



FRANKLIN TEMPLETON
INVESTMENTS

December 31, 2017

Annual Management Report of Fund Performance



This annual management report of fund performance contains financial highlights but does not contain the complete financial statements of the investment fund. If you have not received a copy of the annual financial statements with this report, you can get a copy of the annual financial statements at your request, and at no cost, by calling 1.800.387.0830, by writing to us at 5000 Yonge Street, Suite 900, Toronto ON M2N 0A7, or by visiting our website at www.franklintempleton.ca or SEDAR at www.sedar.com. Securityholders may also contact us using one of these methods to request a copy of the investment fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

Co-Lead Manager

Philippe Brugère-Trélat

Franklin Mutual Advisers, LLC (Sub-Advisor)

Industry Experience: 34 years

Location: Short Hills, NJ

Co-Lead Manager

Katrina Dudley, CFRA, MBA

Franklin Mutual Advisers, LLC (Sub-Advisor)

Industry Experience: 20 years

Location: Short Hills, NJ

INVESTMENT OBJECTIVE AND STRATEGIES

Franklin Mutual European Fund (the “Fund”) seeks long-term capital appreciation by investing primarily in the equity and debt securities of companies incorporated or having their principal activities in European countries.

The Fund’s portfolio sub-advisor (the “portfolio manager”) is dedicated to a unique style of deep-value investing, searching aggressively for opportunities among undervalued stocks. The portfolio manager is committed to a distinct, three-pronged approach that seeks (a) fundamentally strong companies with robust balance sheets, high-quality assets and shareholder-oriented management teams, (b) carefully selected opportunities in distressed or bankrupt companies, and (c) risk arbitrage situations, specifically, announced takeover deals.

RISK

The risks of investing in the Fund remain as stated in the prospectus. The Fund is suitable for investors who are willing to accept medium investment risk, planning to hold their investment for the medium to long term and seeking capital appreciation—which may occasionally be short term—and, to a lesser extent, income, by investing in undervalued companies of any European country.

RESULTS OF OPERATIONS

As at December 31, 2017, total net asset value of the Fund was \$446.0 million, an increase of 18.5% from December 31, 2016. This was primarily driven by an increase of \$52.4 million in net assets from operations and \$17.4 million in net subscriptions. The Fund paid out \$14,000 in cash distributions to unitholders.

During the past year, the Fund’s Series A units generated total returns of 9.9%. Over the same time period, the Fund’s benchmark, the MSCI Europe Net Return Index (the “Index”), returned 17.9%. The performance of the Fund’s other series is similar to that of its Series A units, except for differences in expense structure. For the return of the Fund’s other series (if applicable), please refer to the “Past Performance” section.

On a relative sector basis, stock selection in Consumer Staples and stock selection and underweighted exposures in the Information Technology and Materials sectors hindered performance. The Fund’s cash position also weighed on relative returns. Conversely, stock selection, including not holding poorly performing names that are

represented in the Index, in the Consumer Discretionary and Utilities sectors, as well as a small overweighted position and stock selection in the Financials sector, aided relative results.

The Fund’s non-Canadian dollar exposure was not hedged to the Canadian dollar. During the period under review, the Canadian dollar depreciated against the euro and, to a lesser extent, the British pound. However, the overall impact of exchange rate movements on Fund performance was minor.

Merger-arbitrage and distressed investment allocations were also minor over the period and impacted returns to a lesser degree than the Fund’s deep-value equity investments.

Two of the Fund’s most significant detractors during the period were Carrefour SA and GlaxoSmithKline PLC.

Carrefour, a France-based food retailer, reported year-over-year sales growth during the period, but earnings and margins came under continued pressure. In August 2017, management pointed to a number of factors weighing on the company’s operating performance, most notable of which was competition in France from low-price retailers. Additional drags on operating results included new investments to upgrade its digital platform, an area in which Carrefour has lagged peers after putting off such spending for a number of years, plus integration costs of acquisitions outside of France and a slower-than-expected economic recovery in Argentina.

