	Forward currency contracts £000	Interest Rate Swaps £000	Total £000
31 March 2019			
Bank of America	363	-	363
UBS	143	-	143
Goldman Sachs	94	-	94
Deutsche Bank	84	-	84
Standard Chartered	15	-	15
Morgan Stanley	7	-	7
Barclays	(39)	-	(39)
BNP Paribas	(84)	-	(84)
HSBC	(136)	-	(136)
JP Morgan	270	(1,910)	(1,640)
Citi	157	(2,661)	(2,504)
31 March 2018			
Barclays	(338)	1,341	1,003
Bank of America	236	-	236
UBS	39	-	39
Morgan Stanley	(38)	-	(38)
Standard Chartered	(77)	-	(77)
Goldman Sachs	(90)	-	(90)
HSBC	(337)	-	(337)
Deutsche Bank	(365)	-	(365)
Citibank	(565)	-	(565)
JP Morgan	(1,665)	(1,613)	(3,278)

As at 31 March 2019, the Fund: pledged net £7,577,000 of US dollar cash collateral to Deutsche Bank, HSBC, Goldman Sachs and JP Morgan; and held £442,000 of US Treasury Bonds from Bank of America, in respect of its derivative contracts (pledged £4,770,000 of US dollar cash collateral to Citi, Deutsche Bank, Goldman Sachs, HSBC and JP Morgan; and held £1,326,000 of US dollar cash collateral from Bank of America and Barclays as at 31 March 2018).

15. Calculation Method of the Risk Exposure Global exposure using the VaR approach

Market Risk	Limit	Lowest	Highest	Average	Reference portfolio	Model type	Confidence Interval	Holding period	Observation period
March 2019									
Relative VaR	200%	116%	136%	126%	50% Barclays Capital Multiverse Index + 25% Barclays Capital Global High-Yield Index + 12.5% JP Morgan Emerging Markets Bond Index Global (EMBIG) + 12.5% JP Morgan Government Bond Index-Emerging Markets (GBI-EM)	Monte Carlo Simulation	99th Percentile	20-Day	1 Apr 2018 to 31 March 2019
March 2018									
Relative VaR	200%	110%	124%	116%	50% Barclays Capital Multiverse Index + 25% Barclays Capital Global High-Yield Index + 12.5% JP Morgan Emerging Markets Bond Index Global (EMBIG) + 12.5% JP Morgan Government Bond Index-Emerging Markets (GBI-EM)	Monte Carlo Simulation	99th Percentile	20-Day	1 Apr 2017 to 31 March 2018

TEMPLETON GLOBAL TOTAL RETURN BOND FUND

Distribution Statement

For the period 1 April 2018 to 30 June 2018

Group 1 – Shares purchased prior to 1 April 2018

Group 2 – Shares purchased in the period 1 April 2018 to 30 June 2018

	Gross Income p	Equalisation p	30 June 2018 Pence per Share p	30 June 2017 Pence per Share p
A - Income Shares				
Group 1	2.1433	-	2.1433	1.9493
Group 2	1.1508	0.9925	2.1433	1.9493
A - Income Hedge Shares				
Group 1	1.5568	-	1.5568	1.3486
Group 2	0.6124	0.9444	1.5568	1.3486
A - Accumulation Shares				
Group 1	3.0866	-	3.0866	2.6678
Group 2	2.0062	1.0804	3.0866	2.6678
A - Accumulation Hedge Shares				
Group 1	1.8735	-	1.8735	1.5372
Group 2	0.9375	0.9360	1.8735	1.5372
W - Income Shares				
Group 1	1.5719	-	1.5719	1.4660
Group 2	0.8723	0.6996	1.5719	1.4660
W - Income Hedge Shares				
Group 1	1.5812	-	1.5812	1.3890
Group 2	0.8042	0.7770	1.5812	1.3890
W - Accumulation Shares				
Group 1	1.8896	-	1.8896	1.6609
Group 2	1.0564	0.8332	1.8896	1.6609
W - Accumulation Hedge Shares				
Group 1	1.6632	-	1.6632	1.3835
Group 2	1.1095	0.5537	1.6632	1.3835
Y - Income Shares				
Group 1	1.9201	-	1.9201	1.7963
Group 2	1.9201	-	1.9201	1.7963
Z - Income Hedge Shares				
Group 1	1.5426	-	1.5426	1.3426
Group 2	1.5426	-	1.5426	1.3426
Z - Accumulation Shares				
Group 1	3.1087	-	3.1087	2.7123
Group 2	1.4905	1.6182	3.1087	2.7123

TEMPLETON GLOBAL TOTAL RETURN BOND FUND

Distribution Statement (continued)

For the period 1 July 2018 to 30 September 2018

Group 1 - Shares purchased prior to 1 July 2018

Group 2 - Shares purchased in the period 1 July 2018 to 30 September 2018

	Gross Income p	Equalisation p	30 September 2018 Pence per Share p	30 September 2017 Pence per Share p
A - Income Shares				
Group 1	2.5842	-	2.5842	1.8590
Group 2	0.8299	1.7543	2.5842	1.8590
A - Income Hedge Shares				
Group 1	1.7827	-	1.7827	1.2690
Group 2	0.6888	1.0939	1.7827	1.2690
A - Accumulation Shares				
Group 1	3.7873	-	3.7873	2.5583
Group 2	1.1800	2.6073	3.7873	2.5583
A - Accumulation Hedge Shares				
Group 1	2.1769	-	2.1769	1.4604
Group 2	0.9993	1.1776	2.1769	1.4604
W - Income Shares				
Group 1	1.8911	-	1.8911	1.3807
Group 2	0.8460	1.0451	1.8911	1.3807
W - Income Hedge Shares				
Group 1	1.7830	-	1.7830	1.3138
Group 2	0.9320	0.8510	1.7830	1.3138
W - Accumulation Shares				
Group 1	2.2937	-	2.2937	1.5854
Group 2	1.0660	1.2277	2.2937	1.5854
W - Accumulation Hedge Shares				
Group 1	1.9111	-	1.9111	1.3233
Group 2	0.9534	0.9577	1.9111	1.3233
Y - Income Shares				
Group 1	2.2451	-	2.2451	1.7317
Group 2	2.2451	-	2.2451	1.7317
Z - Income Hedge Shares				
Group 1	1.7496	-	1.7496	1.2682
Group 2	1.7496	-	1.7496	1.2682
Z - Accumulation Shares				
Group 1	3.7786	-	3.7786	2.6312
Group 2	0.8468	2.9318	3.7786	2.6312

TEMPLETON GLOBAL TOTAL RETURN BOND FUND

Distribution Statement (continued)

For the period 1 October 2018 to 31 December 2018

Group 1 - Shares purchased prior to 1 October 2018

Group 2 - Shares purchased in the period 1 October 2018 to 31 December 2018

	Gross Income p	Equalisation p	31 December 2018 Pence per Share p	31 December 2017 Pence per Share p
A - Income Shares				
Group 1	3.1788	-	3.1788	1.8498
Group 2	1.8212	1.3576	3.1788	1.8498
A - Income Hedge Shares				
Group 1	2.1608	-	2.1608	1.3100
Group 2	1.2166	0.9442	2.1608	1.3100
A - Accumulation Shares				
Group 1	4.7309	-	4.7309	2.5989
Group 2	1.7296	3.0013	4.7309	2.5989
A - Accumulation Hedge Shares				
Group 1	2.6886	-	2.6886	1.5393
Group 2	0.7206	1.9680	2.6886	1.5393
W - Income Shares				
Group 1	2.2806	-	2.2806	1.3861
Group 2	1.1168	1.1638	2.2806	1.3861
W - Income Hedge Shares				
Group 1	2.1339	-	2.1339	1.3579
Group 2	1.0804	1.0535	2.1339	1.3579
W - Accumulation Shares				
Group 1	2.8265	-	2.8265	1.6122
Group 2	1.2850	1.5415	2.8265	1.6122
W - Accumulation Hedge Shares				
Group 1	2.3329	-	2.3329	1.3900
Group 2	1.0666	1.2663	2.3329	1.3900
Y - Income Shares				
Group 1	2.6916	-	2.6916	1.7240
Group 2	2.6916	-	2.6916	1.7240
Z - Income Hedge Shares				
Group 1	2.1040	-	2.1040	1.3130
Group 2	0.6977	1.4063	2.1040	1.3130
Z - Accumulation Shares				
Group 1	4.6849	-	4.6849	2.6321
Group 2	3.5247	1.1602	4.6849	2.6321

TEMPLETON GLOBAL TOTAL RETURN BOND FUND

Distribution Statement (continued)

