

MAY 1, 2012

The SEC has not approved or disapproved these securities or passed upon the adequacy of this prospectus. Any representation to the contrary is a criminal offense.

	Class A	Class B	Class C	Class R	Class Z
Mutual Beacon Fund	TEBIX	TEBBX	TEMEX	Pending	BEGRX
Mutual European Fund	TEMIX	TEUBX	TEURX	Pending	MEURX
Mutual Financial Services Fund	TFSIX	TBFSX	TMFSX	—	TEFAX
Mutual Global Discovery Fund	TEDIX	TEDBX	TEDSX	TEDRX	MDISX
Mutual International Fund	FMIAX	—	FCMIX	FRMIX	FMIZX
Mutual Quest Fund	TEQIX	TEBQX	TEMQX	Pending	MQIFX
Mutual Shares Fund	TESIX	FMUBX	TEMTX	TESRX	MUTHX

PROSPECTUS

FRANKLIN MUTUAL SERIES FUNDS



**FRANKLIN TEMPLETON
INVESTMENTS**

Franklin • Templeton • **Mutual Series**

Contents

	FUND SUMMARY	
INFORMATION ABOUT THE FUND YOU SHOULD KNOW BEFORE INVESTING	Mutual Beacon Fund.....	2
	Mutual Global Discovery Fund.....	9
	Mutual Quest Fund.....	17
	Mutual Shares Fund.....	24
	Mutual Financial Services Fund.....	32
	Mutual European Fund.....	40
	Mutual International Fund.....	48
	FUND DETAILS	
INFORMATION ABOUT QUALIFIED INVESTORS, ACCOUNT TRANSACTIONS AND SERVICES	Mutual Beacon Fund; Mutual Global Discovery Fund; Mutual Quest Fund; Mutual Shares Fund.....	56
	Mutual Financial Services Fund.....	65
	Mutual European Fund.....	74
	Mutual International Fund.....	82
	More Information on Investment Policies, Practices and Risks.....	91
	Management	97
	Distributions and Taxes	102
	Financial Highlights	105
	YOUR ACCOUNT	
INFORMATION ABOUT SALES CHARGES, QUALIFIED INVESTORS, ACCOUNT TRANSACTIONS AND SERVICES	Choosing a Share Class	151
	Buying Shares.....	163
	Investor Services.....	166
	Selling Shares	169
	Exchanging Shares	172
	Account Policies	177
	Questions	187
	FOR MORE INFORMATION	
WHERE TO LEARN MORE ABOUT THE FUND	Back Cover	

MUTUAL BEACON FUND

Investment Goal

Capital appreciation, which may occasionally be short term. The secondary goal is income.

Fees and Expenses of the Fund

These tables describe the fees and expenses that you may pay if you buy and hold shares of the Fund. You may qualify for sales charge discounts in Class A if you and your family invest, or agree to invest in the future, at least \$50,000 in Franklin Templeton funds. More information about these and other discounts is available from your financial professional and under “Your Account” on page 151 in the Fund’s Prospectus and under “Buying and Selling Shares” on page 64 of the Fund’s Statement of Additional Information.

SHAREHOLDER FEES *(fees paid directly from your investment)*

	Class A	Class B ¹	Class C	Class R	Class Z
Maximum Sales Charge (Load) Imposed on Purchases (as percentage of offering price)	5.75%	None	None	None	None
Maximum Deferred Sales Charge (Load) (as percentage of the lower of original purchase price or sale proceeds)	None	4.00%	1.00%	None	None

1. New or additional investments into Class B are no longer permitted.

ANNUAL FUND OPERATING EXPENSES

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

	Class A	Class B	Class C	Class R	Class Z
Management fees	0.60%	0.60%	0.60%	0.60%	0.60%
Distribution and service (12b-1) fees	0.30%	1.00%	1.00%	0.50%	None
Other expenses	0.24%	0.24%	0.24%	0.24%	0.24%
Total annual Fund operating expenses	1.14%	1.84%	1.84%	1.34%	0.84%

Example

This Example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds. The Example assumes that you invest \$10,000 in the Fund for the time periods indicated

and then redeem all of your shares at the end of the period. The Example also assumes that your investment has a 5% return each year and that the Fund’s operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

	1 Year	3 Years	5 Years	10 Years
Class A	\$685	\$916	\$1,167	\$1,881
Class B	\$587	\$879	\$1,195	\$1,975
Class C	\$287	\$579	\$995	\$2,159
Class R	\$136	\$425	\$734	\$1,613
Class Z	\$86	\$268	\$466	\$1,037
If you do not sell your shares:				
Class B	\$187	\$579	\$995	\$1,975
Class C	\$187	\$579	\$995	\$2,159

Portfolio Turnover

The Fund pays transaction costs, such as commissions, when it buys and sells securities (or “turns over” its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in higher taxes when Fund shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the example, affect the Fund’s performance. During the most recent fiscal year, the Fund’s portfolio turnover rate was 51.38% of the average value of its portfolio.

Principal Investment Strategies

Under normal market conditions, the Fund invests primarily in equity securities (including securities convertible into, or that the investment manager expects to be exchanged for, common or preferred stock) of U.S. and foreign companies that the investment manager believes are available at market prices less than their value based on certain recognized or objective criteria (intrinsic value). Following this value-oriented strategy, the Fund invests primarily in undervalued securities (securities trading at a discount to intrinsic value). The equity securities in which the Fund invests are primarily common stock. To a lesser extent, the Fund also invests in merger arbitrage securities and the debt and equity of distressed companies.

The Fund is not limited to pre-set maximums or minimums governing the size of the companies in which it may invest. However, the Fund currently invests the equity portion of its portfolio primarily to predominantly in

mid- and large cap companies, with the remaining portion of its equity portfolio in smaller companies.

The Fund may attempt, from time to time, to hedge (protect) against currency risks, largely using forward foreign currency exchange contracts and currency futures contracts (including currency index futures contracts) when, in the investment manager's opinion, it would be advantageous to the Fund to do so. The Fund may also, from time to time, attempt to hedge against market risk using a variety of derivatives.

The Fund expects to invest a significant portion (up to 35%) of its assets in foreign securities, which may include sovereign debt and participations in foreign government debt.

Portfolio Selection

The investment manager employs a research driven, fundamental value strategy for the Fund. Investments are generally selected based on the investment manager's own analysis of the security's intrinsic value, including for equity securities, an analysis of book value, cash flow potential, long-term earnings and multiples of earnings. The investment manager examines each investment separately and there are no set criteria as to specific value parameters, asset size, earnings or industry type.

Principal Risks

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

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

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

Value Style Investing A value stock may not increase in price as anticipated by the investment manager if other investors fail to recognize the company's value and bid up the price, the markets favor faster-growing companies, or the factors that the investment manager believes will increase the price of the security do not occur.

Foreign Securities Investing in foreign securities typically involves more risks than investing in U.S. securities, including risks related to currency exchange rates and policies, country or government specific issues, less favorable trading practices or regulation and greater price volatility. Certain of these risks also may apply to securities of U.S. companies with significant foreign operations.

Smaller and Midsize Companies Securities issued by smaller and midsize companies may be more volatile in price than those of larger companies, involve substantial risks and should be considered speculative. Such risks may include greater sensitivity to economic conditions, less certain growth prospects, lack of depth of management and funds for growth and development and limited or less developed product lines and markets. In addition, smaller and midsize companies may be particularly affected by interest rate increases, as they may find it more difficult to borrow money to continue or expand operations, or may have difficulty in repaying any loans.

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

Merger Arbitrage Securities and Distressed Companies A merger or other restructuring, or a tender or exchange offer, proposed or pending at the

time the Fund invests in merger arbitrage securities may not be completed on the terms or within the time frame contemplated, which may result in losses to the Fund. Debt obligations of distressed companies typically are unrated, lower-rated, in default or close to default and are generally more likely to become worthless than the securities of more financially stable companies.

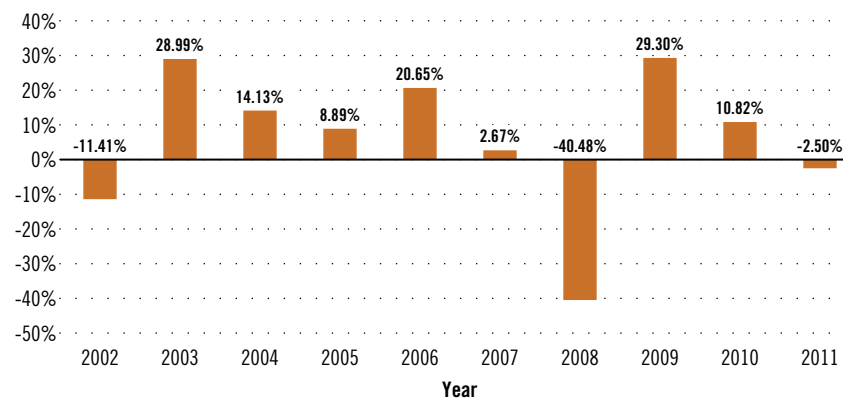
Management The Fund is subject to management risk because it is an actively managed investment portfolio. The Fund's investment manager applies investment techniques and risk analyses in making investment decisions for the Fund, but there can be no guarantee that these decisions will produce the desired results.

Performance

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

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

CLASS A ANNUAL TOTAL RETURNS



Best Quarter:	Q2'09	16.26%
Worst Quarter:	Q4'08	-24.33%
As of March 31, 2012, the Fund's year-to-date return was 10.51%.		

AVERAGE ANNUAL TOTAL RETURNS

(figures reflect sales charges)

For the periods ended December 31, 2011

	1 Year	5 Years	10 Years
Mutual Beacon Fund - Class A			
Return Before Taxes	-8.13%	-4.25%	3.27%
Return After Taxes on Distributions	-8.51%	-4.84%	2.42%
Return After Taxes on Distributions and Sale of Fund Shares	-4.81%	-3.56%	2.74%
Mutual Beacon Fund - Class B			
	-6.98%	-4.12%	3.33%
Mutual Beacon Fund - Class C			
	-4.10%	-3.78%	3.18%
Mutual Beacon Fund - Class R			
	-2.69%	-3.49%	3.53%
Mutual Beacon Fund - Class Z			
	-2.15%	-2.81%	4.21%
S&P 500® Index (index reflects no deduction for fees, expenses or taxes)	2.11%	-0.25%	2.92%

Historical performance for Class R shares prior to their inception is based on the performance of Class Z shares. Class R performance has been adjusted to reflect differences in 12b-1 expenses between classes.

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

investors who hold their Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts. After-tax returns are shown only for Class A and after-tax returns for other classes will vary.

Investment Manager

Franklin Mutual Advisers, LLC (Franklin Mutual)

Portfolio Managers

CHRISTIAN CORREA, CFA

Portfolio Manager of Franklin Mutual and portfolio manager of the Fund since 2007.

MANDANA HORMOZI

Portfolio Manager of Franklin Mutual and portfolio manager of the Fund since 2009.

Purchase and Sale of Fund Shares

You may purchase or redeem shares of the Fund on any business day online through our website at franklintempleton.com, by mail (Franklin Templeton Investor Services, P.O. Box 33030, St. Petersburg, FL 33733-8030), or by telephone at (800) 632-2301. The minimum initial purchase for most accounts is \$1,000 (or \$50 under an automatic investment plan).

Taxes

The Fund's distributions are generally taxable to you as ordinary income, capital gains, or some combination of both, unless you are investing through a tax-deferred arrangement, such as a 401(k) plan or an individual retirement account.

Payments to Broker-Dealers and Other Financial Intermediaries

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

MUTUAL GLOBAL DISCOVERY FUND

Investment Goal

Capital appreciation.

Fees and Expenses of the Fund

These tables describe the fees and expenses that you may pay if you buy and hold shares of the Fund. You may qualify for sales charge discounts in Class A if you and your family invest, or agree to invest in the future, at least \$50,000 in Franklin Templeton funds. More information about these and other discounts is available from your financial professional and under "Your Account" on page 151 in the Fund's Prospectus and under "Buying and Selling Shares" on page 64 of the Fund's Statement of Additional Information.

SHAREHOLDER FEES *(fees paid directly from your investment)*

	Class A	Class B ¹	Class C	Class R	Class Z
Maximum Sales Charge (Load) Imposed on Purchases (as percentage of offering price)	5.75%	None	None	None	None
Maximum Deferred Sales Charge (Load) (as percentage of the lower of original purchase price or sale proceeds)	None	4.00%	1.00%	None	None

1. New or additional investments into Class B are no longer permitted.

ANNUAL FUND OPERATING EXPENSES

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

	Class A	Class B	Class C	Class R	Class Z
Management fees	0.75%	0.75%	0.75%	0.75%	0.75%
Distribution and service (12b-1) fees	0.30%	1.00%	1.00%	0.50%	None
Other expenses	0.26%	0.26%	0.26%	0.26%	0.26%
Total annual Fund operating expenses	1.31%	2.01%	2.01%	1.51%	1.01%

Example

This Example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds. The Example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your shares at the end of the period. The Example

also assumes that your investment has a 5% return each year and that the Fund's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

	1 Year	3 Years	5 Years	10 Years
Class A	\$701	\$966	\$1,252	\$2,063
Class B	\$604	\$930	\$1,283	\$2,157
Class C	\$304	\$630	\$1,083	\$2,338
Class R	\$154	\$477	\$824	\$1,802
Class Z	\$103	\$322	\$558	\$1,236
If you do not sell your shares:				
Class B	\$204	\$630	\$1,083	\$2,157
Class C	\$204	\$630	\$1,083	\$2,338

Portfolio Turnover

The Fund pays transaction costs, such as commissions, when it buys and sells securities (or "turns over" its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in higher taxes when Fund shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the example, affect the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was 33.60% of the average value of its portfolio.

Principal Investment Strategies

Under normal market conditions, the Fund invests primarily in equity securities (including securities convertible into, or that the investment manager expects to be exchanged for, common or preferred stock) of U.S. and foreign companies that the investment manager believes are available at market prices less than their value based on certain recognized or objective criteria (intrinsic value). Following this value-oriented strategy, the Fund invests primarily in undervalued securities (securities trading at a discount to intrinsic value). The equity securities in which the Fund invests are primarily common stock. To a lesser extent, the Fund also invests in merger arbitrage securities and the debt and equity of distressed companies.

The Fund is not limited to pre-set maximums or minimums governing the size of the companies in which it may invest. However, the Fund currently invests the equity portion of its portfolio primarily to predominantly in

mid- and large-cap companies, with the remaining portion of its equity portfolio in smaller companies.

The Fund expects to invest substantially and potentially up to 100% of its assets in foreign securities, which may include sovereign debt and participations in foreign government debt. The Fund presently does not intend to invest more than a portion (no more than 25%) of its assets in securities of issuers located in emerging market countries.

The Fund may attempt, from time to time, to hedge (protect) against currency risks, largely using forward foreign currency exchange contracts and currency futures contracts (including currency index futures contracts) when, in the investment manager's opinion, it would be advantageous to the Fund to do so. The Fund may also, from time to time, attempt to hedge against market risk using a variety of derivatives.

Portfolio Selection

The investment manager employs a research driven, fundamental value strategy for the Fund. Investments are generally selected based on the investment manager's own analysis of the security's intrinsic value, including for equity securities, an analysis of book value, cash flow potential, long-term earnings and multiples of earnings. The investment manager examines each investment separately and there are no set criteria as to specific value parameters, asset size, earnings or industry type.

Principal Risks

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

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

Individual stock prices tend to go up and down more dramatically than those of other types of investments. A slower-growth or recessionary

economic environment could have an adverse effect on the prices of the various stocks held by the Fund.

Value Style Investing A value stock may not increase in price as anticipated by the investment manager if other investors fail to recognize the company's value and bid up the price, the markets favor faster-growing companies, or the factors that the investment manager believes will increase the price of the security do not occur.

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

Smaller and Midsize Companies Securities issued by smaller and midsize companies may be more volatile in price than those of larger companies, involve substantial risks and should be considered speculative. Such risks may include greater sensitivity to economic conditions, less certain growth prospects, lack of depth of management and funds for growth and development and limited or less developed product lines and markets. In addition, smaller and midsize companies may be particularly affected by interest rate increases, as they may find it more difficult to borrow money to continue or expand operations, or may have difficulty in repaying any loans.

Derivative Instruments The performance of derivative instruments (including currency related derivatives) depends largely on the performance of an underlying currency, security or index and such instruments often have risks similar to their underlying instrument, in addition to other risks. Derivatives involve costs and can create economic leverage in the Fund's portfolio which may result in significant volatility and cause the Fund to participate in losses (as well as enable gains) in an amount that exceeds the Fund's initial investment. Other risks include illiquidity, mispricing or

improper valuation of the derivative instrument, and imperfect correlation between the value of the derivative and the underlying instrument so that the Fund may not realize the intended benefits. When used for hedging, the change in value of the derivative may also not correlate specifically with the currency, security or other risk being hedged. With over-the-counter derivatives, there is the risk that the other party to the transaction will fail to perform.

Merger Arbitrage Securities and Distressed Companies A merger or other restructuring, or a tender or exchange offer, proposed or pending at the time the Fund invests in merger arbitrage securities may not be completed on the terms or within the time frame contemplated, which may result in losses to the Fund. Debt obligations of distressed companies typically are unrated, lower-rated, in default or close to default and are generally more likely to become worthless than the securities of more financially stable companies.

Management The Fund is subject to management risk because it is an actively managed investment portfolio. The Fund's investment manager applies investment techniques and risk analyses in making investment decisions for the Fund, but there can be no guarantee that these decisions will produce the desired results.

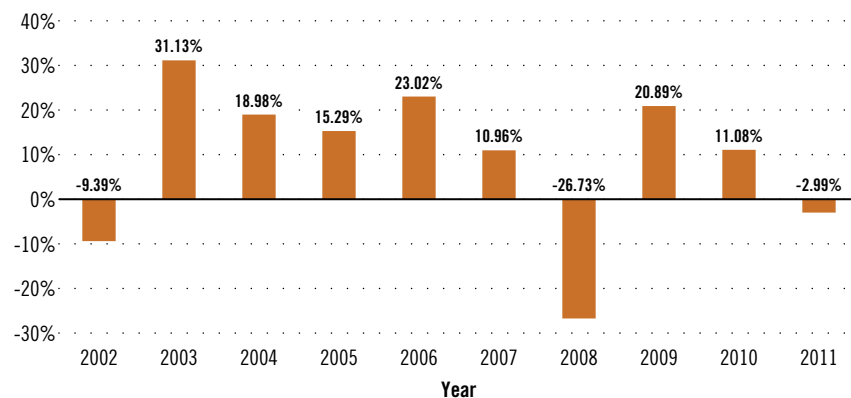
Performance

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

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

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

CLASS A ANNUAL TOTAL RETURNS



Best Quarter:	Q2'03	15.46%
Worst Quarter:	Q3'11	-15.59%
As of March 31, 2012, the Fund's year-to-date return was 7.37%.		

AVERAGE ANNUAL TOTAL RETURNS

(figures reflect sales charges)

For the periods ended December 31, 2011

	1 Year	5 Years	10 Years
Mutual Global Discovery Fund - Class A			
Return Before Taxes	-8.57%	-0.04%	7.19%
Return After Taxes on Distributions	-9.18%	-0.57%	6.58%
Return After Taxes on Distributions and Sale of Fund Shares	-4.88%	-0.11%	6.21%
Mutual Global Discovery Fund - Class B	-7.39%	0.09%	7.25%
Mutual Global Discovery Fund - Class C	-4.57%	0.45%	7.09%
Mutual Global Discovery Fund - Class R	-3.17%	0.95%	7.63%
Mutual Global Discovery Fund - Class Z	-2.68%	1.46%	8.17%
S&P 500® Index (index reflects no deduction for fees, expenses or taxes)	2.11%	-0.25%	2.92%
MSCI World Index (index reflects no deduction for fees, expenses or taxes)	-5.02%	-1.82%	4.15%

Historical performance for Class R shares prior to their inception is based on the performance of Class Z shares. Class R performance has been adjusted to reflect differences in 12b-1 expenses between classes.

The after-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and

local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. After-tax returns are not relevant to investors who hold their Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts. After-tax returns are shown only for Class A and after-tax returns for other classes will vary.

Investment Manager

Franklin Mutual Advisers, LLC (Franklin Mutual)

Portfolio Managers

PETER A. LANGERMAN

Chairman, President and Chief Executive Officer of Franklin Mutual and portfolio manager of the Fund since 2009.

PHILIPPE BRUGERE-TRELAT

Executive Vice President of Franklin Mutual and portfolio manager of the Fund since 2009.

TIMOTHY RANKIN, CFA

Portfolio Manager of Franklin Mutual and portfolio manager of the Fund since 2010.

Purchase and Sale of Fund Shares

You may purchase or redeem shares of the Fund on any business day online through our website at franklintempleton.com, by mail (Franklin Templeton Investor Services, P.O. Box 33030, St. Petersburg, FL 33733-8030), or by telephone at (800) 632-2301. The minimum initial purchase for most accounts is \$1,000 (or \$50 under an automatic investment plan).

Taxes

The Fund's distributions are generally taxable to you as ordinary income, capital gains, or some combination of both, unless you are investing through a tax-deferred arrangement, such as a 401(k) plan or an individual retirement account.

Payments to Broker-Dealers and Other Financial Intermediaries

If you purchase the Fund through a broker-dealer or other financial intermediary (such as a bank), the Fund and its related companies may

pay the intermediary for the sale of Fund shares and related services. These payments may create a conflict of interest by influencing the broker-dealer or other intermediary and your salesperson to recommend the Fund over another investment. Ask your financial advisor or visit your financial intermediary's website for more information.

MUTUAL QUEST FUND

Investment Goal

Capital appreciation, which may occasionally be short term. The secondary goal is income.

Fees and Expenses of the Fund

These tables describe the fees and expenses that you may pay if you buy and hold shares of the Fund. You may qualify for sales charge discounts in Class A if you and your family invest, or agree to invest in the future, at least \$50,000 in Franklin Templeton funds. More information about these and other discounts is available from your financial professional and under "Your Account" on page 151 in the Fund's Prospectus and under "Buying and Selling Shares" on page 64 of the Fund's Statement of Additional Information.

SHAREHOLDER FEES *(fees paid directly from your investment)*

	Class A	Class B ¹	Class C	Class R	Class Z
Maximum Sales Charge (Load) Imposed on Purchases (as percentage of offering price)	5.75%	None	None	None	None
Maximum Deferred Sales Charge (Load) (as percentage of the lower of original purchase price or sale proceeds)	None	4.00%	1.00%	None	None

1. New or additional investments into Class B are no longer permitted.

ANNUAL FUND OPERATING EXPENSES

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

	Class A	Class B	Class C	Class R	Class Z
Management fees	0.60%	0.60%	0.60%	0.60%	0.60%
Distribution and service (12b-1) fees	0.30%	1.00%	1.00%	0.50%	None
Other expenses	0.26%	0.26%	0.26%	0.26%	0.26%
Total annual Fund operating expenses	1.16%	1.86%	1.86%	1.36%	0.86%

Example

This Example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds. The Example assumes that you invest \$10,000 in the Fund for the time periods indicated

and then redeem all of your shares at the end of the period. The Example also assumes that your investment has a 5% return each year and that the Fund's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

	1 Year	3 Years	5 Years	10 Years
Class A	\$686	\$922	\$1,177	\$1,903
Class B	\$589	\$885	\$1,206	\$1,997
Class C	\$289	\$585	\$1,006	\$2,180
Class R	\$138	\$431	\$745	\$1,635
Class Z	\$88	\$274	\$477	\$1,061
If you do not sell your shares:				
Class B	\$189	\$585	\$1,006	\$1,997
Class C	\$189	\$585	\$1,006	\$2,180

Portfolio Turnover

The Fund pays transaction costs, such as commissions, when it buys and sells securities (or "turns over" its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in higher taxes when Fund shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the example, affect the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was 107.25% of the average value of its portfolio.

Principal Investment Strategies

Under normal market conditions, the Fund invests primarily in equity securities (including securities convertible into, or that the investment manager expects to be exchanged for, common or preferred stock) of U.S. and foreign companies that the investment manager believes are available at market prices less than their value based on certain recognized or objective criteria (intrinsic value). Following this value-oriented strategy, the Fund invests primarily in undervalued securities (securities trading at a discount to intrinsic value). The equity securities in which the Fund invests are primarily common stock. To a lesser extent, the Fund also invests in merger arbitrage securities and the debt and equity of distressed companies.

The Fund is not limited to pre-set maximums or minimums governing the size of the companies in which it may invest. However, the Fund currently invests the equity portion of its portfolio primarily to predominantly in

mid- and large cap companies, with the remaining portion of its equity portfolio in smaller companies.

The Fund may attempt, from time to time, to hedge (protect) against currency risks, largely using forward foreign currency exchange contracts and currency futures contracts (including currency index futures contracts) when, in the investment manager's opinion, it would be advantageous to the Fund to do so. The Fund may also, from time to time, attempt to hedge against market risk using a variety of derivatives.

The Fund expects to invest a significant portion (up to 50%) of its assets in foreign securities, which may include sovereign debt and participations in foreign government debt.

Portfolio Selection

The investment manager employs a research driven, fundamental value strategy for the Fund. Investments are generally selected based on the investment manager's own analysis of the security's intrinsic value, including for equity securities, an analysis of book value, cash flow potential, long-term earnings and multiples of earnings. The investment manager examines each investment separately and there are no set criteria as to specific value parameters, asset size, earnings or industry type.

Principal Risks

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

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

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

Value Style Investing A value stock may not increase in price as anticipated by the investment manager if other investors fail to recognize the company's value and bid up the price, the markets favor faster-growing companies, or the factors that the investment manager believes will increase the price of the security do not occur.

Foreign Securities Investing in foreign securities typically involves more risks than investing in U.S. securities, including risks related to currency exchange rates and policies, country or government specific issues, less favorable trading practices or regulation and greater price volatility. Certain of these risks also may apply to securities of U.S. companies with significant foreign operations.

Smaller and Midsize Companies Securities issued by smaller and midsize companies may be more volatile in price than those of larger companies, involve substantial risks and should be considered speculative. Such risks may include greater sensitivity to economic conditions, less certain growth prospects, lack of depth of management and funds for growth and development and limited or less developed product lines and markets. In addition, smaller and midsize companies may be particularly affected by interest rate increases, as they may find it more difficult to borrow money to continue or expand operations, or may have difficulty in repaying any loans.

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

Merger Arbitrage Securities and Distressed Companies A merger or other restructuring, or a tender or exchange offer, proposed or pending at the

time the Fund invests in merger arbitrage securities may not be completed on the terms or within the time frame contemplated, which may result in losses to the Fund. Debt obligations of distressed companies typically are unrated, lower-rated, in default or close to default and are generally more likely to become worthless than the securities of more financially stable companies.

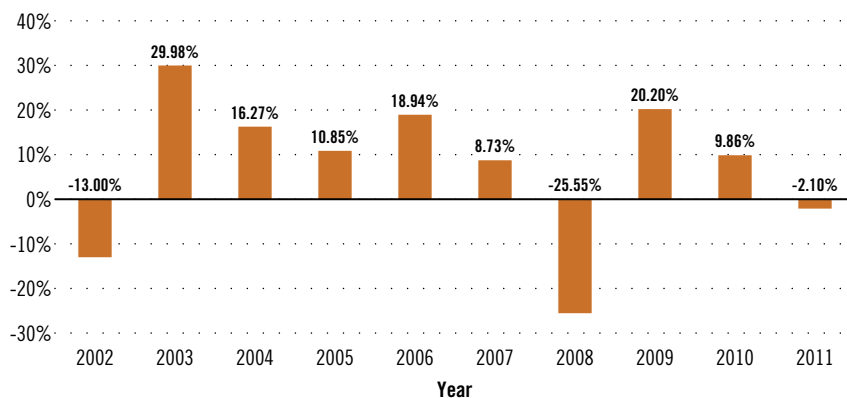
Management The Fund is subject to management risk because it is an actively managed investment portfolio. The Fund's investment manager applies investment techniques and risk analyses in making investment decisions for the Fund, but there can be no guarantee that these decisions will produce the desired results.

Performance

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

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

CLASS A ANNUAL TOTAL RETURNS



Best Quarter:	Q2'03	14.63%
Worst Quarter:	Q4'08	-13.77%
As of March 31, 2012, the Fund's year-to-date return was 7.51%.		

AVERAGE ANNUAL TOTAL RETURNS

(figures reflect sales charges)

For the periods ended December 31, 2011

	1 Year	5 Years	10 Years
Mutual Quest Fund - Class A			
Return Before Taxes	-7.72%	-0.28%	5.51%
Return After Taxes on Distributions	-8.85%	-1.63%	4.27%
Return After Taxes on Distributions and Sale of Fund Shares	-4.16%	-0.63%	4.42%
Mutual Quest Fund - Class B	-6.49%	-0.09%	5.58%
Mutual Quest Fund - Class C	-3.74%	0.21%	5.43%
Mutual Quest Fund - Class R	-2.31%	0.56%	5.81%
Mutual Quest Fund - Class Z	-1.83%	1.22%	6.48%
S&P 500® Index (index reflects no deduction for fees, expenses or taxes)	2.11%	-0.25%	2.92%

Historical performance for Class R shares prior to their inception is based on the performance of Class Z shares. Class R performance has been adjusted to reflect differences in 12b-1 expenses between classes.

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

investors who hold their Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts. After-tax returns are shown only for Class A and after-tax returns for other classes will vary.

Investment Manager

Franklin Mutual Advisers, LLC (Franklin Mutual)

Portfolio Managers

SHAWN M. TUMULTY

Vice President of Franklin Mutual and portfolio manager of the Fund since 2003.

KEITH LUH, CFA

Portfolio Manager of Franklin Mutual and portfolio manager of the Fund since 2010.

Purchase and Sale of Fund Shares

You may purchase or redeem shares of the Fund on any business day online through our website at franklintempleton.com, by mail (Franklin Templeton Investor Services, P.O. Box 33030, St. Petersburg, FL 33733-8030), or by telephone at (800) 632-2301. The minimum initial purchase for most accounts is \$1,000 (or \$50 under an automatic investment plan).

Taxes

The Fund's distributions are generally taxable to you as ordinary income, capital gains, or some combination of both, unless you are investing through a tax-deferred arrangement, such as a 401(k) plan or an individual retirement account.

Payments to Broker-Dealers and Other Financial Intermediaries

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

MUTUAL SHARES FUND

Investment Goal

Capital appreciation, which may occasionally be short term. The secondary goal is income.

Fees and Expenses of the Fund

These tables describe the fees and expenses that you may pay if you buy and hold shares of the Fund. You may qualify for sales charge discounts in Class A if you and your family invest, or agree to invest in the future, at least \$50,000 in Franklin Templeton funds. More information about these and other discounts is available from your financial professional and under “Your Account” on page 151 in the Fund’s Prospectus and under “Buying and Selling Shares” on page 64 of the Fund’s Statement of Additional Information.