Shares of GlaxoSmithKline, a UK-based pharmaceutical company, dropped in the second half of the period. Glaxo reported decent quarterly results in July 2017, but investors were disappointed by management not raising its 2020 outlook and reducing its 2017 earnings growth guidance. In addition, the July 2017 strategy update by Glaxo’s new chief executive officer, Emma Walmsley, was met with some skepticism due to the company’s operating history and company culture. Shares of Glaxo fell further in October 2017, as investors became concerned about limited growth in 2018 from the effect of generic competition on its largest product, Advair, and a future dividend cut given Glaxo’s potential interest in Pfizer Inc.’s consumer-health business. Pfizer is not held in the Fund.

On the other hand, Enel SpA and Accor SA contributed to Fund returns.

Enel is a multinational electric and natural gas utility headquartered in Italy. A combination of generally positive earnings results, the announcement of a €2 billion stock-buyback program in March 2017 and consistent confirmation of full-year 2017 guidance helped drive the stock price higher. Shares of Enel and other European utilities companies benefitted from investors favouring more domestically oriented stocks due to a strengthening euro and the European Central Bank’s initial steps to gradually scale back its quantitative easing program.

Accor, a France-based hotel operator, benefitted from improving economic conditions in Europe. The company reported generally solid demand in France and the rest of Europe, as well improvement in revenue per available room, which is a key performance metric for the industry. In October, Accor agreed to acquire Mantra Group Ltd., an

Australian hotel operator. In the portfolio manager's view, the acquisition was attractive from a financial and strategic standpoint, as it consolidates Accor's leadership position in the Australia/New Zealand market, which has seen strong growth in tourism. In December, Accor's management stated that it was close to selling a stake in AccorInvest, its hotel property company. The planned sale is part of Accor's restructuring efforts to become a predominantly asset-light hotel management company.

Index performance comparison information is provided for reference only. It is important to note that the Fund's return reflects the effect of fees and expenses for professional management, while an index does not have such costs.

Average net assets of the series of the Fund that bear expenses have increased for the year ended December 31, 2017. This has resulted in a corresponding increase in expenses. Income received from investments held, excluding net realized and/or unrealized gain (loss) on investments and derivatives, decreased due to the results of the Fund's investment activities, including, but not limited to, those previously discussed for the period in review.

Recent Developments

Entering 2018, the investment landscape in Europe looks notably brighter than it did a year ago. After a number of false starts in recent years, Europe's economic recovery is finally gaining momentum, while political, corporate and financial conditions have improved. In the portfolio manager's view, Europe's equity markets may offer more upside potential in the near and medium term, as the business cycle does not appear to be as far along as in some other economies, particularly the United States. In addition, while major US equity indices have hit all-time highs, the European region's main market index, the Euro Stoxx 50 Index, is still below its April 2015 peak.

The improvement in conditions across Europe feels increasingly real. Eurozone economic growth in 2017 is on track for its best year since 2007, and economists expect a similar pace of growth in 2018. Economic data are showing an economy finally starting to run on all cylinders; purchasing managers' indices and national business surveys are indicating the improvement is spreading across sectors and countries. Furthermore, the European Central Bank's caution in scaling back its quantitative easing program means monetary policy will likely remain accommodative in 2018.

Earnings growth also picked up in 2017, but the portfolio manager believes there is room for further improvement, particularly among more domestically oriented companies, given the euro's recent appreciation against the US dollar. Stronger global economic growth and nascent signs of inflation edging higher may help boost revenues, while European companies in many industries continue to focus on improving operating margins in order to close the gap with their US competitors.

Political risk in Europe has declined, but not disappeared. The portfolio manager will keep a close eye on Italy's national election in March. No party has a clear lead, raising the risk of a hung parliament and more political uncertainty at a time when Italy's economy has shown signs of

improvement. However, there are political bright spots. The portfolio manager is particularly hopeful that French president Emmanuel Macron will push through his agenda of economic reforms. In September, Macron signed decrees to relax France's labour code, with relatively little resistance from France's powerful unions. Subsequent business surveys showed a meaningful upturn of French companies looking to increase capital spending and hiring. If Macron can continue his reform agenda, the portfolio manager believes these initiatives could lower the chronically high unemployment rate, boost business and consumer spending, fuel credit growth and improve corporate profitability.