For the period 1 January 2019 to 31 March 2019

Group 1 – Shares purchased prior to 1 January 2019

Group 2 – Shares purchased in the period 1 January 2019 to 31 March 2019

	Gross Income p	Equalisation p	31 March 2019 Pence per Share p	31 March 2018 Pence per Share p
A - Income Shares				
Group 1	2.7248	-	2.7248	1.8564
Group 2	0.9389	1.7859	2.7248	1.8564
A - Income Hedge Shares				
Group 1	1.8405	-	1.8405	1.3620
Group 2	0.3772	1.4633	1.8405	1.3620
A - Accumulation Shares				
Group 1	4.1434	-	4.1434	2.6394
Group 2	1.8396	2.3038	4.1434	2.6394
A - Accumulation Hedge Shares				
Group 1	2.3438	-	2.3438	1.6187
Group 2	0.6989	1.6449	2.3438	1.6187
W - Income Shares				
Group 1	1.9772	-	1.9772	1.3848
Group 2	0.6278	1.3494	1.9772	1.3848
W - Income Hedge Shares				
Group 1	1.8329	-	1.8329	1.3988
Group 2	0.6371	1.1958	1.8329	1.3988
W - Accumulation Shares				
Group 1	2.5068	-	2.5068	1.6329
Group 2	1.0294	1.4774	2.5068	1.6329
W - Accumulation Hedge Shares				
Group 1	2.0521	-	2.0521	1.4516
Group 2	1.0031	1.0490	2.0521	1.4516
Y - Income Shares				
Group 1	2.3532	-	2.3532	1.7024
Group 2	2.3532	-	2.3532	1.7024
Z - Income Hedge Shares				
Group 1	1.8027	-	1.8027	1.3590
Group 2	1.8027	-	1.8027	1.3590
Z - Accumulation Shares				
Group 1	4.1424	-	4.1424	2.6750
Group 2	3.7139	0.4285	4.1424	2.6750

Equalisation

All shareholders, within each share category, receive the same distribution per share, although the distribution to shareholders who purchased shares during the distribution period (Group 2 holdings) contains an element of equalisation which is a repayment, at an average rate per share, of the amount of accrued net income which was included in the purchase price of such shares. As the nature of this payment is capital it is not subject to income tax but must be deducted from the purchase price in any capital gains tax computation on the sale of the shares.

TEMPLETON GROWTH FUND

Investment Review

Performance

For the 12 months ended 31 March 2019, Templeton Growth Fund (W (acc) shares) returned 2.54%*, while the MSCI All Country World Index (“MSCI ACWI”) rose 11.11%

Overview

The global economy expanded during the 12 months under review, despite weakness in certain regions. Global developed and emerging market stocks were aided by upbeat economic data in some regions, encouraging corporate earnings reports, the U.S. Federal Reserve’s (“Fed”) pivot to a patient approach regarding its monetary policy decisions and optimism about a potential U.S.-China trade deal.

However, various factors weighed on global markets, including concerns about Brexit, political uncertainties in the United States and the European Union (“EU”), the Fed’s interest-rate path, and the European Central Bank’s (“ECB”) unwinding of its bond purchase programme. Markets were also pressured by U.S. trade disputes with China and other trading partners, and their impact on global growth and corporate earnings.

The U.S. economy grew during the year. After accelerating in 2018’s second quarter, U.S. gross domestic product (“GDP”) growth moderated in the next two quarters. In the fourth quarter, growth in consumer spending, business investment, exports and inventory investment was partly offset by declines in housing investment and government spending as well as an increase in imports (a subtraction from GDP calculations). The unemployment rate fluctuated during the year, beginning at 4.0% in March 2018 and ending the period at 3.8%. The annual inflation rate, as measured by the Consumer Price Index, also varied, from a six-year high of 2.9% in summer 2018 to 1.9% in March 2019.

The Fed raised its target range for the federal funds rate by 25 basis points three times during the year, to 2.25%–2.50%, and continued reducing its balance sheet as part of its plan to normalise monetary policy. At its March 2019 meeting, the Fed kept rates unchanged and lowered its forecasts for economic growth in 2019 and 2020.

In Europe, the United Kingdom’s quarterly GDP growth accelerated in 2018’s second and third quarters but moderated in the fourth quarter. The Bank of England raised its key policy rate once during the year. The EU decided to temporarily extend the deadline for the United Kingdom’s departure before the previous date of 29 March, but the UK government had not reached agreement on a course of action by year-end. Meanwhile, the eurozone’s year-on-year GDP growth moderated during 2018 compared to 2017. The bloc’s annual inflation rate varied throughout the 12 months under review but ended the year at the same level as in March 2018. The ECB kept its benchmark interest rate unchanged during the year and concluded its bond purchasing programme at the end of 2018. In March 2019, the ECB mentioned it expected key interest rates to remain unchanged at least through the end of 2019 and announced the launch of a new stimulus measure beginning in September 2019.

In Asia, Japan’s quarterly GDP expanded in 2018’s second quarter, contracted in the third quarter and returned to growth in the fourth quarter. The Bank of Japan kept its benchmark interest rate unchanged during the year and continued its monetary stimulus measures.

In emerging markets, Brazil’s quarterly GDP growth was flat in 2018’s second quarter, accelerated in the third quarter and eased in the fourth quarter. After accelerating in 2018’s second quarter, Russia’s annual GDP growth held steady in 2018’s third quarter and accelerated in the fourth quarter. The Bank of Russia increased its key interest rate twice during the year. China’s quarterly GDP growth moderated in 2018’s third and fourth quarters. The People’s Bank of China left its benchmark interest rate unchanged, but it took measures to improve financial liquidity to mitigate the effects of the trade dispute with the United States and support economic growth.

Significant Changes

During the year under review, we initiated a new position in U.S.-based energy company Exxon Mobil. Exxon is one of the largest energy companies globally. The company has significantly underperformed the sector and the market and no longer looks expensive versus its European peers, in our view. The dividend yield also has been high relative to the market and peers, and management has already announced capital

* Figure differs from comparative table performance due to alternative calculation methodology used.

TEMPLETON GROWTH FUND

Investment Review (continued)

Significant Changes (continued)

expenditure increases, which we believe are discounted in the share price. Oil prices are now above our long-term estimate of marginal cost and, if that holds, we believe earnings for Exxon should rise materially over the next five to seven years. Given its downstream and chemicals exposure, solid balance sheet and dividend yield, we feel Exxon has proven to be a defensive equity in times of market stress. We also opened a new investment in U.S.-based bank Wells Fargo. Wells Fargo is one of the largest and most diversified U.S. banks. We believe Wells Fargo is a self-help story with an outsized opportunity for cost reductions that should help drive return on tangible equity back towards historical levels. The sales-practice scandal provided us an opportunity to buy what we believe is a quality franchise at an unusual peer-discount and near-trough valuations. Additionally, Wells Fargo's balanced business mix, domestic-only exposure, credit discipline and strong balance sheet gives this stock defensive characteristics in its industry. We added to our existing position in German utility E.ON, which owns electricity and gas distribution networks in Germany and across other parts of Europe. E.ON's stock weakened as interest rates rose earlier in the year and pressured utility stocks overall. E.ON also saw pressure from its UK energy services supply business as the industry remained under review by the government due to high energy costs paid by customers. E.ON has succeeded in acquiring German competitor innogy (sold by year-end), and the two utilities are working on an integration that we believe should lead to substantial cost savings and efficiencies over the next five years. We have also added a new position in Sumitomo Mitsui Financial Group, one of the three largest groups of banks in Japan. With operating performance in line with expectations, we believe Sumitomo to be a solid bank operating in a highly competitive low-return banking market and it should benefit from an improved focus on shareholder returns. The stock has remained attractive to us at the valuations at year-end. We added to our existing investment in Standard Chartered, a London-headquartered, emerging-markets-focused bank. Under new leadership, Standard Chartered has been aggressive in de-risking its balance sheet, with a significant reduction in assets deemed beyond new management's risk tolerance. With management having successfully executed on planned strategic actions to reduce risk, control costs and build a stronger balance sheet, the challenge going forward is to grow revenues and profitability. The reinstatement of a dividend in 2017 was a signal that both management and perhaps more importantly regulators are comfortable with the financial position of the bank. The stock remains undervalued in our view and trades at a significant discount to Asian peers.

Over the same year, we exited our investment in U.S.-based Microsoft. The firm develops and markets software, hardware and provides technology-related services such as cloud computing. Fundamentals remain strong, but we estimate the valuation reflects this positive outlook for the next several years. With the multiple elevated, we expect to see some multiple compression. At this point, the risk/reward no longer looked as favourable as it was. We liquidated our investment in Apple. Apple designs, manufactures, and markets consumer electronics hardware and provides services around that hardware. History suggests that technology hardware products tend to commoditise over time as replacement cycles elongate. The recent tax act provided two substantial benefits to Apple, including a lower income tax rate and repatriation of overseas cash. Additional upside was prevalent through the services segment, Apple's highest-margin business, as it continues to grow faster than the installed base. However, the stock remains sensitive to market concerns of the "next new product cycle," and we thus exited the stock. We also closed our position in Advance Auto Parts, one of the largest automotive aftermarket parts retailers in North America. The stock significantly outperformed the broader market and sector during the fourth quarter of 2018. We believe the stock could trade higher given favourable industry dynamics, margin expansion opportunities and share repurchases. However, recent valuations, market expectations and execution risk reduced the risk/reward ratio, and as a result, we sold into strength. We also exited our position in Alphabet, a leading internet media company and a play on the continued shift of advertising to the internet. Our thesis has played out nicely and the stock price performed positively, despite a fourth-quarter decline along with the broader peer group and market. Alphabet and Facebook combined accounted for over 90% of the growth in digital advertising over the past three years. Alphabet shares are trading at fair value and are no longer cheap, in our view. We closed our position in Suncor Energy, the largest integrated oil company in Canada. Suncor is the "best of the best" when it comes to Canadian energy companies (and oil sands in particular), and the market has been recognising this after recent strong performance. The shares looked fairly valued to us and were sold.