SHAREHOLDER FEES *(fees paid directly from your investment)*

	Class A	Class B ¹	Class C	Class R	Class Z
Maximum Sales Charge (Load) Imposed on Purchases (as percentage of offering price)	5.75%	None	None	None	None
Maximum Deferred Sales Charge (Load) (as percentage of the lower of original purchase price or sale proceeds)	None	4.00%	1.00%	None	None

1. New or additional investments into Class B are no longer permitted.

ANNUAL FUND OPERATING EXPENSES

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

	Class A	Class B	Class C	Class R	Class Z
Management fees	0.57%	0.57%	0.57%	0.57%	0.57%
Distribution and service (12b-1) fees	0.30%	1.00%	1.00%	0.50%	None
Other expenses	0.29%	0.29%	0.29%	0.29%	0.29%
Total annual Fund operating expenses	1.16%	1.86%	1.86%	1.36%	0.86%

Example

This Example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds. The Example assumes that you invest \$10,000 in the Fund for the time periods indicated

and then redeem all of your shares at the end of the period. The Example also assumes that your investment has a 5% return each year and that the Fund’s operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

	1 Year	3 Years	5 Years	10 Years
Class A	\$686	\$922	\$1,177	\$1,903
Class B	\$589	\$885	\$1,206	\$1,997
Class C	\$289	\$585	\$1,006	\$2,180
Class R	\$138	\$431	\$745	\$1,635
Class Z	\$88	\$274	\$477	\$1,061
If you do not sell your shares:				
Class B	\$189	\$585	\$1,006	\$1,997
Class C	\$189	\$585	\$1,006	\$2,180

Portfolio Turnover

The Fund pays transaction costs, such as commissions, when it buys and sells securities (or “turns over” its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in higher taxes when Fund shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the example, affect the Fund’s performance. During the most recent fiscal year, the Fund’s portfolio turnover rate was 29.44% of the average value of its portfolio.

Principal Investment Strategies

Under normal market conditions, the Fund invests primarily in equity securities (including securities convertible into, or that the investment manager expects to be exchanged for, common or preferred stock) of U.S. and foreign companies that the investment manager believes are available at market prices less than their value based on certain recognized or objective criteria (intrinsic value). Following this value-oriented strategy, the Fund invests primarily in undervalued securities (securities trading at a discount to intrinsic value). The equity securities in which the Fund invests are primarily common stock. To a lesser extent, the Fund also invests in merger arbitrage securities and the debt and equity of distressed companies.

The Fund is not limited to pre-set maximums or minimums governing the size of the companies in which it may invest. However, the Fund currently invests the equity portion of its portfolio primarily to predominantly in

companies with market capitalizations greater than \$5 billion, with a portion or significant amount in smaller companies.

The Fund may attempt, from time to time, to hedge (protect) against currency risks, largely using forward foreign currency exchange contracts and currency futures contracts (including currency index futures contracts) when, in the investment manager's opinion, it would be advantageous to the Fund to do so. The Fund may also, from time to time, attempt to hedge against market risk using a variety of derivatives.

The Fund expects to invest a significant portion (up to 35%) of its assets in foreign securities, which may include sovereign debt and participations in foreign government debt.

Portfolio Selection

The investment manager employs a research driven, fundamental value strategy for the Fund. Investments are generally selected based on the investment manager's own analysis of the security's intrinsic value, including for equity securities, an analysis of book value, cash flow potential, long-term earnings and multiples of earnings. The investment manager examines each investment separately and there are no set criteria as to specific value parameters, asset size, earnings or industry type.

Principal Risks

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

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

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

Value Style Investing A value stock may not increase in price as anticipated by the investment manager if other investors fail to recognize the company's value and bid up the price, the markets favor faster-growing companies, or the factors that the investment manager believes will increase the price of the security do not occur.

Foreign Securities Investing in foreign securities typically involves more risks than investing in U.S. securities, including risks related to currency exchange rates and policies, country or government specific issues, less favorable trading practices or regulation and greater price volatility. Certain of these risks also may apply to securities of U.S. companies with significant foreign operations.

Smaller and Midsize Companies Securities issued by smaller and midsize companies may be more volatile in price than those of larger companies, involve substantial risks and should be considered speculative. Such risks may include greater sensitivity to economic conditions, less certain growth prospects, lack of depth of management and funds for growth and development and limited or less developed product lines and markets. In addition, smaller and midsize companies may be particularly affected by interest rate increases, as they may find it more difficult to borrow money to continue or expand operations, or may have difficulty in repaying any loans.

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

Merger Arbitrage Securities and Distressed Companies A merger or other restructuring, or a tender or exchange offer, proposed or pending at the

time the Fund invests in merger arbitrage securities may not be completed on the terms or within the time frame contemplated, which may result in losses to the Fund. Debt obligations of distressed companies typically are unrated, lower-rated, in default or close to default and are generally more likely to become worthless than the securities of more financially stable companies.

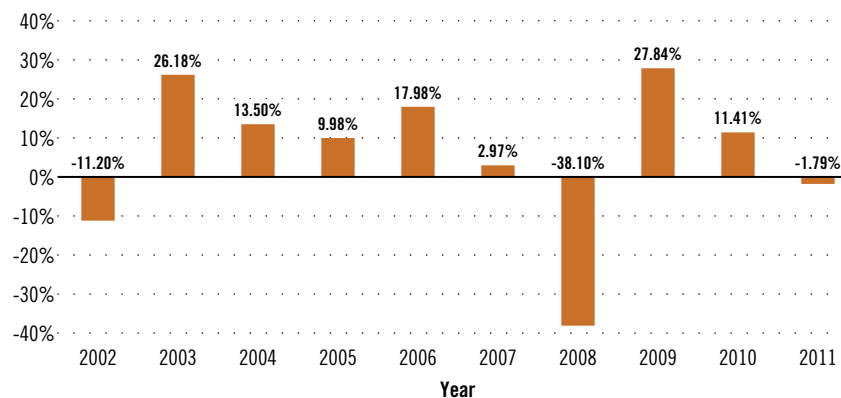
Management The Fund is subject to management risk because it is an actively managed investment portfolio. The Fund’s investment manager applies investment techniques and risk analyses in making investment decisions for the Fund, but there can be no guarantee that these decisions will produce the desired results.

Performance

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

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

CLASS A ANNUAL TOTAL RETURNS



Best Quarter:	Q2'09	17.02%
Worst Quarter:	Q4'08	-22.29%
As of March 31, 2012, the Fund's year-to-date return was 9.24%.		

AVERAGE ANNUAL TOTAL RETURNS

(figures reflect sales charges)

For the periods ended December 31, 2011

	1 Year	5 Years	10 Years
Mutual Shares Fund - Class A			
Return Before Taxes	-7.44%	-3.42%	3.32%
Return After Taxes on Distributions	-7.75%	-3.90%	2.65%
Return After Taxes on Distributions and Sale of Fund Shares	-4.43%	-2.91%	2.75%
Mutual Shares Fund - Class B			
	-6.32%	-3.30%	3.38%
Mutual Shares Fund - Class C			
	-3.40%	-2.94%	3.24%
Mutual Shares Fund - Class R			
	-1.94%	-2.46%	3.77%
Mutual Shares Fund - Class Z			
	-1.50%	-1.98%	4.27%
S&P 500® Index (index reflects no deduction for fees, expenses or taxes)	2.11%	-0.25%	2.92%

Historical performance for Class R shares prior to their inception is based on the performance of Class Z shares. Class R performance has been adjusted to reflect differences in 12b-1 expenses between classes.

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

investors who hold their Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts. After-tax returns are shown only for Class A and after-tax returns for other classes will vary.

Investment Manager

Franklin Mutual Advisers, LLC (Franklin Mutual)

Portfolio Managers

PETER A. LANGERMAN

Chairman, President and Chief Executive Officer of Franklin Mutual and portfolio manager of the Fund since 2005.

F. DAVID SEGAL, CFA

Portfolio Manager of Franklin Mutual and portfolio manager of the Fund since 2005.

DEBBIE TURNER, CFA

Portfolio Manager of Franklin Mutual and portfolio manager of the Fund since 2001.

Purchase and Sale of Fund Shares

You may purchase or redeem shares of the Fund on any business day online through our website at franklintempleton.com, by mail (Franklin Templeton Investor Services, P.O. Box 33030, St. Petersburg, FL 33733-8030), or by telephone at (800) 632-2301. The minimum initial purchase for most accounts is \$1,000 (or \$50 under an automatic investment plan).

Taxes

The Fund's distributions are generally taxable to you as ordinary income, capital gains, or some combination of both, unless you are investing through a tax-deferred arrangement, such as a 401(k) plan or an individual retirement account.

Payments to Broker-Dealers and Other Financial Intermediaries

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

another investment. Ask your financial advisor or visit your financial intermediary's website for more information.

MUTUAL FINANCIAL SERVICES FUND

Investment Goal

Capital appreciation, which may occasionally be short term. The secondary goal is income.

Fees and Expenses of the Fund

These tables describe the fees and expenses that you may pay if you buy and hold shares of the Fund. You may qualify for sales charge discounts in Class A if you and your family invest, or agree to invest in the future, at least \$50,000 in Franklin Templeton funds. More information about these and other discounts is available from your financial professional and under “Your Account” on page 151 in the Fund’s Prospectus and under “Buying and Selling Shares” on page 64 of the Fund’s Statement of Additional Information.

SHAREHOLDER FEES *(fees paid directly from your investment)*

	Class A	Class B ¹	Class C	Class Z
Maximum Sales Charge (Load) Imposed on Purchases (as percentage of offering price)	5.75%	None	None	None
Maximum Deferred Sales Charge (Load) (as percentage of the lower of original purchase price or sale proceeds)	None	4.00%	1.00%	None

1. New or additional investments into Class B are no longer permitted.

ANNUAL FUND OPERATING EXPENSES

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

	Class A	Class B	Class C	Class Z
Management fees	0.80%	0.80%	0.80%	0.80%
Distribution and service (12b-1) fees	0.30%	1.00%	1.00%	None
Other expenses	0.44%	0.44%	0.44%	0.44%
Total annual Fund operating expenses	1.54%	2.24%	2.24%	1.24%

Example

This Example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds. The Example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your shares at the end of the period. The Example

also assumes that your investment has a 5% return each year and that the Fund’s operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

	1 Year	3 Years	5 Years	10 Years
Class A	\$723	\$1,033	\$1,366	\$2,304
Class B	\$627	\$1,000	\$1,400	\$2,399
Class C	\$327	\$700	\$1,200	\$2,575
Class Z	\$126	\$393	\$681	\$1,500
If you do not sell your shares:				
Class B	\$227	\$700	\$1,200	\$2,399
Class C	\$227	\$700	\$1,200	\$2,575

Portfolio Turnover

The Fund pays transaction costs, such as commissions, when it buys and sells securities (or “turns over” its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in higher taxes when Fund shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the example, affect the Fund’s performance. During the most recent fiscal year, the Fund’s portfolio turnover rate was 23.58% of the average value of its portfolio.

Principal Investment Strategies

Under normal market conditions, the Fund invests at least 80% of its net assets in securities of financial services companies that the investment manager believes are available at market prices less than their value based on certain recognized or objective criteria (intrinsic value). Following this value-oriented strategy, the Fund invests primarily in undervalued equity securities (securities trading at a discount to intrinsic value). The equity securities in which the Fund invests are primarily common stock. To a lesser extent, the Fund also invests in merger arbitrage securities and the debt and equity of distressed companies.

The Fund is not limited to pre-set maximums or minimums governing the size of the companies in which it may invest. However, the Fund invests the equity portion of its portfolio substantially in mid- and large cap companies and may invest a significant portion of its equity portfolio in small-cap companies.

The Fund may invest in foreign securities without limit.

The Fund may attempt, from time to time, to hedge (protect) against currency risks, largely using forward foreign currency exchange contracts and currency futures contracts (including currency index futures contracts) when, in the investment manager's opinion, it would be advantageous to the Fund to do so. The Fund may also, from time to time, attempt to hedge against market risk using a variety of derivatives.

Portfolio Selection

The investment manager employs a research driven, fundamental value strategy for the Fund. Investments are generally selected based on the investment manager's own analysis of the security's intrinsic value, including for equity securities, an analysis of book value, cash flow potential, long-term earnings and multiples of earnings. The investment manager examines each investment separately and there are no set criteria as to specific value parameters, asset size, earnings or industry type.

Principal Risks

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

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

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

Financial Services Companies The Fund concentrates its investments in companies operating in the financial services industry, which means that the Fund is less diversified than a fund investing in a broader range of industries, and is particularly sensitive to general market conditions and other risks of the financial services industry. These risks include the

effects of: (1) changes in interest rates on the profitability of financial services companies; (2) the rate of corporate and consumer debt defaults; (3) price competition; (4) governmental limitations on a company's loans, other financial commitments, product lines and other operations; and (5) recent ongoing changes in the financial services industry (including consolidations, development of new products and changes to the industry's regulatory framework). Some financial services companies have recently experienced significant losses in value and the possible recapitalization of such companies may present greater risks of loss. Insurance companies have additional risks, such as heavy price competition, claims activity and marketing competition, and can be particularly sensitive to specific events such as man-made and natural disasters (including weather catastrophes), terrorism, mortality risks and morbidity rates.

Value Style Investing A value stock may not increase in price as anticipated by the investment manager if other investors fail to recognize the company's value and bid up the price, the markets favor faster-growing companies, or the factors that the investment manager believes will increase the price of the security do not occur.

Smaller and Midsize Companies Securities issued by smaller and midsize companies may be more volatile in price than those of larger companies, involve substantial risks and should be considered speculative. Such risks may include greater sensitivity to economic conditions, less certain growth prospects, lack of depth of management and funds for growth and development and limited or less developed product lines and markets. In addition, smaller and midsize companies may be particularly affected by interest rate increases, as they may find it more difficult to borrow money to continue or expand operations, or may have difficulty in repaying any loans.

Foreign Securities Investing in foreign securities typically involves more risks than investing in U.S. securities, and includes risks associated with: political and economic developments - the political, economic and social structures of some foreign countries may be less stable and more volatile than those in the U.S.; trading practices - government supervision and regulation of foreign securities and currency markets, trading systems and brokers may be less than in the U.S.; availability of information - foreign issuers may not be subject to the same disclosure, accounting and financial reporting standards and practices as U.S. issuers; limited markets - the securities of certain foreign issuers may be less liquid (harder to sell) and more volatile; and currency exchange rate fluctuations and policies. The

risks of foreign investments may be greater in developing or emerging market countries.

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

Merger Arbitrage Securities and Distressed Companies A merger or other restructuring, or a tender or exchange offer, proposed or pending at the time the Fund invests in merger arbitrage securities may not be completed on the terms or within the time frame contemplated, which may result in losses to the Fund. Debt obligations of distressed companies typically are unrated, lower-rated, in default or close to default and are generally more likely to become worthless than the securities of more financially stable companies.

Management The Fund is subject to management risk because it is an actively managed investment portfolio. The Fund’s investment manager applies investment techniques and risk analyses in making investment decisions for the Fund, but there can be no guarantee that these decisions will produce the desired results.

Performance

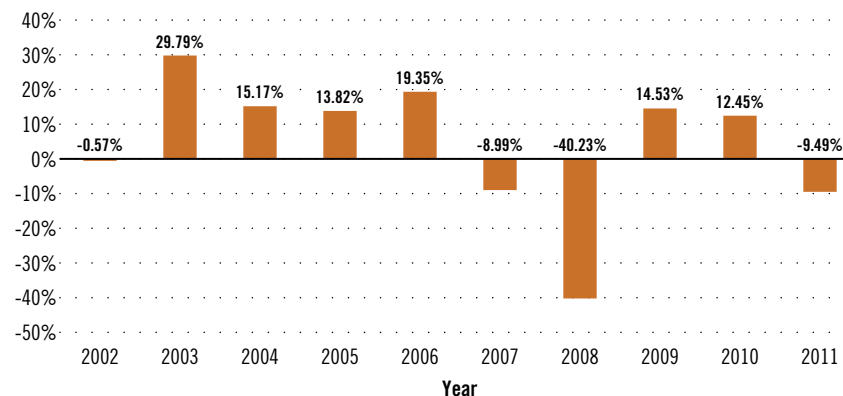
The following bar chart and table provide some indication of the risks of investing in the Fund. The bar chart shows changes in the Fund’s performance from year to year for Class A shares. The table shows how the Fund’s average annual returns for 1 year, 5 years, 10 years or since inception, as applicable,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

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

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

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

CLASS A ANNUAL TOTAL RETURNS



Best Quarter:	Q3'09	17.96%
Worst Quarter:	Q3'11	-17.39%
As of March 31, 2012, the Fund's year-to-date return was 9.77%.		

AVERAGE ANNUAL TOTAL RETURNS

(figures reflect sales charges)

For the periods ended December 31, 2011

	1 Year	5 Years	10 Years
Mutual Financial Services Fund - Class A			
Return Before Taxes	-14.72%	-9.78%	1.90%
Return After Taxes on Distributions	-14.98%	-10.41%	0.74%
Return After Taxes on Distributions and Sale of Fund Shares	-9.23%	-8.00%	1.55%
Mutual Financial Services Fund - Class B	-13.77%	-9.66%	1.95%
Mutual Financial Services Fund - Class C	-11.01%	-9.35%	1.80%
Mutual Financial Services Fund - Class Z	-9.26%	-8.45%	2.81%
S&P 500® Index (index reflects no deduction for fees, expenses or taxes)	2.11%	-0.25%	2.92%
S&P 500 Financials (index reflects no deduction for fees, expenses or taxes)	-17.06%	-16.90%	-4.60%

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

Investment Manager

Franklin Mutual Advisers, LLC (Franklin Mutual)

Portfolio Managers

ANDREW SLEEMAN, CFA

Portfolio Manager of Franklin Mutual and portfolio manager of the Fund since 2009.

RICHARD CETLIN

Portfolio Manager of Franklin Mutual and portfolio manager of the Fund since 2010.

Purchase and Sale of Fund Shares

You may purchase or redeem shares of the Fund on any business day online through our website at franklintempleton.com, by mail (Franklin Templeton Investor Services, P.O. Box 33030, St. Petersburg, FL 33733-

8030), or by telephone at (800) 632-2301. The minimum initial purchase for most accounts is \$1,000 (or \$50 under an automatic investment plan).

Taxes

The Fund's distributions are generally taxable to you as ordinary income, capital gains, or some combination of both, unless you are investing through a tax-deferred arrangement, such as a 401(k) plan or an individual retirement account.

Payments to Broker-Dealers and Other Financial Intermediaries

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

MUTUAL EUROPEAN FUND

Investment Goal

Capital appreciation, which may occasionally be short term. The secondary goal is income.

Fees and Expenses of the Fund

These tables describe the fees and expenses that you may pay if you buy and hold shares of the Fund. You may qualify for sales charge discounts in Class A if you and your family invest, or agree to invest in the future, at least \$50,000 in Franklin Templeton funds. More information about these and other discounts is available from your financial professional and under “Your Account” on page 151 in the Fund’s Prospectus and under “Buying and Selling Shares” on page 64 of the Fund’s Statement of Additional Information.

SHAREHOLDER FEES *(fees paid directly from your investment)*

	Class A	Class B ¹	Class C	Class R	Class Z
Maximum Sales Charge (Load) Imposed on Purchases (as percentage of offering price)	5.75%	None	None	None	None
Maximum Deferred Sales Charge (Load) (as percentage of the lower of original purchase price or sale proceeds)	None	4.00%	1.00%	None	None

1. New or additional investments into Class B are no longer permitted.

ANNUAL FUND OPERATING EXPENSES

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

	Class A	Class B	Class C	Class R	Class Z
Management fees	0.79%	0.79%	0.79%	0.79%	0.79%
Distribution and service (12b-1) fees	0.30%	1.00%	1.00%	0.50%	None
Other expenses	0.32%	0.32%	0.32%	0.32%	0.32%
Total annual Fund operating expenses	1.41%	2.11%	2.11%	1.61%	1.11%

Example

This Example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds. The Example assumes that you invest \$10,000 in the Fund for the time periods indicated

and then redeem all of your shares at the end of the period. The Example also assumes that your investment has a 5% return each year and that the Fund’s operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

	1 Year	3 Years	5 Years	10 Years
Class A	\$710	\$996	\$1,302	\$2,169
Class B	\$614	\$961	\$1,334	\$2,263
Class C	\$314	\$661	\$1,134	\$2,441
Class R	\$164	\$508	\$876	\$1,911
Class Z	\$113	\$353	\$612	\$1,352
If you do not sell your shares:				
Class B	\$214	\$661	\$1,134	\$2,263
Class C	\$214	\$661	\$1,134	\$2,441

Portfolio Turnover

The Fund pays transaction costs, such as commissions, when it buys and sells securities (or “turns over” its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in higher taxes when Fund shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the example, affect the Fund’s performance. During the most recent fiscal year, the Fund’s portfolio turnover rate was 32.60% of the average value of its portfolio.

Principal Investment Strategies

Under normal market conditions, the Fund invests at least 80% of its net assets in securities of European companies that the investment manager believes are available at market prices less than their value based on certain recognized or objective criteria (intrinsic value). Following this value-oriented strategy, the Fund invests primarily in undervalued equity securities (securities trading at a discount to intrinsic value). The equity securities in which the Fund invests are primarily common stock. To a lesser extent, the Fund also invests in merger arbitrage securities and the debt and equity of distressed companies.

The Fund normally invests in securities from at least five different countries, although, from time to time, it may invest all of its assets in a single country. The Fund also may invest up to 20% of its total assets in

securities of U.S. issuers and of issuers from the Levant, the Middle East and the remaining regions of the world, including emerging markets.

The Fund is not limited to pre-set maximums or minimums governing the size of the companies in which it may invest. However, the Fund currently invests the equity portion of its portfolio primarily to predominantly in mid- and large cap companies, with the remaining portion of its equity portfolio in smaller companies.

The Fund may attempt, from time to time, to hedge (protect) against currency risks, largely using forward foreign currency exchange contracts and currency futures contracts (including currency index futures contracts) when, in the investment manager's opinion, it would be advantageous to the Fund to do so. The Fund may also, from time to time, attempt to hedge against market risk using a variety of derivatives.

Portfolio Selection

The investment manager employs a research driven, fundamental value strategy for the Fund. Investments are generally selected based on the investment manager's own analysis of the security's intrinsic value, including for equity securities, an analysis of book value, cash flow potential, long-term earnings and multiples of earnings. The investment manager examines each investment separately and there are no set criteria as to specific value parameters, asset size, earnings or industry type.

Principal Risks

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

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

Individual stock prices tend to go up and down more dramatically than those of other types of investments. A slower-growth or recessionary

economic environment could have an adverse effect on the prices of the various stocks held by the Fund.

Value Style Investing A value stock may not increase in price as anticipated by the investment manager if other investors fail to recognize the company's value and bid up the price, the markets favor faster-growing companies, or the factors that the investment manager believes will increase the price of the security do not occur.

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

Region Focus Because the Fund invests its assets primarily in companies in a specific region, the Fund is subject to greater risks of adverse developments in that region and/or the surrounding regions than a fund that is more broadly diversified geographically. Political, social or economic disruptions in the region, even in countries in which the Fund is not invested, may adversely affect the value of securities values held by the Fund.

Current political uncertainty surrounding the European Union (EU) and its membership may increase market volatility. The financial instability of some countries in the EU, including Greece, Italy and Spain, together with the risk of that impacting other more stable countries may increase the economic risk of investing in companies in Europe.

Merger Arbitrage Securities and Distressed Companies A merger or other restructuring, or a tender or exchange offer, proposed or pending at the time the Fund invests in merger arbitrage securities may not be completed on the terms or within the time frame contemplated, which may result in losses to the Fund. Debt obligations of distressed companies typically are unrated, lower-rated, in default or close to default and are generally more

likely to become worthless than the securities of more financially stable companies.

Smaller and Midsize Companies Securities issued by smaller and midsize companies may be more volatile in price than those of larger companies, involve substantial risks and should be considered speculative. Such risks may include greater sensitivity to economic conditions, less certain growth prospects, lack of depth of management and funds for growth and development and limited or less developed product lines and markets. In addition, smaller and midsize companies may be particularly affected by interest rate increases, as they may find it more difficult to borrow money to continue or expand operations, or may have difficulty in repaying any loans.

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

Management The Fund is subject to management risk because it is an actively managed investment portfolio. The Fund's investment manager applies investment techniques and risk analyses in making investment decisions for the Fund, but there can be no guarantee that these decisions will produce the desired results.

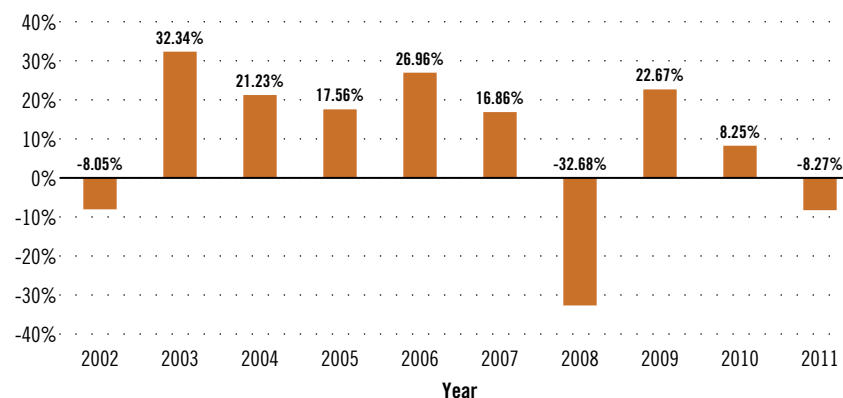
Performance

The following bar chart and table provide some indication of the risks of investing in the Fund. The bar chart shows changes in the Fund's performance from year to year for Class A shares. The table shows how the Fund's average annual returns for 1 year, 5 years, 10 years or since

inception, as applicable, compared with those of a broad measure of market performance. The Fund's past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future. You can obtain updated performance information at franklintempleton.com or by calling (800) DIAL BEN/342-5236.

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

CLASS A ANNUAL TOTAL RETURNS



Best Quarter:	Q3'09	18.61%
Worst Quarter:	Q3'11	-18.89%
As of March 31, 2012, the Fund's year-to-date return was 8.12%.		

AVERAGE ANNUAL TOTAL RETURNS

(figures reflect sales charges)

For the periods ended December 31, 2011

	1 Year	5 Years	10 Years
Mutual European Fund - Class A			
Return Before Taxes	-13.52%	-2.02%	7.12%
Return After Taxes on Distributions	-13.89%	-2.44%	6.44%
Return After Taxes on Distributions and Sale of Fund Shares	-8.04%	-1.46%	6.33%
Mutual European Fund - Class B	-12.48%	-1.87%	7.17%
Mutual European Fund - Class C	-9.79%	-1.54%	7.02%
Mutual European Fund - Class R	-8.45%	-1.48%	7.27%
Mutual European Fund - Class Z	-8.01%	-0.56%	8.09%
MSCI Europe Index NR (Local Currency) (index reflects no deduction for fees, expenses or taxes)	-9.34%	-4.33%	1.25%

Historical performance for Class R shares prior to their inception is based on the performance of Class Z shares. Class R performance has been adjusted to reflect differences in 12b-1 expenses between classes.

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

Investment Manager

Franklin Mutual Advisers, LLC (Franklin Mutual)

Portfolio Managers

PHILIPPE BRUGERE-TRELAT

Executive Vice President of Franklin Mutual and portfolio manager of the Fund since 2004.

KATRINA DUDLEY, CFA

Portfolio Manager of Franklin Mutual and portfolio manager of the Fund since 2007.

Purchase and Sale of Fund Shares

You may purchase or redeem shares of the Fund on any business day online through our website at franklintempleton.com, by mail (Franklin Templeton Investor Services, P.O. Box 33030, St. Petersburg, FL 33733-8030), or by telephone at (800) 632-2301. The minimum initial purchase for most accounts is \$1,000 (or \$50 under an automatic investment plan).

Taxes

The Fund's distributions are generally taxable to you as ordinary income, capital gains, or some combination of both, unless you are investing through a tax-deferred arrangement, such as a 401(k) plan or an individual retirement account.

Payments to Broker-Dealers and Other Financial Intermediaries

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

MUTUAL INTERNATIONAL FUND

Investment Goal

Capital appreciation, which may occasionally be short term. The secondary goal is income.

Fees and Expenses of the Fund

These tables describe the fees and expenses that you may pay if you buy and hold shares of the Fund. You may qualify for sales charge discounts in Class A if you and your family invest, or agree to invest in the future, at least \$50,000 in Franklin Templeton funds. More information about these and other discounts is available from your financial professional and under “Your Account” on page 151 in the Fund’s Prospectus and under “Buying and Selling Shares” on page 64 of the Fund’s Statement of Additional Information.

SHAREHOLDER FEES *(fees paid directly from your investment)*

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

ANNUAL FUND OPERATING EXPENSES

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

	Class A	Class C	Class R	Class Z
Management fees	0.80%	0.80%	0.80%	0.80%
Distribution and service (12b-1) fees	0.30%	1.00%	0.50%	None
Other expenses	1.00%	1.00%	1.00%	1.00%
Total annual Fund operating expenses	2.10%	2.80%	2.30%	1.80%
Fee waiver and/or expense reimbursement ¹	-0.63%	-0.63%	-0.63%	-0.63%
Total annual Fund operating expenses after fee waiver and/or expense reimbursement	1.47%	2.17%	1.67%	1.17%

1. The investment manager and administrator have contractually agreed to waive or assume certain expenses so that common expenses (excluding Rule 12b-1 fees and acquired fund fees and expenses) for each class of the Fund do not exceed 1.17% (other than certain non-routine expenses) until April 30, 2013. Contractual fee waiver and/or expense reimbursement agreements may not be terminated during the terms set forth above.

Example

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

	1 Year	3 Years	5 Years	10 Years
Class A	\$716	\$1,138	\$1,584	\$2,819
Class C	\$320	\$809	\$1,423	\$3,083
Class R	\$170	\$658	\$1,173	\$2,587
If you do not sell your shares:				
Class C	\$220	\$809	\$1,423	\$3,083

Portfolio Turnover

The Fund pays transaction costs, such as commissions, when it buys and sells securities (or “turns over” its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in higher taxes when Fund shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the example, affect the Fund’s performance. During the most recent fiscal year, the Fund’s portfolio turnover rate was 41.26% of the average value of its portfolio.

Principal Investment Strategies

Under normal market conditions, the Fund invests at least 80% of its net assets in securities of non-U.S. issuers. The investment manager focuses the Fund’s investments on securities believed to be available at market prices less than their value based on certain recognized or objective criteria (intrinsic value). Following this value-oriented strategy, the Fund invests primarily in undervalued equity securities (securities trading at a discount to intrinsic value). The equity securities in which the Fund invests are primarily common stocks. To a lesser extent, the Fund also invests in merger arbitrage securities and the debt and equity of distressed companies.

The Fund invests primarily in securities of Asian and European companies that the investment manager believes are undervalued.

The Fund normally invests in securities from at least five different countries, although, from time to time, it may invest all of its assets in a single country. The Fund also may invest up to 20% of its total assets in securities of U.S. issuers and of issuers from the Levant, the Middle East and the remaining regions of the world, including emerging markets.

The Fund is not limited to pre-set maximums or minimums governing the size of the companies in which it may invest. However, the Fund currently invests the equity portion of its portfolio primarily to predominantly in mid- and large cap companies, with the remaining portion of its equity portfolio in smaller companies.