If conditions keep improving in Europe, the portfolio manager believes some recent market trends may also begin to break down. Europe has been mired in a low-growth, low interest-rate environment since the global financial crisis. During that time, equity investors turned to growth stocks in the hope of greater return potential, or to defensive and high-dividend-yield stocks when volatility flared up, for example, during the Greek debt crisis, or to reach for yield. The portfolio manager believes investors should look beyond these corners of the equity market. Parts of the equity market more strongly linked to economic growth prospects, such as Industrials, Materials and portions of the Consumer Discretionary sector, are generally trading at more attractive valuations than growth or defensive stocks. The portfolio manager is also starting to see declining correlations between stocks. From this perspective, careful stockpicking could potentially contribute more to investment performance in environments in which correlations in returns between different stocks performances are low, as opposed to higher-correlation periods.

FORWARD-LOOKING STATEMENTS

Investors should take note that certain statements in this report about a fund, including its strategy and expected future performance, are forward-looking. Forward-looking statements are statements that are predictive in nature, depend upon or refer to future events or conditions, or that include words such as "may," "will," "should," "could," "expect," "anticipate," "intend," "plan," "believe," or "estimate" or other similar expressions. Any statement that is made concerning future strategies or performance is also a forward-looking statement. Statements that look forward in time or include anything other than historical information are subject to risks and uncertainties, and actual results, actions or events could differ materially from those set forth in the forward-looking statements.

The forward-looking statements are by their nature based on numerous assumptions, which include, amongst other things, that (i) the Fund can attract and maintain investors and has sufficient capital under management to effect its investment strategies, (ii) the investment strategies will produce the results intended by the portfolio manager, and (iii) the markets will react and perform in a manner consistent with the investment strategies. Although the forward-looking statements contained herein are based upon what the portfolio manager believes to be reasonable assumptions, the portfolio manager cannot assure that actual results will be consistent with these forward-looking statements.

Forward-looking statements are not guarantees of future performance. Any number of factors could contribute to differing results, including, among other things, general economic, political and market factors, interest and foreign exchange rates, global equity and capital markets, business competition, technological change, changes in government regulations, unexpected judicial or regulatory proceedings and catastrophic events. This list of factors is not exhaustive. Investors should not place undue reliance on forward-looking information and should be aware that the Fund may not update any forward-looking statements, whether as a result of new information, future events or otherwise.

RELATED PARTY TRANSACTIONS

The Manager is an indirect wholly-owned subsidiary of Franklin Resources, Inc., a global investment management organization known as Franklin Templeton Investments. The Manager is the manager, registrar and transfer agent and a principal distributor of the Fund. The Manager provides or arranges for the provision of these services for day-to-day Fund operations, including the marketing, promotion and distribution of the Fund and portfolio advisory services. In consideration of management and administrative services, the Fund pays the Manager a monthly management fee plus applicable taxes, based on the average net asset value of each series of the Fund (except Series O and OT as applicable), calculated daily, as set out under Management Fees below. During the year ended December 31, 2017, the Fund paid management fees of \$24,000 (2016—\$19,000).

Franklin Templeton Services, LLC (FTS) provides the Manager with fund accounting and portfolio valuation services in connection with the Fund, and provides certain back office administration services to the Manager. The Administration Fee, as discussed below, covers the cost of the services provided by FTS.

The Manager pays the operating expenses of the Fund, other than certain fund costs—which include, but are not limited to, the cost of compliance with new governmental and regulatory requirements, fees and expenses of the Fund’s Independent Review Committee (IRC), borrowing and interest costs and investor meeting costs (as permitted by Canadian securities regulation)—in exchange for the payment by the Fund of an annual fixed-rate administration fee of 0.28% plus applicable taxes, applied against the average daily net assets of the Fund (“Administration Fee”), except for Series PF, which has an annual Administration Fee of 0.15%, and Series O and OT, which have no annual Administration Fee. The Manager will pay all operating expenses of Series O and OT, as applicable, as part of its agreement with each investor. The Manager may, at its discretion, waive a portion of a series’ Administration Fee or absorb certain fund costs. During the year ended December 31, 2017, the Fund paid Administration Fees of \$4,000 (2016—\$3,000).