Positive/Negative Contributors

The Fund advanced over the year but underperformed its benchmark index. Stock selection and overweighting in the financials sector detracted from relative performance, led lower by bank holdings in Europe such as

TEMPLETON GROWTH FUND

Investment Review (continued)

Positive/Negative Contributors (continued)

BNP Paribas (France), UBS (Switzerland) and Standard Chartered (United Kingdom). We continued gradually repositioning our financials portfolio in 2018 to consolidate and rationalise holdings amidst heightened uncertainty. We believe the divergence between share prices and fundamentals in the European banking sector has been creating select deep value opportunities for long-term contrarian investors. Indeed, the gap between the sector's year-end returns on tangible equity and low tangible book value multiple was the widest in recent memory. Likewise, European banks trade at a vast discount to the broader market that has rarely been exceeded, in our view. Yet, despite depressed valuations, we see fewer excesses and more resiliency in the European banking system today than during past crisis periods. Deep value opportunities have remained, in our view. In the United States, we've been finding fewer bargains recently amongst regional banks and what we view as fully valued big universal banks as valuations expanded, and we have focused instead on opportunities in cheaper universal banks and consumer finance firms with distinct value catalysts. Unhealed scars from the global financial crisis assure that banks will remain an easy target for market bears during periods of rising risk aversion.

Security selection and underweighting in the information technology sector also hampered results. Shares of U.S. telecommunications equipment firm CommScope declined after pricing pressures negatively impacted the company's margins. CommScope has remained a leading global franchise in the solidly growing wireless equipment space (with a #1 or #2 position in most product areas), and recent pricing concessions are likely necessary to win new, long-term business. The shares further declined towards the end of 2018 due to the acquisition of Arris International, which introduces higher operational and financial risk given the step-up in leverage, a sharp departure in strategy. Nevertheless, we believe the deal should be highly earnings-per-share ("EPS") accretive and that the market is undervaluing the growth potential in the core fibre and wireless mobility businesses. More broadly in the sector, we have sold a number of technology holdings that looked fairly valued and subject to risks associated with slowing revenue growth and greater regulatory scrutiny. We warned throughout 2018 that leading internet stocks had become increasingly driven by multiple expansion, not earnings growth, leaving them vulnerable to a share sell-off if sentiment changed or the cycle inflected. That appeared to happen in late 2018, when the sector underperformed dramatically, though tech led the rebound so far in 2019 following a dovish pivot by central bankers who appeared intent on extending the cycle. In the sector, we have avoided expensive, momentum-driven stocks, finding opportunities instead amongst mature, cash-generative software firms developing new growth businesses, as well as hardware companies with restructuring potential and semiconductor manufacturers excessively pressured by supply concerns.

Detractors in the consumer staples sector included U.S. cosmetics firm Coty as its shares ended a volatile period with a significant decline. In the fourth quarter of 2018, its shares slumped after the company announced a profit warning and the departure of both its chief executive officer and chairman. In the first quarter of 2019, however, shares rebounded somewhat following solid fourth-quarter results and European conglomerate JAB's (not a Fund holding) announced plans to increase its stake in the firm to as much as 60%. We believe JAB's tender offer represents a significant vote of confidence in the efforts of Coty's management to turn around the company following the acquisition of Procter & Gamble's (not a Fund holding) beauty business and numerous supply chain disruptions. Overall, however, conditions in the highly competitive cosmetics business remain difficult, and Coty is working to regain lost market share and improve operationally by consolidating production and distribution. We continue to review the stock and monitor developments closely amidst ongoing changes and restructuring. We believe the consumer staples sector again trades at a premium valuation despite low margins, fierce competition and poor pricing power, making value opportunities highly specific and idiosyncratic.

Relative Fund returns were pressured further by security selection in the consumer discretionary sector. Shares of UK-based home improvement retailer Kingfisher continued to struggle amidst investor concern regarding the company's restructuring plan. Although the heat wave in the United Kingdom supported sales of outdoor furniture and leisure products at its B&Q chain, sales in France declined and overall gross margins came in below consensus expectations. In our view, recent valuations largely overlooked Kingfisher's improved competitive landscape, significant self-help initiatives and attractive international exposure. Fuller valuations in the sector have recently led us to sell some holdings and redirect proceeds towards areas that we believe offer more attractive longer-term value. We remain cautious on consumer industries exposed to late-cycle demand dynamics and/or trade war risks, like automotives. We believe opportunities remain in some select retail franchises that can grow in a challenging environment or restructure their operations.

TEMPLETON GROWTH FUND

Investment Review (continued)

Positive/Negative Contributors (continued)

Conversely, stock selection and overweighting in the energy sector contributed to relative performance, led by Canadian oil company Suncor and UK-based oil major BP. As the price of oil rose above our estimate of the marginal cost of demand in early 2018, we began selling into strength the higher beta, price-sensitive oil services stocks and reinvesting the proceeds in large, integrated oil producers with what we viewed as still-modest valuations and high dividend yields. The rise of U.S. shale as the industry's swing producer means that oil market fundamentals are becoming increasingly driven by a highly leveraged, low-intensity production regime functioning in a market-based economy. That means a more rapid supply response to prevailing imbalances and, ultimately, shorter, more volatile cycles. We used oil price weakness in late 2018 to add selectively to what we viewed as undervalued opportunities in the sector. With crude prices up about 30% in first quarter 2019 and a generally balanced market, we believe prices in the US\$60-US\$70 range represent fair value, though we recognise near-term political risks to price stability exist given U.S. President Donald Trump's increasingly vocal criticism of Organization of the Petroleum Exporting Countries ("OPEC"). We still see good value in the integrated oil companies with strong dividends, growing free cash flow and increasing returns, despite their solid performance year-to-date. At the close of the year, crude oil prices extended their recovery from December's 18-month lows, advancing amidst an unexpectedly large U.S. inventory drawdown in late February, non-U.S. output restraint and a further reduction in global supplies. Orchestrated supply cuts led by OPEC and 10 producers outside the oil cartel—plus unplanned losses from Venezuela and Libya on top of dwindling exports from Iran as a result of U.S. sanctions—have eased fears about oversupply and tightened the oil market. We continue to favour a combination of high-quality, cash-generative integrated producers as well as select oilfield services and E&P firms with cyclical upside potential.

The Fund's positioning in the communication services sector also enhanced results, albeit to a lesser extent. In the telecoms industry, we typically have been finding potential opportunities amongst lowly valued firms with strong balance sheets, declining capital intensity and attractive dividends operating in markets with stable competitive dynamics and regulatory structures. Many of these opportunities are in select Asian markets likely to see rising data usage. In a low interest rate, elevated risk environment, telecom stocks should benefit from their defensiveness and yield.

Within the industrials sector, relative returns were supported by the Fund's investment in Danish wind turbine manufacturer Vestas Wind Systems. Its shares surged after the firm maintained full-year guidance in the face of tougher competition, signalling to analysts that management expects a strong finish to the year, and continued an upward trend after full-year results were released. We were encouraged by the stabilisation in pricing and strength in new orders and continue to believe that Vestas is well-positioned to participate in the long-term growth of the wind turbine manufacturing industry. More broadly in the industrials sector, we believe select opportunities exist, particularly amongst companies benefitting from restructuring or exposure to growth-oriented end markets, such as aerospace/defence and industrial automation. We have avoided expensive companies that fail to reflect the maturity of their business cycles or are excessively optimistic about sustainable growth rates and returns. Protectionism is a risk as export-oriented capital goods firms remain at the forefront of trade war rhetoric, though valuations have begun to reflect such concerns.

Other significant contributors over the year included U.S.-based Advance Auto Parts and UK pharmaceuticals firm Shire. Shares of Advance Auto Parts, one of the largest retailers of automotive aftermarket parts in North America, surged after the company posted results that exceeded expectations. We believe these positive results support our investment thesis that management's turnaround plan will lead to higher same-store sales and margin expansion. The outlook for the industry continues to improve, in our view, driven by an ageing U.S. automotive fleet and an increase in miles driven. Shares of Shire, a global biotechnology company focused on neurology, plasma-derived products and treatments for rare diseases, performed better than the overall market in the fourth quarter of 2018 after shareholders on both sides voted to approve Takeda's (also a Fund holding) proposed acquisition of Shire. The proposed acquisition was roughly half cash and half Takeda shares, and Shire shares were delisted, with existing holders receiving Takeda shares. We remained constructive on Shire during the year due to the deal discount that was on offer, and the valuation opportunity that we see in Takeda. The combination of Takeda and Shire creates significant areas of product overlap with ample cost-saving opportunities and attractive earnings growth potential.