The Fund may attempt, from time to time, to hedge (protect) against currency risks, largely using forward foreign currency exchange contracts and currency futures contracts (including currency index futures contracts) when, in the investment manager's opinion, it would be advantageous to the Fund to do so. The Fund may also, from time to time, attempt to hedge against market risk using a variety of derivatives.

Portfolio Selection

The investment manager employs a research driven, fundamental value strategy for the Fund. Investments are generally selected based on the investment manager's own analysis of the security's intrinsic value, including for equity securities, an analysis of book value, cash flow potential, long-term earnings and multiples of earnings. The investment manager examines each investment separately and there are no set criteria as to specific value parameters, asset size, earnings or industry type.

Principal Risks

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

Market The market values of securities owned by the Fund will go up and down, sometimes rapidly or unpredictably. A security's market value may be reduced by market activity or other results of supply and demand unrelated to the issuer. This is a basic risk associated with all securities.

When there are more sellers than buyers, prices tend to fall. Likewise, when there are more buyers than sellers, prices tend to rise.

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

Value Style Investing A value stock may not increase in price as anticipated by the investment manager if other investors fail to recognize the company's value and bid up the price, the markets favor faster-growing companies, or the factors that the investment manager believes will increase the price of the security do not occur.

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

Region Focus Because the Fund invests its assets primarily in companies in a specific region, the Fund is subject to greater risks of adverse developments in that region and/or the surrounding regions than a fund that is more broadly diversified geographically. Political, social or economic disruptions in the region, even in countries in which the Fund is not invested, may adversely affect the value of securities values held by the Fund.

Current political uncertainty surrounding the European Union (EU) and its membership may increase market volatility. The financial instability of some countries in the EU, including Greece, Italy and Spain, together with the risk of that impacting other more stable countries may increase the economic risk of investing in companies in Europe.

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

Smaller and Midsize Companies Securities issued by smaller and midsize companies may be more volatile in price than those of larger companies, involve substantial risks and should be considered speculative. Such risks may include greater sensitivity to economic conditions, less certain growth prospects, lack of depth of management and funds for growth and development and limited or less developed product lines and markets. In addition, smaller and midsize companies may be particularly affected by interest rate increases, as they may find it more difficult to borrow money to continue or expand operations, or may have difficulty in repaying any loans.

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

Merger Arbitrage Securities and Distressed Companies A merger or other restructuring, or a tender or exchange offer, proposed or pending at the time the Fund invests in merger arbitrage securities may not be completed on the terms or within the time frame contemplated, which may result in losses to the Fund. Debt obligations of distressed companies typically are unrated, lower-rated, in default or close to default and are generally more

likely to become worthless than the securities of more financially stable companies.

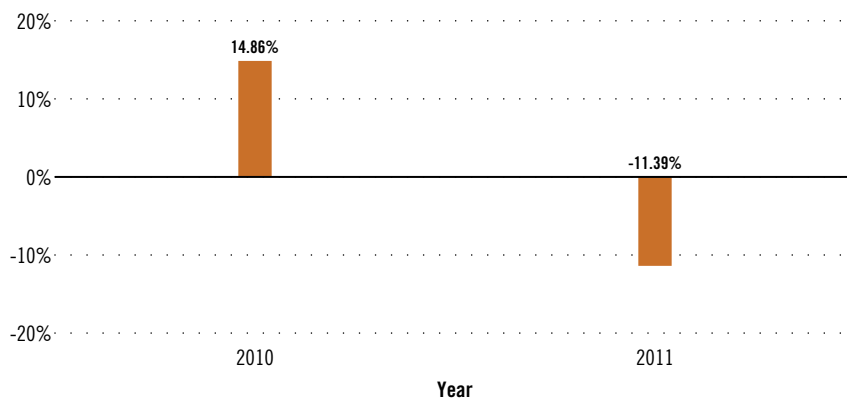
Management The Fund is subject to management risk because it is an actively managed investment portfolio. The Fund's investment manager applies investment techniques and risk analyses in making investment decisions for the Fund, but there can be no guarantee that these decisions will produce the desired results.

Performance

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

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

CLASS A ANNUAL TOTAL RETURNS



Best Quarter:	Q3'10	10.23%
Worst Quarter:	Q3'11	-18.71%
As of March 31, 2012, the Fund's year-to-date return was 12.20%.		

AVERAGE ANNUAL TOTAL RETURNS

(figures reflect sales charges)

For the periods ended December 31, 2011

	1 Year	Since Inception 5/1/2009
Mutual International Fund - Class A		
Return Before Taxes	-16.48%	8.01%
Return After Taxes on Distributions	-16.78%	7.17%
Return After Taxes on Distributions and Sale of Fund Shares	-10.03%	6.64%
Mutual International Fund - Class C	-12.84%	9.65%
Mutual International Fund - Class R	-11.53%	10.20%
Mutual International Fund - Class Z	-11.08%	10.78%
MSCI EAFE Index Net Return (Local currency) (index reflects no deduction for fees, expenses or taxes)	-12.15%	5.25%

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

Investment Manager

Franklin Mutual Advisers, LLC (Franklin Mutual)

Portfolio Managers

PHILIPPE BRUGERE-TRELAT

Executive Vice President of Franklin Mutual and portfolio manager of the Fund since inception (2009).

ANDREW SLEEMAN, CFA

Portfolio Manager of Franklin Mutual and portfolio manager of the Fund since inception (2009).

Purchase and Sale of Fund Shares

You may purchase or redeem shares of the Fund on any business day online through our website at franklintempleton.com, by mail (Franklin Templeton Investor Services, P.O. Box 33030, St. Petersburg, FL 33733-8030), or by telephone at (800) 632-2301. The minimum initial purchase for most accounts is \$1,000 (or \$50 under an automatic investment plan).

Taxes

The Fund's distributions are generally taxable to you as ordinary income, capital gains, or some combination of both, unless you are investing through a tax-deferred arrangement, such as a 401(k) plan or an individual retirement account.

Payments to Broker-Dealers and Other Financial Intermediaries

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

MUTUAL BEACON FUND
MUTUAL GLOBAL DISCOVERY FUND
MUTUAL QUEST FUND
MUTUAL SHARES FUND

Investment Goal

The principal investment goal of Mutual Beacon, Mutual Quest and Mutual Shares Funds is capital appreciation, which may occasionally be short term. Their secondary goal is income. Mutual Global Discovery Fund's investment goal is capital appreciation.

Principal Investment Policies and Practices

Under normal market conditions, each Fund invests primarily in equity securities (including securities convertible into, or that the investment manager expects to be exchanged for, common or preferred stock) of U.S. and foreign companies that the investment manager believes are available at market prices less than their value based on certain recognized or objective criteria (intrinsic value). Following this value-oriented strategy, each Fund invests primarily in:

- **Undervalued Securities** - Securities trading at a discount to intrinsic value.

And, to a lesser extent, each Fund also invests in:

- **Merger Arbitrage Securities** - Securities of companies involved in non-distressed restructurings (such as mergers, acquisitions, consolidations, liquidations, spinoffs, or tender or exchange offers) or that the investment manager believes are cheap relative to an economically equivalent security of the same or another company.
- **Distressed Companies** - Securities of companies that are, or are about to be, involved in reorganizations, financial restructurings, or bankruptcy.

In pursuit of their value-oriented strategy, the Funds are not limited to pre-set maximums or minimums governing the size of the companies in which they may invest. However, as a general rule, Mutual Shares Fund currently invests the equity portion of its portfolio primarily to predominantly in companies with market capitalizations greater than \$5 billion, with

a portion or significant amount in smaller companies. Mutual Beacon, Mutual Global Discovery and Mutual Quest Funds currently invest the equity portion of their portfolio primarily to predominantly in mid- and large-cap companies, with the remaining portion in smaller companies. For these purposes, mid- and large cap companies are considered to be those with market capitalization values (share price times the number of shares of common stock outstanding) greater than \$1.5 billion.

While each Fund generally purchases securities for investment purposes, the investment manager may seek to influence or control management, or invest in other companies that do so, when the investment manager believes the Fund may benefit.

The Mutual Beacon and Mutual Shares Funds expect to invest a significant portion (up to 35%) of their assets in foreign securities, Mutual Quest Fund expects to invest a significant portion (up to 50%) of its assets in foreign securities and Mutual Global Discovery Fund expects to invest substantially and potentially up to 100% of its assets in foreign securities, which may include sovereign debt and participations in foreign government debt. The Mutual Global Discovery Fund presently does not intend to invest more than a portion (no more than 25%) of its assets in securities of issuers located in emerging market countries.

Each Fund's investments in Distressed Companies typically involve the purchase of bank debt, lower-rated or defaulted debt securities, comparable unrated debt securities, trade claims or other indebtedness (or participations in the indebtedness) of such companies. Such other indebtedness generally represents a specific commercial loan or portion of a loan made to a company by a financial institution such as a bank. Loan participations represent fractional interests in a company's indebtedness and are generally made available by banks or other institutional investors. By purchasing all or a part of a company's direct indebtedness, a Fund, in effect, steps into the shoes of the lender. If the loan is secured, a Fund will have a priority claim to the assets of the company ahead of unsecured creditors and stockholders. Each Fund generally makes such investments to achieve capital appreciation, in addition to generating income.

For purposes of pursuing its investment goal, each Fund may, from time to time, enter into currency-related transactions involving certain derivative instruments, including currency forwards, and currency and currency index futures contracts. The use of derivative currency transactions may allow the Fund to obtain net long or net negative (short) exposure to selected

currencies. Each Fund may also enter into various other transactions involving derivatives, including put and call options on equity securities and swap agreements (which may include total return and credit default swaps). The use of these derivative transactions may allow the Fund to obtain net long or net negative (short) exposures to selected countries, currencies or issues. The investment manager considers various factors, such as availability and cost, in deciding whether, when and to what extent to enter into derivative transactions.

The Fund may use any of the above currency techniques or other derivative transactions for the purposes of enhancing Fund returns, increasing liquidity, gaining exposure to particular instruments in more efficient or less expensive ways and/or hedging risks relating to changes in currency exchange rates, market prices and other market factors. By way of example, when the investment manager believes that the value of a particular foreign currency is expected to increase compared to the U.S. dollar, the Fund could enter into a forward contract to purchase that foreign currency at a future date. If at such future date the value of the foreign currency exceeds the then current amount of U.S. dollars to be paid by the Fund under the contract, the Fund will recognize a gain. When used for hedging purposes, a forward contract or other derivative instrument could be used to protect against possible declines in a currency's value where a security held or to be purchased by the Fund is denominated in that currency.

A forward contract is an obligation to purchase or sell a specific foreign currency at an agreed exchange rate (price) at a future date, which is individually negotiated and privately traded by currency traders and their customers in the interbank market.

A futures contract is a standard binding agreement between two parties to buy or sell a specified quantity of an underlying instrument or asset, such as a specific security or currency, at a specified price at a specified later date that trade on an exchange. A "sale" of a futures contract means the acquisition of a contractual obligation to deliver the underlying instrument called for by the contract at a specified price on a specified date. A "purchase" of a futures contract means the acquisition of a contractual obligation to acquire the underlying instrument called for by the contract at a specified price on a specified date. The purchase or sale of a futures contract will allow the Fund to increase or decrease its exposure to the underlying instrument or asset. Although most futures contracts by their terms require the actual delivery or acquisition of the underlying

instrument, some require cash settlement. The Fund may buy and sell futures contracts that trade on U.S. and foreign exchanges.

Swap agreements, such as total return swaps and credit default swaps, are contracts between the Fund and, typically, a brokerage firm, bank, or other financial institution (the swap counterparty) for periods ranging from a few days to multiple years. In a basic swap transaction, the Fund agrees with its counterparty to exchange the returns (or differentials in rates of return) earned or realized on a particular "notional amount" of underlying instruments. The notional amount is the set amount selected by the parties as the basis on which to calculate the obligations that they have agreed to exchange. The parties typically do not actually exchange the notional amount. Instead, they agree to exchange the returns that would be earned or realized if the notional amount were invested in given instruments or at given interest rates. For credit default swaps, the "buyer" of the credit default swap agreement is obligated to pay the "seller" a periodic stream of payments over the term of the agreement in return for a payment by the "seller" that is contingent upon the occurrence of a credit event with respect to an underlying reference debt obligation. As a "buyer" of the credit default swap, the Fund is purchasing the obligation of its counterparty to offset losses the Fund could experience if there was such a credit event. Generally, a credit event means bankruptcy, failure to timely pay interest or principal, obligation acceleration, or modified restructuring of the reference debt obligation. The contingent payment by the seller generally is the face amount of the debt obligation in exchange for the physical delivery of the reference debt obligation or a cash payment equal to the then current market value of that debt obligation.

A call option gives the purchaser of the option, upon payment of a premium, the right to buy, and the seller the obligation to sell, the underlying instrument at the exercise price. Conversely, a put option gives the purchaser of the option, upon payment of a premium, the right to sell, and the seller of the option the obligation to buy, the underlying instrument at the exercise price.

The investment manager considers various factors, such as availability and cost, in deciding whether to use a particular derivative instrument or strategy. Moreover, investors should bear in mind that the Fund is not obligated to actively engage in any derivative transactions.

Each Fund may also engage from time to time in an "arbitrage" strategy. When engaging in an arbitrage strategy, a Fund typically buys one security

while at the same time selling short another security. Such Fund generally buys the security that the investment manager believes is either cheap relative to the price of the other security or otherwise undervalued, and sells short the security that the investment manager believes is either expensive relative to the price of the other security or otherwise overvalued. In doing so, a Fund attempts to profit from a perceived relationship between the values of the two securities. Each Fund generally engages in an arbitrage strategy in connection with an announced corporate restructuring, such as a merger, acquisition or tender offer, or other corporate action or event as further discussed under “Merger Arbitrage Securities and Distressed Companies” below.

Portfolio Selection

The investment manager employs a research driven, fundamental value strategy for each of the Funds. In choosing equity investments, the investment manager focuses on the market price of a company’s securities relative to the investment manager’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. Similarly, debt securities and other indebtedness, including loan participations, are generally selected based on the investment manager’s own analysis of the security’s intrinsic value rather than the coupon rate or rating of the security. The investment manager examines each investment separately and there are no set criteria as to specific value parameters, asset size, earnings or industry type.

Differences Between The Funds

Although the investment manager follows a similar strategy in choosing investments for each of the Funds, there are certain differences. First, the Funds vary in size; second, each Fund, to a certain extent, has a different team of portfolio managers who have primary responsibility for selecting investments. Third, although the Funds may invest a portion of their assets in foreign securities (Mutual Global Discovery may invest all of its assets in foreign securities) and in small and mid-cap companies, the proportion so invested will vary. Finally the Funds may allocate foreign investments to different geographic areas. As a result of these differences, the performance of the four Funds (hereafter “the Fund”) will vary.

Principal Risks

Market

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

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

Value Style Investing

Value securities may not increase in price as anticipated by the investment manager, and may even decline further in value, if other investors fail to recognize the company’s value, or favor investing in faster-growing companies, or if the events or factors that the investment manager believes will increase a security’s market value do not occur.

The Fund’s bargain-driven focus may result in the Fund choosing securities that are not widely followed by other investors. Securities that are considered “cheaply” priced also may include those of companies reporting poor earnings, companies whose share prices have declined sharply (such as growth companies that have recently stumbled to levels considered “cheap” in the investment manager’s opinion), turnarounds, cyclical companies, or companies emerging from bankruptcy, all of which may have a higher risk of being ignored or rejected, and therefore undervalued, by the market or losing more value.

Merger Arbitrage Securities and Distressed Companies

A merger or other restructuring, or a tender or exchange offer, proposed or pending at the time the Fund invests in Merger Arbitrage Securities may not be completed on the terms or within the time frame contemplated, which may result in losses to the Fund. Debt obligations of Distressed Companies typically are unrated, lower-rated, in default or close to default. Also, securities of Distressed Companies are generally more likely to become worthless than the securities of more financially stable companies.

Foreign Securities

Investing in foreign securities, including securities of foreign governments, typically involves more risks than investing in U.S. securities. Certain of these risks also may apply to securities of U.S. companies with significant foreign operations. These risks, which can increase the potential for losses in the Fund and affect its share price, are discussed in more detail in the section “More Information on Investment Policies, Practices and Risks.”

Smaller and Midsize Companies

While smaller and midsize companies may offer substantial opportunities for capital growth, they also involve substantial risks and should be considered speculative. Historically, smaller and midsize company securities have been more volatile in price than larger company securities, especially over the short term. Among the reasons for the greater price volatility are the less certain growth prospects of smaller and midsize companies, the lower degree of liquidity in the markets for such securities, and the greater sensitivity of smaller and midsize companies to changing economic conditions.

In addition, smaller and midsize companies may lack depth of management, be unable to generate funds necessary for growth or development, have limited product lines or be developing or marketing new products or services for which markets are not yet established and may never become established. Smaller and midsize companies may be particularly affected by interest rate increases, as they may find it more difficult to borrow money to continue or expand operations, or may have difficulty in repaying any loans which are floating rate.

Credit

The Fund could lose money on a debt security if an issuer or borrower is unable or fails to meet its obligations, including failing to make interest payments and/or to repay principal when due. Changes in an issuer’s

financial strength, the market’s perception of the issuer’s financial strength or in a security’s credit rating, which reflects a third party’s assessment of the credit risk presented by a particular issuer, may affect debt securities’ value. The Fund may incur substantial losses on debt securities that are inaccurately perceived to present a different amount of credit risk by the market, the investment manager or the rating agencies than such securities actually do.

High-Yield Debt Securities

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

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

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

Portfolio Turnover

The investment manager will sell a security when it believes it is appropriate to do so, regardless of how long the Fund has held the security. The Fund's turnover rate may exceed 100% per year because of the anticipated use of certain investment strategies. The rate of portfolio turnover will not be a limiting factor for the investment manager in making decisions on when to buy or sell securities. High turnover will increase the Fund's transaction costs and may increase your tax liability if the transactions result in capital gains.

MUTUAL FINANCIAL SERVICES FUND

Investment Goal

The Fund's principal investment goal is capital appreciation, which may occasionally be short term. Its secondary goal is income.

Principal Investment Policies and Practices

Under normal market conditions, the Fund invests at least 80% of its net assets in securities of financial services companies that the investment manager believes are available at market prices less than their value based on certain recognized or objective criteria (intrinsic value). Shareholders will be given at least 60 days' advance notice of any planned change to the 80% policy regarding investment in securities of financial services companies.

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

- **Undervalued Securities** - Securities trading at a discount to intrinsic value.

And, to a lesser extent, the Fund also invests in:

- **Merger Arbitrage Securities** - Securities of companies involved in non-distressed restructurings (such as mergers, acquisitions, consolidations, liquidations, spinoffs, or tender or exchange offers) or that the investment manager believes are cheap relative to an economically equivalent security of the same or another company.
- **Distressed Companies** - Securities of companies that are, or are about to be, involved in reorganizations, financial restructurings, or bankruptcy.

Financial services companies are companies that, in the manager's view, derive at least 50% of their assets or revenues from the creation, purchase and sale of financial instruments or services, or devote at least 50% of their assets to this objective. These companies include banks, savings and loan organizations, credit card companies, brokerage firms, finance companies (some of which may be structured as real estate investment trusts), sub-prime lending institutions, investment advisors, investment companies and insurance companies.

The Fund invests primarily in equity securities (including securities convertible into, or that the investment manager expects to be exchanged for, common or preferred stock) of financial services companies that the manager believes are undervalued. In pursuit of its value-oriented strategy, the Fund is not limited to pre-set maximums or minimums governing the size of the companies in which it may invest. However, as a general rule, the Fund invests the equity portion of its portfolio substantially in mid- and large cap companies and may invest a significant portion of its equity portfolio in small-cap companies. For these purposes, mid- and large cap companies are considered to be those with market capitalization values (share price times the number of shares of common stock outstanding) greater than \$1.5 billion.

While the Fund generally purchases securities for investment purposes, the investment manager may seek to influence or control management, or invest in other companies that do so, when the investment manager believes the Fund may benefit.

The Fund's investments in Distressed Companies typically involve the purchase of bank debt, lower-rated or defaulted debt securities, comparable unrated debt securities, trade claims, or other indebtedness (or participations in the indebtedness) of such companies. Such other indebtedness generally represents a specific commercial loan or portion of a loan made to a company by a financial institution such as a bank. Loan participations represent fractional interests in a company's indebtedness and are generally made available by banks or other institutional investors. By purchasing all or a part of a company's direct indebtedness, the Fund, in effect, steps into the shoes of the lender. If the loan is secured, the Fund will have a priority claim to the assets of the company ahead of unsecured creditors and stockholders. The Fund generally makes investments in Distressed Companies to achieve capital appreciation, in addition to generating income.

For purposes of pursuing its investment goal, the Fund may, from time to time, enter into currency-related transactions involving certain derivative instruments, including currency forwards, and currency and currency index futures contracts. The use of derivative currency transactions may allow the Fund to obtain net long or net negative (short) exposure to selected currencies. The Fund may also enter into various other transactions involving derivatives, including put and call options on equity securities and swap agreements (which may include total return and credit default swaps). The use of these derivative transactions may allow the Fund to

obtain net long or net negative (short) exposures to selected countries, currencies or issues. The investment manager considers various factors, such as availability and cost, in deciding whether, when and to what extent to enter into derivative transactions.

The Fund may use any of the above currency techniques or other derivative transactions for the purposes of enhancing Fund returns, increasing liquidity, gaining exposure to particular instruments in more efficient or less expensive ways and/or hedging risks relating to changes in currency exchange rates, market prices and other market factors. By way of example, when the investment manager believes that the value of a particular foreign currency is expected to increase compared to the U.S. dollar, the Fund could enter into a forward contract to purchase that foreign currency at a future date. If at such future date the value of the foreign currency exceeds the then current amount of U.S. dollars to be paid by the Fund under the contract, the Fund will recognize a gain. When used for hedging purposes, a forward contract or other derivative instrument could be used to protect against possible declines in a currency's value where a security held or to be purchased by the Fund is denominated in that currency.

A forward contract is an obligation to purchase or sell a specific foreign currency at an agreed exchange rate (price) at a future date, which is individually negotiated and privately traded by currency traders and their customers in the interbank market.

A futures contract is a standard binding agreement between two parties to buy or sell a specified quantity of an underlying instrument or asset, such as a specific security or currency, at a specified price at a specified later date that trade on an exchange. A "sale" of a futures contract means the acquisition of a contractual obligation to deliver the underlying instrument called for by the contract at a specified price on a specified date. A "purchase" of a futures contract means the acquisition of a contractual obligation to acquire the underlying instrument called for by the contract at a specified price on a specified date. The purchase or sale of a futures contract will allow the Fund to increase or decrease its exposure to the underlying instrument or asset. Although most futures contracts by their terms require the actual delivery or acquisition of the underlying instrument, some require cash settlement. The Fund may buy and sell futures contracts that trade on U.S. and foreign exchanges.

Swap agreements, such as total return swaps and credit default swaps, are contracts between the Fund and, typically, a brokerage firm, bank, or other financial institution (the swap counterparty) for periods ranging from a few days to multiple years. In a basic swap transaction, the Fund agrees with its counterparty to exchange the returns (or differentials in rates of return) earned or realized on a particular “notional amount” of underlying instruments. The notional amount is the set amount selected by the parties as the basis on which to calculate the obligations that they have agreed to exchange. The parties typically do not actually exchange the notional amount. Instead, they agree to exchange the returns that would be earned or realized if the notional amount were invested in given instruments or at given interest rates. For credit default swaps, the “buyer” of the credit default swap agreement is obligated to pay the “seller” a periodic stream of payments over the term of the agreement in return for a payment by the “seller” that is contingent upon the occurrence of a credit event with respect to an underlying reference debt obligation. As a “buyer” of the credit default swap, the Fund is purchasing the obligation of its counterparty to offset losses the Fund could experience if there was such a credit event. Generally, a credit event means bankruptcy, failure to timely pay interest or principal, obligation acceleration, or modified restructuring of the reference debt obligation. The contingent payment by the seller generally is the face amount of the debt obligation in exchange for the physical delivery of the reference debt obligation or a cash payment equal to the then current market value of that debt obligation.

A call option gives the purchaser of the option, upon payment of a premium, the right to buy, and the seller the obligation to sell, the underlying instrument at the exercise price. Conversely, a put option gives the purchaser of the option, upon payment of a premium, the right to sell, and the seller of the option the obligation to buy, the underlying instrument at the exercise price.

The investment manager considers various factors, such as availability and cost, in deciding whether to use a particular derivative instrument or strategy. Moreover, investors should bear in mind that the Fund is not obligated to actively engage in any derivative transactions.

The Fund may also engage from time to time in an “arbitrage” strategy. When engaging in an arbitrage strategy, the Fund typically buys one security while at the same time selling short another security. The Fund generally buys the security that the investment manager believes is either cheap relative to the price of the other security or otherwise undervalued,

and sells short the security that the investment manager believes is either expensive relative to the price of the other security or otherwise overvalued. In doing so, the Fund attempts to profit from a perceived relationship between the values of the two securities. The Fund generally engages in an arbitrage strategy in connection with an announced corporate restructuring, such as a merger, acquisition or tender offer, or other corporate action or event as further discussed under “Merger Arbitrage Securities and Distressed Companies” below.

Portfolio Selection

The investment manager employs a research driven, fundamental value strategy for the Fund. In choosing equity investments, the investment manager focuses on the market price of a company’s securities relative to the investment manager’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. Similarly, debt securities and other indebtedness, including loan participations, are generally selected based on the investment manager’s own analysis of the security’s intrinsic value rather than the coupon rate or rating of the security. The investment manager examines each investment separately and there are no set criteria as to specific value parameters, asset size, earnings or industry type.

Principal Risks

Market

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

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

Financial Services Companies

The Fund concentrates its investments in companies operating in the financial services industry, which means the Fund is less diversified than a fund investing in a broader range of securities. As a result, the Fund's investments and performance are particularly sensitive to general market and economic conditions as well as other risks specific to the financial services industry. For example, increases in interest rates, price competition, and corporate and consumer debt defaults can have a negative effect on the profitability of financial services companies. In addition, the financial services industry, including banks, insurance companies and investment banking firms, have recently experienced significant losses in value and the possible recapitalization of such companies (excluding direct investments by the U.S. Government) may present greater risks of loss to shareholders and other security holders.

Financial services companies are subject to extensive government regulation, which tends to limit product lines and operations, as well as the amount and types of loans and other financial commitments a financial services company can make, and the interest rates and fees it can charge. These limitations can have a significant impact on the profitability of a financial services company.

Insurance companies may be subject to heavy price competition, claims activity, marketing competition and general economic conditions. Certain lines of insurance can be significantly influenced by specific events. For example, property and casualty insurer profits may be affected by man-made and natural disasters (including weather catastrophes), as well as terrorism; and life and health insurer profits may be affected by mortality risks and morbidity rates. Individual insurance companies may be subject to material risks, such as inadequate reserve funds to pay claims and the inability to collect from reinsurance carriers.

The financial services industry continues to undergo change as existing distinctions between banking, insurance and brokerage businesses become blurred. In addition, the financial services industry continues to experience consolidations, development of new products and structures and changes to its regulatory framework. These changes are likely to have a significant

impact on the financial services industry and the Fund, but it is not possible to predict whether the effect will be beneficial or adverse. That depends not only upon how these changes affect the industry, but also how the particular securities in the Fund's portfolio are affected.

Because the Fund's investment manager is a subsidiary of a financial holding company (FHC), federal regulations applicable to FHCs may limit or restrict the Fund's ability to acquire or hold a position in a given security when it might otherwise be advantageous for the Fund to acquire or hold that security.

Value Style Investing

Value securities may not increase in price as anticipated by the investment manager, and may even decline further in value, if other investors fail to recognize the company's value, or favor investing in faster-growing companies, or if the events or factors that the investment manager believes will increase a security's market value do not occur.

The Fund's bargain-driven focus may result in the Fund choosing securities that are not widely followed by other investors. Securities that are considered "cheaply" priced also may include those of companies reporting poor earnings, companies whose share prices have declined sharply (such as growth companies that have recently stumbled to levels considered "cheap" in the investment manager's opinion), turnarounds, cyclical companies, or companies emerging from bankruptcy, all of which may have a higher risk of being ignored or rejected, and therefore undervalued, by the market or losing more value.

Smaller and Midsize Companies

While smaller and midsize companies may offer substantial opportunities for capital growth, they also involve substantial risks and should be considered speculative. Historically, smaller and midsize company securities have been more volatile in price than larger company securities, especially over the short term. Among the reasons for the greater price volatility are the less certain growth prospects of smaller and midsize companies, the lower degree of liquidity in the markets for such securities, and the greater sensitivity of smaller and midsize companies to changing economic conditions.

In addition, smaller and midsize companies may lack depth of management, be unable to generate funds necessary for growth or development, have limited product lines or be developing or marketing

new products or services for which markets are not yet established and may never become established. Smaller and midsize companies may be particularly affected by interest rate increases, as they may find it more difficult to borrow money to continue or expand operations, or may have difficulty in repaying any loans which are floating rate.

Merger Arbitrage Securities and Distressed Companies

A merger or other restructuring, or a tender or exchange offer, proposed or pending at the time the Fund invests in Merger Arbitrage Securities may not be completed on the terms or within the time frame contemplated, which may result in losses to the Fund. Debt obligations of Distressed Companies typically are unrated, lower-rated, in default or close to default. Also, securities of Distressed Companies are generally more likely to become worthless than the securities of more financially stable companies.

Foreign Securities

Investing in foreign securities, including securities of foreign governments, typically involves more risks than investing in U.S. securities. Certain of these risks also may apply to securities of U.S. companies with significant foreign operations. These risks, which can increase the potential for losses in the Fund and affect its share price, are discussed in more detail in the section “More Information on Investment Policies, Practices and Risks.”

Credit

The Fund could lose money on a debt security if an issuer or borrower is unable or fails to meet its obligations, including failing to make interest payments and/or to repay principal when due. Changes in an issuer’s financial strength, the market’s perception of the issuer’s financial strength or in a security’s credit rating, which reflects a third party’s assessment of the credit risk presented by a particular issuer, may affect debt securities’ value. The Fund may incur substantial losses on debt securities that are inaccurately perceived to present a different amount of credit risk by the market, the investment manager or the rating agencies than such securities actually do.

High-Yield Debt Securities

High-yield debt securities (including loans) and unrated securities of similar credit quality (“high-yield debt instruments”) involve greater risk of a complete loss of the Fund’s investment, or delays of interest and principal payments than higher-quality debt securities. Issuers of high-yield debt

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

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

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

MUTUAL EUROPEAN FUND

Investment Goal

The Fund's principal investment goal is capital appreciation, which may occasionally be short term. Its secondary goal is income.

Principal Investment Policies and Practices

Under normal market conditions, the Fund invests at least 80% of its net assets in securities of European companies that the investment manager believes are available at market prices less than their value based on certain recognized or objective criteria (intrinsic value). Shareholders will be given at least 60 days' advance notice of any change to the 80% policy regarding investment in securities of European companies.

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

- **Undervalued Securities** - Securities trading at a discount to intrinsic value.

And, to a lesser extent, the Fund also invests in:

- **Merger Arbitrage Securities** - Securities of companies involved in non-distressed restructurings (such as mergers, acquisitions, consolidations, liquidations, spinoffs, or tender or exchange offers) or that the investment manager believes are cheap relative to an economically equivalent security of the same or another company.
- **Distressed Companies** - Securities of companies that are, or are about to be, involved in reorganizations, financial restructurings, or bankruptcy.