During the year ended December 31, 2017, the Manager waived fund costs of \$3,000 (2016—\$4,000).

As at December 31, 2017, Franklin Quotential Balanced Growth Portfolio and Franklin Bissett Canadian Balanced Fund held 29% and 12% of the Fund respectively.

Portfolio Advisor

The Manager is the portfolio advisor of the Fund. The Manager has engaged Franklin Mutual Advisers, LLC., an affiliate of the Manager, as sub-advisor (the “Sub-Advisor”). The Sub-Advisor provides investment analysis and recommendations to the Manager and executes or arranges for brokers to execute portfolio transactions in respect of the Fund. A portion of the management fee payable by the Fund to the Manager is paid to the Sub-Advisors with respect to portfolio sub-advisory services.

Principal Distributor

As a principal distributor of the Fund, the Manager markets the Fund and arranges for the sale of the Fund through dealers across Canada. The Manager may retain companies to assist in the sale of certain series of units of the Fund.

The Manager’s affiliate, FTC Investor Services Inc. (“FTC ISI”), also acts as a principal distributor for Series F, O, OT, FT, PF and PF (Hedged) units of the Fund, as applicable.

For acting as a principal distributor of the applicable series, FTC ISI receives an inter-company service fee of 0.20% of the assets under management of the applicable series from the Manager with respect to those series of units.

Registrar and Transfer Agent

In addition to management and portfolio advisory services, the Manager acts as the registrar and transfer agent of the Fund. These services are in the normal course of operations and are covered by the Administration Fee paid by the Fund to the Manager.

Standing Instructions from the Independent Review Committee

The Manager relied on standing instructions from the IRC with respect to the allocation of any operating expenses not covered by the Administration Fee. The Manager relied, or may rely, on standing instructions from the IRC in respect of securities trades amongst mutual funds, investment funds or managed accounts managed by the Manager or an affiliate of the Manager. In both cases, the standing instructions require the Manager to comply with the policies and procedures presented to the IRC with respect to the above matters and to provide periodic reports to the IRC in accordance with NI 81-107.

MANAGEMENT FEES

A portion of the management fee paid by the Fund to the Manager is for trail fees and sales commissions the Manager pays to dealers (“Dealer Compensation”). The trail fees are a percentage of the daily average net asset value of each series of the Fund, which is held by the dealer’s clients. The remaining portion of the management fee is used to pay for portfolio advisory and administrative services related to the provision of portfolio advisory services. The table below outlines the Fund’s annual

FRANKLIN MUTUAL EUROPEAN FUND
MANAGEMENT REPORT OF FUND PERFORMANCE

management fee, as well as the portion of the management fee used to pay for Dealer Compensation and for portfolio advisory services as an approximate percentage of the management fee for each series:

| Series | Management Fee (%) | Dealer Compensation (%)* | Investment management expenses, and other (%) |
|--------|--------------------|--------------------------|---|
| A | 2.00 | 40.48 | 59.52 |
| F | 1.00 | – | 100.00 |
| I | 1.50 | 49.73 | 50.27 |
| PF | 0.80 | – | 100.00 |

*Dealer compensation may include other fees related to distribution, which are not payable directly to dealers.

The management and administration fees for Series O are paid for by the unitholder directly to the Manager as follows:

- First C\$200,000 to under \$2.5 million—0.95%
- Next C\$2.5 million to under \$5 million—0.80%
- C\$5 million and over—0.75%

Certain institutional investors may negotiate the management and administration fees by written agreement with Franklin Templeton Investments.