In geographic terms, stock selection and underweighting in the United States detracted from relative performance for the year. An overweighting and security selection in Europe also weighed on results, with the Fund's investments in France, the United Kingdom, Germany and Switzerland proving especially detrimental.

TEMPLETON GROWTH FUND

Investment Review (continued)

Positive/Negative Contributors (continued)

Relative returns were depressed further by overweighting and stock selection in Japan and by security selection in Hong Kong. Conversely, stock selection in China supported relative performance over the year. Relative Fund returns were enhanced further by the Fund's investments in select European markets such as Luxembourg, Denmark and Belgium.

Outlook

There are myriad reasons why we believe value is poised for a turnaround. Within global equity markets, the style appears to be thoroughly loathed and generally viewed as incompatible with a low-growth, low-rate environment. On various measures, value has rarely been cheaper or performed worse over a longer period relative to growth. Such indicators suggest we may be approaching the "point of maximum pessimism" for value. The fourth quarter of 2018 offered a glimpse of what an eventual inflection in the market cycle could bring: a dramatic drawdown in U.S.-based technology and growth shares and, conversely, relative resilience in Europe, emerging markets, financials and value stocks. With volatility back to the ultra-low levels witnessed before the fourth-quarter selloff and bond and stock markets sending increasingly divergent signals, we believe risks to stability have risen. Consequently, we have been positioning Templeton's portfolios increasingly defensively as the cycle matures by moving out of richly valued cyclical stocks and reinvesting the proceeds in opportunities that we believe are cheaper and higher quality and offer better risk/reward characteristics. Nevertheless, we accept that we lack short-term visibility into the fluctuations of the cycle. However, we can control how we analyse stocks and manage portfolios. To this end, we have continued to make incremental enhancements to our process in order to construct lower-risk, higher-conviction portfolios suitable for an environment of abnormally strong macroeconomic and geopolitical influence. We believe these efforts, collectively, are bringing us back to the core of the dynamic global value process originally pioneered by Sir John Templeton, which we think can serve our clients well in the uncertain times ahead.

Dylan Ball, Peter Moeschter & Heather Arnold, CFA

Fund Managers

31 March 2019

TEMPLETON GROWTH FUND

Comparative Table

A – Income shares	31 March 2019	31 March 2018	31 March 2017
Change in net assets per share (p)			
Opening net asset value per share	715.75	725.05	559.65
Return before operating charges ¹	23.27	9.05	181.12
Operating charges ²	(11.75)	(11.79)	(10.37)
Return after operating charges* ³	11.52	(2.74)	170.75
Distributions on income shares	(7.4458)	(6.560)	(5.3491)
Closing net asset value per share	719.82	715.75	725.05
*After direct transaction costs of: ⁴	0.52	0.52	0.32
Performance			
Return after charges ⁵	1.61%	(0.38%)	30.51%
Other information			
Closing net asset value (£)	1,329,017	2,524,678	3,404,354
Closing number of shares	184,632	352,732	469,536
Ongoing charges ratio ⁶	1.58%	1.59%	1.60%
Direct transaction costs ⁴	0.07%	0.07%	0.05%
Prices (p)			
Highest share price	801.56	780.77	742.86
Lowest share price	672.51	697.40	541.18

A – Accumulation shares	31 March 2019	31 March 2018	31 March 2017
Change in net assets per share (p)			
Opening net asset value per share	1,082.68	1,087.00	832.11
Return before operating charges ¹	34.77	13.44	270.22
Operating charges ²	(17.83)	(17.76)	(15.33)
Return after operating charges* ³	16.94	(4.32)	254.89
Closing net asset value per share	1,099.62	1,082.68	1,087.00
Retained distributions on accumulation shares	11.2960	9.8252	7.8336
*After direct transaction costs of: ⁴	0.79	0.78	0.48
Performance			
Return after charges ⁵	1.56%	(0.40%)	30.63%
Other information			
Closing net asset value (£)	9,953,699	14,667,199	16,149,329
Closing number of shares	905,194	1,354,709	1,485,677
Ongoing charges ratio ⁶	1.58%	1.59%	1.60%
Direct transaction costs ⁴	0.07%	0.07%	0.05%
Prices (p)			
Highest share price	1,212.49	1,179.64	1,113.29
Lowest share price	1,023.13	1,045.47	804.39

TEMPLETON GROWTH FUND

Comparative Table (continued)

I – Accumulation shares	31 March 2019	31 March 2018	31 March 2017
Change in net assets per share (p)			
Opening net asset value per share	3,564.73	3,553.99	2,701.67
Return before operating charges ¹	113.99	43.37	880.56
Operating charges ²	(32.80)	(32.63)	(28.24)
Return after operating charges* ³	81.19	10.74	852.32
Closing net asset value per share	3,645.92	3,564.73	3,553.99
Retained distributions on accumulation shares	63.3540	57.8178	47.5752
*After direct transaction costs of: ⁴	2.61	2.57	1.57
Performance			
Return after charges ⁵	2.28%	0.30%	31.55%
Other information			
Closing net asset value (£)	197,865,876	208,700,319	208,481,455
Closing number of shares	5,427,054	5,854,589	5,866,123
Ongoing charges ratio ⁶	0.88%	0.89%	0.90%
Direct transaction costs ⁴	0.07%	0.07%	0.05%
Prices (p)			
Highest share price	4,002.08	3,878.45	3,638.80
Lowest share price	3,386.04	3,419.45	2,614.17

W – Accumulation shares	31 March 2019	31 March 2018	31 March 2017
Change in net assets per share (p)			
Opening net asset value per share	223.94	223.15	169.55
Return before operating charges ¹	7.17	2.72	55.27
Operating charges ²	(1.95)	(1.93)	(1.67)
Return after operating charges* ³	5.22	0.79	53.60
Closing net asset value per share	229.16	223.94	223.15
Retained distributions on accumulation shares	4.0975	3.7453	3.0856
*After direct transaction costs of: ⁴	0.16	0.16	0.10
Performance			
Return after charges ⁵	2.33%	0.35%	31.61%
Other information			
Closing net asset value (£)	16,256,686	19,441,355	20,294,104
Closing number of shares	7,094,173	8,681,504	9,094,219
Ongoing charges ratio ⁶	0.83%	0.84%	0.85%
Direct transaction costs ⁴	0.07%	0.07%	0.05%
Prices (p)			
Highest share price	251.46	243.62	228.47
Lowest share price	212.79	214.71	164.07

TEMPLETON GROWTH FUND

Comparative Table (continued)

Z – Accumulation shares	31 March 2019	31 March 2018	31 March 2017
Change in net assets per share (p)			
Opening net asset value per share	221.36	221.03	168.29
Return before operating charges ¹	7.08	2.70	54.87
Operating charges ²	(2.38)	(2.37)	(2.13)
Return after operating charges* ³	4.70	0.33	52.74
Closing net asset value per share	226.06	221.36	221.03
Retained distributions on accumulation shares	3.5855	3.2514	2.6882
*After direct transaction costs of: ⁴	0.16	0.16	0.10
Performance			
Return after charges ⁵	2.12%	0.15%	31.34%
Other information			
Closing net asset value (£)	6,713,778	2,378,928	2,171,693
Closing number of shares	2,969,867	1,074,667	982,534
Ongoing charges ratio ⁶	1.03%	1.04%	1.05%
Direct transaction costs ⁴	0.07%	0.07%	0.05%
Prices (p)			
Highest share price	248.39	240.92	226.33
Lowest share price	210.03	212.64	162.80

1 The "return before operating charges" is calculated as the "return after operating charges" plus the "operating charges".

2 The "operating charges" are calculated with reference to the total expenses for the year divided by the number of shares in issue at each valuation point.

3 The "return after operating charges" is calculated as the "closing net asset value per share" plus the "distributions" (for income share classes only) minus the "opening net asset value per share".

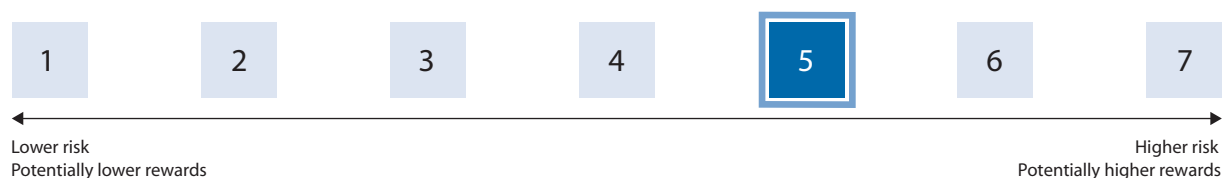
4 The direct transaction costs include all fees and expenses which relate directly to the sales and purchases of securities which include commissions, transfer taxes and duties. Direct transaction costs do not include any difference between the quoted bid and offer prices or internal administrative or holding costs. The "direct transaction costs" ratio is calculated by dividing the total transaction costs by the average net assets.

5 The "return after charges" is calculated as the "return after operating charges" per share divided by the "opening net asset value per share". This figure will differ from "performance return" figure disclosed under "Investment Review" section due to alternative calculation methodology used.

6 The "ongoing charges ratio" represents all operating charges and expenses of the share class in the prior 12 months as a percentage of the share class'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.