The Fund invests primarily in equity securities (including securities convertible into, or that the investment manager expects to be exchanged for, common or preferred stock) of European companies that the investment manager believes are undervalued. In pursuit of its value-oriented strategy, the Fund is not limited to pre-set maximums or minimums governing the size of the companies in which it may invest. However, the Fund currently invests the equity portion of its portfolio primarily to predominantly in mid- and large-cap companies with market capitalization values (share price times the number of common stock shares

outstanding) greater than \$1.5 billion. The Fund may invest the remaining portion of its equity investments in smaller companies.

The Fund defines European companies as issuers (i) organized under the laws of, or (ii) the principal business operations of which are located in, or (iii) who earn at least 50% of their revenue from, European countries. For purposes of the Fund's investments, European countries means all of the countries that are in Western and Eastern Europe, as well as Scandinavia. The Fund currently intends to make its investments in European issuers primarily in securities of issuers in Western Europe and Scandinavia.

The Fund normally invests in securities from at least five different countries, although, from time to time, it may invest all of its assets in a single country. The Fund also may invest up to 20% of its total assets in securities of U.S. issuers, and securities of issuers from the Middle East and the remaining regions of the world, including emerging markets.

While the Fund generally purchases securities for investment purposes, the investment manager may seek to influence or control management, or invest in other companies that do so, when the investment manager believes the Fund may benefit.

The Fund's investments in Distressed Companies typically involve the purchase of bank debt, lower-rated or defaulted debt securities, comparable unrated debt securities, trade claims, or other indebtedness (or participations in the indebtedness) of such companies. Such other indebtedness generally represents a specific commercial loan or portion of a loan made to a company by a financial institution such as a bank. Loan participations represent fractional interests in a company's indebtedness and are generally made available by banks or other institutional investors. By purchasing all or a part of a company's direct indebtedness, the Fund, in effect, steps into the shoes of the lender. If the loan is secured, the Fund will have a priority claim to the assets of the company ahead of unsecured creditors and stockholders. The Fund generally makes investments in Distressed Companies to achieve capital appreciation, in addition to generating income.

For purposes of pursuing its investment goal, the Fund may, from time to time, enter into currency-related transactions involving certain derivative instruments, including currency forwards, and currency and currency index futures contracts. The use of derivative currency transactions may allow the Fund to obtain net long or net negative (short) exposure to selected currencies. The Fund may also enter into various other transactions

involving derivatives, including put and call options on equity securities and swap agreements (which may include total return and credit default swaps). The use of these derivative transactions may allow the Fund to obtain net long or net negative (short) exposures to selected countries, currencies or issues. The investment manager considers various factors, such as availability and cost, in deciding whether, when and to what extent to enter into derivative transactions.

The Fund may use any of the above currency techniques or other derivative transactions for the purposes of enhancing Fund returns, increasing liquidity, gaining exposure to particular instruments in more efficient or less expensive ways and/or hedging risks relating to changes in currency exchange rates, market prices and other market factors. By way of example, when the investment manager believes that the value of a particular foreign currency is expected to increase compared to the U.S. dollar, the Fund could enter into a forward contract to purchase that foreign currency at a future date. If at such future date the value of the foreign currency exceeds the then current amount of U.S. dollars to be paid by the Fund under the contract, the Fund will recognize a gain. When used for hedging purposes, a forward contract or other derivative instrument could be used to protect against possible declines in a currency's value where a security held or to be purchased by the Fund is denominated in that currency.

A forward contract is an obligation to purchase or sell a specific foreign currency at an agreed exchange rate (price) at a future date, which is individually negotiated and privately traded by currency traders and their customers in the interbank market.

A futures contract is a standard binding agreement between two parties to buy or sell a specified quantity of an underlying instrument or asset, such as a specific security or currency, at a specified price at a specified later date that trade on an exchange. A "sale" of a futures contract means the acquisition of a contractual obligation to deliver the underlying instrument called for by the contract at a specified price on a specified date. A "purchase" of a futures contract means the acquisition of a contractual obligation to acquire the underlying instrument called for by the contract at a specified price on a specified date. The purchase or sale of a futures contract will allow the Fund to increase or decrease its exposure to the underlying instrument or asset. Although most futures contracts by their terms require the actual delivery or acquisition of the underlying

instrument, some require cash settlement. The Fund may buy and sell futures contracts that trade on U.S. and foreign exchanges.

Swap agreements, such as total return swaps and credit default swaps, are contracts between the Fund and, typically, a brokerage firm, bank, or other financial institution (the swap counterparty) for periods ranging from a few days to multiple years. In a basic swap transaction, the Fund agrees with its counterparty to exchange the returns (or differentials in rates of return) earned or realized on a particular "notional amount" of underlying instruments. The notional amount is the set amount selected by the parties as the basis on which to calculate the obligations that they have agreed to exchange. The parties typically do not actually exchange the notional amount. Instead, they agree to exchange the returns that would be earned or realized if the notional amount were invested in given instruments or at given interest rates. For credit default swaps, the "buyer" of the credit default swap agreement is obligated to pay the "seller" a periodic stream of payments over the term of the agreement in return for a payment by the "seller" that is contingent upon the occurrence of a credit event with respect to an underlying reference debt obligation. As a "buyer" of the credit default swap, the Fund is purchasing the obligation of its counterparty to offset losses the Fund could experience if there was such a credit event. Generally, a credit event means bankruptcy, failure to timely pay interest or principal, obligation acceleration, or modified restructuring of the reference debt obligation. The contingent payment by the seller generally is the face amount of the debt obligation in exchange for the physical delivery of the reference debt obligation or a cash payment equal to the then current market value of that debt obligation.

A call option gives the purchaser of the option, upon payment of a premium, the right to buy, and the seller the obligation to sell, the underlying instrument at the exercise price. Conversely, a put option gives the purchaser of the option, upon payment of a premium, the right to sell, and the seller of the option the obligation to buy, the underlying instrument at the exercise price.

The investment manager considers various factors, such as availability and cost, in deciding whether to use a particular derivative instrument or strategy. Moreover, investors should bear in mind that the Fund is not obligated to actively engage in any derivative transactions.

The Fund may also engage from time to time in an "arbitrage" strategy. When engaging in an arbitrage strategy, the Fund typically buys one

security while at the same time selling short another security. The Fund generally buys the security that the investment manager believes is either cheap relative to the price of the other security or otherwise undervalued, and sells short the security that the investment manager believes is either expensive relative to the price of the other security or otherwise overvalued. In doing so, the Fund attempts to profit from a perceived relationship between the values of the two securities. The Fund generally engages in an arbitrage strategy in connection with an announced corporate restructuring, such as a merger, acquisition or tender offer, or other corporate action or event as further discussed under “Merger Arbitrage Securities and Distressed Companies” below.

Portfolio Selection

The investment manager employs a research driven, fundamental value strategy for the Fund. In choosing equity investments, the investment manager focuses on the market price of a company’s securities relative to the investment manager’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. Similarly, debt securities and other indebtedness, including loan participations, are generally selected based on the investment manager’s own analysis of the security’s intrinsic value rather than the coupon rate or rating of the security. The investment manager examines each investment separately and there are no set criteria as to specific value parameters, asset size, earnings or industry type.

Principal Risks

Market

The market values of securities owned by the Fund will go up or down, sometimes rapidly or unpredictably. Securities may decline in value due to factors affecting individual issuers, securities markets generally or particular industries or sectors within the securities markets. The value of a security may go up or down due to general market conditions which are not specifically related to a particular issuer, such as real or perceived adverse economic conditions, changes in the general outlook for revenues or corporate earnings, changes in interest or currency rates or adverse investor sentiment generally. They may also go up or down due to factors that affect an individual issuer or a particular industry or sector, such as changes in production costs and competitive conditions within an industry. During a general downturn in the securities markets, multiple asset

classes may decline in value. When markets perform well, there can be no assurance that securities held by the Fund will participate in or otherwise benefit from the advance.

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

Value Style Investing

Value securities may not increase in price as anticipated by the investment manager, and may even decline further in value, if other investors fail to recognize the company’s value, or favor investing in faster-growing companies, or if the events or factors that the investment manager believes will increase a security’s market value do not occur.

The Fund’s bargain-driven focus may result in the Fund choosing securities that are not widely followed by other investors. Securities that are considered “cheaply” priced also may include those of companies reporting poor earnings, companies whose share prices have declined sharply (such as growth companies that have recently stumbled to levels considered “cheap” in the investment manager’s opinion), turnarounds, cyclical companies, or companies emerging from bankruptcy, all of which may have a higher risk of being ignored or rejected, and therefore undervalued, by the market or losing more value.

Foreign Securities

Investing in foreign securities, including securities of foreign governments, typically involves more risks than investing in U.S. securities. Certain of these risks also may apply to securities of U.S. companies with significant foreign operations. These risks, which can increase the potential for losses in the Fund and affect its share price, are discussed in more detail in the section “More Information on Investment Policies, Practices and Risks.”

Merger Arbitrage Securities and Distressed Companies

A merger or other restructuring, or a tender or exchange offer, proposed or pending at the time the Fund invests in Merger Arbitrage Securities may not be completed on the terms or within the time frame contemplated, which may result in losses to the Fund. Debt obligations of Distressed Companies typically are unrated, lower-rated, in default or close to default.

Also, securities of Distressed Companies are generally more likely to become worthless than the securities of more financially stable companies.

Smaller and Midsize Companies

While smaller and midsize companies may offer substantial opportunities for capital growth, they also involve substantial risks and should be considered speculative. Historically, smaller and midsize company securities have been more volatile in price than larger company securities, especially over the short term. Among the reasons for the greater price volatility are the less certain growth prospects of smaller and midsize companies, the lower degree of liquidity in the markets for such securities, and the greater sensitivity of smaller and midsize companies to changing economic conditions.

In addition, smaller and midsize companies may lack depth of management, be unable to generate funds necessary for growth or development, have limited product lines or be developing or marketing new products or services for which markets are not yet established and may never become established. Smaller and midsize companies may be particularly affected by interest rate increases, as they may find it more difficult to borrow money to continue or expand operations, or may have difficulty in repaying any loans which are floating rate.

Credit

The Fund could lose money on a debt security if an issuer or borrower is unable or fails to meet its obligations, including failing to make interest payments and/or to repay principal when due. Changes in an issuer's financial strength, the market's perception of the issuer's financial strength or in a security's credit rating, which reflects a third party's assessment of the credit risk presented by a particular issuer, may affect debt securities' value. The Fund may incur substantial losses on debt securities that are inaccurately perceived to present a different amount of credit risk by the market, the investment manager or the rating agencies than such securities actually do.

High-Yield Debt Securities

High-yield debt securities (including loans) and unrated securities of similar credit quality ("high-yield debt instruments") involve greater risk of a complete loss of the Fund's investment, or delays of interest and principal payments than higher-quality debt securities. Issuers of high-yield debt instruments are not as strong financially as those issuing securities of

higher credit quality. High-yield debt instruments are generally considered predominantly speculative by the applicable rating agencies as these issuers are more likely to encounter financial difficulties and are more vulnerable to changes in the relevant economy, such as a recession or a sustained period of rising interest rates, that could affect their ability to make interest and principal payments when due. If an issuer stops making interest and/or principal payments, payments on the securities may never resume. These instruments may be worthless and the Fund could lose its entire investment.

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

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

MUTUAL INTERNATIONAL FUND

Investment Goal

The Fund's principal investment goal is capital appreciation, which may occasionally be short term. Its secondary goal is income.

Principal Investment Policies and Practices

Under normal market conditions, the Fund invests at least 80% of its net assets in securities of non-U.S. issuers. The investment manager focuses the Fund's investments on securities believed to be available at market prices less than their value based on certain recognized or objective criteria (intrinsic value).

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

- **Undervalued Securities** - Securities trading at a discount to intrinsic value.

And, to a lesser extent, the Fund also invests in:

- **Merger Arbitrage Securities** - Securities of companies involved in non-distressed restructurings (such as mergers, acquisitions, consolidations, liquidations, spinoffs, or tender or exchange offers) or that the investment manager believes are cheap relative to an economically equivalent security of the same or another company.
- **Distressed Companies** - Securities of companies that are, or are about to be, involved in reorganizations, financial restructurings, or bankruptcy.

The Fund invests primarily in equity securities (including securities convertible into, or that the investment manager expects to be exchanged for, common or preferred stock) of Asian and European companies that the investment manager believes are undervalued.

In pursuit of its value-oriented strategy, the Fund is not limited to pre-set maximums or minimums governing the size of the companies in which it may invest. However, the Fund currently invests the equity portion of its portfolio primarily to predominantly in mid- and large-cap companies with market capitalization values (share price times the number of common stock shares outstanding) greater than \$1.5 billion. The Fund may invest the remaining portion of its equity investments in smaller companies.

The Fund defines Asian companies as issuers (i) organized under the laws of, or (ii) whose principal business operations are located in, or (iii) who earn at least 50% of their revenue from, Asian countries. For purposes of the Fund's investments, Asian countries means Australia, China (including Hong Kong and Taiwan), Japan, New Zealand, North Korea, South Korea and all of the countries that are members of the Association of Southeast Asian Nations. Some of these countries are considered to be emerging market countries. The Fund currently intends to invest primarily in securities of issuers in more developed markets such as Australia, Hong Kong, Japan, New Zealand, South Korea, Singapore and Taiwan.

The Fund defines European companies as issuers (i) organized under the laws of, or (ii) whose principal business operations are located in, or (iii) who earn at least 50% of their revenue from, European countries. For purposes of the Fund's investments, European countries means all of the countries that are in Western and Eastern Europe, as well as Scandinavia.

The Fund normally invests in securities from at least five different countries, although, from time to time, it may invest all of its assets in a single country. The Fund also may invest up to 20% of its total assets in securities of U.S. issuers, and securities of issuers from the Middle East and the remaining regions of the world, including emerging markets.

While the Fund generally purchases securities for investment purposes, the investment manager may seek to influence or control management, or invest in other companies that do so, when the investment manager believes the Fund may benefit.

The Fund's investments in Distressed Companies typically involve the purchase of bank debt, lower-rated or defaulted debt securities, comparable unrated debt securities, trade claims or other indebtedness (or participations in the indebtedness) of such companies. Such other indebtedness generally represents a specific commercial loan or portion of a loan made to a company by a financial institution such as a bank. Loan participations represent fractional interests in a company's indebtedness and are generally made available by banks or other institutional investors. By purchasing all or a part of a company's direct indebtedness, the Fund, in effect, steps into the shoes of the lender. If the loan is secured, the Fund will have a priority claim to the assets of the company ahead of unsecured creditors and stockholders. The Fund generally make such investments to achieve capital appreciation, rather than to seek income.

For purposes of pursuing its investment goal, the Fund may, from time to time, enter into currency-related transactions involving certain derivative instruments, including currency forwards, and currency and currency index futures contracts. The use of derivative currency transactions may allow the Fund to obtain net long or net negative (short) exposure to selected currencies. The Fund may also enter into various other transactions involving derivatives, including put and call options on equity securities and swap agreements (which may include total return and credit default swaps). The use of these derivative transactions may allow the Fund to obtain net long or net negative (short) exposures to selected countries, currencies or issues. The investment manager considers various factors, such as availability and cost, in deciding whether, when and to what extent to enter into derivative transactions.

The Fund may use any of the above currency techniques or other derivative transactions for the purposes of enhancing Fund returns, increasing liquidity, gaining exposure to particular instruments in more efficient or less expensive ways and/or hedging risks relating to changes in currency exchange rates, market prices and other market factors. By way of example, when the investment manager believes that the value of a particular foreign currency is expected to increase compared to the U.S. dollar, the Fund could enter into a forward contract to purchase that foreign currency at a future date. If at such future date the value of the foreign currency exceeds the then current amount of U.S. dollars to be paid by the Fund under the contract, the Fund will recognize a gain. When used for hedging purposes, a forward contract or other derivative instrument could be used to protect against possible declines in a currency's value where a security held or to be purchased by the Fund is denominated in that currency.

A forward contract is an obligation to purchase or sell a specific foreign currency at an agreed exchange rate (price) at a future date, which is individually negotiated and privately traded by currency traders and their customers in the interbank market.

A futures contract is a standard binding agreement between two parties to buy or sell a specified quantity of an underlying instrument or asset, such as a specific security or currency, at a specified price at a specified later date that trade on an exchange. A "sale" of a futures contract means the acquisition of a contractual obligation to deliver the underlying instrument called for by the contract at a specified price on a specified date. A "purchase" of a futures contract means the acquisition of a contractual

obligation to acquire the underlying instrument called for by the contract at a specified price on a specified date. The purchase or sale of a futures contract will allow the Fund to increase or decrease its exposure to the underlying instrument or asset. Although most futures contracts by their terms require the actual delivery or acquisition of the underlying instrument, some require cash settlement. The Fund may buy and sell futures contracts that trade on U.S. and foreign exchanges.

Swap agreements, such as total return swaps and credit default swaps, are contracts between the Fund and, typically, a brokerage firm, bank, or other financial institution (the swap counterparty) for periods ranging from a few days to multiple years. In a basic swap transaction, the Fund agrees with its counterparty to exchange the returns (or differentials in rates of return) earned or realized on a particular "notional amount" of underlying instruments. The notional amount is the set amount selected by the parties as the basis on which to calculate the obligations that they have agreed to exchange. The parties typically do not actually exchange the notional amount. Instead, they agree to exchange the returns that would be earned or realized if the notional amount were invested in given instruments or at given interest rates. For credit default swaps, the "buyer" of the credit default swap agreement is obligated to pay the "seller" a periodic stream of payments over the term of the agreement in return for a payment by the "seller" that is contingent upon the occurrence of a credit event with respect to an underlying reference debt obligation. As a "buyer" of the credit default swap, the Fund is purchasing the obligation of its counterparty to offset losses the Fund could experience if there was such a credit event. Generally, a credit event means bankruptcy, failure to timely pay interest or principal, obligation acceleration, or modified restructuring of the reference debt obligation. The contingent payment by the seller generally is the face amount of the debt obligation in exchange for the physical delivery of the reference debt obligation or a cash payment equal to the then current market value of that debt obligation.

A call option gives the purchaser of the option, upon payment of a premium, the right to buy, and the seller the obligation to sell, the underlying instrument at the exercise price. Conversely, a put option gives the purchaser of the option, upon payment of a premium, the right to sell, and the seller of the option the obligation to buy, the underlying instrument at the exercise price.

The investment manager considers various factors, such as availability and cost, in deciding whether to use a particular derivative instrument

or strategy. Moreover, investors should bear in mind that the Fund is not obligated to actively engage in any derivative transactions.

The Fund may also engage from time to time in an “arbitrage” strategy. When engaging in an arbitrage strategy, the Fund typically buys one security while at the same time selling short another security. The Fund generally buys the security that the investment manager believes is either cheap relative to the price of the other security or otherwise undervalued, and sells short the security that the investment manager believes is either expensive relative to the price of the other security or otherwise overvalued. In doing so, the Fund attempts to profit from a perceived relationship between the values of the two securities. The Fund generally engages in an arbitrage strategy in connection with an announced corporate restructuring, such as a merger, acquisition or tender offer, or other corporate action or event as further discussed under “Merger Arbitrage Securities and Distressed Companies” below.

Portfolio Selection

The investment manager employs a research driven, fundamental value strategy for the Fund. In choosing equity investments, the investment manager focuses on the market price of a company’s securities relative to the investment manager’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. Similarly, debt securities and other indebtedness, including loan participations, are generally selected based on the investment manager’s own analysis of the security’s intrinsic value rather than the coupon rate or rating of the security. The investment manager examines each investment separately and there are no set criteria as to specific value parameters, asset size, earnings or industry type.

Principal Risks

Market

The market values of securities owned by the Fund will go up or down, sometimes rapidly or unpredictably. Securities may decline in value due to factors affecting individual issuers, securities markets generally or particular industries or sectors within the securities markets. The value of a security may go up or down due to general market conditions which are not specifically related to a particular issuer, such as real or perceived adverse economic conditions, changes in the general outlook for revenues

or corporate earnings, changes in interest or currency rates or adverse investor sentiment generally. They may also go up or down due to factors that affect an individual issuer or a particular industry or sector, such as changes in production costs and competitive conditions within an industry. During a general downturn in the securities markets, multiple asset classes may decline in value. When markets perform well, there can be no assurance that securities held by the Fund will participate in or otherwise benefit from the advance.

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

Value Style Investing

Value securities may not increase in price as anticipated by the investment manager, and may even decline further in value, if other investors fail to recognize the company’s value, or favor investing in faster-growing companies, or if the events or factors that the investment manager believes will increase a security’s market value do not occur.

The Fund’s bargain-driven focus may result in the Fund choosing securities that are not widely followed by other investors. Securities that are considered “cheaply” priced also may include those of companies reporting poor earnings, companies whose share prices have declined sharply (such as growth companies that have recently stumbled to levels considered “cheap” in the investment manager’s opinion), turnarounds, cyclical companies, or companies emerging from bankruptcy, all of which may have a higher risk of being ignored or rejected, and therefore undervalued, by the market or losing more value.

Foreign Securities

Investing in foreign securities, including securities of foreign governments, typically involves more risks than investing in U.S. securities. Certain of these risks also may apply to securities of U.S. companies with significant foreign operations. These risks, which can increase the potential for losses in the Fund and affect its share price, are discussed in more detail in the section “More Information on Investment Policies, Practices and Risks.”

Developing Market Countries

The Fund's investments in developing market countries are subject to all of the risks of foreign investing generally, and have additional heightened risks due to a lack of established legal, political, business and social frameworks to support securities markets. These risks, which can increase the potential for losses in the Fund and affect its share price, are discussed in more detail in the section "More Information on Investment Policies, Practices and Risks."

Merger Arbitrage Securities and Distressed Companies

A merger or other restructuring, or a tender or exchange offer, proposed or pending at the time the Fund invests in Merger Arbitrage Securities may not be completed on the terms or within the time frame contemplated, which may result in losses to the Fund. Debt obligations of Distressed Companies typically are unrated, lower-rated, in default or close to default. Also, securities of Distressed Companies are generally more likely to become worthless than the securities of more financially stable companies.

Smaller and Midsize Companies

While smaller and midsize companies may offer substantial opportunities for capital growth, they also involve substantial risks and should be considered speculative. Historically, smaller and midsize company securities have been more volatile in price than larger company securities, especially over the short term. Among the reasons for the greater price volatility are the less certain growth prospects of smaller and midsize companies, the lower degree of liquidity in the markets for such securities, and the greater sensitivity of smaller and midsize companies to changing economic conditions.

In addition, smaller and midsize companies may lack depth of management, be unable to generate funds necessary for growth or development, have limited product lines or be developing or marketing new products or services for which markets are not yet established and may never become established. Smaller and midsize companies may be particularly affected by interest rate increases, as they may find it more difficult to borrow money to continue or expand operations, or may have difficulty in repaying any loans which are floating rate.

Credit

The Fund could lose money on a debt security if an issuer or borrower is unable or fails to meet its obligations, including failing to make interest

payments and/or to repay principal when due. Changes in an issuer's financial strength, the market's perception of the issuer's financial strength or in a security's credit rating, which reflects a third party's assessment of the credit risk presented by a particular issuer, may affect debt securities' value. The Fund may incur substantial losses on debt securities that are inaccurately perceived to present a different amount of credit risk by the market, the investment manager or the rating agencies than such securities actually do.

High-Yield Debt Securities

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

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

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

economic events or to meet redemption requests. As a result, high-yield debt instruments generally pose greater illiquidity and valuation risks.

More Information on Investment Policies, Practices and Risks

Equity Securities

Each Fund (hereafter “the Fund”) invests primarily in equity securities, including securities convertible, or expected to be exchanged, into equity securities. An equity security represents a proportionate share of the ownership of a company; its value is based on the success of the company’s business, any income paid to stockholders, the value of its assets, and general market conditions. Common stocks and preferred stocks, and securities convertible into common stock, are examples of equity securities. The Fund may invest in convertible securities without regard to the ratings assigned by ratings services.

Debt Securities

The Fund also invests in debt securities. Debt securities represent the obligation of the issuer to repay a loan of money to it, and generally pay interest to the holder. Bonds, notes and debentures, as well as loan participations, are examples of debt securities.

Foreign Securities

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

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

Currency management strategies. Currency management strategies may substantially change the Fund’s exposure to currency exchange rates and could result in losses to the Fund if currencies do not perform as the investment manager expects. In addition, currency management strategies,

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

Political and economic developments. The political, economic and social structures of some foreign countries may be less stable and more volatile than those in the United States. Investments in these countries may be subject to greater risks of internal and external conflicts, expropriation, nationalization of assets, foreign exchange controls (such as suspension of the ability to transfer currency from a given country), restrictions on removal of assets, political or social instability, military action or unrest, diplomatic developments, currency devaluations, foreign ownership limitations, and punitive or confiscatory tax increases. It is possible that a government may take over the assets or operations of a company or impose restrictions on the exchange or export of currency or other assets. Some countries also may have different legal systems that may make it difficult for the Fund to vote proxies, exercise shareholder rights, and pursue legal remedies with respect to its foreign investments. Diplomatic and political developments, including rapid and adverse political changes, social instability, regional conflicts, terrorism and war, could affect the economies, industries and securities and currency markets, and the value of the Fund's investments, in non-U.S. countries. These factors are extremely difficult, if not impossible, to predict and take into account with respect to the Fund's investments.

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

regulation of foreign securities markets and trading systems may be less than or different from government supervision in the United States, and may increase the Fund's regulatory and compliance burden and/or decrease the Fund's investor rights and protections.

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

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

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

Current political uncertainty surrounding the European Union (EU) and its membership may increase market volatility. The financial instability of some countries in the EU, including Greece, Italy and Spain, together with the risk of that impacting other more stable countries may increase the economic risk of investing in companies in Europe. One or more EU member states might exit the EU, placing the European currency and banking system in jeopardy. Efforts of the EU to further unify the economic and monetary policies of its members may increase the potential interdependence of the economies of the EU members and thereby increase the risk that adverse developments in one country will adversely affect the securities of issues located in other countries.

Derivative Instruments

The performance of derivative instruments (including currency related derivatives) depends largely on the performance of an underlying currency, security or index and such instruments often have risks similar to their underlying instrument in addition to other risks. Derivatives involve costs

and can create economic leverage in the Fund's portfolio which may result in significant volatility and cause the Fund to participate in losses (as well as enable gains) in an amount that exceeds the Fund's initial investment. Other risks include illiquidity, mispricing or improper valuation of the derivative instrument, and imperfect correlation between the value of the derivative and the underlying instrument so that the Fund may not realize the intended benefits. Their successful use will usually depend on the investment manager's ability to accurately forecast movements in the market relating to the underlying instrument. Should a market or markets, or prices of particular classes of investments move in an unexpected manner, especially in unusual or extreme market conditions, the Fund may not achieve the anticipated benefits of the transaction, and it may realize losses, which could be significant. If the investment manager is not successful in using such derivative instruments, the Fund's performance may be worse than if the investment manager did not use such derivative instruments at all. To the extent that the Fund uses such instruments for hedging purposes, there is the risk of imperfect correlation between movements in the value of the derivative instrument and the value of the underlying investment or other asset being hedged. There is also the risk, especially under extreme market conditions, that an instrument, which usually would operate as a hedge, provides no hedging benefits at all.

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

derivative strategies on a regular basis, it is not obligated to actively engage in these transactions, generally or in any particular kind of derivative, if the investment manager elects not to do so due to availability, cost or other factors.

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

Management

The Fund is actively managed and could experience losses if the investment manager's judgment about markets, interest rates or the attractiveness, relative values, liquidity, or potential appreciation of particular investments made for the Fund's portfolio prove to be incorrect. There can be no guarantee that these techniques or the investment manager's investment decisions will produce the desired results. Additionally, legislative, regulatory, or tax developments may affect the investment techniques available to the investment manager in connection with managing the Fund and may also adversely affect the ability of the Fund to achieve its investment goal.

Focus

The greater the Fund's exposure to any single type of investment – including investment in a given industry, sector, region, country, issuer, or type of security – the greater the losses the Fund may experience upon any single economic, business, political, regulatory, or other occurrence. As a result, there may be more fluctuation in the price of the Fund's shares.

Commodity Exchange Act Exclusion

The Fund has claimed an exclusion from the definition of "commodity pool operator" under the Commodity Exchange Act (CEA), and, therefore, is not currently subject to registration or regulation as a commodity pool operator under the CEA. However, the Commodity Futures Trading Commission (CTFC) has recently adopted amendments to this exclusion. Such amendments will not become effective until additional proposed rule amendments under the CEA are adopted, the timing of which is not yet known. When effective, such amendments may require the Fund to comply with regulatory obligations and restrictions under the CEA, which may affect the Fund's expenses or its use of derivative instruments.

Temporary Investments

The investment manager may keep a portion, which may be significant at times, of the Fund's assets in cash or invested in high-quality short-term, money market instruments, corporate debt, or direct or indirect U.S. and non-U.S. government and agency obligations, when it believes that insufficient investment opportunities meeting the Fund's investment criteria exist or that it may otherwise be necessary to maintain liquidity. For example, when prevailing market valuations for securities are high, there may be fewer securities available at prices below their intrinsic value. In addition, when the investment manager believes market or economic conditions are unfavorable for investors or seeks to maintain liquidity, the investment manager may invest up to 100% of the Fund's assets in U.S. or non-U.S. dollar denominated short-term investments, including cash or cash equivalents. In these circumstances, the Fund may be unable to pursue its investment goals.

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

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

Management

Franklin Mutual Advisers, LLC (Franklin Mutual), 101 John F. Kennedy Parkway, Short Hills, NJ 07078, is the Fund's investment manager. Together, Franklin Mutual and its affiliates manage as of March 31, 2012, over \$725 billion in assets, and have been in the investment management business since 1947.

The following individuals are jointly responsible for the day-to-day management of each of the named Funds. The portfolio manager for each Fund has primary responsibility for the investments of the Fund and has final authority over all aspects of the Fund's investment portfolio, including but not limited to, purchases and sales of individual securities, portfolio risk assessment, and the management of daily cash balances in accordance with anticipated management requirements. Each portfolio manager's authority is subject to the general supervision and oversight provided by the Chief Executive Officer of Franklin Mutual. The degree to which a portfolio manager may perform these functions, and the nature of these functions, may change from time to time. The assistant portfolio managers provide research and advice on the purchases and sales of individual securities and portfolio risk assessment.