MANAGEMENT REPORT OF FUND PERFORMANCE

Summary of Investment Portfolio (AS AT DECEMBER 31, 2017)

REGIONAL WEIGHTINGS (%)*

| | |
|---------------------------|-------|
| Europe | 89.56 |
| Latin America & Caribbean | 1.64 |

INDUSTRY WEIGHTINGS (%)*

| | |
|--|-------|
| Insurance | 14.63 |
| Oil, Gas & Consumable Fuels | 9.30 |
| Banks | 8.35 |
| Automobiles | 6.76 |
| Pharmaceuticals | 6.08 |
| Diversified Telecommunication Services | 4.90 |
| Trading Companies & Distributors | 4.06 |
| Electric Utilities | 4.04 |
| Auto Components | 3.83 |
| Hotels, Restaurants & Leisure | 3.73 |
| Health Care Equipment & Supplies | 3.45 |
| Wireless Telecommunication Services | 3.15 |
| Construction Materials | 2.85 |
| Machinery | 2.68 |
| Capital Markets | 1.97 |
| Food & Staples Retailing | 1.87 |
| Communications Equipment | 1.84 |
| Specialty Retail | 1.40 |
| Media | 1.21 |
| Marine | 0.99 |
| Commercial Services & Supplies | 0.98 |
| Metals & Mining | 0.84 |
| Multi-Utilities | 0.83 |
| Construction & Engineering | 0.47 |
| IT Services | 0.36 |
| Tobacco | 0.33 |
| Household Durables | 0.30 |

ASSET CLASS WEIGHTINGS (%)

| | |
|---|-------|
| Common Stocks | 85.88 |
| Preferred Stocks | 5.32 |
| Short-term securities and all other assets, net | 8.80 |

TOP 25 HOLDINGS (%)

| | |
|---|------|
| Cash and cash equivalents** | 8.38 |
| Enel SpA | 4.03 |
| Accor SA | 3.73 |
| NN Group NV | 3.69 |
| Koninklijke Philips NV | 3.45 |
| Volkswagen AG, Preferred | 3.26 |
| BP PLC | 3.16 |
| Vodafone Group PLC | 3.15 |
| Koninklijke KPN NV | 2.99 |
| Novartis AG | 2.96 |
| RSA Insurance Group PLC | 2.70 |
| LafargeHolcim Ltd., B | 2.63 |
| Rexel SA | 2.38 |
| Societe Generale SA | 2.30 |
| Direct Line Insurance Group PLC | 2.09 |
| Schaeffler AG, Preferred | 2.05 |
| Peugeot SA | 1.97 |
| Royal Dutch Shell PLC, A | 1.91 |
| Royal Dutch Shell PLC, A | 1.90 |
| Hellenic Telecommunications Organization SA | 1.90 |
| Ageas | 1.86 |
| Standard Chartered PLC | 1.82 |
| Cie Generale des Etablissements Michelin, B | 1.78 |
| GlaxoSmithKline PLC | 1.69 |
| Kloeckner & Co. SE | 1.68 |

TOTAL NET ASSET VALUE: \$445,999,000

* Excluding short-term securities and all other assets, net.

** Cash and cash equivalents may include bonds that have a remaining term to maturity of 365 days or less that are issued by certain governments, supranational agencies or financial institutions and have a "designated rating" (as defined in Canadian securities law).

Above is an outline of the investments held in the Fund as a percentage of the Fund's net assets. Due to ongoing portfolio transactions, the investments and percentages may have changed by the time you purchase units of the Fund. The top 25 holdings are made available quarterly, 60 days after the quarter-end. To obtain a copy, please contact a member of our client services team at 1.800.387.0830 or visit www.franklintempleton.ca.