Risk Profile (W(acc) - shares)



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.

For a full discussion of all the risks applicable to this Fund, please refer to the "Risk Factors" section of the current prospectus of Franklin Templeton Funds.

TEMPLETON GROWTH FUND

Portfolio Statement as at 31 March 2019

(Currency – GBP)

Number of Shares or Face Value	Description	Market Value £000	% of Net Assets
	EQUITIES 96.82% (96.95%)		
	ASIA 22.03% (19.09%)		
	CHINA		
26,700	Baidu Inc., ADR†	3,377	1.45
657,000	China Life Insurance Co. Ltd., H	1,352	0.58
430,500	China Mobile Ltd.	3,366	1.45
6,372,000	China Telecom Corp. Ltd., H	2,710	1.17
		<u>10,805</u>	<u>4.65</u>
	HONG KONG		
423,500	CK Hutchison Holdings Ltd.	3,414	1.47
	JAPAN		
36,200	Ezaki Glico Co. Ltd.	1,457	0.63
82,300	Kirin Holdings Co. Ltd.	1,504	0.65
175,900	Mitsui Fudosan Co. Ltd.	3,389	1.46
292,100	Panasonic Corp.	1,930	0.83
141,700	Seven & i Holdings Co. Ltd.	4,098	1.77
128,400	Sumitomo Mitsui Financial Group Inc.	3,447	1.48
75,600	Suntory Beverage & Food Ltd.	2,718	1.17
48,900	Taiheiyo Cement Corp.	1,248	0.54
107,512	Takeda Pharmaceutical Co. Ltd.	3,365	1.45
		<u>23,156</u>	<u>9.98</u>
	SINGAPORE		
1,788,298	Singapore Telecommunications Ltd.	3,059	1.32
	SOUTH KOREA		
37,700	KB Financial Group Inc., ADR†	1,072	0.46
161,415	Samsung Electronics Co. Ltd.	4,856	2.09
		<u>5,928</u>	<u>2.55</u>
	TAIWAN		
85,411	Taiwan Semiconductor Manufacturing Co. Ltd., ADR†	2,685	1.16
	THAILAND		
401,400	Bangkok Bank PCL, fgn.	2,098	0.90
	TOTAL - ASIA	<u>51,145</u>	<u>22.03</u>
	EUROPE - NON EU 5.92% (4.21%)		
	NORWAY		
71,049	Yara International ASA	2,230	0.96
	SWITZERLAND		
40,569	Novartis AG	2,996	1.29
24,094	Roche Holding AG	5,093	2.20
366,440	UBS Group AG	3,410	1.47
		<u>11,499</u>	<u>4.96</u>
	TOTAL EUROPE - NON EU	<u>13,729</u>	<u>5.92</u>
	EUROPE - OTHER EU 29.54% (24.99%)		
	DENMARK		
2,019	A.P. Moeller-Maersk AS, B	1,962	0.84
53,240	Vestas Wind Systems AS	3,431	1.48
		<u>5,393</u>	<u>2.32</u>

TEMPLETON GROWTH FUND

Portfolio Statement as at 31 March 2019 (continued)

(Currency – GBP)

Number of Shares or Face Value	Description	Market Value £000	% of Net Assets
FRANCE			
178,237	AXA SA	3,442	1.48
114,847	BNP Paribas SA	4,214	1.82
27,557	Cie Generale des Etablissements Michelin SCA	2,495	1.07
76,051	Compagnie de Saint-Gobain	2,116	0.91
150,534	Credit Agricole SA	1,396	0.60
70,100	Sanofi	4,751	2.05
95,315	Total SA	4,065	1.75
240,726	Veolia Environnement SA	4,132	1.78
		<u>26,611</u>	<u>11.46</u>
GERMANY			
57,991	Bayer AG	2,867	1.23
183,003	Deutsche Telekom AG	2,333	1.00
488,459	E.ON SE	4,172	1.80
21,692	Fresenius Medical Care AG & Co. KGaA	1,341	0.58
33,041	Merck KGaA	2,882	1.24
38,174	Siemens AG	3,150	1.36
		<u>16,745</u>	<u>7.21</u>
IRISH REPUBLIC			
294,644	Bank of Ireland Group PLC	1,348	0.58
124,927	CRH PLC	2,965	1.28
		<u>4,313</u>	<u>1.86</u>
ITALY			
356,758	Eni SpA	4,823	2.08
243,375	Tenaris SA	2,621	1.13
		<u>7,444</u>	<u>3.21</u>
LUXEMBOURG			
75,658	SES SA, IDR	900	0.39
NETHERLANDS			
435,042	ING Groep NV	4,036	1.74
46,200	NXP Semiconductors NV	3,134	1.35
		<u>7,170</u>	<u>3.09</u>
TOTAL - EUROPE - OTHER EU		<u>68,576</u>	<u>29.54</u>
MIDDLE EAST 1.12% (0.85%)			
ISRAEL			
216,501	Teva Pharmaceutical Industries Ltd., ADR†	2,604	1.12
TOTAL - MIDDLE EAST		<u>2,604</u>	<u>1.12</u>
NORTH AMERICA 25.82% (34.42%)			
CANADA			
223,300	Alamos Gold Inc., A	871	0.38
UNITED STATES			
38,554	Allergan PLC	4,332	1.87
102,100	Ally Financial Inc.	2,154	0.93
16,247	Amgen Inc.	2,368	1.02
98,260	Apache Corp.	2,615	1.13
52,430	Capital One Financial Corp.	3,287	1.41
98,650	Citigroup Inc.	4,713	2.03
101,066	Comcast Corp., A	3,100	1.33
104,100	CommScope Holding Co. Inc.	1,737	0.75
17,920	Eastman Chemical Co.	1,044	0.45
81,100	Exxon Mobil Corp.	5,029	2.17
72,870	Gilead Sciences Inc.	3,637	1.57
55,100	Kellogg Co.	2,427	1.04
18,310	LyondellBasell Industries NV, A	1,182	0.51

TEMPLETON GROWTH FUND

Portfolio Statement as at 31 March 2019 (continued)

(Currency – GBP)

Number of Shares or Face Value	Description	Market Value £000	% of Net Assets
	UNITED STATES (continued)		
129,500	Oracle Corp.	5,339	2.30
68,400	Tapestry Inc.	1,705	0.73
156,900	The Kroger Co.	2,964	1.28
45,700	United Parcel Service Inc., B	3,920	1.69
73,120	Walgreens Boots Alliance Inc.	3,550	1.53
106,600	Wells Fargo & Co.	3,954	1.70
		<u>59,057</u>	<u>25.44</u>
	TOTAL - NORTH AMERICA	<u>59,928</u>	<u>25.82</u>
	UNITED KINGDOM 12.39% (13.39%)		
489,150	BAE Systems PLC	2,359	1.02
1,184,397	BP PLC	6,614	2.85
511,557	HSBC Holdings PLC	3,196	1.38
1,275,438	Kingfisher PLC	2,994	1.29
79,443	Prudential PLC	1,221	0.53
178,972	Royal Dutch Shell PLC, A	4,318	1.86
810,400	Standard Chartered PLC	4,792	2.06
2,329,192	Vodafone Group PLC	3,254	1.40
	TOTAL - UNITED KINGDOM	<u>28,748</u>	<u>12.39</u>
	TOTAL - EQUITIES	<u>224,730</u>	<u>96.82</u>
	TOTAL VALUE OF INVESTMENTS	<u>224,730</u>	<u>96.82</u>
	OTHER ASSETS	<u>7,389</u>	<u>3.18</u>
	TOTAL NET ASSETS	<u>232,119</u>	<u>100.00</u>

The total percentage figures in brackets next to each category heading represent holdings as at 31 March 2018.

Unless otherwise stated the above securities are ordinary shares or common stock and admitted to official stock exchange listings.

† American Depositary Receipt.