Mutual Beacon Fund

CHRISTIAN CORREA *Co-Portfolio Manager*

MANDANA HORMOZI *Co-Portfolio Manager*

Mutual Global Discovery Fund

PETER A. LANGERMAN *Co-Portfolio Manager*

PHILIPPE BRUGERE-TRELAT *Co-Portfolio Manager*

TIMOTHY RANKIN *Assistant Portfolio Manager*

Mutual Quest Fund

SHAWN M. TUMULTY *Co-Portfolio Manager*

KEITH LUH *Co-Portfolio Manager*

Mutual Shares Fund

PETER A. LANGERMAN *Co-Portfolio Manager*

F. DAVID SEGAL *Co-Portfolio Manager*

DEBBIE TURNER *Assistant Portfolio Manager*

Mutual Financial Services Fund

ANDREW SLEEMAN *Portfolio Manager*

RICHARD CETLIN *Assistant Portfolio Manager*

Mutual European Fund

PHILIPPE BRUGERE-TRELAT *Co-Portfolio Manager*

KATRINA DUDLEY *Co-Portfolio Manager*

Mutual International Fund

PHILIPPE BRUGERE-TRELAT *Co-Portfolio Manager*

ANDREW SLEEMAN *Co-Portfolio Manager*

RICHARD CETLIN *Portfolio Manager of Franklin Mutual*

Mr. Cetlin has been a portfolio manager for Mutual Financial Services Fund since 2010. He joined Franklin Templeton Investments in 2010. Prior to joining Franklin Templeton Investments, he was a consultant for Asian Century Quest, a hedge fund focused on the Asian-Pacific region and as a senior vice president and senior analyst for U.S. banking and specialty finance at AllianceBernstein.

CHRISTIAN CORREA, CFA *Portfolio Manager of Franklin Mutual*

Mr. Correa has been a lead portfolio manager for the Mutual Beacon Fund since 2007. He has been an analyst for Franklin Mutual since 2003, when he joined Franklin Templeton Investments.

KATRINA DUDLEY, CFA *Portfolio Manager of Franklin Mutual*

Ms. Dudley has been a portfolio manager for Mutual European Fund since 2007. She joined Franklin Templeton Investments in 2002.

MANDANA HORMOZI *Portfolio Manager of Franklin Mutual*

Ms. Hormozi has been a portfolio manager for Mutual Beacon Fund since 2009. She joined Franklin Templeton Investments in 2003.

PETER A. LANGERMAN *Chairman, President and Chief Executive Officer of Franklin Mutual*

Mr. Langerman rejoined Franklin Templeton Investments in 2005 and assumed the duties of lead portfolio manager of the Mutual Shares Fund in 2005 and Mutual Global Discovery Fund in 2009. He joined Franklin Templeton Investments in 1996, serving in various capacities, including President and Chief Executive Officer of Franklin Mutual and member of the management team of the Funds, including Mutual Shares Fund, before leaving in 2002 and serving as director of New Jersey's Division of Investment, overseeing employee pension funds. Between 1986 and 1996, he was employed at Heine Securities Corporation, the Funds' former manager.

KEITH LUH, CFA *Portfolio Manager of Franklin Mutual*

Mr. Luh has been a portfolio manager of the Mutual Quest Fund since 2010. He has been a portfolio manager for Franklin Mutual since 2009. He joined Franklin Templeton Investments in 2005.

TIMOTHY RANKIN, CFA *Portfolio Manager of Franklin Mutual*

Mr. Rankin has been a portfolio manager for Mutual Global Discovery Fund since 2010. He rejoined Franklin Templeton Investments in June 2010. Prior to rejoining Franklin Templeton investments, he was managing director of Blue Harbour Group, LLC, a private investment firm focused on small- and mid-cap North American companies. Previously, he worked at Franklin Templeton Investments from 1997 through 2004.

F. DAVID SEGAL, CFA *Portfolio Manager of Franklin Mutual*

Mr. Segal has been a portfolio manager for Mutual Shares Fund since 2005 and assumed the duties of lead portfolio manager in 2007. He joined Franklin Templeton Investments in 2002.

ANDREW SLEEMAN, CFA *Portfolio Manager of Franklin Mutual*

Mr. Sleeman has been a lead portfolio manager of the Mutual International Fund since inception and Mutual Financial Services Fund since 2009. He joined Franklin Templeton Investments in 2007. Prior to joining Franklin Templeton Investments, he was with Fox-Pitt, Kelton, a financials specialist firm, where he focused on international financial equities. Previously, he worked in international equities at BNP Paribas. He also worked in Australia in the fixed income division of JP Morgan Investment Management.

PHILIPPE BRUGERE-TRELAT *Executive Vice President of Franklin Mutual*

Mr. Brugere-Trelat has been a portfolio manager of the Mutual European Fund since 2004 and assumed the duties of lead portfolio manager in 2005 and a lead portfolio manager of the Mutual International Fund since inception and Mutual Global Discovery Fund since 2009. He has been a member of the management team of the Funds since 2004, when he rejoined Franklin Templeton Investments. Prior to joining Franklin Templeton Investments, he was president and portfolio manager of Eurovest. Between 1984 and 1994, he was employed at Heine Securities Corporation, the Funds' former manager.

SHAWN M. TUMULTY *Vice President of Franklin Mutual*

Mr. Tumulty has been a portfolio manager for Mutual Quest Fund since 2003 and assumed the duties of lead portfolio manager in 2009. He joined Franklin Templeton Investments in 2000.

DEBBIE TURNER, CFA *Portfolio Manager of Franklin Mutual*

Ms. Turner has been a portfolio manager for Mutual Shares Fund since 2001. She joined Franklin Templeton Investments in 1996. Between 1993 and 1996, she was employed at Heine Securities Corporation, the Funds' former manager.

CFA® and Chartered Financial Analyst® are trademarks owned by CFA Institute.

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

The Fund pays the investment manager a fee for managing the Fund's assets. The table below shows the management fees paid by the Fund to the investment manager for its services, as a percentage of average daily net assets, for the fiscal year ended December 31, 2011:

	Management Fees Paid (%)
Mutual Beacon Fund	0.60
Mutual European Fund	0.79
Mutual Financial Services Fund	0.80
Mutual Global Discovery Fund	0.75
Mutual International Fund	0.24 ¹
Mutual Quest Fund	0.60
Mutual Shares Fund	0.57

1. Franklin Mutual and the International Fund's administrator have agreed to waive or limit their respective fees and to assume as their own certain expenses otherwise payable by the Fund so that common expenses (i.e., a combination of investment management fees, administration fees, and other expenses, but excluding the Rule 12b-1 fees and acquired fund fees and expenses) for each class do not exceed 1.17% (other than certain non-routine expenses or costs, including those relating to litigation, indemnification, reorganizations and liquidations) until April 30, 2013. The management fees before and after such waivers for the fiscal year ended December 31, 2011, were 0.80% and 0.24%.

A discussion regarding the basis for the board of trustees approving the investment management contract of the Fund is available in the Fund's semiannual report to shareholders for the six-month period ended June 30.

Special Servicing Agreement

The European Fund, Financial Services Fund, Global Discovery Fund, International Fund, Quest Fund and Mutual Shares Fund are each an underlying investment fund of one or more funds of Franklin Templeton Fund Allocator Series Funds (the "Allocator Funds"), and have entered into a Special Servicing Agreement with the Allocator Funds and certain service providers of the Fund and the Allocator Funds, pursuant to which the Fund may pay a portion of the Allocator Funds' expenses, including transfer agency and shareholder servicing costs, to the extent such payments are less than the amount of the benefits realized or expected to be realized by the Fund from the investment in the Fund by the Allocator Funds.

Distributions and Taxes

The information is provided with respect to each Fund (hereafter the “Fund”).

Income and Capital Gain Distributions

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

Annual statements. After the close of each calendar year, you will receive tax information from the Fund with respect to the federal income tax treatment of the Fund’s distributions and any taxable sales or exchanges of covered Fund shares occurring during the prior calendar year. If the Fund finds it necessary to reclassify income or adjust the cost basis of any covered shares sold or exchanged after you receive your tax information, the Fund will send you revised tax information. Distributions declared in December to shareholders of record in such month and paid in January are taxable as if they were paid in December. Additional tax information about the Fund’s distributions is available at franklintempleton.com.

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

Tax Considerations

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

Dividend income. Income dividends are generally subject to tax at ordinary rates. Income dividends reported by the Fund to shareholders as qualified dividend income may be subject to tax by individuals at reduced long-term capital gains tax rates provided certain holding period requirements are met. These reduced rates of taxation are presently scheduled to sunset and, unless extended, will no longer apply to qualified dividends paid with respect to taxable years of the Fund beginning after December 31, 2012. A return-of-capital distribution is generally not taxable but will reduce the cost basis of your shares, and will result in a higher capital gain or a lower capital loss when you later sell your shares.

Capital gains. Fund distributions of short-term capital gains are also subject to tax at ordinary rates. Fund distributions of long-term capital gains are taxable at the reduced long-term capital gains rates no matter how long you have owned your Fund shares. For individuals in the 10% and 15% tax brackets, the long-term capital gains tax rate is 0%. For individuals in higher tax brackets, the long-term capital gains rate is 15%. These reduced rates are presently scheduled to sunset on December 31, 2012.

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

Cost basis reporting. If you acquire shares in the Fund on or after January 1, 2012, generally referred to as “covered shares,” and sell or exchange them after that date, the Fund is generally required to report cost basis information to you and the IRS annually. The Fund will compute the cost basis of your covered shares using the average cost method, the Fund’s “default method,” unless you contact the Fund to select a different method, or choose to specifically identify your shares at the time of each sale or exchange. If your account is held by your financial advisor or other broker-dealer, that firm may select a different default method. In these cases, please contact the firm to obtain information with respect to the available methods and elections for your account. Shareholders should carefully review the cost basis information provided by the Fund and make any additional basis, holding period or other adjustments that are required when reporting these amounts on their federal and state income

tax returns. Additional information about cost basis reporting is available at franklintempleton.com/costbasis.

Backup withholding. If you do not provide the Fund your taxpayer identification number and certain required certifications you may be subject to federal backup withholding at 28% on any taxable Fund distributions and proceeds from the sale of your Fund shares. State backup withholding may also apply.

State, local and foreign taxes. Distributions of ordinary income and capital gains, and gains from the sale of your Fund shares, are generally subject to state and local taxes. If the Global Discovery, Financial Services, European and International Funds qualify, they may elect to pass through to you as a foreign tax credit or deduction any foreign taxes that are paid on their investments.

Non-U.S. investors. Non-U.S. investors may be subject to U.S. withholding tax at 30% or a lower treaty rate on Fund dividends of ordinary income. Non-U.S. investors may be subject to U.S. estate tax on the value of their shares. They are subject to special U.S. tax certification requirements to avoid backup withholding, claim any exemptions from withholding and claim any treaty benefits. Exemptions from U.S. withholding tax are provided for capital gain dividends paid by the Fund from long-term capital gains and, with respect to taxable years of the Fund ending on or before December 31, 2011 (sunset date), interest-related dividends paid by the Fund from its qualified net interest income from U.S. sources and short-term capital gain dividends.

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

Financial Highlights

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

**MUTUAL BEACON FUND -
CLASS A**

Year Ended December 31,

	2011	2010	2009	2008	2007
Per share operating performance (for a share outstanding throughout the year)					
Net asset value, beginning of year	\$12.24	\$11.40	\$8.99	\$15.62	\$16.61
Income from investment operations: ^a					
Net investment income ^b	0.24	0.32 ^c	0.04 ^d	0.20	0.45
Net realized and unrealized gains (losses)	(0.56)	0.90	2.58	(6.38)	(—) ^e
Total from investment operations	(0.32)	1.22	2.62	(6.18)	0.45
Less distributions from:					
Net investment income	(0.31)	(0.38)	(0.21)	(0.03)	(0.52)
Net realized gains	—	—	—	(0.42)	(0.92)
Total distributions	(0.31)	(0.38)	(0.21)	(0.45)	(1.44)
Redemption fees ^f	—	—	—	— ^e	— ^e
Net asset value, end of year	\$11.61	\$12.24	\$11.40	\$8.99	\$15.62
Total return ^g	(2.50)%	10.82%	29.30%	(40.48)%	2.67%
Ratios to average net assets					
Expenses ^h	1.14%	1.18%	1.72% ^{i,j}	1.13% ⁱ	1.14% ⁱ
Expenses incurred in connection with securities sold short	—% ^k	0.02%	0.55%	—% ^k	0.01%
Net investment income	1.94%	2.76% ^c	0.48% ^d	1.61%	2.57%
Supplemental data					
Net assets, end of year (000's)	\$1,062,477	\$1,327,189	\$1,361,152	\$1,659,062	\$2,654,731
Portfolio turnover rate	51.38%	34.54%	54.36%	56.87%	49.84%

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

b. Based on average daily shares outstanding.

c. Net investment income per share includes approximately \$0.18 per share received in the form of a special dividend paid in connection with a corporate REIT conversion. Excluding this non-recurring amount, the ratio of net investment income to average net assets would have been 1.23%.

d. Net investment income per share includes approximately \$(0.06) per share related to an adjustment for uncollectible interest. Excluding the effect of this adjustment, the ratio of net investment income to average net assets would have been 1.04%.

e. Amount rounds to less than \$0.01 per share.

f. Effective September 1, 2008, the redemption fee was eliminated.

g. Total return does not reflect sales commissions or contingent deferred sales charges, if applicable.

- h. Includes dividend and interest expenses on securities sold short and borrowing fees, if any. See below for the ratios of such expenses to average net assets for the periods presented.
i. Benefit of expense reduction rounds to less than 0.01%.
j. Total expenses net of a one-time unaffiliated fee reimbursement are 1.61%.
k. Rounds to less than 0.01%.

**MUTUAL BEACON FUND -
CLASS B**

Year Ended December 31,

	2011	2010	2009	2008	2007
Per share operating performance (for a share outstanding throughout the year)					
Net asset value, beginning of year	\$12.07	\$11.13	\$8.68	\$15.19	\$16.17
Income from investment operations: ^a					
Net investment income (loss) ^b	0.15	0.24 ^c	(0.02) ^d	0.12	0.32
Net realized and unrealized gains (losses)	(0.55)	0.87	2.49	(6.19)	0.01
Total from investment operations	(0.40)	1.11	2.47	(6.07)	0.33
Less distributions from:					
Net investment income	(0.15)	(0.17)	(0.02)	(0.02)	(0.39)
Net realized gains	—	—	—	(0.42)	(0.92)
Total distributions	(0.15)	(0.17)	(0.02)	(0.44)	(1.31)
Redemption fees ^e	—	—	—	— ^f	— ^f
Net asset value, end of year	\$11.52	\$12.07	\$11.13	\$8.68	\$15.19
Total return ^g	(3.16)%	9.92%	28.51%	(40.88)%	1.95%
Ratios to average net assets					
Expenses ^h	1.84%	1.88%	2.40% ^{i,j}	1.84% ⁱ	1.81% ⁱ
Expenses incurred in connection with securities sold short	—% ^k	0.02%	0.55%	—% ^k	0.01%
Net investment income (loss)	1.24%	2.06% ^c	(0.20)% ^d	0.90%	1.90%
Supplemental data					
Net assets, end of year (000's)	\$10,205	\$28,552	\$58,121	\$73,168	\$171,628
Portfolio turnover rate	51.38%	34.54%	54.36%	56.87%	49.84%

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

b. Based on average daily shares outstanding.

c. Net investment income per share includes approximately \$0.18 per share received in the form of a special dividend paid in connection with a corporate REIT conversion. Excluding this non-recurring amount, the ratio of net investment income to average net assets would have been 0.53%.

- d. Net investment income per share includes approximately \$(0.06) per share related to an adjustment for uncollectible interest. Excluding the effect of this adjustment, the ratio of net investment income to average net assets would have been 0.36%.
- e. Effective September 1, 2008, the redemption fee was eliminated.
- f. Amount rounds to less than \$0.01 per share.
- g. Total return does not reflect sales commissions or contingent deferred sales charges, if applicable.
- h. Includes dividend and interest expenses on securities sold short and borrowing fees, if any. See below for the ratios of such expenses to average net assets for the periods presented.
- i. Benefit of expense reduction rounds to less than 0.01%.
- j. Total expenses net of a one-time unaffiliated fee reimbursement are 2.29%.
- k. Rounds to less than 0.01%.

**MUTUAL BEACON FUND -
CLASS C**
Year Ended December 31,

	2011	2010	2009	2008	2007
Per share operating performance (for a share outstanding throughout the year)					
Net asset value, beginning of year	\$12.16	\$11.29	\$8.84	\$15.47	\$16.46
Income from investment operations:^a					
Net investment income (loss) ^b	0.15	0.24 ^c	(0.02) ^d	0.12	0.33
Net realized and unrealized gains (losses)	(0.55)	0.88	2.54	(6.31)	— ^e
Total from investment operations	(0.40)	1.12	2.52	(6.19)	0.33
Less distributions from:					
Net investment income	(0.22)	(0.25)	(0.07)	(0.02)	(0.40)
Net realized gains	—	—	—	(0.42)	(0.92)
Total distributions	(0.22)	(0.25)	(0.07)	(0.44)	(1.32)
Redemption fees ^f	—	—	—	— ^e	— ^e
Net asset value, end of year	\$11.54	\$12.16	\$11.29	\$8.84	\$15.47
Total return ^g	(3.15)%	9.96%	28.51%	(40.92)%	1.99%
Ratios to average net assets					
Expenses ^h	1.84%	1.88%	2.41% ^{i,j}	1.84% ⁱ	1.81% ⁱ
Expenses incurred in connection with securities sold short	—% ^k	0.02%	0.55%	—% ^k	0.01%
Net investment income (loss)	1.24%	2.06% ^c	(0.21)% ^d	0.90%	1.90%
Supplemental data					
Net assets, end of year (000's)	\$315,390	\$400,949	\$437,340	\$417,549	\$875,060
Portfolio turnover rate	51.38%	34.54%	54.36%	56.87%	49.84%

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

b. Based on average daily shares outstanding.

c. Net investment income per share includes approximately \$0.18 per share received in the form of a special dividend paid in connection with a corporate REIT conversion. Excluding this non-recurring amount, the ratio of net investment income to average net assets would have been 0.53%.

d. Net investment income per share includes approximately \$(0.06) per share related to an adjustment for uncollectible interest. Excluding the effect of this adjustment, the ratio of net investment income to average net assets would have been 0.35%.

e. Amount rounds to less than \$0.01 per share.

f. Effective September 1, 2008, the redemption fee was eliminated.

g. Total return does not reflect sales commissions or contingent deferred sales charges, if applicable.

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

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

j. Total expenses net of a one-time unaffiliated fee reimbursement are 2.30%.

k. Rounds to less than 0.01%.

**MUTUAL BEACON FUND -
CLASS R**

Year Ended December 31,

	2011	2010	2009
Per share operating performance (for a share outstanding throughout the period)			
Net asset value, beginning of period	\$12.16	\$11.38	\$10.78
Income from investment operations: ^a			
Net investment income ^b	0.21	0.26 ^c	0.01
Net realized and unrealized gains (losses)	(0.55)	0.93	0.66
Total from investment operations	(0.34)	1.19	0.67
Less distributions from net investment income	(0.30)	(0.41)	(0.07)
Net asset value, end of period	\$11.52	\$12.16	\$11.38
Total return ^d	(2.69)%	10.63%	6.23%
Ratios to average net assets ^e			
Expenses ^f	1.34%	1.38%	1.91% ^{g,h}
Expenses incurred in connection with securities sold short	—% ⁱ	0.02%	0.55%
Net investment income	1.74%	2.56% ^c	0.29%
Supplemental data			
Net assets, end of period (000's)	\$2,039	\$976	\$34
Portfolio turnover rate	51.38%	34.54%	54.36%

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

b. Based on average daily shares outstanding.

c. Net investment income per share includes approximately \$0.18 per share received in the form of a special dividend paid in connection with a corporate REIT conversion. Excluding this non-recurring amount, the ratio of net investment income to average net assets would have been 1.03%.

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

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

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

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

h. Total expenses net of a one-time unaffiliated fee reimbursement are 1.80%.

i. Rounds to less than 0.01%.

**MUTUAL BEACON FUND -
CLASS Z**

Year Ended December 31,

	2011	2010	2009	2008	2007
Per share operating performance (for a share outstanding throughout the year)					
Net asset value, beginning of year	\$12.32	\$11.49	\$9.07	\$15.73	\$16.71
Income from investment operations: ^a					
Net investment income ^b	0.28	0.36 ^c	0.08 ^d	0.25	0.51
Net realized and unrealized gains (losses)	(0.57)	0.91	2.61	(6.46)	— ^e
Total from investment operations	(0.29)	1.27	2.69	(6.21)	0.51
Less distributions from:					
Net investment income	(0.35)	(0.44)	(0.27)	(0.03)	(0.57)
Net realized gains	—	—	—	(0.42)	(0.92)
Total distributions	(0.35)	(0.44)	(0.27)	(0.45)	(1.49)
Redemption fees ^f	—	—	—	— ^e	— ^e
Net asset value, end of year	\$11.68	\$12.32	\$11.49	\$9.07	\$15.73
Total return	(2.15)%	11.10%	29.81%	(40.37)%	3.03%
Ratios to average net assets					
Expenses ^g	0.84%	0.88%	1.41% ^{h,i}	0.84% ^h	0.82% ^h
Expenses incurred in connection with securities sold short	—% ^j	0.02%	0.55%	—% ⁱ	0.01%
Net investment income	2.24%	3.06% ^c	0.79% ^d	1.90%	2.89%
Supplemental data					
Net assets, end of year (000's)	\$2,423,177	\$2,860,233	\$2,833,233	\$2,002,361	\$3,883,935
Portfolio turnover rate	51.38%	34.54%	54.36%	56.87%	49.84%

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

b. Based on average daily shares outstanding.

c. Net investment income per share includes approximately \$0.18 per share received in the form of a special dividend paid in connection with a corporate real estate investment trust (REIT) conversion. Excluding this non-recurring amount, the ratio of net investment income to average net assets would have been 1.53%.

d. Net investment income per share includes approximately \$(0.06) per share related to an adjustment for uncollectible interest. Excluding the effect of this adjustment, the ratio of net investment income to average net assets would have been 1.35%.

e. Amount rounds to less than \$0.01 per share.

f. Effective September 1, 2008, the redemption fee was eliminated.

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

- h. Benefit of expense reduction rounds to less than 0.01%.
 i. Total expenses net of a one-time unaffiliated fee reimbursement are 1.30%.
 j. Rounds to less than 0.01%.

**MUTUAL GLOBAL DISCOVERY FUND -
 CLASS A**

Year Ended December 31,

	2011	2010	2009	2008	2007
Per share operating performance (for a share outstanding throughout the year)					
Net asset value, beginning of year	\$29.19	\$26.72	\$22.30	\$32.09	\$30.14
Income from investment operations: ^a					
Net investment income ^b	0.52	0.44 ^c	0.11 ^d	0.43	0.58
Net realized and unrealized gains (losses)	(1.44)	2.52	4.55	(8.99)	2.73
Total from investment operations	(0.92)	2.96	4.66	(8.56)	3.31
Less distributions from:					
Net investment income	(0.46)	(0.49)	(0.23)	(0.36)	(0.65)
Net realized gains	(0.67)	—	(0.01)	(0.87)	(0.71)
Total distributions	(1.13)	(0.49)	(0.24)	(1.23)	(1.36)
Redemption fees ^e	—	—	—	— ^f	— ^f
Net asset value, end of year	\$27.14	\$29.19	\$26.72	\$22.30	\$32.09
Total return ^g	(2.99)%	11.08%	20.89%	(26.73)%	10.96%
Ratios to average net assets					
Expenses ^h	1.31%	1.34%	1.42% ⁱ	1.30% ⁱ	1.32% ⁱ
Expenses incurred in connection with securities sold short	—% ⁱ	0.02%	0.09%	—% ⁱ	—% ⁱ
Net investment income	1.81%	1.59% ^c	0.45% ^d	1.53%	1.78%
Supplemental data					
Net assets, end of year (000's)	\$7,617,500	\$8,122,714	\$7,259,737	\$5,900,616	\$8,913,527
Portfolio turnover rate	33.60%	37.76%	37.26%	25.23%	25.12%

- a. The amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations in the annual report for the period due to the timing of sales and repurchases of the Fund shares in relation to income earned and/or fluctuating market value of the investments of the Fund.
 b. Based on average daily shares outstanding.
 c. Net investment income per share includes approximately \$0.05 per share received in the form of a special dividend paid in connection with a corporate REIT conversion. Excluding this non-recurring amount, the ratio of net investment income to average net assets would have been 1.41%.

- d. Net investment income per share includes approximately \$(0.05) per share related to an adjustment for uncollectible interest. Excluding the effect of this adjustment, the ratio of net investment income to average net assets would have been 0.65%.
 e. Effective September 1, 2008, the redemption fee was eliminated.
 f. Amount rounds to less than \$0.01 per share.
 g. Total return does not reflect sales commissions or contingent deferred sales charges, if applicable.
 h. Includes dividend expense on securities sold short and borrowing fees, if any. See below for the ratios of such expenses to average net assets for the periods presented.
 i. Benefit of expense reduction rounds to less than 0.01%.
 j. Rounds to less than 0.01%.

**MUTUAL GLOBAL DISCOVERY FUND -
CLASS B**

Year Ended December 31,

	2011	2010	2009	2008	2007
Per share operating performance (for a share outstanding throughout the year)					
Net asset value, beginning of year	\$28.71	\$26.24	\$21.89	\$31.46	\$29.55
Income from investment operations: ^a					
Net investment income (loss) ^b	0.32	0.25 ^c	(0.05) ^d	0.23	0.36
Net realized and unrealized gains (losses)	(1.40)	2.45	4.45	(8.79)	2.67
Total from investment operations	(1.08)	2.70	4.40	(8.56)	3.03
Less distributions from:					
Net investment income	(0.14)	(0.23)	(0.04)	(0.14)	(0.41)
Net realized gains	(0.67)	—	(0.01)	(0.87)	(0.71)
Total distributions	(0.81)	(0.23)	(0.05)	(1.01)	(1.12)
Redemption fees ^e	—	—	—	— ^f	— ^f
Net asset value, end of year	\$26.82	\$28.71	\$26.24	\$21.89	\$31.46
Total return ^g	(3.65)%	10.29%	20.08%	(27.28)%	10.22%
Ratios to average net assets					
Expenses ^h	2.01%	2.04%	2.11% ⁱ	2.02% ⁱ	2.01% ⁱ
Expenses incurred in connection with securities sold short	—% ^j	0.02%	0.09%	—% ^j	—% ^j
Net investment income (loss)	1.11%	0.89% ^c	(0.24)% ^d	0.81%	1.09%
Supplemental data					
Net assets, end of year (000's)	\$45,696	\$99,734	\$147,419	\$160,174	\$276,175
Portfolio turnover rate	33.60%	37.76%	37.26%	25.23%	25.12%

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

b. Based on average daily shares outstanding.

c. Net investment income per share includes approximately \$0.05 per share received in the form of a special dividend paid in connection with a corporate REIT conversion. Excluding this non-recurring amount, the ratio of net investment income to average net assets would have been 0.71%.

d. Net investment income per share includes approximately \$(0.05) per share related to an adjustment for uncollectible interest. Excluding the effect of this adjustment, the ratio of net investment income to average net assets would have been (0.04)%.

e. Effective September 1, 2008, the redemption fee was eliminated.

f. Amount rounds to less than \$0.01 per share.

g. Total return does not reflect sales commissions or contingent deferred sales charges, if applicable.

h. Includes dividend expense on securities sold short and borrowing fees, if any. See below for the ratios of such expenses to average net assets for the periods presented.
i. Benefit of expense reduction rounds to less than 0.01%.
j. Rounds to less than 0.01%.

**MUTUAL GLOBAL DISCOVERY FUND -
CLASS C**

Year Ended December 31,

	2011	2010	2009	2008	2007
Per share operating performance (for a share outstanding throughout the year)					
Net asset value, beginning of year	\$28.97	\$26.53	\$22.16	\$31.84	\$29.93
Income from investment operations: ^a					
Net investment income (loss) ^b	0.32	0.24 ^c	(0.06) ^d	0.23	0.36
Net realized and unrealized gains (losses)	(1.42)	2.49	4.51	(8.89)	2.70
Total from investment operations	(1.10)	2.73	4.45	(8.66)	3.06
Less distributions from:					
Net investment income	(0.25)	(0.29)	(0.07)	(0.15)	(0.44)
Net realized gains	(0.67)	—	(0.01)	(0.87)	(0.71)
Total distributions	(0.92)	(0.29)	(0.08)	(1.02)	(1.15)
Redemption fees ^e	—	—	—	— ^f	— ^f
Net asset value, end of year	\$26.95	\$28.97	\$26.53	\$22.16	\$31.84
Total return ^g	(3.64)%	10.26%	20.07%	(27.27)%	10.24%
Ratios to average net assets					
Expenses ^h	2.01%	2.04%	2.12% ⁱ	2.01% ⁱ	2.01% ⁱ
Expenses incurred in connection with securities sold short	—% ^j	0.02%	0.09%	—% ^j	—% ^j
Net investment income (loss)	1.11%	0.89% ^c	(0.25)% ^d	0.82%	1.09%
Supplemental data					
Net assets, end of year (000's)	\$2,268,995	\$2,587,189	\$2,460,205	\$1,978,793	\$3,075,593
Portfolio turnover rate	33.60%	37.76%	37.26%	25.23%	25.12%

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

b. Based on average daily shares outstanding.

c. Net investment income per share includes approximately \$0.05 per share received in the form of a special dividend paid in connection with a corporate REIT conversion. Excluding this non-recurring amount, the ratio of net investment income to average net assets would have been 0.71%.

d. Net investment income per share includes approximately \$(0.05) per share related to an adjustment for uncollectible interest. Excluding the effect of this adjustment, the ratio of net investment income to average net assets would have been (0.05)%.

e. Effective September 1, 2008, the redemption fee was eliminated.

f. Amount rounds to less than \$0.01 per share.

g. Total return does not reflect sales commissions or contingent deferred sales charges, if applicable.

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

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

j. Rounds to less than 0.01%.

**MUTUAL GLOBAL DISCOVERY FUND -
CLASS R**

Year Ended December 31,

	2011	2010	2009	2008	2007
Per share operating performance (for a share outstanding throughout the year)					
Net asset value, beginning of year	\$28.93	\$26.50	\$22.12	\$31.85	\$29.93
Income from investment operations: ^a					
Net investment income ^b	0.46	0.38 ^c	0.06 ^d	0.36	0.51
Net realized and unrealized gains (losses)	(1.42)	2.49	4.52	(8.92)	2.72
Total from investment operations	(0.96)	2.87	4.58	(8.56)	3.23
Less distributions from:					
Net investment income	(0.41)	(0.44)	(0.19)	(0.30)	(0.60)
Net realized gains	(0.67)	—	(0.01)	(0.87)	(0.71)
Total distributions	(1.08)	(0.44)	(0.20)	(1.17)	(1.31)
Redemption fees ^e	—	—	—	— ^f	— ^f
Net asset value, end of year	\$26.89	\$28.93	\$26.50	\$22.12	\$31.85
Total return ^g	(3.17)%	10.84%	20.72%	(26.92)%	10.76%
Ratios to average net assets					
Expenses ^h	1.51%	1.54%	1.62% ⁱ	1.52% ⁱ	1.51% ⁱ
Expenses incurred in connection with securities sold short	—% ^j	0.02%	0.09%	—% ⁱ	—% ^j
Net investment income	1.61%	1.39% ^c	0.25% ^d	1.31%	1.59%
Supplemental data					
Net assets, end of year (000's)	\$434,893	\$422,042	\$335,702	\$206,858	\$275,002
Portfolio turnover rate	33.60%	37.76%	37.26%	25.23%	25.12%

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

b. Based on average daily shares outstanding.

c. Net investment income per share includes approximately \$0.05 per share received in the form of a special dividend paid in connection with a corporate REIT conversion. Excluding this non-recurring amount, the ratio of net investment income to average net assets would have been 1.21%.

d. Net investment income per share includes approximately \$(0.05) per share related to an adjustment for uncollectible interest. Excluding the effect of this adjustment, the ratio of net investment income to average net assets would have been 0.45%.

e. Effective September 1, 2008, the redemption fee was eliminated.

f. Amount rounds to less than \$0.01 per share.

g. Total return does not reflect sales commissions or contingent deferred sales charges, if applicable.