FRANKLIN MUTUAL EUROPEAN FUND
MANAGEMENT REPORT OF FUND PERFORMANCE
Series A (AS AT DECEMBER 31, 2017)

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the fiscal periods ended December 31.

| Net assets per unit (1) | 2017 | 2016 | 2015 |
|--|---------------|----------------|----------------|
| Net assets – beginning of period | \$9.36 | \$10.46 | \$10.00 |
| Increase (decrease) from operations: | | | |
| Total revenue | 0.32 | 0.36 | 0.05 |
| Total expenses | (0.26) | (0.23) | (0.09) |
| Realized gains (losses) for the period | 0.19 | (0.64) | 0.05 |
| Unrealized gains (losses) for the period | 0.52 | 0.07 | 0.26 |
| Total increase (decrease) from operations (2) | 0.77 | (0.44) | 0.27 |
| Distributions: | | | |
| From income (excluding dividends) | – | – | (0.02) |
| From dividends | (0.30) | (0.36) | (0.02) |
| From capital gains | – | – | (0.02) |
| Returns of capital | – | – | – |
| Total annual distributions (3) | (0.30) | (0.36) | (0.06) |
| Net assets – end of period | \$9.99 | \$9.36 | \$10.46 |
| Ratios and supplemental data: | 2017 | 2016 | 2015 |
| Total net asset value (\$ millions) (1) | \$1.00 | \$0.78 | \$0.54 |
| Number of units outstanding | 100,078 | 83,820 | 51,172 |
| Management expense ratio (2) | 2.58% | 2.46% | 2.58% |
| Management expense ratio before waivers or absorptions | 2.58% | 2.46% | 2.58% |
| Trading expense ratio (3) | 0.11% | 0.09% | 0.11% |
| Portfolio turnover rate (4) | 24.82% | 18.52% | 32.47% |
| Net asset value per unit | \$9.99 | \$9.36 | \$10.46 |

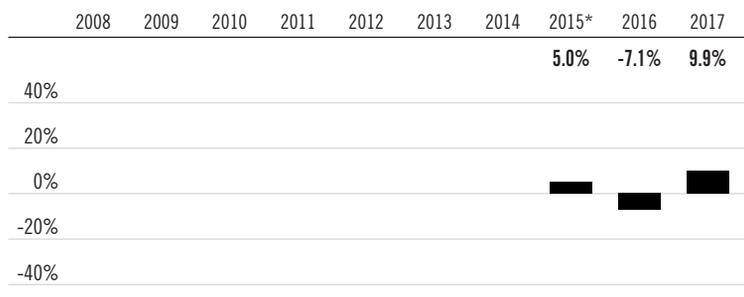
For explanatory notes, please refer to “Explanatory Notes to Financial Highlights” at the end of the section.

PAST PERFORMANCE

The following information assumes that all distributions made by the Fund in the periods shown were reinvested in additional securities of the Fund and does not take into account sales, redemption, distribution or other optional charges that would have reduced returns. Past performance does not necessarily indicate how the Fund will perform in the future.

Year-by-Year Returns

The bar chart shows the Fund's annual performance for each of the years shown, and illustrates how the investment Fund's performance has changed from year to year. In percentage terms, the bar chart indicates how much an investment made on January 1 would have grown or decreased by the December 31 of each year shown.



*2015 Series A return: September 28 to December 31

Annual Compound Returns

The table shows the annual compound total returns for each of the periods shown ended December 31, 2017. The returns are compared against the benchmark(s) over the same period.‡

| | 1 Year | 3 Years | 5 Years | 10 Years | Since Inception |
|------------------------------|-------------|------------|------------|------------|-----------------|
| Series A Units | 9.9% | N/A | N/A | N/A | 3.1% |
| MSCI Europe Net Return Index | 17.9% | N/A | N/A | N/A | 9.8% |

‡ For a definition of the benchmark(s), please refer to “Benchmark(s) Information” at the end of the section.

FRANKLIN MUTUAL EUROPEAN FUND
MANAGEMENT REPORT OF FUND PERFORMANCE
Series F (AS AT DECEMBER 31, 2017)

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the fiscal periods ended December 31.