TEMPLETON GROWTH FUND

Statement of Total Return

For the year ended 31 March 2019

	Note	March 2019 £000	March 2019 £000	March 2018 £000	March 2018 £000
Income					
Net capital gains/(losses)	1		1,713		(3,198)
Revenue	2	7,112		6,676	
Expenses	3	(2,310)		(2,393)	
Net revenue before taxation		4,802		4,283	
Taxation	4	(641)		(350)	
Net revenue after taxation			4,161		3,933
Total return before distributions for the year			5,874		735
Distributions	5		(4,175)		(3,934)
Change in net assets attributable to shareholders			1,699		(3,199)

Statement of Change in Net Assets Attributable to Shareholders

For the year ended 31 March 2019

	March 2019 £000	March 2019 £000	March 2018 £000	March 2018 £000
Opening net assets attributable to shareholders		247,713		250,724
Amounts received on creation of shares	3,274		2,018	
Amounts paid on cancellation of shares	(24,602)		(5,721)	
		(21,328)		(3,703)
Change in net assets attributable to shareholders from investment activities (see above)		1,699		(3,199)
Retained distribution on accumulation shares		4,035		3,891
Closing net assets attributable to shareholders		232,119		247,713

Balance Sheet

As at 31 March 2019

	Note	March 2019 £000	March 2018 £000
Assets			
Fixed assets			
Tangible assets:			
Investment assets		224,730	240,156
Current assets			
Debtors	6	940	3,814
Cash and bank balances		7,422	6,796
Total assets		233,092	250,766
Liabilities			
Creditors			
Bank overdraft		(16)	-
Distribution payable	5	(5)	(3)
Other creditors	7	(952)	(3,050)
Total liabilities		(973)	(3,053)
Net assets attributable to shareholders		232,119	247,713

TEMPLETON GROWTH FUND

Notes to the Financial Statements

	March 2019 £000	March 2018 £000
1. Net capital gains/(losses)		
The net capital gains/(losses) during the year comprise:		
Non-derivative securities gains/(losses)	1,721	(3,153)
Currency gains/(losses)	(8)	(45)
	<u>1,713</u>	<u>(3,198)</u>
2. Revenue		
Overseas dividends	6,273	5,731
UK dividends	790	870
Bank and other interest	49	75
	<u>7,112</u>	<u>6,676</u>
3. Expenses		
Payable to the ACD, associates of the ACD and agents of either of them		
ACD's periodic charge	2,108	2,172
ACD's administration charge	125	128
	<u>2,233</u>	<u>2,300</u>
Payable to the Depositary, associates of the Depositary and agents of either of them		
Depositary fees	36	37
Safe custody fees	21	27
	<u>57</u>	<u>64</u>
Other expenses		
Audit fees	10	12
Legal and publication fees	7	14
Printing fees	3	4
Expense cap	-	(1)
	<u>20</u>	<u>29</u>
	<u>2,310</u>	<u>2,393</u>

TEMPLETON GROWTH FUND

Notes to the Financial Statements (continued)

	March 2019 £000	March 2018 £000
4. Taxation		
(a) Analysis of charge in the year		
Adjustments in respect of prior period	(27)	(257)
Irrecoverable overseas tax	668	607
Total current tax (note 4(b))	641	350
Total taxation	641	350
(b) Factors affecting tax charge for the year		
The tax assessed for the year is lower (2018: lower) than the standard rate of corporation tax in the UK for Open Ended Investment Companies (20% (2018: 20%)).		
The differences are explained below:		
Net revenue before taxation	4,802	4,283
Corporation tax of 20% (2018: 20%)	960	857
Effects of:		
Irrecoverable overseas tax	668	607
Excess management expenses	446	436
Non-taxable revenue	(5)	6
Overseas tax expensed	(1)	(5)
Adjustments in respect of prior period**	(27)	(257)
UK dividends & non-taxable overseas dividends*	(1,400)	(1,294)
Current tax charge for year (note 4(a))	641	350
*As an Open Ended Investment Company these items are not subject to corporation tax.		
Open Ended Investment Companies are exempt from tax on capital gains in the UK. Therefore, any capital return is not included within the reconciliation above.		
At the year end there is a potential deferred tax asset of £3,502,000 (£3,056,000 as at 31 March 2018) in relation to excess management fees. It is unlikely the Fund will generate sufficient tax profits in the future to utilise these amounts and therefore no deferred tax assets have been recognised in the year.		
**The prior period adjustment relates to amounts received in relation to withholding tax suffered in previous years refunded under the reclaim process.		
5. (a) Finance costs		
The distribution takes account of income received on the issue of shares and income deducted on the cancellation of shares, and comprise:		
Interim dividend distributions		
Income	16	22
Accumulation	2,165	2,599
	2,181	2,621
Final dividend distributions		
Income	5	3
Accumulation	1,870	1,292
	1,875	1,295
Add: Income deducted on cancellation of shares	134	26
Deduct: Income received on issue of shares	(15)	(8)
Total distribution	4,175	3,934
Total finance costs	4,175	3,934
(b) Difference between net revenue and distribution:		
Net revenue after taxation	4,161	3,933
Net revenue received on share class conversions	14	1
Total distribution for the year	4,175	3,934
Details of the distribution in pence per share for this Fund are set out in the tables on page 260.		

TEMPLETON GROWTH FUND

Notes to the Financial Statements (continued)

	March 2019 £000	March 2018 £000
6. Debtors		
Accrued income	756	490
Overseas tax recoverable	137	170
Sales awaiting settlement	42	3,149
Amounts receivable for issue of shares	5	4
Capped expenses	-	1
	940	3,814
7. Other creditors		
Provision for uncertain tax position	685	-
Accrued expenses	201	219
Amounts payable on cancellation of shares	66	47
Purchases awaiting settlement	-	2,087
Capped expenses	-	697
	952	3,050

8. Related parties

During the year, Franklin Templeton Fund Management Limited (“ACD”), a related party, acted primarily in all transactions of the Funds. The aggregate amounts received through issues and cancellations are disclosed in the Statement of Change in Net Assets Attributable to Shareholders.

Amounts charged by the ACD and associates of the ACD in respect of the management and administration fees are disclosed in Note 3.

The amounts due to the ACD and associates of the ACD in respect of management and administration fees at 31 March 2019 are £175,000 (£193,000 as at 31 March 2018).

During the year the Fund received £1,000 (nil for the year to 31 March 2018) in reimbursed expenses from the ACD.

As at 31 March 2019 the Fund was due reimbursed expenses of nil (£1,000 as at 31 March 2018) from the ACD.

9. Risk management policies and disclosures

The risks inherent in the Fund’s investment portfolio are as follows:

Market Risk

Currency	Net foreign currency assets and (liabilities) 31 March 2019			Net foreign currency assets and (liabilities) 31 March 2018		
	Monetary £000	Non-Monetary £000	Total £000	Monetary £000	Non-Monetary £000	Total £000
US dollar	104	72,800	72,904	37	89,537	89,574
Euro	(375)	60,049	59,674	(523)	59,248	58,725
Japanese yen	233	23,156	23,389	117	22,653	22,770
Hong Kong dollar	82	14,039	14,121	54	14,360	14,414
Swiss franc	-	11,499	11,499	82	5,190	5,272
Danish krone	5	5,393	5,398	2	1,933	1,935
South Korean won	63	4,856	4,919	89	5,427	5,516
Singapore dollar	-	3,060	3,060	4	1,837	1,841
Norwegian krone	-	2,230	2,230	-	2,256	2,256
Thai baht	42	2,097	2,139	1	2,472	2,473
Canadian dollar	-	-	-	2	4,587	4,589
	154	199,179	199,333	(135)	209,500	209,365

With reference to the foreign currency assets and liabilities table above, any movement in exchange rates would lead to a corresponding change in the value of the assets.

Interest rate risk

The Fund does not invest in either fixed or floating rate securities and interest rate risk exposure is restricted to interest receivable on bank deposits or payable on bank overdraft positions which will be affected by fluctuations in interest rates.

Other price risk

At the year end date, 96.82% (2018: 96.95%) of the net assets of the Fund were invested in ordinary shares or stock units admitted to an official stock exchange. If the market value were to change by 10%, the value of the Fund would change by 9.68% (2018: 9.70%).

There is no material difference between the value of the financial assets and liabilities, as shown in the Balance sheet, and their fair values.

TEMPLETON GROWTH FUND

Notes to the Financial Statements (continued)

10. Portfolio Transaction Costs

	2019			2018		
	Purchases £000	% Of Purchases	% of Average Net Asset Value	Purchases £000	% Of Purchases	% of Average Net Asset Value
Equity purchases in year before transaction costs	109,675			70,751		
Commissions	41	0.04	0.02	57	0.08	0.03
Taxes	86	0.08	0.03	81	0.11	0.03
Other	1	-	-	3	-	-
Total Equity purchases in the year after direct transaction costs	109,803			70,892		

	2019			2018		
	Sales £000	% Of Sales	% of Average Net Asset Value	Sales £000	% Of Sales	% of Average Net Asset Value
Equity sales in year before transaction costs	124,829			65,946		
Commissions	(45)	(0.04)	(0.02)	(39)	(0.06)	(0.02)
Taxes	(8)	(0.01)	-	(7)	(0.01)	-
Other	(2)	-	-	(1)	-	-
Total Equity sales in the year after direct transaction costs	124,774			65,899		

In pursuance of its investments objectives the Fund incurs commissions, taxes and other charges when buying and selling investment securities. Share dealing generally incurs broker commission and stamp Duty and these are paid by the Fund on each transaction where appropriate.

In addition there is a dealing spread between the buying and selling prices of the underlying investments. The average dealing spread which is the difference between the quoted bid and offer prices or internal administrative or holding costs, are not included in the calculation of Direct Transaction Costs. As at 31 March 2019, the average dealing spread for the underlying Fund investments is 0.06% (2018 : 0.06%)

Comparing portfolio transaction costs for a range of funds may give misleading impression of the relative costs of investing in those funds for the following reasons:

- Historic transaction costs are not an effective indicator of the future impact on performance as it may vary from year to year depending on the investment manager;
- Transaction costs for buying and selling investments due to shareholder activity on the fund are recovered from those investors;
- Transaction costs will vary depending on the types of securities the fund is investing.