- h. Includes dividend expense on securities sold short and borrowing fees, if any. See below for the ratios of such expenses to average net assets for the periods presented.
- i. Benefit of expense reduction rounds to less than 0.01%.
- j. Rounds to less than 0.01%.

**MUTUAL GLOBAL DISCOVERY FUND -
CLASS Z**

Year Ended December 31,

	2011	2010	2009	2008	2007
Per share operating performance (for a share outstanding throughout the year)					
Net asset value, beginning of year	\$29.54	\$27.03	\$22.54	\$32.45	\$30.45
Income from investment operations: ^a					
Net investment income ^b	0.61	0.53 ^c	0.18 ^d	0.51	0.69
Net realized and unrealized gains (losses)	(1.46)	2.55	4.62	(9.11)	2.76
Total from investment operations	(0.85)	3.08	4.80	(8.60)	3.45
Less distributions from:					
Net investment income	(0.55)	(0.57)	(0.30)	(0.44)	(0.74)
Net realized gains	(0.67)	—	(0.01)	(0.87)	(0.71)
Total distributions	(1.22)	(0.57)	(0.31)	(1.31)	(1.45)
Redemption fees ^e	—	—	—	— ^f	— ^f
Net asset value, end of year	\$27.47	\$29.54	\$27.03	\$22.54	\$32.45
Total return	(2.68)%	11.37%	21.31%	(26.55)%	11.32%
Ratios to average net assets					
Expenses ^g	1.01%	1.04%	1.12% ^h	1.02% ^h	1.01% ^h
Expenses incurred in connection with securities sold short	—% ⁱ	0.02%	0.09%	—% ⁱ	—% ⁱ
Net investment income	2.11%	1.89% ^c	0.75% ^d	1.81%	2.09%
Supplemental data					
Net assets, end of year (000's)	\$7,159,033	\$7,210,122	\$5,897,681	\$3,490,622	\$4,720,388
Portfolio turnover rate	33.60%	37.76%	37.26%	25.23%	25.12%

- a. The amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations in the annual report for the period due to the timing of sales and repurchases of the Fund shares in relation to income earned and/or fluctuating market value of the investments of the Fund.
- b. Based on average daily shares outstanding.
- c. Net investment income per share includes approximately \$0.05 per share received in the form of a special dividend paid in connection with a corporate real estate investment trust (REIT) conversion. Excluding this non-recurring amount, the ratio of net investment income to average net assets would have been 1.71%.

- d. Net investment income per share includes approximately \$(0.05) per share related to an adjustment for uncollectible interest. Excluding the effect of this adjustment, the ratio of net investment income to average net assets would have been 0.95%.
- e. Effective September 1, 2008, the redemption fee was eliminated.
- f. Amount rounds to less than \$0.01 per share.
- g. Includes dividend expense on securities sold short and borrowing fees, if any. See below for the ratios of such expenses to average net assets for the periods presented.
- h. Benefit of expense reduction rounds to less than 0.01%.
- i. Rounds to less than 0.01%.

**MUTUAL QUEST FUND -
CLASS A**

Year Ended December 31,

	2011	2010	2009	2008	2007
Per share operating performance (for a share outstanding throughout the year)					
Net asset value, beginning of year	\$17.57	\$17.12	\$14.50	\$21.70	\$21.75
Income from investment operations: ^a					
Net investment income ^b	0.45	0.35 ^c	0.11 ^d	0.32	0.52
Net realized and unrealized gains (losses)	(0.86)	1.34	2.82	(5.85)	1.38
Total from investment operations	(0.41)	1.69	2.93	(5.53)	1.90
Less distributions from:					
Net investment income	(0.47)	(0.40)	(0.29)	(0.26)	(0.64)
Net realized gains	(0.57)	(0.84)	(0.02)	(1.41)	(1.31)
Total distributions	(1.04)	(1.24)	(0.31)	(1.67)	(1.95)
Redemption fees ^e	—	—	—	— ^f	— ^f
Net asset value, end of year	\$16.12	\$17.57	\$17.12	\$14.50	\$21.70
Total return ^g	(2.10)%	9.86%	20.20%	(25.55)%	8.73%
Ratios to average net assets					
Expenses ^h	1.16%	1.13%	1.21% ⁱ	1.11% ⁱ	1.14% ⁱ
Expenses incurred in connection with securities sold short	0.06%	0.02%	0.09%	—% ⁱ	0.01%
Net investment income	2.60%	2.03% ^c	0.69% ^d	1.67%	2.24%
Supplemental data					
Net assets, end of year (000's)	\$1,093,539	\$1,194,746	\$1,101,463	\$883,955	\$1,290,899
Portfolio turnover rate	107.25%	49.13%	37.10%	25.52%	26.25%

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

b. Based on average daily shares outstanding.

c. Net investment income per share includes approximately \$0.06 per share received in the form of a special dividend paid in connection with a corporate REIT conversion. Excluding this non-recurring amount, the ratio of net investment income to average net assets would have been 1.67%.

d. Net investment income per share includes approximately \$(0.05) per share related to an adjustment for uncollectible interest. Excluding the effect of this adjustment, the ratio of net investment income to average net assets would have been 1.03%.

e. Effective September 1, 2008, the redemption fee was eliminated.

f. Amount rounds to less than \$0.01 per share.

g. Total return does not reflect sales commissions or contingent deferred sales charges, if applicable.

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

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

j. Rounds to less than 0.01%.

**MUTUAL QUEST FUND -
CLASS B**

Year Ended December 31,

	2011	2010	2009	2008	2007
Per share operating performance (for a share outstanding throughout the year)					
Net asset value, beginning of year	\$17.24	\$16.77	\$14.19	\$21.24	\$21.32
Income from investment operations: ^a					
Net investment income ^b	0.31	0.22 ^c	— ^{d,e}	0.19	0.36
Net realized and unrealized gains (losses)	(0.82)	1.29	2.76	(5.72)	1.34
Total from investment operations	(0.51)	1.51	2.76	(5.53)	1.70
Less distributions from:					
Net investment income	(0.25)	(0.20)	(0.16)	(0.11)	(0.47)
Net realized gains	(0.57)	(0.84)	(0.02)	(1.41)	(1.31)
Total distributions	(0.82)	(1.04)	(0.18)	(1.52)	(1.78)
Redemption fees ^f	—	—	—	— ^d	— ^d
Net asset value, end of year	\$15.91	\$17.24	\$16.77	\$14.19	\$21.24
Total return ^g	(2.80)%	9.02%	19.43%	(26.09)%	8.04%
Ratios to average net assets					
Expenses ^h	1.86%	1.83%	1.89% ⁱ	1.81% ⁱ	1.80% ⁱ
Expenses incurred in connection with securities sold short	0.06%	0.02%	0.09%	—% ⁱ	0.01%
Net investment income	1.90%	1.33% ^c	0.01% ^e	0.97%	1.58%
Supplemental data					
Net assets, end of year (000's)	\$6,916	\$17,648	\$34,803	\$41,704	\$70,266
Portfolio turnover rate	107.25%	49.13%	37.10%	25.52%	26.25%

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

b. Based on average daily shares outstanding.

c. Net investment income per share includes approximately \$0.06 per share received in the form of a special dividend paid in connection with a corporate REIT conversion. Excluding this non-recurring amount, the ratio of net investment income to average net assets would have been 0.97%.

d. Amount rounds to less than \$0.01 per share.

e. Net investment income per share includes approximately \$(0.05) per share related to an adjustment for uncollectible interest. Excluding the effect of this adjustment, the ratio of net investment income to average net assets would have been 0.35%.

f. Effective September 1, 2008, the redemption fee was eliminated.

g. Total return does not reflect sales commissions or contingent deferred sales charges, if applicable.

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

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

j. Rounds to less than 0.01%.

**MUTUAL QUEST FUND -
CLASS C**

Year Ended December 31,

	2011	2010	2009	2008	2007
Per share operating performance (for a share outstanding throughout the year)					
Net asset value, beginning of year	\$17.39	\$16.97	\$14.38	\$21.50	\$21.58
Income from investment operations: ^a					
Net investment income ^b	0.33	0.23 ^c	— ^{d, e}	0.19	0.36
Net realized and unrealized gains (losses)	(0.85)	1.30	2.79	(5.78)	1.36
Total from investment operations	(0.52)	1.53	2.79	(5.59)	1.72
Less distributions from:					
Net investment income	(0.34)	(0.27)	(0.18)	(0.12)	(0.49)
Net realized gains	(0.57)	(0.84)	(0.02)	(1.41)	(1.31)
Total distributions	(0.91)	(1.11)	(0.20)	(1.53)	(1.80)
Redemption fees ^f	—	—	—	— ^d	— ^d
Net asset value, end of year	\$15.96	\$17.39	\$16.97	\$14.38	\$21.50
Total return ^g	(2.82)%	9.08%	19.39%	(26.06)%	8.02%
Ratios to average net assets					
Expenses ^h	1.86%	1.83%	1.90% ⁱ	1.80% ⁱ	1.80% ⁱ
Expenses incurred in connection with securities sold short	0.06%	0.02%	0.09%	—% ⁱ	0.01%
Net investment income	1.90%	1.33% ^c	—% ^{e, j}	0.98%	1.58%
Supplemental data					
Net assets, end of year (000's)	\$338,983	\$392,134	\$388,875	\$337,583	\$504,802
Portfolio turnover rate	107.25%	49.13%	37.10%	25.52%	26.25%

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

b. Based on average daily shares outstanding.

c. Net investment income per share includes approximately \$0.06 per share received in the form of a special dividend paid in connection with a corporate REIT conversion. Excluding this non-recurring amount, the ratio of net investment income to average net assets would have been 0.97%.

d. Amount rounds to less than \$0.01 per share.

e. Net investment income per share includes approximately \$(0.05) per share related to an adjustment for uncollectible interest. Excluding the effect of this adjustment, the ratio of net investment income to average net assets would have been 0.34%.

f. Effective September 1, 2008, the redemption fee was eliminated.

g. Total return does not reflect sales commissions or contingent deferred sales charges, if applicable.

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

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

j. Rounds to less than 0.01%.

**MUTUAL QUEST FUND -
CLASS R**

Year Ended December 31,

	2011	2010	2009
Per share operating performance (for a share outstanding throughout the year)			
Net asset value, beginning of year	\$17.50	\$17.07	\$14.64
Income from investment operations: ^a			
Net investment income ^b	0.41	0.32 ^c	0.05
Net realized and unrealized gains (losses)	(0.85)	1.33	2.71
Total from investment operations	(0.44)	1.65	2.76
Less distributions from:			
Net investment income	(0.44)	(0.38)	(0.31)
Net realized gains	(0.57)	(0.84)	(0.02)
Total distributions	(1.01)	(1.22)	(0.33)
Redemption fees	—	—	—
Net asset value, end of year	\$16.05	\$17.50	\$17.07
Total return ^d	(2.31)%	9.65%	18.89%
Ratios to average net assets ^e			
Expenses ^f	1.36%	1.33%	1.40% ^g
Expenses incurred in connection with securities sold short	0.06%	0.02%	0.09%
Net investment income	2.40%	1.83% ^c	0.50%
Supplemental data			
Net assets, end of year (000's)	\$193	\$204	\$99
Portfolio turnover rate	107.25%	49.13%	37.10%

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

b. Based on average daily shares outstanding.

c. Net investment income per share includes approximately \$0.06 per share received in the form of a special dividend paid in connection with a corporate REIT conversion. Excluding this non-recurring amount, the ratio of net investment income to average net assets would have been 1.47%.

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

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

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

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

**MUTUAL QUEST FUND -
CLASS Z**

Year Ended December 31,

	2011	2010	2009	2008	2007
Per share operating performance (for a share outstanding throughout the year)					
Net asset value, beginning of year	\$17.70	\$17.24	\$14.59	\$21.84	\$21.88
Income from investment operations: ^a					
Net investment income ^b	0.51	0.41 ^c	0.16 ^d	0.38	0.61
Net realized and unrealized gains (losses)	(0.88)	1.34	2.84	(5.90)	1.37
Total from investment operations	(0.37)	1.75	3.00	(5.52)	1.98
Less distributions from:					
Net investment income	(0.52)	(0.45)	(0.33)	(0.32)	(0.71)
Net realized gains	(0.57)	(0.84)	(0.02)	(1.41)	(1.31)
Total distributions	(1.09)	(1.29)	(0.35)	(1.73)	(2.02)
Redemption fees ^e	—	—	—	— ^f	— ^f
Net asset value, end of year	\$16.24	\$17.70	\$17.24	\$14.59	\$21.84
Total return	(1.83)%	10.16%	20.61%	(25.34)%	9.12%
Ratios to average net assets					
Expenses ^g	0.86%	0.83%	0.90% ^h	0.81% ^h	0.80% ^h
Expenses incurred in connection with securities sold short	0.06%	0.02%	0.09%	—% ⁱ	0.01%
Net investment income	2.90%	2.33% ^c	1.00% ^d	1.97%	2.58%
Supplemental data					
Net assets, end of year (000's)	\$3,413,759	\$3,701,894	\$3,584,302	\$3,071,302	\$4,421,592
Portfolio turnover rate	107.25%	49.13%	37.10%	25.52%	26.25%

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

b. Based on average daily shares outstanding.

c. Net investment income per share includes approximately \$0.06 per share received in the form of a special dividend paid in connection with a corporate real estate investment trust (REIT) conversion. Excluding this non-recurring amount, the ratio of net investment income to average net assets would have been 1.97%.

d. Net investment income per share includes approximately \$(0.05) per share related to an adjustment for uncollectible interest. Excluding the effect of this adjustment, the ratio of net investment income to average net assets would have been 1.34%.

e. Effective September 1, 2008, the redemption fee was eliminated.

f. Amount rounds to less than \$0.01 per share.

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

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

i. Rounds to less than 0.01%.

**MUTUAL SHARES FUND -
CLASS A**

Year Ended December 31,

	2011	2010	2009	2008	2007
Per share operating performance (for a share outstanding throughout the year)					
Net asset value, beginning of year	\$20.64	\$19.06	\$15.22	\$25.14	\$25.90
Income from investment operations: ^a					
Net investment income ^b	0.40 ^c	0.49 ^d	0.19 ^e	0.39	0.61
Net realized and unrealized gains (losses)	(0.79)	1.66	4.02	(9.90)	0.17
Total from investment operations	(0.39)	2.15	4.21	(9.51)	0.78
Less distributions from:					
Net investment income	(0.44)	(0.57)	(0.37)	(0.21)	(0.67)
Net realized gains	—	—	—	(0.20)	(0.87)
Total distributions	(0.44)	(0.57)	(0.37)	(0.41)	(1.54)
Redemption fees ^f	—	—	—	— ^g	— ^g
Net asset value, end of year	\$19.81	\$20.64	\$19.06	\$15.22	\$25.14
Total return ^h	(1.79)%	11.41%	27.84%	(38.10)%	2.97%
Ratios to average net assets					
Expenses before waiver and payments by affiliates ⁱ	1.16%	1.15%	1.20% ^j	1.08% ^j	1.07% ^j
Expenses net of waiver and payments by affiliates ⁱ	1.16%	1.15% ^k	1.18% ^j	1.08% ^j	1.07% ^j
Expenses incurred in connection with securities sold short	—% ^l	0.02%	0.05%	0.01%	0.01%
Net investment income	1.94% ^c	2.53% ^d	1.18% ^e	1.85%	2.25%
Supplemental data					
Net assets, end of year (000's)	\$4,681,967	\$5,368,887	\$5,100,309	\$4,624,696	\$8,469,264
Portfolio turnover rate	29.44%	28.25%	47.87%	37.97%	40.57%

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

b. Based on average daily shares outstanding.

c. Net investment income per share includes approximately \$0.08 per share related to interest income received that had previously been deemed uncollectible. Excluding this amount, the ratio of net investment income to average net assets would have been 1.57%.

d. Net investment income per share includes approximately \$0.21 per share received in the form of a special dividend paid in connection with a corporate REIT conversion. Excluding this non-recurring amount, the ratio of net investment income to average net assets would have been 1.43%.

e. Net investment income per share includes approximately \$(0.08) per share related to an adjustment for uncollectible interest. Excluding the effect of this adjustment, the ratio of net investment income to average net assets would have been 1.65%.

f. Effective September 1, 2008, the redemption fee was eliminated.

g. Amount rounds to less than \$0.01 per share.

h. Total return does not reflect sales commissions or contingent deferred sales charges, if applicable.

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

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

k. Benefit of waiver and payments by affiliates rounds to less than 0.01%.

l. Rounds to less than 0.01%.

**MUTUAL SHARES FUND -
CLASS B**

Year Ended December 31,

	2011	2010	2009	2008	2007
Per share operating performance (for a share outstanding throughout the year)					
Net asset value, beginning of year	\$20.30	\$18.70	\$14.94	\$24.60	\$25.35
Income from investment operations: ^a					
Net investment income ^b	0.28 ^c	0.35 ^d	0.08 ^e	0.23	0.41
Net realized and unrealized gains (losses)	(0.80)	1.63	3.92	(9.65)	0.18
Total from investment operations	(0.52)	1.98	4.00	(9.42)	0.59
Less distributions from:					
Net investment income	(0.17)	(0.38)	(0.24)	(0.04)	(0.47)
Net realized gains	—	—	—	(0.20)	(0.87)
Total distributions	(0.17)	(0.38)	(0.24)	(0.24)	(1.34)
Redemption fees ^f	—	—	—	— ^g	— ^g
Net asset value, end of year	\$19.61	\$20.30	\$18.70	\$14.94	\$24.60
Total return ^h	(2.45)%	10.65%	26.92%	(38.54)%	2.25%
Ratios to average net assets					
Expenses before waiver and payments by affiliates ⁱ	1.86%	1.85%	1.89% ^j	1.79% ⁱ	1.75% ⁱ
Expenses net of waiver and payments by affiliates ⁱ	1.86%	1.85% ^k	1.87% ^j	1.79% ⁱ	1.75% ⁱ
Expenses incurred in connection with securities sold short	—% ^l	0.02%	0.05%	0.01%	0.01%
Net investment income	1.24% ^c	1.83% ^d	0.49% ^e	1.14%	1.57%
Supplemental data					
Net assets, end of year (000's)	\$55,479	\$150,580	\$242,799	\$272,750	\$586,289
Portfolio turnover rate	29.44%	28.25%	47.87%	37.97%	40.57%

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

b. Based on average daily shares outstanding.

c. Net investment income per share includes approximately \$0.08 per share related to interest income received that had previously been deemed uncollectible. Excluding this amount, the ratio of net investment income to average net assets would have been 0.87%.

d. Net investment income per share includes approximately \$0.21 per share received in the form of a special dividend paid in connection with a corporate REIT conversion. Excluding this non-recurring amount, the ratio of net investment income to average net assets would have been 0.73%.

e. Net investment income per share includes approximately \$(0.08) per share related to an adjustment for uncollectible interest. Excluding the effect of this adjustment, the ratio of net investment income to average net assets would have been 0.96%.

f. Effective September 1, 2008, the redemption fee was eliminated.

g. Amount rounds to less than \$0.01 per share.

h. Total return does not reflect sales commissions or contingent deferred sales charges, if applicable.

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

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

k. Benefit of waiver and payments by affiliates rounds to less than 0.01%.

l. Rounds to less than 0.01%.

**MUTUAL SHARES FUND -
CLASS C**

Year Ended December 31,

	2011	2010	2009	2008	2007
Per share operating performance (for a share outstanding throughout the year)					
Net asset value, beginning of year	\$20.46	\$18.89	\$15.10	\$24.86	\$25.63
Income from investment operations: ^a					
Net investment income ^b	0.25 ^c	0.35 ^d	0.08 ^e	0.24	0.42
Net realized and unrealized gains (losses)	(0.77)	1.65	3.96	(9.75)	0.17
Total from investment operations	(0.52)	2.00	4.04	(9.51)	0.59
Less distributions from:					
Net investment income	(0.29)	(0.43)	(0.25)	(0.05)	(0.49)
Net realized gains	—	—	—	(0.20)	(0.87)
Total distributions	(0.29)	(0.43)	(0.25)	(0.25)	(1.36)
Redemption fees ^f	—	—	—	— ^g	— ^g
Net asset value, end of year	\$19.65	\$20.46	\$18.89	\$15.10	\$24.86
Total return ^h	(2.44)%	10.62%	26.92%	(38.53)%	2.30%
Ratios to average net assets					
Expenses before waiver and payments by affiliates ⁱ	1.86%	1.85%	1.90% ^j	1.77% ^j	1.75% ^j
Expenses net of waiver and payments by affiliates ⁱ	1.86%	1.85% ^k	1.88% ^j	1.77% ^j	1.75% ^j
Expenses incurred in connection with securities sold short	—% ^l	0.02%	0.05%	0.01%	0.01%
Net investment income	1.24% ^c	1.83% ^d	0.48% ^e	1.16%	1.57%
Supplemental data					
Net assets, end of year (000's)	\$1,065,446	\$1,292,711	\$1,355,155	\$1,296,171	\$2,617,083
Portfolio turnover rate	29.44%	28.25%	47.87%	37.97%	40.57%

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

b. Based on average daily shares outstanding.

c. Net investment income per share includes approximately \$0.08 per share related to interest income received that had previously been deemed uncollectible. Excluding this amount, the ratio of net investment income to average net assets would have been 0.87%.

d. Net investment income per share includes approximately \$0.21 per share received in the form of a special dividend paid in connection with a corporate REIT conversion. Excluding this non-recurring amount, the ratio of net investment income to average net assets would have been 0.73%.

e. Net investment income per share includes approximately \$(0.08) per share related to an adjustment for uncollectible interest. Excluding the effect of this adjustment, the ratio of net investment income to average net assets would have been 0.95%.

f. Effective September 1, 2008, the redemption fee was eliminated.

g. Amount rounds to less than \$0.01 per share.

h. Total return does not reflect sales commissions or contingent deferred sales charges, if applicable.

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

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

k. Benefit of waiver and payments by affiliates rounds to less than 0.01%.

l. Rounds to less than 0.01%.

**MUTUAL SHARES FUND -
CLASS R**

Year Ended December 31,

	2011	2010	2009	2008	2007
Per share operating performance (for a share outstanding throughout the year)					
Net asset value, beginning of year	\$20.52	\$18.95	\$15.15	\$25.00	\$25.77
Income from investment operations: ^a					
Net investment income ^b	0.36 ^c	0.45 ^d	0.16 ^e	0.34	0.55
Net realized and unrealized gains (losses)	(0.78)	1.66	3.99	(9.83)	0.18
Total from investment operations	(0.42)	2.11	4.15	(9.49)	0.73
Less distributions from:					
Net investment income	(0.40)	(0.54)	(0.35)	(0.16)	(0.63)
Net realized gains	—	—	—	(0.20)	(0.87)
Total distributions	(0.40)	(0.54)	(0.35)	(0.36)	(1.50)
Redemption fees ^f	—	—	—	— ^g	— ^g
Net asset value, end of year	\$19.70	\$20.52	\$18.95	\$15.15	\$25.00
Total return ^h	(1.94)%	11.18%	27.51%	(38.19)%	2.77%
Ratios to average net assets					
Expenses before waiver and payments by affiliates ⁱ	1.36%	1.35%	1.40% ^j	1.29% ⁱ	1.25% ⁱ
Expenses net of waiver and payments by affiliates ⁱ	1.36%	1.35% ^k	1.38% ^j	1.29% ⁱ	1.25% ⁱ
Expenses incurred in connection with securities sold short	—% ^l	0.02%	0.05%	0.01%	0.01%
Net investment income	1.74% ^c	2.33% ^d	0.98% ^e	1.64%	2.07%
Supplemental data					
Net assets, end of year (000's)	\$218,757	\$259,834	\$227,649	\$173,496	\$297,777
Portfolio turnover rate	29.44%	28.25%	47.87%	37.97%	40.57%

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

b. Based on average daily shares outstanding.

c. Net investment income per share includes approximately \$0.08 per share related to interest income received that had previously been deemed uncollectible. Excluding this amount, the ratio of net investment income to average net assets would have been 1.37%.

d. Net investment income per share includes approximately \$0.21 per share received in the form of a special dividend paid in connection with a corporate REIT conversion. Excluding this non-recurring amount, the ratio of net investment income to average net assets would have been 1.23%.

e. Net investment income per share includes approximately \$(0.08) per share related to an adjustment for uncollectible interest. Excluding the effect of this adjustment, the ratio of net investment income to average net assets would have been 1.45%.

f. Effective September 1, 2008, the redemption fee was eliminated.

g. Amount rounds to less than \$0.01 per share.

h. Total return does not reflect sales commissions or contingent deferred sales charges, if applicable.

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

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

k. Benefit of waiver and payments by affiliates rounds to less than 0.01%.

l. Rounds to less than 0.01%.

**MUTUAL SHARES FUND -
CLASS Z**

Year Ended December 31,

	2011	2010	2009	2008	2007
Per share operating performance (for a share outstanding throughout the year)					
Net asset value, beginning of year	\$20.80	\$19.19	\$15.32	\$25.33	\$26.08
Income from investment operations: ^a					
Net investment income ^b	0.47 ^c	0.56 ^d	0.24 ^e	0.45	0.70
Net realized and unrealized gains (losses)	(0.80)	1.68	4.06	(9.99)	0.17
Total from investment operations	(0.33)	2.24	4.30	(9.54)	0.87
Less distributions from:					
Net investment income	(0.51)	(0.63)	(0.43)	(0.27)	(0.75)
Net realized gains	—	—	—	(0.20)	(0.87)
Total distributions	(0.51)	(0.63)	(0.43)	(0.47)	(1.62)
Redemption fees ^f	—	—	—	— ^g	— ^g
Net asset value, end of year	\$19.96	\$20.80	\$19.19	\$15.32	\$25.33
Total return	(1.50)%	11.75%	28.20%	(37.92)%	3.30%
Ratios to average net assets					
Expenses before waiver and payments by affiliates ^h	0.86%	0.85%	0.90% ⁱ	0.79% ⁱ	0.75% ⁱ
Expenses net of waiver and payments by affiliates ^h	0.86%	0.85% ⁱ	0.88% ⁱ	0.79% ⁱ	0.75% ⁱ
Expenses incurred in connection with securities sold short	—% ^k	0.02%	0.05%	0.01%	0.01%
Net investment income	2.24% ^c	2.83% ^d	1.48% ^e	2.14%	2.57%
Supplemental data					
Net assets, end of year (000's)	\$7,540,502	\$8,635,954	\$8,472,347	\$7,236,112	\$13,262,561
Portfolio turnover rate	29.44%	28.25%	47.87%	37.97%	40.57%

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

b. Based on average daily shares outstanding.

c. Net investment income per share includes approximately \$0.08 per share related to interest income received that had previously been deemed uncollectible. Excluding this amount, the ratio of net investment income to average net assets would have been 1.87%.

d. Net investment income per share includes approximately \$0.21 per share received in the form of a special dividend paid in connection with a corporate real estate investment trust (REIT) conversion. Excluding this non-recurring amount, the ratio of net investment income to average net assets would have been 1.73%.

e. Net investment income per share includes approximately \$(0.08) per share related to an adjustment for uncollectible interest. Excluding the effect of this adjustment, the ratio of net investment income to average net assets would have been 1.95%.

f. Effective September 1, 2008, the redemption fee was eliminated.

g. Amount rounds to less than \$0.01 per share.

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

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

j. Benefit of waiver and payments by affiliates rounds to less than 0.01%.

k. Rounds to less than 0.01%.

**MUTUAL FINANCIAL SERVICES FUND -
CLASS A**

Year Ended December 31,

	2011	2010	2009	2008	2007
Per share operating performance (for a share outstanding throughout the year)					
Net asset value, beginning of year	\$13.05	\$12.09	\$10.83	\$18.70	\$22.60
Income from investment operations: ^a					
Net investment income ^b	0.25	0.22	0.11 ^c	0.42	0.44
Net realized and unrealized gains (losses)	(1.49)	1.27	1.46	(7.93)	(2.40)
Total from investment operations	(1.24)	1.49	1.57	(7.51)	(1.96)
Less distributions from:					
Net investment income	(0.24)	(0.53)	(0.31)	(0.36)	(0.54)
Net realized gains	—	—	—	—	(1.40)
Total distributions	(0.24)	(0.53)	(0.31)	(0.36)	(1.94)
Redemption fees ^d	—	—	—	— ^e	— ^e
Net asset value, end of year	\$11.57	\$13.05	\$12.09	\$10.83	\$18.70
Total return ^f	(9.49)%	12.45%	14.53%	(40.23)%	(8.99)%
Ratios to average net assets					
Expenses before expense reduction ^g	1.54%	1.58%	1.55%	1.49%	1.40%
Expenses net of expense reduction ^g	1.54%	1.58%	1.54%	1.49% ^h	1.40% ^h
Expenses incurred in connection with securities sold short	—%	—%	—% ⁱ	0.01%	—%
Net investment income	1.92%	1.77%	0.95% ^c	2.85%	1.96%
Supplemental data					
Net assets, end of year (000's)	\$173,167	\$226,172	\$245,251	\$260,479	\$441,180
Portfolio turnover rate	23.58%	35.37%	81.29%	41.98%	49.87%

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

b. Based on average daily shares outstanding.

c. Net investment income per share includes approximately \$(0.09) per share related to an adjustment for uncollectible interest. Excluding the effect of this adjustment, the ratio of net investment income to average net assets would have been 1.80%.

d. Effective September 1, 2008, the redemption fee was eliminated.

e. Amount rounds to less than \$0.01 per share.

f. Total return does not reflect sales commissions or contingent deferred sales charges, if applicable.

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

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

**MUTUAL FINANCIAL SERVICES FUND -
CLASS B**

Year Ended December 31,

	2011	2010	2009	2008	2007
Per share operating performance (for a share outstanding throughout the year)					
Net asset value, beginning of year	\$12.83	\$11.85	\$10.61	\$18.26	\$22.08
Income from investment operations: ^a					
Net investment income ^b	0.16	0.12	0.01 ^c	0.31	0.27
Net realized and unrealized gains (losses)	(1.46)	1.26	1.44	(7.72)	(2.33)
Total from investment operations	(1.30)	1.38	1.45	(7.41)	(2.06)
Less distributions from:					
Net investment income	(0.07)	(0.40)	(0.21)	(0.24)	(0.36)
Net realized gains	—	—	—	—	(1.40)
Total distributions	(0.07)	(0.40)	(0.21)	(0.24)	(1.76)
Redemption fees ^d	—	—	—	— ^e	— ^e
Net asset value, end of year	\$11.46	\$12.83	\$11.85	\$10.61	\$18.26
Total return ^f	(10.20)%	11.73%	13.69%	(40.66)%	(9.58)%
Ratios to average net assets					
Expenses before expense reduction ^g	2.24%	2.28%	2.25%	2.19%	2.11%
Expenses net of expense reduction ^g	2.24%	2.28%	2.24%	2.19% ^h	2.11% ^h
Expenses incurred in connection with securities sold short	—%	—%	—% ⁱ	0.01%	—%
Net investment income	1.22%	1.07%	0.25% ^c	2.15%	1.25%
Supplemental data					
Net assets, end of year (000's)	\$1,804	\$5,272	\$9,835	\$13,185	\$30,756
Portfolio turnover rate	23.58%	35.37%	81.29%	41.98%	49.87%

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

b. Based on average daily shares outstanding.

c. Net investment income per share includes approximately \$(0.09) per share related to an adjustment for uncollectible interest. Excluding the effect of this adjustment, the ratio of net investment income to average net assets would have been 1.10%.

d. Effective September 1, 2008, the redemption fee was eliminated.