| Net assets per unit (1) | 2017 | 2016 | 2015 |
|--|----------------|----------------|----------------|
| Net assets – beginning of period | \$9.49 | \$10.49 | \$10.00 |
| Increase (decrease) from operations: | | | |
| Total revenue | 0.24 | 0.39 | 0.05 |
| Total expenses | (0.14) | (0.13) | (0.05) |
| Realized gains (losses) for the period | 0.11 | (0.70) | 0.03 |
| Unrealized gains (losses) for the period | 0.25 | 0.62 | 0.54 |
| Total increase (decrease) from operations (2) | 0.46 | 0.18 | 0.57 |
| Distributions: | | | |
| From income (excluding dividends) | – | – | (0.02) |
| From dividends | (0.31) | (0.36) | (0.02) |
| From capital gains | – | – | (0.02) |
| Returns of capital | – | – | – |
| Total annual distributions (3) | (0.31) | (0.36) | (0.06) |
| Net assets – end of period | \$10.24 | \$9.49 | \$10.49 |
| Ratios and supplemental data: | 2017 | 2016 | 2015 |
| Total net asset value (\$ millions) (1) | \$0.10 | \$0.06 | \$0.03 |
| Number of units outstanding | 9,868 | 6,103 | 2,679 |
| Management expense ratio (2) | 1.36% | 1.37% | 1.46% |
| Management expense ratio before waivers or absorptions | 1.36% | 1.37% | 1.46% |
| Trading expense ratio (3) | 0.11% | 0.09% | 0.11% |
| Portfolio turnover rate (4) | 24.82% | 18.52% | 32.47% |
| Net asset value per unit | \$10.24 | \$9.49 | \$10.49 |

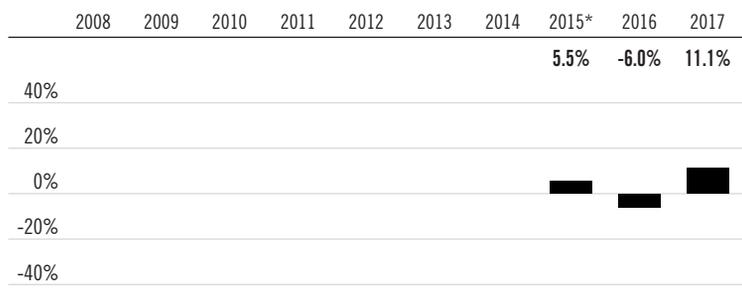
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PAST PERFORMANCE

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Year-by-Year Returns

The bar chart shows the Fund's annual performance for each of the years shown, and illustrates how the investment Fund's performance has changed from year to year. In percentage terms, the bar chart indicates how much an investment made on January 1 would have grown or decreased by the December 31 of each year shown.



*2015 Series F return: September 28 to December 31

Annual Compound Returns

The table shows the annual compound total returns for each of the periods shown ended December 31, 2017. The returns are compared against the benchmark(s) over the same period.‡

| | 1 Year | 3 Years | 5 Years | 10 Years | Since Inception |
|------------------------------|--------------|------------|------------|------------|-----------------|
| Series F Units | 11.1% | N/A | N/A | N/A | 4.3% |
| MSCI Europe Net Return Index | 17.9% | N/A | N/A | N/A | 9.8% |

‡ For a definition of the benchmark(s), please refer to “Benchmark(s) Information” at the end of the section.

FRANKLIN MUTUAL EUROPEAN FUND
MANAGEMENT REPORT OF FUND PERFORMANCE
Series I (AS AT DECEMBER 31, 2017)

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the fiscal periods ended December 31.

| Net assets per unit (1) | 2017 | 2016 | 2015 |
|--|----------------|----------------|----------------|
| Net assets – beginning of period | \$9.42 | \$10.47 | \$10.00 |
| Increase (decrease) from operations: | | | |
| Total revenue | 0.33 | 0.50 | 0.05 |
| Total expenses | (0.20) | (0.19) | (0.07) |
| Realized gains (losses) for the period | 0.20 | (0.81) | 0.03 |
| Unrealized gains (losses) for the period | 0.62 | (0.12) | 0.15 |
| Total increase (decrease) from operations (2) | 0.95 | (0.62) | 0.16 |
| Distributions: | | | |
| From income (excluding dividends) | – | – | (0.02) |
| From dividends | (0.30) | (0.36) | (0.02) |
| From capital gains | – | – | (0.02) |
| Returns of capital | – | – | – |
| Total annual distributions (3) | (0.30) | (0.36) | (0.06) |
| Net assets – end of period | \$10.11 | \$9.42 | \$10.47 |
| Ratios and supplemental data: | 2017 | 2016 | 2015 |
| Total net asset value (\$ millions) (1) | \$0.03 | \$0.02 | \$0.04 |
| Number of units outstanding | 2,645 | 2,300 | 4,103 |
| Management expense ratio (2) | 2.01% | 2.01% | 2.02% |
| Management expense ratio before waivers or absorptions | 2.01% | 2.01% | 2.02% |
| Trading expense ratio (3) | 0.11% | 0.09% | 0.11% |
| Portfolio turnover rate (4) | 24.82% | 18.52% | 32.47% |
| Net asset value per unit | \$10.11 | \$9.42 | \$10.47 |