11. Creations and Cancellations of Shares

	A–Income shares	A–Accumulation shares	I–Accumulation shares	W–Accumulation shares	Z–Accumulation shares
Opening Shares	352,732	1,354,709	5,854,589	8,681,504	1,074,667
Creations	544	26,216	24,279	891,958	3,032
Cancellations	(23,070)	(166,208)	(451,814)	(2,511,063)	(47,241)
Conversions	(145,574)	(309,523)	-	31,774	1,939,409
Total Closing Shares	184,632	905,194	5,427,054	7,094,173	2,969,867

TEMPLETON GROWTH FUND

Notes to the Financial Statements (continued)

12. Fair Value Disclosure

In accordance with FRS 102 the Fund classifies fair value measurement under the following levels:

Level 1

Unadjusted quoted market prices in active markets for identical securities.

Level 2

Investments (other than quoted prices included within Level 1) whose fair value is based directly on observable current market prices or is indirectly being derived from market prices; and

Level 3

Investments whose fair value is determined using a valuation technique based on assumptions that are not supported by observable current market prices or are not based on observable market data such as security in default or securities valued by Franklin Templeton Fair Valuation Committee.

Fair Value Hierarchy	Assets 31 March 2019 £000	Liabilities 31 March 2019 £000	Assets 31 March 2018 £000	Liabilities 31 March 2018 £000
Level 1	224,730	-	240,156	-
Level 2	-	-	-	-
Level 3	-	-	-	-
Total	224,730	-	240,156	-

TEMPLETON GROWTH FUND

Distribution Statement

For the period 1 April 2018 to 30 September 2018

Group 1 – Shares purchased prior to 1 April 2018

Group 2 – Shares purchased in the period 1 April 2018 to 30 September 2018

	Net Income p	Equalisation p	30 September 2018 Pence per Share p	30 September 2017 Pence per Share p
A - Income Shares				
Group 1	4.4943	-	4.4943	5.7137
Group 2	0.9625	3.5318	4.4943	5.7137
A - Accumulation Shares				
Group 1	6.8040	-	6.8040	8.5642
Group 2	0.6173	6.1867	6.8040	8.5642
I - Accumulation Shares				
Group 1	33.1355	-	33.1355	38.1635
Group 2	15.5022	17.6333	33.1355	38.1635
W - Accumulation Shares				
Group 1	2.1297	-	2.1297	2.4417
Group 2	-	2.1297	2.1297	2.4417
Z Accumulation Shares				
Group 1	1.9152	-	1.9152	2.2374
Group 2	1.8876	0.0276	1.9152	2.2374

For the period 1 October 2018 to 31 March 2019

Group 1 – Shares purchased prior to 1 October 2018

Group 2 – Shares purchased in the period 1 October 2018 to 31 March 2019

	Net Income p	Equalisation p	31 March 2019 Pence per Share p	31 March 2018 Pence per Share p
A - Income Shares				
Group 1	2.9515	-	2.9515	0.8463
Group 2	1.8182	1.1333	2.9515	0.8463
A - Accumulation Shares				
Group 1	4.4920	-	4.4920	1.2610
Group 2	3.0101	1.4819	4.4920	1.2610
I - Accumulation Shares				
Group 1	30.2185	-	30.2185	19.6543
Group 2	13.1881	17.0304	30.2185	19.6543
W - Accumulation Shares				
Group 1	1.9678	-	1.9678	1.3036
Group 2	1.1259	0.8419	1.9678	1.3036
Z Accumulation Shares				
Group 1	1.6703	-	1.6703	1.0140
Group 2	1.6696	0.0007	1.6703	1.0140

Equalisation

All shareholders, within each share category, receive the same distribution per share, although the distribution to shareholders who purchased shares during the distribution period (Group 2 holdings) contains an element of equalisation which is a repayment, at an average rate per share, of the amount of accrued net income which was included in the purchase price of such shares. As the nature of this payment is capital it is not subject to income tax but must be deducted from the purchase price in any capital gains tax computation on the sale of the shares.

Further Information

Investment objectives and policy

The Company is an umbrella company which aims to provide investors with a choice of Funds investing in a wide range of transferable securities on a world-wide basis and featuring a diverse array of investment objectives. The overall objective of the Company is to seek to minimise investment exposure through diversification and to provide Shareholders with the benefit of a portfolio managed by Franklin Templeton Investments according to its successful time-tested investment selection methods.

The Company does not intend to have an interest in any immovable property or tangible movable property. Each Fund may, on an ancillary basis, hold liquid assets. Such assets may be kept in the form of cash deposits or in short-term money market instruments.

The Funds established by the Company are Franklin Absolute Return Bond Fund, Franklin European Opportunities Fund, Franklin Mutual Shares Fund, Franklin UK Corporate Bond Fund, Franklin UK Equity Income Fund, Franklin UK Gilt Fund, Franklin UK Managers' Focus Fund, Franklin UK Mid Cap Fund, Franklin UK Opportunities Fund, Franklin UK Rising Dividends Fund, Franklin UK Smaller Companies Fund, Franklin US Opportunities Fund, Templeton Global Emerging Markets Fund, Templeton Global Total Return Bond Fund and Templeton Growth Fund.

Franklin Absolute Return Bond Fund

Investment Objective: The Fund aims to provide an absolute return (through a combination of income and capital growth) each calendar year. In addition, the Fund aims to provide an overall return of 2-3% above the London Interbank Offered Rate (LIBOR) 90 Day (GBP) over a full market cycle (being 3-5 years) after management fees are deducted.

There is no guarantee that the Fund will achieve its objective over this or any other time period; capital invested in the Fund is at risk and you may get back less than you paid in.

The Fund intends to achieve its objective by investing primarily in a diversified portfolio of fixed and floating rate debt securities and related derivatives.

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 Investment Manager seeks to generate return from various sources and as such the assets of the Fund may be diversified also by risk type, including credit, currency and duration. The Fund is actively managed and at any given time the Fund may have a substantial amount of its assets invested in any class of debt securities.

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 the FCA Rules.

The Fund may use derivatives for investment purposes as well as for hedging and/or efficient portfolio management.

In addition, at the ACD's discretion, the Fund may also invest a proportion of its portfolio in other transferable securities including cash and near cash, money market instruments, and other collective investment schemes managed by Franklin Templeton Investments entities as well as managed by other asset managers.

The base currency of the Fund is UK sterling.

The expected level of exposure that could be subject to total return swaps amounts to 5% of the Fund's net assets, subject to a maximum of 50%.

Further Information (continued)

Franklin European Opportunities Fund

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

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 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 (including hedging) 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.

Franklin Mutual Shares Fund

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.

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 shareholders 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

Further Information (continued)

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 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 (including hedging) 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.

Franklin UK Corporate Bond Fund

Investment Objective: The Fund aims to achieve a combination of income and capital growth over the medium to long term.

The Fund will invest primarily in investment-grade fixed or floating-rate debt securities of UK companies. UK companies are considered to be those which are listed, quoted or traded in the UK or that are listed, quoted or traded elsewhere but are incorporated, domiciled or conduct a significant portion of their business in the UK. No more than 15% of the Fund’s investments will be in non-investment grade securities. Further, no more than 10% of the Fund’s investments will be denominated in currencies other than UK sterling.

The Fund may also invest in other types of corporate or non-corporate securities including, but not limited to, government debt securities, securities issued by supranational entities, non-investment grade debt securities, bonds convertible into common stock, preferred stock and warrants.

In addition, at the ACD’s discretion, the Fund may also invest in other transferable securities, cash and near cash, deposits, money market instruments, and other collective investment schemes.

The Fund may use derivatives for investment purposes as well as for hedging and/or efficient portfolio management. These derivatives include, but are not limited to, futures, currency forwards, options, and credit default and interest rate swaps.

The base currency of the Fund is UK sterling.

Franklin UK Equity Income Fund

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 (meaning 3-5 years).

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 (including hedging) 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

Further Information (continued)

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.

Franklin UK Gilt Fund

Investment Objective: The Fund aims to achieve a combination of income and capital growth over the medium to long term.

The Fund will invest primarily in gilts and securities issued by the government of the United Kingdom. The Fund may invest up to 20% of its net asset value in Government bonds of any other nation. All of the Fund's investments will be in investment grade securities. Further, no more than 10% of the Fund's investments will be denominated in currencies other than UK sterling. In addition, the Fund may invest in supranational and government-related issuers.

In addition, at the ACD's discretion, the Fund may also invest in other transferable securities, cash and near cash, deposits, money market instruments, warrants and other collective investment schemes.

The Fund may use derivatives for investment purposes as well as for hedging and/or efficient portfolio management. These derivatives include, but are not limited to, futures, currency forwards, options, and credit default and interest rate swaps.

The base currency of the Fund is UK sterling.

Franklin UK Managers' Focus Fund

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 (meaning 3-5 years).

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 (including hedging) 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.

Franklin UK Mid Cap Fund

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 (meaning 3-5 years).

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 (including hedging) 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.

Further Information (continued)

The base currency of the Fund is UK sterling.

Franklin UK Opportunities Fund

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 (meaning 3-5 years).

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 (including hedging) 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.