- e. Amount rounds to less than \$0.01 per share.
f. Total return does not reflect sales commissions or contingent deferred sales charges, if applicable.
g. Includes dividend expense on securities sold short and borrowing fees, if any. See below for the ratios of such expenses to average net assets for the periods presented.
h. Benefit of expense reduction rounds to less than 0.01%.
i. Rounds to less than 0.01%.

**MUTUAL FINANCIAL SERVICES FUND -
CLASS C**

Year Ended December 31,

	2011	2010	2009	2008	2007
Per share operating performance (for a share outstanding throughout the year)					
Net asset value, beginning of year	\$13.01	\$12.05	\$10.80	\$18.59	\$22.46
Income from investment operations: ^a					
Net investment income ^b	0.16	0.13	0.03 ^c	0.31	0.28
Net realized and unrealized gains (losses)	(1.48)	1.26	1.44	(7.85)	(2.37)
Total from investment operations	(1.32)	1.39	1.47	(7.54)	(2.09)
Less distributions from:					
Net investment income	(0.14)	(0.43)	(0.22)	(0.25)	(0.38)
Net realized gains	—	—	—	—	(1.40)
Total distributions	(0.14)	(0.43)	(0.22)	(0.25)	(1.78)
Redemption fees ^d	—	—	—	— ^e	— ^e
Net asset value, end of year	\$11.55	\$13.01	\$12.05	\$10.80	\$18.59
Total return ^f	(10.13)%	11.69%	13.64%	(40.63)%	(9.60)%
Ratios to average net assets					
Expenses before expense reduction ^g	2.24%	2.28%	2.26%	2.19%	2.11%
Expenses net of expense reduction ^g	2.24%	2.28%	2.25%	2.19% ^h	2.11% ^h
Expenses incurred in connection with securities sold short	—%	—%	—% ⁱ	0.01%	—%
Net investment income	1.22%	1.07%	0.24% ^c	2.15%	1.25%
Supplemental data					
Net assets, end of year (000's)	\$68,324	\$89,989	\$97,404	\$103,509	\$183,684
Portfolio turnover rate	23.58%	35.37%	81.29%	41.98%	49.87%

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

b. Based on average daily shares outstanding.

- c. Net investment income per share includes approximately \$(0.09) per share related to an adjustment for uncollectible interest. Excluding the effect of this adjustment, the ratio of net investment income to average net assets would have been 1.09%.
- d. Effective September 1, 2008, the redemption fee was eliminated.
- e. Amount rounds to less than \$0.01 per share.
- f. Total return does not reflect sales commissions or contingent deferred sales charges, if applicable.
- g. Includes dividend expense on securities sold short and borrowing fees, if any. See below for the ratios of such expenses to average net assets for the periods presented.
- h. Benefit of expense reduction rounds to less than 0.01%.
- i. Rounds to less than 0.01%.

**MUTUAL FINANCIAL SERVICES FUND -
CLASS Z**
Year Ended December 31,

	2011	2010	2009	2008	2007
Per share operating performance (for a share outstanding throughout the year)					
Net asset value, beginning of year	\$13.01	\$12.05	\$10.80	\$18.68	\$22.59
Income from investment operations: ^a					
Net investment income ^b	0.28	0.26	0.15 ^c	0.46	0.51
Net realized and unrealized gains (losses)	(1.48)	1.27	1.44	(7.94)	(2.41)
Total from investment operations	(1.20)	1.53	1.59	(7.48)	(1.90)
Less distributions from:					
Net investment income	(0.28)	(0.57)	(0.34)	(0.40)	(0.61)
Net realized gains	—	—	—	—	(1.40)
Total distributions	(0.28)	(0.57)	(0.34)	(0.40)	(2.01)
Redemption fees ^d	—	—	—	— ^e	— ^e
Net asset value, end of year	\$11.53	\$13.01	\$12.05	\$10.80	\$18.68
Total return	(9.26)%	12.84%	14.82%	(40.08)%	(8.71)%
Ratios to average net assets					
Expenses before expense reduction ^f	1.24%	1.28%	1.26%	1.19%	1.11%
Expenses net of expense reduction ^f	1.24%	1.28%	1.25%	1.19% ^g	1.11% ^g
Expenses incurred in connection with securities sold short	—%	—%	—% ^h	0.01%	—%
Net investment income	2.22%	2.07%	1.24% ^c	3.15%	2.25%
Supplemental data					
Net assets, end of year (000's)	\$80,105	\$97,487	\$99,610	\$91,691	\$164,890
Portfolio turnover rate	23.58%	35.37%	81.29%	41.98%	49.87%

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

b. Based on average daily shares outstanding.

c. Net investment income per share includes approximately \$(0.09) per share related to an adjustment for uncollectible interest. Excluding the effect of this adjustment, the ratio of net investment income to average net assets would have been 2.09%.

d. Effective September 1, 2008, the redemption fee was eliminated.

e. Amount rounds to less than \$0.01 per share.

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

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

h. Rounds to less than 0.01%.

MUTUAL EUROPEAN FUND -
CLASS A

Year Ended December 31,

	2011	2010	2009	2008	2007
Per share operating performance (for a share outstanding throughout the year)					
Net asset value, beginning of year	\$21.06	\$20.02	\$16.89	\$25.86	\$24.19
Income from investment operations: ^a					
Net investment income ^b	0.44	0.27	0.34	0.42	0.36
Net realized and unrealized gains (losses)	(2.20)	1.37	3.45	(8.75)	3.70
Total from investment operations	(1.76)	1.64	3.79	(8.33)	4.06
Less distributions from:					
Net investment income	(0.71)	(0.60)	(0.66)	(0.02)	(0.60)
Net realized gains	—	—	—	(0.62)	(1.79)
Total distributions	(0.71)	(0.60)	(0.66)	(0.64)	(2.39)
Redemption fees ^c	—	—	—	— ^d	— ^d
Net asset value, end of year	\$18.59	\$21.06	\$20.02	\$16.89	\$25.86
Total return ^e	(8.27)%	8.25%	22.67%	(32.68)%	16.86%
Ratios to average net assets					
Expenses before expense reduction ^f	1.41%	1.40%	1.43%	1.38%	1.34%
Expenses net of expense reduction ^f	1.41%	1.40%	1.42%	1.38% ^g	1.34% ^g
Expenses incurred in connection with securities sold short	—%	—%	—%	—% ^h	—% ^h
Net investment income	2.13%	1.35%	1.87%	1.93%	1.35%
Supplemental data					
Net assets, end of year (000's)	\$593,825	\$765,304	\$807,932	\$688,842	\$1,333,176
Portfolio turnover rate	32.60%	35.44%	58.83%	42.15%	39.60%

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

b. Based on average daily shares outstanding.

c. Effective September 1, 2008, the redemption fee was eliminated.

d. Amount rounds to less than \$0.01 per share.

e. Total return does not reflect sales commissions or contingent deferred sales charges, if applicable.

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

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

h. Rounds to less than 0.01%.

MUTUAL EUROPEAN FUND -
CLASS B

Year Ended December 31,

	2011	2010	2009	2008	2007
Per share operating performance (for a share outstanding throughout the year)					
Net asset value, beginning of year	\$20.78	\$19.66	\$16.37	\$25.24	\$23.65
Income from investment operations: ^a					
Net investment income ^b	0.37	0.15	0.22	0.27	0.18
Net realized and unrealized gains (losses)	(2.24)	1.32	3.33	(8.51)	3.60
Total from investment operations	(1.87)	1.47	3.55	(8.24)	3.78
Less distributions from:					
Net investment income	(0.42)	(0.35)	(0.26)	(0.01)	(0.40)
Net realized gains	—	—	—	(0.62)	(1.79)
Total distributions	(0.42)	(0.35)	(0.26)	(0.63)	(2.19)
Redemption fees ^c	—	—	—	— ^d	— ^d
Net asset value, end of year	\$18.49	\$20.78	\$19.66	\$16.37	\$25.24
Total return ^e	(8.92)%	7.53%	21.79%	(33.15)%	16.05%
Ratios to average net assets					
Expenses before expense reduction ^f	2.11%	2.10%	2.12%	2.09%	2.04%
Expenses net of expense reduction ^f	2.11%	2.10%	2.11%	2.09% ^g	2.04% ^g
Expenses incurred in connection with securities sold short	—%	—%	—%	—% ^h	—% ^h
Net investment income	1.43%	0.65%	1.18%	1.22%	0.65%
Supplemental data					
Net assets, end of year (000's)	\$3,508	\$10,771	\$23,239	\$30,017	\$65,317
Portfolio turnover rate	32.60%	35.44%	58.83%	42.15%	39.60%

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

b. Based on average daily shares outstanding.

c. Effective September 1, 2008, the redemption fee was eliminated.

d. Amount rounds to less than \$0.01 per share.

e. Total return does not reflect sales commissions or contingent deferred sales charges, if applicable.

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

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

**MUTUAL EUROPEAN FUND -
CLASS C**

Year Ended December 31,

	2011	2010	2009	2008	2007
Per share operating performance (for a share outstanding throughout the year)					
Net asset value, beginning of year	\$21.10	\$20.05	\$16.76	\$25.82	\$24.17
Income from investment operations: ^a					
Net investment income ^b	0.31	0.13	0.21	0.28	0.17
Net realized and unrealized gains (losses)	(2.20)	1.36	3.42	(8.71)	3.69
Total from investment operations	(1.89)	1.49	3.63	(8.43)	3.86
Less distributions from:					
Net investment income	(0.55)	(0.44)	(0.34)	(0.01)	(0.42)
Net realized gains	—	—	—	(0.62)	(1.79)
Total distributions	(0.55)	(0.44)	(0.34)	(0.63)	(2.21)
Redemption fees ^c	—	—	—	— ^d	— ^d
Net asset value, end of year	\$18.66	\$21.10	\$20.05	\$16.76	\$25.82
Total return ^e	(8.90)%	7.52%	21.76%	(33.14)%	16.03%
Ratios to average net assets					
Expenses before expense reduction ^f	2.11%	2.10%	2.13%	2.08%	2.04%
Expenses net of expense reduction ^f	2.11%	2.10%	2.12%	2.08% ^g	2.04% ^g
Expenses incurred in connection with securities sold short	—%	—%	—%	—% ^h	—% ^h
Net investment income	1.43%	0.65%	1.17%	1.23%	0.65%
Supplemental data					
Net assets, end of year (000's)	\$127,012	\$171,750	\$192,122	\$189,244	\$384,861
Portfolio turnover rate	32.60%	35.44%	58.83%	42.15%	39.60%

- a. The amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations in the annual report for the period due to the timing of sales and repurchases of the Fund shares in relation to income earned and/or fluctuating market value of the investments of the Fund.
b. Based on average daily shares outstanding.
c. Effective September 1, 2008, the redemption fee was eliminated.
d. Amount rounds to less than \$0.01 per share.
e. Total return does not reflect sales commissions or contingent deferred sales charges, if applicable.

- f. Includes dividend expense on securities sold short and borrowing fees, if any. See below for expense ratios of such expenses to average net assets for the periods presented.
g. Benefit of expense reduction rounds to less than 0.01%.
h. Rounds to less than 0.01%.

**MUTUAL EUROPEAN FUND -
CLASS R**

Year Ended December 31,

	2011	2010	2009
Per share operating performance (for a share outstanding throughout the year)			
Net asset value, beginning of year	\$21.00	\$19.98	\$19.36
Income from investment operations: ^a			
Net investment income ^b	0.16	0.19	0.02
Net realized and unrealized gains (losses)	(1.97)	1.42	0.79
Total from investment operations	(1.81)	1.61	0.81
Less distributions from net investment income	(0.72)	(0.59)	(0.19)
Net asset value, end of year	\$18.47	\$21.00	\$19.98
Total return ^c	(8.45)%	8.02%	4.23%
Ratios to average net assets ^d			
Expenses before expense reduction	1.61%	1.60%	1.63%
Expenses net of expense reduction	1.61%	1.60%	1.62%
Net investment income	1.93%	1.15%	1.67%
Supplemental data			
Net assets, end of year (000's)	\$31	\$21	\$5
Portfolio turnover rate	32.60%	35.44%	58.83%

- a. The amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations in the annual report for the period due to the timing of sales and repurchases of the Fund shares in relation to income earned and/or fluctuating market value of the investments of the Fund.
b. Based on average daily shares outstanding.
c. Total return does not reflect sales commissions or contingent deferred sales charges, if applicable, and is not annualized for periods less than one year.
d. Ratios are annualized for periods less than one year.

MUTUAL EUROPEAN FUND -
CLASS Z

Year Ended December 31,

	2011	2010	2009	2008	2007
Per share operating performance (for a share outstanding throughout the year)					
Net asset value, beginning of year	\$21.47	\$20.39	\$17.25	\$26.32	\$24.59
Income from investment operations: ^a					
Net investment income ^b	0.50	0.34	0.40	0.48	0.46
Net realized and unrealized gains (losses)	(2.25)	1.40	3.52	(8.90)	3.74
Total from investment operations	(1.75)	1.74	3.92	(8.42)	4.20
Less distributions from:					
Net investment income	(0.77)	(0.66)	(0.78)	(0.03)	(0.68)
Net realized gains	—	—	—	(0.62)	(1.79)
Total distributions	(0.77)	(0.66)	(0.78)	(0.65)	(2.47)
Redemption fees ^c	—	—	—	— ^d	— ^d
Net asset value, end of year	\$18.95	\$21.47	\$20.39	\$17.25	\$26.32
Total return	(8.01)%	8.61%	23.01%	(32.47)%	17.15%
Ratios to average net assets					
Expenses before expense reduction ^e	1.11%	1.10%	1.13%	1.09%	1.04%
Expenses net of expense reduction ^e	1.11%	1.10%	1.12%	1.09% ^f	1.04% ^f
Expenses incurred in connection with securities sold short	—%	—%	—%	—% ^g	—% ^g
Net investment income	2.43%	1.65%	2.17%	2.22%	1.65%
Supplemental data					
Net assets, end of year (000's)	\$964,069	\$1,057,801	\$1,017,962	\$800,264	\$1,250,521
Portfolio turnover rate	32.60%	35.44%	58.83%	42.15%	39.60%

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

b. Based on average daily shares outstanding.

c. Effective September 1, 2008, the redemption fee was eliminated.

d. Amount rounds to less than \$0.01 per share.

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

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

g. Rounds to less than 0.01%.

MUTUAL INTERNATIONAL FUND -
CLASS A

Year Ended December 31,

	2011	2010	2009
Per share operating performance (for a share outstanding throughout the year)			
Net asset value, beginning of year	\$13.78	\$12.58	\$10.00
Income from investment operations: ^a			
Net investment income ^b	0.24	0.18	0.13
Net realized and unrealized gains (losses)	(1.80)	1.66	2.67
Total from investment operations	(1.56)	1.84	2.80
Less distributions from:			
Net investment income	(0.26)	(0.47)	(0.16)
Net realized gains	(0.15)	(0.17)	(0.06)
Total distributions	(0.41)	(0.64)	(0.22)
Net asset value, end of year	\$11.81	\$13.78	\$12.58
Total return ^c	(11.39)%	14.86%	28.05%
Ratios to average net assets ^d			
Expenses before waiver, payments by affiliates and expense reduction ^e	2.11%	3.05%	4.70%
Expenses net of waiver, payments by affiliates and expense reduction ^e	1.48%	1.45%	1.45% ^f
Expenses incurred in connection with securities sold short	—%	—%	0.01%
Net investment income	1.81%	1.42%	1.63%
Supplemental data			
Net assets, end of year (000's)	\$9,212	\$8,144	\$4,784
Portfolio turnover rate	41.26%	38.43%	33.93%

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

b. Based on average daily shares outstanding.

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

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

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

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

MUTUAL INTERNATIONAL FUND -
CLASS C

Year Ended December 31,

	2011	2010	2009
Per share operating performance (for a share outstanding throughout the year)			
Net asset value, beginning of year	\$13.71	\$12.54	\$10.00
Income from investment operations: ^a			
Net investment income ^b	0.14	0.09	0.08
Net realized and unrealized gains (losses)	(1.78)	1.64	2.66
Total from investment operations	(1.64)	1.73	2.74
Less distributions from:			
Net investment income	(0.18)	(0.39)	(0.14)
Net realized gains	(0.15)	(0.17)	(0.06)
Total distributions	(0.33)	(0.56)	(0.20)
Net asset value, end of year	\$11.74	\$13.71	\$12.54
Total return ^c	(11.98)%	14.02%	27.41%
Ratios to average net assets ^d			
Expenses before waiver, payments by affiliates and expense reduction ^e	2.80%	3.77%	5.42%
Expenses net of waiver, payments by affiliates and expense reduction ^e	2.17%	2.17%	2.17% ^f
Expenses incurred in connection with securities sold short	—%	—%	0.01%
Net investment income	1.12%	0.70%	0.91%
Supplemental data			
Net assets, end of year (000's)	\$2,667	\$2,103	\$999
Portfolio turnover rate	41.26%	38.43%	33.93%

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

b. Based on average daily shares outstanding.

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

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

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

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

MUTUAL INTERNATIONAL FUND -
CLASS R

Year Ended December 31,

	2011	2010	2009
Per share operating performance (for a share outstanding throughout the year)			
Net asset value, beginning of year	\$13.78	\$12.58	\$10.00
Income from investment operations: ^a			
Net investment income ^b	0.21	0.16	0.11
Net realized and unrealized gains (losses)	(1.79)	1.64	2.68
Total from investment operations	(1.58)	1.80	2.79
Less distributions from:			
Net investment income	(0.23)	(0.43)	(0.15)
Net realized gains	(0.15)	(0.17)	(0.06)
Total distributions	(0.38)	(0.60)	(0.21)
Net asset value, end of year	\$11.82	\$13.78	\$12.58
Total return ^c	(11.53)%	14.54%	27.89%
Ratios to average net assets ^d			
Expenses before waiver, payments by affiliates and expense reduction ^e	2.30%	3.27%	4.92%
Expenses net of waiver, payments by affiliates and expense reduction ^e	1.67%	1.67%	1.67% ^f
Expenses incurred in connection with securities sold short	—%	—%	0.01%
Net investment income	1.62%	1.20%	1.41%
Supplemental data			
Net assets, end of year (000's)	\$12	\$14	\$13
Portfolio turnover rate	41.26%	38.43%	33.93%

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

b. Based on average daily shares outstanding.

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

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

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

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

MUTUAL INTERNATIONAL FUND -
CLASS Z

Year Ended December 31,

	2011	2010	2009
Per share operating performance (for a share outstanding throughout the year)			
Net asset value, beginning of year	\$13.81	\$12.59	\$10.00
Income from investment operations: ^a			
Net investment income ^b	0.28	0.22	0.14
Net realized and unrealized gains (losses)	(1.81)	1.66	2.68
Total from investment operations	(1.53)	1.88	2.82
Less distributions from:			
Net investment income	(0.30)	(0.49)	(0.17)
Net realized gains	(0.15)	(0.17)	(0.06)
Total distributions	(0.45)	(0.66)	(0.23)
Net asset value, end of year	\$11.83	\$13.81	\$12.59
Total return ^c	(11.08)%	15.20%	28.27%
Ratios to average net assets ^d			
Expenses before waiver, payments by affiliates and expense reduction ^e	1.80%	2.77%	4.42%
Expenses net of waiver, payments by affiliates and expense reduction ^e	1.17%	1.17%	1.17% ^f
Expenses incurred in connection with securities sold short	—%	—%	0.01%
Net investment income	2.12%	1.70%	1.91%
Supplemental data			
Net assets, end of year (000's)	\$6,977	\$7,968	\$4,320
Portfolio turnover rate	41.26%	38.43%	33.93%

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

b. Based on average daily shares outstanding.

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

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

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

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

YOUR ACCOUNT

The board of trustees has approved the termination of offering Class B shares. Existing shareholders of Class B shares may continue as Class B shareholders, continue to reinvest dividends into Class B shares and exchange their Class B shares for Class B shares of other Franklin Templeton funds as permitted by the current exchange privileges. New or additional investments into Class B are not permitted. For Class B shares outstanding on February 28, 2005 and Class B shares acquired upon reinvestment of dividends, all Class B share attributes, including the associated Rule 12b-1 fee, contingent deferred sales charge and conversion features, will continue.

Choosing a Share Class

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

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

Class A, B, C & R

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

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

Sales Charge Reductions and Waivers

Quantity discounts. We offer two ways for you to combine your current purchase of Class A Fund shares with other existing Franklin Templeton fund share holdings that might enable you to qualify for a lower sales charge with your current purchase. You can qualify for a lower sales charge when you reach certain "sales charge breakpoints." This quantity discount information is also available free of charge at franklintempleton.com/retail/jsp_cm/fund_perf/pub/quantity_discount.jsp. This web page can also be reached at franklintempleton.com by clicking the "Funds" tab and then choosing "Quantity Discounts."

1. Cumulative quantity discount - lets you combine certain existing holdings of Franklin Templeton fund shares - referred to as "cumulative

quantity discount eligible shares" - with your current purchase of Class A shares to determine if you qualify for a sales charge breakpoint.

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

- You, individually;
- Your spouse or domestic partner, as recognized by applicable state law, and your children under the age of 21 (each a "Family Member");
- You jointly with one or more Family Members;
- You jointly with another person(s) who is (are) not Family Members if that other person has not included the value of the shares as cumulative quantity discount eligible shares for purposes of that person's separate investments in Franklin Templeton fund shares;
- A Coverdell Education Savings account for which you or a Family Member is the identified responsible person;
- A trustee/custodian of an IRA (which includes a Roth IRA and an employer sponsored IRA such as a SIMPLE IRA) or your non-ERISA covered 403(b), if the shares are registered/recorded under your or a Family Member's Social Security number;
- A 529 college savings plan over which you or a Family Member has investment discretion and control;
- Any entity over which you or a Family Member has (have) individual or shared authority, as principal, has investment discretion and control (for example, an UGMA/UTMA account for a child on which you or a Family Member is the custodian, a trust on which you or a Family Member is the trustee, a business account [not to include retirement plans] for your solely owned business [or the solely owned business of a Family Member] on which you or a Family Member is the authorized signer);
- A trust established by you or a Family Member as grantor.

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

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

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

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

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

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

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

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

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

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

Investments of \$1 Million or More

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

Distribution and Service (12b-1) Fees

Class A has a distribution plan, sometimes known as a Rule 12b-1 plan, that allows the Fund to pay distribution fees of up to 0.35% per year to those who sell and distribute Class A shares and provide other services to shareholders. Because these fees are paid out of Class A's assets on an

ongoing basis, over time these fees will increase the cost of your investment and may cost you more than paying other types of sales charges. The board of trustees has set the current amount payable under the Class A plan at 0.30% until further notice.

ALL FUNDS EXCEPT MUTUAL INTERNATIONAL FUND

SALES CHARGES - Class B	
if you sell your shares within this many years after buying them	this % is deducted from your proceeds as a CDSC
1 Year	4
2 Years	4
3 Years	3
4 Years	3
5 Years	2
6 Years	1
7 Years	0

There is a CDSC if you sell your shares within six years, as described in the table above. The way we calculate the CDSC is the same for each class (please see “Contingent Deferred Sales Charge (CDSC) - Class A, B & C”). After eight years, your Class B shares automatically convert to Class A shares, lowering your annual expenses from that time on.

Distribution and Service (12b-1) Fees

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

SALES CHARGES - Class C

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

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

CDSC

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

Distribution and Service (12b-1) Fees

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

ALL FUNDS EXCEPT MUTUAL FINANCIAL SERVICES FUND

SALES CHARGES - Class R

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

Retirement Plans

Class R shares are available to the following investors:

- Employer Sponsored Retirement Plans
- Any trust or plan established as part of a qualified tuition program under Section 529 of the Internal Revenue Code
- Health Reimbursement Accounts and Health Savings Accounts, either as a direct investment or as a separate or managed account.

Distribution and Service (12b-1) Fees

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

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

The CDSC for each class is based on the current value of the shares being sold or their net asset value when purchased, whichever is less. There is no

CDSC on shares you acquire by reinvesting your dividends or capital gain distributions.

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

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

Reinstatement Privilege

If you sell shares of a Franklin Templeton fund that were held indirectly for your benefit in an account with your investment representative’s firm or your bank’s trust department or that were registered to you directly by the Fund’s transfer agent (or, to an affiliated custodian or trustee of the Fund’s transfer agent), you may reinvest all or a portion of the proceeds from that sale within 90 days of the sale without an initial sales charge. This Reinstatement Privilege does not apply to: (i) a purchase of Fund shares made through a regularly scheduled automatic investment plan such as a purchase by a regularly scheduled payroll deduction or transfer from a bank account, or (ii) a purchase of Fund shares with proceeds from the sale of Franklin Templeton fund shares that were held indirectly through a non-Franklin Templeton individual or employer sponsored IRA.

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

The proceeds from the earlier sale must also be invested within the same share class as that of the sold shares, with the following exceptions:

- Class B shares will be reinvested in Class A shares
- Class C or Class R shares will be reinvested in Class A shares if at the time of investment you have not appointed an investment representative (financial advisor) of record for the Fund account(s) in which the purchased shares will be held

Proceeds from the earlier sale of Class Z shares from another fund may also be invested in Class A shares under this Reinstatement Privilege.

Generally, if you paid a CDSC when you sold your shares, Franklin Templeton Distributors, Inc. (Distributors) will credit back to you the CDSC paid on the amount you are reinvesting within 90 days of the sale by adding it to the amount of your reinvestment. The new shares issued with your reinvestment WILL BE subject to any otherwise applicable CDSC. If, however, you (except Employer Sponsored Retirement Plans) paid a CDSC when you sold the following shares and you invest the proceeds from that sale in Class A shares within 90 days, you will not receive a credit for the CDSC and new Class A shares issued with your reinvestment WILL NOT BE subject to any otherwise applicable CDSC:

- Class B shares
- Class C shares held at the time of sale in a Franklin Templeton fund account without an investment representative (financial advisor) appointed by you

Proceeds immediately placed in a Franklin Templeton Bank Certificate of Deposit (CD) also may be reinvested without an initial sales charge if you reinvest them within 90 days from the date the CD matures, including any rollover.

This privilege does not apply to shares you buy and sell under our exchange program. Shares purchased with the proceeds from a money fund may be subject to a sales charge.

Qualified Investors – Class Z

The following investors qualify to buy Class Z shares of the Fund:

- Current shareholders who owned shares of any Mutual Series Fund on October 31, 1996, and their immediate family members residing at the same address
- Partnership shareholders who owned shares of any Mutual Series Fund on October 31, 1996, whether or not they are listed on the registration
- Corporate shareholders who owned shares of any Mutual Series Fund on October 31, 1996, using the same registration, or new companies of such corporate shareholders that have been reorganized into smaller, independent companies

- Shareholders who owned shares of any Mutual Series Fund through a broker-dealer or service agent omnibus account on October 31, 1996
- Employees who owned shares of any Mutual Series Fund through an employer-sponsored retirement plan on October 31, 1996, and who wish to open new individual Class Z accounts in their own names
- Unaffiliated U.S. registered mutual funds, including those that operate as “fund of funds.” Minimum initial investment: \$1 million in Advisor Class or Class Z shares of any Franklin Templeton fund.

The investors listed above may buy Class Z shares subject to the following minimum investment requirements:

MINIMUM INVESTMENTS

	Initial
Regular accounts	\$1,000
Automatic investment plans	\$50
UGMA/UTMA accounts	\$100
Employer Sponsored Retirement Plans, SIMPLE-IRAs, SEP-IRAs, SARSEPs or 403(b) plan accounts	no minimum
IRAs, IRA rollovers, Coverdell Education Savings Plans or Roth IRAs	\$250

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

- Shares acquired by a financial intermediary that has entered into an agreement with Distributors authorizing the sale of Fund shares, in connection with its mutual fund trading platform, that the intermediary holds, directly or indirectly, on behalf of a beneficial owner who has entered into a comprehensive fee or other advisory fee arrangement with any broker-dealer, trust company, registered investment advisor (RIA), or investment advisor with assets under management in excess of \$100 million that is exempt from federal registration, that is not an affiliate or associated person of the financial intermediary. Minimum initial investment: \$50,000 for individual or multiple clients.
- Shares acquired by a financial intermediary that the intermediary holds on behalf of a beneficial owner who has entered into a comprehensive fee or other advisory fee arrangement with the financial intermediary or an affiliate or associated person of the financial intermediary, provided the financial intermediary has entered into an agreement with

Distributors authorizing the sale of Fund shares. No minimum initial investment.

- Governments, municipalities, and tax-exempt entities that meet the requirements for qualification under section 501 of the Internal Revenue Code when purchasing direct from the Fund. Minimum initial investment: \$1 million in Advisor Class or Class Z shares of any Franklin Templeton fund.
- Current and former officers, trustees, directors, full-time employees (and, in each case, their family members) of both Franklin Templeton Investments and Franklin Templeton Funds, consistent with our then-current policies. Minimum initial investment: \$100 (\$50 for accounts with an automatic investment plan).
- Investors buying shares with redemption proceeds from a sale of Class Z shares if reinvested within 90 days of the redemption date. For investors who owned shares of any Mutual Series Fund on October 31, 1996, the 90-day requirement does not apply. No initial minimum investment.
- Assets held in accounts managed by a subsidiary of Franklin Resources, Inc.: (1) under an advisory agreement (including sub-advisory agreements); and/or (2) as trustee of an inter vivos or testamentary trust.
- Assets held in accounts managed by a state or federally regulated trust company or bank (Trust Company) either as discretionary trustee of an inter vivos or testamentary trust or as investment manager under an advisory agreement (including sub-advisory) or other agreement that grants the Trust Company investment discretion over those assets (Trust Company Managed Assets) if (i) the aggregate value of Trust Company Managed Assets invested in Franklin Templeton funds at the time of purchase equals at least \$1 million; and (ii) the purchased shares are registered directly to the Trust Company in its corporate capacity (not as trustee of an individual trust) and held solely as Trust Company Managed Assets.
- An Employer Sponsored Retirement Plan (Plan) if the employer sponsors one or more Plans with aggregate Plan assets of \$1 million or more. An “Employer Sponsored Retirement Plan” includes (a) an employer sponsored pension or profit sharing plan that qualifies (Qualified Plan) under section 401(a) of the Internal Revenue Code, including section 401(k), money purchase pension, profit sharing and defined benefit plans; (b) an ERISA covered 403(b); and (c) certain non-qualified

deferred compensation arrangements that operate in a similar manner to a Qualified Plan, such as 457 plans and executive deferred compensation arrangements, but not including employer sponsored IRAs.