Franklin UK Rising Dividends Fund

Investment Objective: The Fund aims to provide a growing level of income, together with capital growth to achieve a total return exceeding that of the FTSE All-Share Index, over the medium to long term.

The Fund will invest primarily in the equity securities of UK companies that have paid consistently rising dividends.

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 (including hedging) 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.

Franklin UK Smaller Companies Fund

Investment Objective: The Fund aims to achieve capital growth exceeding that of the Numis Smaller Companies ex-Investment Trusts Index over the medium to long term (meaning 3-5 years).

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 ex-Investment Trusts 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 (including hedging) 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

Further Information (continued)

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.

Franklin US Opportunities Fund

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

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 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 hedging and/or efficient portfolio management.

The base currency of the Fund is UK sterling.

Templeton Global Emerging Markets Fund

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

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 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 (including hedging) 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.

Templeton Global Total Return Bond Fund

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

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.

Further Information (continued)

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 the FCA Rules. The Fund may use derivatives for investment purposes as well as for hedging and/or efficient portfolio management.

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

The base currency of the Fund is UK sterling.

Templeton Growth Fund

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.

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 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 (including hedging) 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.

Accounting reference and other dates

Subject to the FCA Rules, the accounting reference dates, interim accounting reference dates, distribution pay dates, grouping periods and dates of publication of annual and half-yearly reports of each of the Funds are as follows:

Accounting Reference Date (i.e. the financial year end) and Interim Accounting Period: 31 March and 1 April to 30 September.

Publication of Annual and Half-Yearly Reports: by 31 July and 30 November.

Distribution pay dates*

	31 May	31 August	30 November	28 February
Franklin Absolute Return Bond Fund	X		X	
Franklin European Opportunities Fund	X		X	
Franklin Mutual Shares Fund	X		X	
Franklin UK Corporate Bond Fund	X	X	X	X**
Franklin UK Equity Income Fund	X	X	X	X**

Further Information (continued)

	31 May	31 August	30 November	28 February
Franklin UK Gilt Fund	X	X	X	X**
Franklin UK Managers' Focus Fund	X		X	
Franklin UK Mid Cap Fund	X		X	
Franklin UK Opportunities Fund	X		X	
Franklin UK Rising Dividends Fund	X	X	X	X**
Franklin UK Smaller Companies Fund	X		X	
Franklin US Opportunities Fund	X			
Templeton Global Emerging Markets Fund	X			
Templeton Global Total Return Bond Fund	X	X	X	X**
Templeton Growth Fund	X		X	

* Or the last Business Day of the relevant period if the Distribution Pay Dates are not Business Days in any particular year

** 29 February in a leap year.

Shares

Shares are available in the Funds as follows:

Fund	Class
Franklin Absolute Return Bond Fund	W Accumulation
Franklin European Opportunities Fund	A Net Accumulation and Net Income
	W Net Accumulation
	Z Net Accumulation
Franklin Mutual Shares Fund	A Net Accumulation and Net Income
	I Net Accumulation
	W Net Accumulation
	Z Net Accumulation
Franklin UK Corporate Bond Fund	W Accumulation and Income
Franklin UK Equity Income Fund	A Net Accumulation and Net Income
	W Net Accumulation and Net Income
	Z Net Accumulation and Net Income
Franklin UK Gilt Fund	W Net Accumulation and Net Income
Franklin UK Managers' Focus Fund	A Net Accumulation
	S Net Accumulation
	W Net Accumulation
	Z Net Accumulation
Franklin UK Mid Cap Fund	A Net Income
	S Net Accumulation and Net Income
	W Net Accumulation and Net Income
	Z Net Accumulation
Franklin UK Opportunities Fund	A Net Income
	W Net Accumulation and Net Income
	Z Net Accumulation
Franklin UK Rising Dividends Fund	A Net Income
	W Net Accumulation and Net Income
	Z Net Accumulation and Net Income
Franklin UK Smaller Companies Fund	A Net Income
	W Net Accumulation and Net Income
	Z Net Accumulation

Further Information (continued)

Fund	Class	
Franklin US Opportunities Fund	A	Net Accumulation
	W	Net Accumulation
	Z	Net Accumulation
Templeton Global Emerging Markets Fund	A	Net Accumulation
	W	Net Accumulation
	Z	Net Accumulation
Templeton Global Total Return Bond Fund	A	Accumulation and Income
	A-H3	Accumulation and Income
	W	Accumulation and Income
	W-H3	Accumulation and Income
	Z	Accumulation
Templeton Growth Fund	Z-H3	Income
	A	Net Accumulation and Net Income
	I	Net Accumulation
	W	Net Accumulation
	Z	Net Accumulation

A Net Income Share is a Share in respect of which net income is to be distributed in accordance with its share in the property of the relevant Fund. Cash distributions of income are made in respect of Net Income Shares.

A Net Accumulation Share is a Share in respect of which the net income allocated after the date of issue thereof is to be accumulated in the proportion of the value of the property of the relevant Fund as may from time to time apply thereto. Where Net Accumulation Shares are in issue, no cash distributions are made and no additional Shares are issued. Instead, the income available for distribution is re-invested and the re-investment reflected in the price of the Net Accumulation Share.

A Shares have low “entry levels” for investment and simple charges. I Shares have higher “entry levels” and a different charging structure. S Shares and W Shares have higher “entry levels” and are not available to retail investors.

Charges

The ACD’s periodic remuneration.

The ACD is entitled to receive out of the scheme property of each Fund for its own account, monthly on the last Business Day of each month or as soon as possible thereafter, the amount of the annual management charge accrued to it during that month. Under current VAT legislation, no VAT is payable on the ACD’s remuneration. This annual management charge is calculated daily based on the assets of each Fund at the pricing valuation point of 12.00 noon UK time.

The table below summarises the current rates of the ACD’s annual management charge for each of the Funds:

Fund	A Shares (per annum)	I Shares (per annum)	S Shares (per annum)	W Shares (per annum)	Z Shares (per annum)	Charge Taken from Income or Capital
Franklin Absolute Return Bond Fund	N/A	N/A	N/A	0.55%	N/A	Income
Franklin European Opportunities Fund	1.50%	N/A	N/A	0.75%	0.95%	Income
Franklin Mutual Shares Fund	1.50%	0.80%	N/A	0.75%	0.95%	Income
Franklin UK Corporate Bond Fund	N/A	N/A	N/A	0.35%	N/A	Capital
Franklin UK Equity Income Fund	1.50%	N/A	N/A	0.45%	0.95%	Capital
Franklin UK Gilt Fund	N/A	N/A	N/A	0.25%	N/A	Capital
Franklin UK Managers’ Focus Fund	1.50%	N/A	0.55%	0.75%	0.95%	Income
Franklin UK Mid Cap Fund	1.50%	N/A	0.55%	0.75%	0.95%	Income
Franklin UK Opportunities Fund	1.50%	N/A	N/A	0.45%	0.95%	Income
Franklin UK Rising Dividends Fund	1.50%	N/A	N/A	0.45%	0.95%	Capital
Franklin UK Smaller Companies Fund	1.50%	N/A	N/A	0.75%	0.95%	Income
Franklin US Opportunities Fund	1.50%	N/A	N/A	0.75%	0.95%	Income
Templeton Global Emerging Markets Fund	1.50%	N/A	N/A	1.00%	1.10%	Income
Templeton Global Total Return Bond Fund	1.20%	N/A	N/A	0.65%	0.85%	Income
Templeton Growth Fund	1.50%	0.80%	N/A	0.75%	0.95%	Income

Further Information (continued)

Such periodic remuneration is taken in each case at the rate of one-twelfth thereof each month. These rates are calculated by reference to the Net Asset Value of a Fund referable to the A Shares, I Shares, S Shares, W Shares and Z Shares respectively.

The ACD is entitled to receive a monthly administration charge out of property of each Fund to be calculated, accrued and payable in the same manner and at the same time as the ACD's annual management charge.

The current administration charge in respect of all Class A, Class I, Class S, Class W and Class Z Shares is 0.05% per annum (plus any VAT or any equivalent tax thereon), and the maximum permitted administration charge in the case of all Funds is 0.10% per annum (plus any VAT or any equivalent tax thereon).

Any increase of the ACD's annual management charge may be made by the ACD, if it is deemed by the ACD to be a significant rather than a fundamental change (as set out in the provisions of the FCA Rules) only after:

- (a) giving 60 days' written notice to all Shareholders; or
- (b) the ACD revises the prospectus to reflect the proposed increase.

If such a change is deemed fundamental it will require the approval of the Shareholders.

Additional Information

Full written details of the terms of Franklin Templeton Funds are contained in the Prospectus, Instrument of Incorporation and Key Investor Information Documents, copies of which are available free of charge from:

Franklin Templeton Investments
Cannon Place
78 Cannon Street
London, EC4N 6HL
United Kingdom

Client Dealer Services

Freefone:	0800 305 306
Telephone:	+44 (0)20 7073 8690
Fax:	+44 (0)20 7839 8701

Note for Investors

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.

Emerging markets can be more risky than developed markets.



Franklin Templeton Funds
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78 Cannon Street
London
EC4N 6HL
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