- Employer Sponsored Retirement Plans that invest indirectly in Fund shares through Fund omnibus accounts registered to a financial intermediary.
- Any trust or plan established as part of a qualified tuition program under Section 529 of the Internal Revenue Code, provided that Distributors or an affiliate of Distributors has entered into a contract with the state sponsor of the program or one of its service providers to provide certain services relating to the operation of the program or to provide Fund shares for purchase in connection with the program. No initial minimum investment.
- An individual or entity associated with a current customer of Franklin Templeton Institutional, LLC (FTI, LLC) if approved by FTI, LLC in consultation with its customer.
- Unaffiliated U.S. registered mutual funds, including those that operate as “fund of funds.” Minimum initial investment: \$1 million in Advisor Class or Class Z shares of any Franklin Templeton fund.
- Assets held in accounts under the recommendation of an investment consultant provided that (1) assets are held with a firm unaffiliated with the investment consultant’s firm; (2) the investment consultant is under a retainer or other similar fee arrangement with its clients; (3) the client is not an individual; and (4) a subsidiary of Franklin Resources, Inc. approves the investment.

Buying Shares

MINIMUM INVESTMENTS - CLASS A, C & R

	Initial
Regular accounts	\$1,000
Automatic investment plans	\$50
UGMA/UTMA accounts	\$100
Employer Sponsored Retirement Plans, SIMPLE-IRAs, SEP-IRAs, SARSEPs or 403(b) plan accounts	no minimum
IRAs, IRA rollovers, Coverdell Education Savings Plans or Roth IRAs	\$250
Broker-dealer sponsored wrap account programs	no minimum
Current and former full-time employees, officers, trustees and directors of Franklin Templeton entities, and their family members	\$100

Please note that you may only buy shares of a fund eligible for sale in your state or jurisdiction.

Account Application

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

Franklin Templeton Investor Services
P.O. Box 33030
St. Petersburg, FL 33733-8030
Call toll-free: (800) 632-2301
(Monday through Friday
5:30 a.m. to 5:00 p.m., Pacific time)
or visit us online 24 hours a day, 7 days a week,
at franklintempleton.com

BUYING SHARES

	Opening an account	Adding to an account
<p>Through your investment representative</p> <p>By Phone/Online (Up to \$100,000 per shareholder per day) (800) 448-FUND* or (800) 632-2301 franklintempleton.com <i>Note: (1) certain account types are not available for online account access and (2) the amount may be higher for members of Franklin Templeton VIP Services®. Please see “Franklin Templeton VIP Services®” under “Investor Services” for more information regarding eligibility. *For Class Z only.</i></p>	<p>Contact your investment representative</p> <p>If you have another Franklin Templeton fund account with your bank account information on file, you may open a new identically registered account by phone. At this time, a new account may not be opened online.</p> <p>To make a same day investment, your phone order must be received and accepted by us by 1:00 p.m. Pacific time or the close of the New York Stock Exchange, whichever is earlier.</p>	<p>Contact your investment representative</p> <p>Before requesting a telephone or online purchase into an existing account, please make sure we have your bank account information on file. If we do not have this information, you will need to send written instructions with your bank’s name and address and a voided check or savings account deposit slip. If the bank and Fund accounts do not have at least one common owner, your written request must be signed by all fund and bank account owners, and each individual must have his or her signature guaranteed.</p> <p>To make a same day investment, your phone or online order must be received and accepted by us by 1:00 p.m. Pacific time or the close of the New York Stock Exchange, whichever is earlier.</p>
<p>By Mail</p>	<p>Make your check payable to the Fund.</p> <p>Mail the check and your signed application to Investor Services.</p>	<p>Make your check payable to the Fund. Include your account number on the check.</p> <p>Fill out the deposit slip from your account statement. If you do not have a slip, include a note with your name, the Fund name, and your account number.</p> <p>Mail the check and deposit slip or note to Investor Services.</p>
<p>By Wire (800) 632-2301 or (650) 312-2000 collect</p>	<p>Call to receive a wire control number and wire instructions.</p> <p>Wire the funds and mail your signed application to Investor Services. Please include the wire control number or your new account number on the application.</p> <p>To make a same day wire investment, the wired funds must be received and accepted by us by 1:00 p.m. Pacific time or the close of the New York Stock Exchange, whichever is earlier.</p>	<p>Call to receive a wire control number and wire instructions.</p> <p>To make a same day wire investment, the wired funds must be received and accepted by us by 1:00 p.m. Pacific time or the close of the New York Stock Exchange, whichever is earlier.</p>
<p>By Exchange franklintempleton.com</p>	<p>Call Shareholder Services at (800) 632-2301, or send signed written instructions. You also may place an online exchange order. The automated telephone system cannot be used to open a new account.</p> <p>(Please see “Exchanging Shares” for more information on exchanges.)</p>	<p>Call Shareholder Services at (800) 632-2301, or send signed written instructions. You also may place an online exchange order.</p> <p>(Please see “Exchanging Shares” for more information on exchanges.)</p>

Investor Services

Automatic Investment Plan

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

Automated Telephone System

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

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

Distribution Options

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

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

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

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

Retirement Plans

Franklin Templeton Investments offers a variety of retirement plans for individuals and businesses. These plans require separate applications, may require special forms for redemptions, and their policies and procedures may be different than those described in this prospectus. For more information, including a free retirement plan brochure or application, please call Retirement Services at (800) 527-2020.

Telephone/Online Privileges

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

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

As long as we follow reasonable security procedures and act on instructions we reasonably believe are genuine, we will not be responsible for any losses that may occur from unauthorized requests. We will request passwords or other information, and also may record calls. To help safeguard your account, keep your password confidential, and verify the accuracy of your confirmation statements immediately after you receive them. Contact us immediately if you believe someone has obtained unauthorized access to your account or password. For transactions done over the Internet, we recommend the use of an Internet browser with 128-bit encryption. Certain methods of contacting us (such as by phone

or by Internet) may be unavailable or delayed during periods of unusual market activity. *Of course, you can decline telephone buy, sell, or exchange privileges on your account application, or choose not to register for online privileges. If you have telephone/online privileges on your account and want to discontinue them, please contact us for instructions.* You may reinstate these privileges at any time in writing, including online registration with respect to online privileges.

Note: We discourage you from including confidential or sensitive information in any Internet communication to us. If you do choose to send email (encrypted or not) to us over the Internet, you are accepting the associated risks of lack of confidentiality.

Systematic Withdrawal Plan

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

Franklin Templeton VIP Services®

You may be eligible for Franklin Templeton VIP Services® if you are currently eligible for the \$250,000 sales charge breakpoint based solely on shares registered directly with the Franklin Templeton funds' transfer agent and excluding shares held indirectly through brokerage accounts. Franklin Templeton VIP Services® shareholders enjoy enhanced service and transaction capabilities. Please contact Shareholder Services at (800) 632-2301 for additional information on this program.

Selling Shares

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

Selling Shares in Writing

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

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

We also may require a signature guarantee when we receive instructions from an agent, not the registered owners; when you want to send your proceeds to a bank account that was added or changed on your account within the last 15 days and the bank and fund accounts have at least one common owner; or when we believe it would protect the Fund against potential claims based on the instructions received.

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

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

A notary public CANNOT provide a signature guarantee.

Selling Recently Purchased Shares

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

Redemption Proceeds

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

Retirement Plans

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

SELLING SHARES

To sell some or all of your shares

Through your investment representative

Contact your investment representative

By Mail

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

Specify the Fund, the account number and the dollar value or number of shares you wish to sell. If you own both Class A and B shares, also specify the class of shares, otherwise we will sell your Class A shares first. Be sure to include all necessary signatures and any additional documents, as well as signature guarantees if required.

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

By Phone/Online

(800) 632-2301
franklintempleton.com

As long as your transaction is for \$100,000 or less, you do not hold share certificates and you have not changed your address by phone or online within the last 15 days, you can sell your shares by phone or online. The amount may be higher for members of Franklin Templeton VIP Services®. Please see “Franklin Templeton VIP Services®” above for more information regarding eligibility.

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

By Electronic Funds Transfer (ACH)

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

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

If the bank and Fund accounts have at least one common owner and the bank account was added or changed within the last 15 days, you may be required to provide written instructions signed by all fund account owners, with a signature guarantee for each fund account owner.

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

By Exchange

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

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

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

Franklin Templeton Investor Services
P.O. Box 33030, St. Petersburg, FL 33733-8030
Call toll-free: (800) 632-2301
(Monday through Friday 5:30 a.m. to 5:00 p.m., Pacific time)
or visit us online 24 hours a day, 7 days a week, at franklintempleton.com

Exchanging Shares

Exchange Privilege

Class A, B, C & R

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

Any CDSC will continue to be calculated from the date of your initial investment and will not be charged at the time of the exchange. The purchase price for determining a CDSC on exchanged shares will be the price you paid for the original shares. If you exchange shares subject to a CDSC into a Class A money fund, the time your shares are held in the money fund will not count towards the CDSC holding period.

If you exchange your Class B shares for the same class of shares of another Franklin Templeton fund, the time your shares are held in that fund will count towards the eight-year period for automatic conversion to Class A shares.

Class Z

You can exchange shares within Class Z, or for Advisor Class shares of another Franklin Templeton fund if you otherwise qualify to buy that fund's Advisor Class. You also may exchange your Class Z shares for Class A shares of other Franklin Templeton funds without any sales charges**.

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

All Classes

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

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

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

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

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

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

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

Frequent Trading Policy

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

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

In addition, since the Fund may invest in foreign securities, it may be vulnerable to a form of short-term trading that is sometimes referred to

as “time-zone arbitrage.” Time-zone arbitrage occurs when an investor seeks to take advantage of delays between changes in the value of a mutual fund’s portfolio holdings and the reflection of those changes in the fund’s net asset value per share. These delays are more likely to occur in the case of foreign investments, due to differences between the times during which the Fund’s international portfolio securities trade on foreign markets and the time as of which the Fund’s NAV is calculated (generally as of the close of the NYSE - please see “Calculating Share Price”). Time-zone arbitrage traders seek to purchase or redeem shares of a fund based on events occurring after foreign market closing prices are established, but before calculation of the fund’s NAV. This can result in the value of the Fund’s shares being diluted. One of the objectives of the Fund’s fair value pricing procedures is to minimize the possibility of this type of arbitrage (please see “Valuation - Foreign Securities - Potential Impact of Time Zones and Market Holidays”); however, there can be no assurance that the Fund’s valuation procedures will be successful in eliminating it.

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

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

(including purchases and/or redemptions by an exchange or transfer between the Fund and any other mutual fund).

In considering an investor’s trading patterns, the Fund may consider, among other factors, the investor’s trading history both directly and, if known, through financial intermediaries, in the Fund, in other Franklin Templeton funds, in non-Franklin Templeton mutual funds, or in accounts under common control or ownership (see, for example, “Investment by asset allocators” in the SAI). The transfer agent may also reject any purchase or redemption request, whether or not it represents part of any ongoing trading pattern, if the Fund’s investment manager or transfer agent reasonably concludes that the amount of the requested transaction may disrupt or otherwise interfere with the efficient management of the Fund’s portfolio. In determining what actions should be taken, the Fund’s transfer agent may consider a variety of factors, including the potential impact of such remedial actions on the Fund and its shareholders. If the Fund is a “fund of funds,” the Fund’s transfer agent may take into account the impact of the trading activity and of any proposed remedial action on both the Fund and the underlying funds in which the Fund invests.

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

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

transfer agent's monitoring of omnibus account level trading patterns will enable it to identify all short-term trading by a financial intermediary's customers.

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

Account Policies

Calculating Share Price

Class A, B & C

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

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

All Classes

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

The Fund calculates the NAV per share each business day normally as of the close of regular trading on the New York Stock Exchange (NYSE) (normally 1:00 p.m. Pacific time) or earlier when the NYSE closes early because trading has been halted for the day. The Fund does not calculate the NAV on days the NYSE is closed for trading, which include New Year's Day, Martin Luther King Jr. Day, President's Day, Good Friday, Memorial Day, Independence Day, Labor Day, Thanksgiving Day and Christmas Day.

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

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

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

Generally, trading in corporate bonds, U.S. government securities and money market instruments is substantially completed each day at various times before the close of the NYSE. The value of these securities used in computing the NAV is determined as of such times. Occasionally, events affecting the values of these securities may occur between the times at which they are determined and the close of the NYSE that will not be reflected in the computation of the NAV. The Fund relies on third-party pricing vendors to monitor for events materially affecting the value of these securities during this period. If an event occurs, the third-party pricing vendors will provide revised values to the Fund.

Fair Valuation – Individual Securities

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

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

Security Valuation – Corporate Debt Securities

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

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

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

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

Trading in securities on foreign securities stock exchanges and over-the-counter markets, such as those in Europe and Asia, may be completed well before the close of business on the NYSE on each day that the NYSE is open. Occasionally, events occur between the time at which trading in a foreign security is completed and the close of the NYSE that might call into question the availability (including the reliability) of the value of a foreign portfolio security held by the Fund. As a result, the Fund may be susceptible to what is referred to as “time-zone arbitrage.” Certain investors in the Fund may seek to take advantage of discrepancies in the value of the Fund's portfolio securities as determined by the foreign market at its close and the latest indications of value attributable to the portfolio securities at the time the Fund's NAV is computed. Trading by these investors, often referred to as “arbitrage market timers,” may dilute the value of the Fund's shares, if such discrepancies in security values actually exist. To attempt

to minimize the possibilities for time-zone arbitrage, and in accordance with procedures established and approved by the Fund's board of trustees, the investment manager monitors price movements following the close of trading in foreign stock markets through a series of country specific market proxies (such as baskets of American Depositary Receipts, futures contracts and exchange traded funds).

These price movements are measured against established trigger thresholds for each specific market proxy to assist in determining if an event has occurred that might call into question the availability (including the reliability) of the values of foreign securities between the times at which they are determined and the close of the NYSE. If such an event occurs, the foreign securities may be valued using fair value procedures established and approved by the board of trustees. In certain circumstances these procedures include the use of independent pricing services. The intended effect of applying fair value pricing is to compute an NAV that accurately reflects the value of the Fund's portfolio at the time that the NAV is calculated, to discourage potential arbitrage market timing in Fund shares, to mitigate the dilutive impact of such attempted arbitrage market timing and to be fair to purchasing, redeeming and existing shareholders. However, the application of fair value pricing procedures may, on occasion, worsen rather than mitigate the potential dilutive impact of shareholder trading.

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

Accounts with Low Balances

If your account has been open for more than one year and its value falls below \$500 (\$50 for employee and UGMA/UTMA accounts), we will mail you a notice asking you to bring the account back up to its

applicable minimum investment amount. If you choose not to do so within 30 days, we will close your account and mail the proceeds to the address of record. You will not be charged a CDSC if your account is closed for this reason. This policy does not apply to: (1) certain broker-controlled accounts established through the National Securities Clearing Corporation's Networking system; (2) accounts in Class B and Class A accounts established pursuant to a conversion from Class B; (3) tax-deferred retirement plan accounts; (4) active automatic investment plan accounts; (5) broker-dealer sponsored separately managed accounts (wrap accounts); (6) accounts held through a 529 college savings program; and, (7) Coverdell Education Savings Plan accounts.

Statements, Reports and Prospectuses

You will receive quarterly account statements that show all your account transactions during the quarter. You also will receive written notification after each transaction affecting your account (except for distributions and transactions made through automatic investment or withdrawal programs, which will be reported on your quarterly statement).

You also will receive the Fund's financial reports every six months as well as an annual updated prospectus. To reduce Fund expenses, we try to identify related shareholders in a household and send only one copy of the financial reports and prospectus. This process, called "householding," will continue indefinitely unless you instruct us otherwise. If you prefer not to have these documents householded, please call us at (800) 632-2301. At any time you may view current prospectuses and financial reports on our website.

If you choose, you may receive your statements, financial reports and prospectuses through electronic delivery (please see "Investor Services - Telephone/Online Privileges").

Investment Representative Account Access

If there is a dealer or other investment representative of record on your account, he or she will be able to obtain your account information, conduct transactions for your account, and also will receive copies of all notifications and statements and other information about your account directly from the Fund.

Street or Nominee Accounts

You may transfer your shares from the street or nominee name account of one dealer to another, as long as both dealers have an agreement with Distributors. We will process the transfer after we receive authorization in proper form from your delivering securities dealer.

Joint Accounts

Unless you specify a different registration, shares issued to two or more owners are registered as “joint tenants with rights of survivorship” (shown as “Jt Ten” on your account statement). To make any ownership changes to jointly owned shares, or to sever a joint tenancy in jointly owned shares, all owners must agree in writing.

Joint Account Risk with Telephone/Online Privileges

You will automatically receive telephone/online privileges when you open your account. If your account has more than one registered owner, telephone/online privileges allow the Fund to accept online registration for online services (including electronic delivery of shareholder documents) and transaction instructions online or by telephone from only one registered owner. This means that *any one registered owner on your account, acting alone and without the consent of any other registered owner*, may give the Fund instructions by telephone, online or in writing (subject to any limitations in telephone or online privileges) to:

- Exchange shares from a jointly registered Fund account requiring all registered owner signatures into an identically registered money fund account that only requires one registered owner’s signature to redeem shares;
- Redeem Fund shares and direct the redemption proceeds to a bank account that may or may not be owned by you and, if owned by you jointly with someone else, only requires one person to withdraw funds by check or otherwise;
- Add/Change the bank account to which Fund share redemption proceeds may be sent, which bank account may not be owned by you;
- Purchase Fund shares by debiting a bank account that may be owned by you; and
- Add/Change the bank account that may be debited for Fund share purchases, which new account may be owned by you.

If you do NOT want another registered owner on your account to be able to issue these kinds of instructions to the Fund without your consent, you must instruct the Fund to deny/terminate online privileges and the ability to issue such instructions by telephone so that these types of instructions will only be accepted in writing signed by all account owners. This decision will apply to any other fund into which you may exchange your jointly owned Fund shares. Any later decision to permit these types of instructions by telephone and/or online will need to be given to the Fund in a written instruction signed by all registered owners.

Additional Policies

Please note that the Fund maintains additional policies and reserves certain rights, including:

- The Fund may restrict, reject or cancel any purchase orders, including an exchange request.
- The Fund may modify, suspend, or terminate telephone/online privileges at any time.
- The Fund may make material changes to or discontinue the exchange privilege on 60 days’ notice or as otherwise provided by law.
- The Fund may stop offering shares completely or may offer shares only on a limited basis, for a period of time or permanently.
- Normally, redemptions are processed by the next business day, but may take up to seven days to be processed if making immediate payment would adversely affect the Fund.
- In unusual circumstances, we may temporarily suspend redemptions or postpone the payment of proceeds, as allowed by federal securities laws.
- For redemptions over a certain amount, the Fund may pay redemption proceeds in securities or other assets rather than cash if the investment manager determines it is in the best interest of the Fund, consistent with applicable law.
- You may only buy shares of a fund (including the purchase side of an exchange) eligible for sale in your state or jurisdiction.
- To permit investors to obtain the current price, dealers are responsible for transmitting all orders to the Fund promptly.

Dealer Compensation

Class A, B, C & R

Qualifying dealers who sell Fund shares may receive sales commissions and other payments. These are paid by Distributors from sales charges received from purchasing or redeeming shareholders, from distribution and service (12b-1) fees from the Fund and from Distributors' other financial resources. Dealers may also receive shareholder servicing fees for servicing investors who indirectly hold Franklin Templeton fund shares through dealer-maintained brokerage accounts as more fully described under "Shareholder servicing and transfer agent" of the "Management and Other Services" section in the SAI. These fees are paid by the Fund's transfer agent from payments it receives under its agreement with the Fund.

No dealer commission will be paid on Class A NAV purchases by Employer Sponsored Retirement Plans.

If any dealer commissions are paid in connection with a purchase which is subsequently rejected or results in any trading restriction placed on the purchaser as a result of a determination by the Fund's investment manager or transfer agent that the purchase may be connected with trading activity that may be detrimental to the Fund as described in the Fund's "Frequent Trading Policy," the dealer shall, upon demand, refund such commissions to Distributors.

	Class A	Class B	Class C	Class R
Commission (%)	—	—	1.00 ¹	—
Investment under \$50,000	5.00	—	—	—
\$50,000 but under \$100,000	3.75	—	—	—
\$100,000 but under \$250,000	2.80	—	—	—
\$250,000 but under \$500,000	2.00	—	—	—
\$500,000 but under \$1 million	1.60	—	—	—
\$1 million or more	up to 1.00 ²	—	—	—
12b-1 fee to dealer	0.25 ^{2,3}	0.25 ⁴	1.00 ⁵	0.50

1. Commission includes advance of the first year's 0.25% 12b-1 service fee. Distributors may pay a prepaid commission. However, Distributors does not pay a prepaid commission on any purchases by Employer Sponsored Retirement Plans.

2. For purchases at NAV where Distributors paid a prepaid commission, dealers may start to receive the 12b-1 fee in the 13th month after purchase. For purchases at NAV where Distributors did not pay a prepaid commission, dealers may start to receive the 12b-1 fee at the time of purchase.

3. Under the Distribution Plan for Class A, the Fund may pay up to 0.35% to Distributors or others, out of which 0.10% generally will be retained by Distributors for its distribution expenses. The board of trustees has currently determined to set such fees under the Plan at 0.30% (until further notice), thus reducing the amount that will be retained by Distributors.

4. After eight years, Class B shares convert to Class A shares and dealers may then receive the 12b-1 fee applicable to Class A.

5. Dealers may be eligible to receive up to 0.25% at the time of purchase and may be eligible to receive 1% starting in the 13th month. During the first 12 months, the full 12b-1 fee will be paid to Distributors to partially offset the commission and the prepaid service fee paid at the time of purchase. For purchases at NAV where Distributors did not pay a prepaid commission, dealers may start to receive the 12b-1 fee at the time of purchase.

Other dealer and financial intermediary compensation. Distributors may make payments (a portion of which may be reimbursable under the terms of the Fund's Rule 12b-1 distribution plans) to certain dealers who have sold shares of the Franklin Templeton mutual funds. In the case of any one dealer, marketing support payments will not exceed the sum of 0.08% of that dealer's current year's total sales of Franklin Templeton mutual funds, and 0.05% (or 0.03%) of the total assets of equity (or fixed income) funds attributable to that dealer, on an annual basis. Marketing support payments made to organizations located outside the U.S., with respect to investments in the Fund by non-U.S. persons, may exceed this limitation. Distributors makes these payments in connection with the qualifying dealers' efforts to educate financial advisors about the Franklin Templeton funds. Any current year sales to, or assets held on behalf of, Employer Sponsored Retirement Plans for which payment is made to a financial intermediary pursuant to the following paragraph will be excluded from the calculation of marketing support payments pursuant to this paragraph.

Distributors and/or its affiliates may also make payments (a portion of which may be reimbursable under the terms of the Fund's Rule 12b-1 distribution plans) to certain financial intermediaries in connection with their activities that are intended to assist in the sale of shares of the Franklin Templeton mutual funds, directly or indirectly, to certain Employer Sponsored Retirement Plans. In the case of any one financial intermediary, such payments will not exceed 0.10% of the total assets of Franklin Templeton mutual funds held, directly or indirectly, by such Employer Sponsored Retirement Plans, on an annual basis.

A number of factors will be considered in determining these payments, including the qualifying dealer or financial intermediary's sales, assets and redemption rates, the nature and quality of any servicing provided by the financial intermediary, and the quality of the dealer or financial intermediary's relationship with Distributors. Distributors will, on an annual basis, determine the advisability of continuing these payments.

These payments may be in addition to any shareholder servicing fees paid by the Fund's transfer agent from payments it receives under its agreement with the Fund.

To the extent permitted by SEC and Financial Industry Regulatory Authority rules and other applicable laws and regulations, Distributors may pay or allow other promotional incentives or payments to dealers.

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

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

Questions

If you have any questions about the Fund or your account, you can write to us at P.O. Box 33030, St. Petersburg, FL 33733-8030. You also can call us at one of the following numbers. For your protection and to help ensure we provide you with quality service, all calls may be monitored or recorded.

Department Name	Telephone Number	Hours (Pacific time, Monday through Friday)
Shareholder Services	(800) 632-2301	5:30 a.m. to 5:00 p.m.
Fund Information	(800) DIAL BEN (800) 342-5236	5:30 a.m. to 5:00 p.m.
Retirement Services	(800) 527-2020	5:30 a.m. to 5:00 p.m.
Advisor Services	(800) 524-4040	5:30 a.m. to 5:00 p.m.
TDD (hearing impaired)	(800) 851-0637	5:30 a.m. to 5:00 p.m.
Automated Telephone System	(800) 632-2301 (800) 524-4040 (800) 527-2020	(around-the-clock access)

This page intentionally left blank

FRANKLIN TEMPLETON FUNDS

Literature Request. To receive a summary prospectus and/or prospectus, please call us at (800) DIAL BEN/342-5236 or visit franklintempleton.com. Investors should carefully consider a fund's investment goals, risks, charges and expenses before investing. The prospectus contains this and other information. Please carefully read a prospectus before investing.

VALUE

Franklin All Cap Value Fund
Franklin Balance Sheet Investment Fund
Franklin Large Cap Value Fund
Franklin MicroCap Value Fund¹
Franklin MidCap Value Fund
Franklin Small Cap Value Fund
Mutual Beacon Fund
Mutual Quest Fund
Mutual Recovery Fund²
Mutual Shares Fund

BLEND

Franklin Focused Core Equity Fund
Franklin Large Cap Equity Fund
Franklin Rising Dividends Fund

GROWTH

Franklin DynaTech Fund
Franklin Flex Cap Growth Fund
Franklin Growth Fund
Franklin Growth Opportunities Fund
Franklin Small Cap Growth Fund
Franklin Small-Mid Cap Growth Fund

SECTOR

Franklin Biotechnology Discovery Fund
Franklin Global Real Estate Fund
Franklin Gold & Precious Metals Fund
Franklin Natural Resources Fund
Franklin Real Estate Securities Fund
Franklin Utilities Fund
Mutual Financial Services Fund

GLOBAL

Franklin World Perspectives Fund
Mutual Global Discovery Fund
Templeton Global Opportunities Trust
Templeton Global Smaller Companies Fund
Templeton Growth Fund
Templeton World Fund

INTERNATIONAL

Franklin India Growth Fund
Franklin International Growth Fund
Franklin International Small Cap Growth Fund
Mutual European Fund
Mutual International Fund

Templeton Asian Growth Fund
Templeton BRIC Fund
Templeton China World Fund
Templeton Developing Markets Trust
Templeton Emerging Markets Small Cap Fund
Templeton Foreign Fund
Templeton Foreign Smaller Companies Fund
Templeton Frontier Markets Fund

HYBRID

Franklin Balanced Fund
Franklin Convertible Securities Fund
Franklin Equity Income Fund
Franklin Income Fund
Templeton Emerging Markets Balanced Fund
Templeton Global Balanced Fund³

ASSET ALLOCATION

Franklin Templeton Corefolio® Allocation Fund
Franklin Templeton Founding Funds Allocation Fund
Franklin Templeton Conservative Allocation Fund
Franklin Templeton Growth Allocation Fund
Franklin Templeton Moderate Allocation Fund
Franklin Templeton 2015 Retirement Target Fund
Franklin Templeton 2025 Retirement Target Fund
Franklin Templeton 2035 Retirement Target Fund
Franklin Templeton 2045 Retirement Target Fund
Franklin Templeton Global Allocation Fund
Franklin Templeton Multi-Asset Real Return Fund
FIXED INCOME
Franklin Adjustable U.S. Government Securities Fund⁴
Franklin Floating Rate Daily Access Fund
Franklin High Income Fund

Franklin Limited Maturity U.S. Government Securities Fund⁴
Franklin Low Duration Total Return Fund
Franklin Real Return Fund
Franklin Strategic Income Fund
Franklin Strategic Mortgage Portfolio
Franklin Templeton Hard Currency Fund
Franklin Total Return Fund
Franklin U.S. Government Securities Fund⁴
Templeton Global Bond Fund
Templeton Global Total Return Fund
Templeton International Bond Fund

TAX-FREE INCOME⁵

National

Double Tax-Free Income Fund
Federal Tax-Free Income Fund
High Yield Tax-Free Income Fund
Insured Tax-Free Income Fund⁶

Limited-/Intermediate-Term

California Intermediate-Term Tax-Free Income Fund
Federal Intermediate-Term Tax-Free Income Fund
Federal Limited-Term Tax-Free Income Fund

New York Intermediate-Term Tax-Free Income Fund

State-Specific

Alabama	Michigan
Arizona	Minnesota
California	Missouri
(4 funds)	New Jersey
Colorado	New York (2 funds)
Connecticut	North Carolina
Florida	Ohio
Georgia	Oregon
Kentucky	Pennsylvania
Louisiana	Tennessee
Maryland	Virginia
Massachusetts	

INSURANCE FUNDS

Franklin Templeton Variable Insurance Products Trust⁷

1. The fund is closed to new investors. Existing shareholders and select retirement plans can continue adding to their accounts.

2. The fund is a continuously offered, closed-end fund. Shares may be purchased daily; there is no daily redemption. However, each quarter, pending board approval, the fund will authorize the repurchase of 5%-25% of the outstanding number of shares. Investors may tender all or a portion of their shares during the tender period.

3. Effective 7/1/11, Templeton Income Fund changed its name to Templeton Global Balanced Fund. Additionally, the fund changed its goal and pricing structure. Under normal circumstances, the fund will invest: at least 25% of its assets

in fixed income senior securities and at least 25% of its assets in equity securities; at least 40% of its assets in non-U.S. investments; and, in issuers located in at least three different countries (including the U.S.).

4. An investment in the fund is neither insured nor guaranteed by the U.S. government or by any other entity or institution.

5. For investors subject to the alternative minimum tax, a small portion of fund dividends may be taxable. Distributions of capital gains are generally taxable.

6. The fund invests primarily in insured municipal securities.

7. The funds of the Franklin Templeton Variable Insurance Products Trust are generally available only through insurance company variable contracts.

FOR MORE INFORMATION

You can learn more about the Fund in the following documents:

Annual/Semiannual Report to Shareholders

Includes a discussion of recent market conditions and Fund strategies that significantly affected Fund performance during its last fiscal year, financial statements, detailed performance information, portfolio holdings and, in the annual report only, the independent registered public accounting firm's report.

Statement of Additional Information (SAI)

Contains more information about the Fund, its investments and policies. It is incorporated by reference (is legally a part of this prospectus).

For a free copy of the current annual/semiannual report or the SAI, please contact your investment representative or call us at the number below. You also can view the current annual/semiannual report and the SAI online through franklintempleton.com.

You also can obtain information about the Fund by visiting the SEC's Public Reference Room in Washington, DC (phone (202) 551-8090) or the EDGAR Database on the SEC's Internet site at <http://www.sec.gov>. You can obtain copies of this information, after paying a duplicating fee, by writing to the SEC's Public Reference Section, Washington, DC 20549-0102 or by electronic request at the following email address: publicinfo@sec.gov.



FRANKLIN TEMPLETON
INVESTMENTS

One Franklin Parkway, San Mateo, CA 94403-1906
(800) DIAL BEN®/342-5236
TDD/Hearing Impaired (800) 851-0637
franklintempleton.com

< GAIN FROM OUR PERSPECTIVE® >

Investment Company Act file #811-05387

© 2012 Franklin Templeton Investments. All rights reserved.