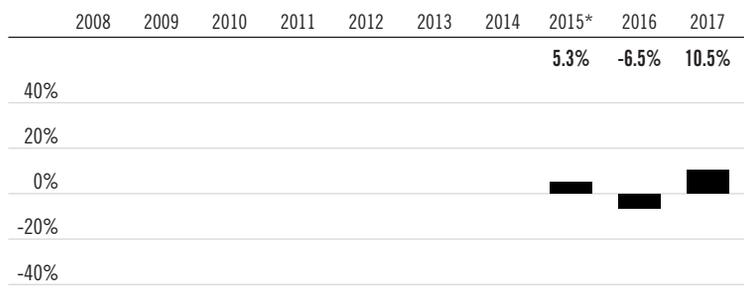
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PAST PERFORMANCE

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Year-by-Year Returns

The bar chart shows the Fund's annual performance for each of the years shown, and illustrates how the investment Fund's performance has changed from year to year. In percentage terms, the bar chart indicates how much an investment made on January 1 would have grown or decreased by the December 31 of each year shown.



*2015 Series I return: September 28 to December 31

Annual Compound Returns

The table shows the annual compound total returns for each of the periods shown ended December 31, 2017. The returns are compared against the benchmark(s) over the same period.‡

| | 1 Year | 3 Years | 5 Years | 10 Years | Since Inception |
|------------------------------|--------------|------------|------------|------------|-----------------|
| Series I Units | 10.5% | N/A | N/A | N/A | 3.7% |
| MSCI Europe Net Return Index | 17.9% | N/A | N/A | N/A | 9.8% |

‡ For a definition of the benchmark(s), please refer to “Benchmark(s) Information” at the end of the section.

FRANKLIN MUTUAL EUROPEAN FUND
MANAGEMENT REPORT OF FUND PERFORMANCE
Series 0 (AS AT DECEMBER 31, 2017)

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the fiscal periods ended December 31.

| Net assets per unit (1) | 2017 | 2016 | 2015 |
|--|----------------|----------------|----------------|
| Net assets – beginning of period | \$9.65 | \$10.52 | \$10.00 |
| Increase (decrease) from operations: | | | |
| Total revenue | 0.35 | 0.37 | 0.05 |
| Total expenses | – | – | – |
| Realized gains (losses) for the period | 0.22 | (0.69) | 0.04 |
| Unrealized gains (losses) for the period | 0.65 | (0.42) | 0.71 |
| Total increase (decrease) from operations (2) | 1.22 | (0.74) | 0.80 |
| Distributions: | | | |
| From income (excluding dividends) | – | – | (0.02) |
| From dividends | (0.31) | (0.37) | (0.02) |
| From capital gains | – | – | (0.02) |
| Returns of capital | – | – | – |
| Total annual distributions (3) | (0.31) | (0.37) | (0.06) |
| Net assets – end of period | \$10.57 | \$9.65 | \$10.52 |
| Ratios and supplemental data: | 2017 | 2016 | 2015 |
| Total net asset value (\$ millions) (1) | \$444.54 | \$375.20 | \$518.79 |
| Number of units outstanding | 42,075,911 | 38,882,824 | 49,333,624 |
| Management expense ratio (2) | – | – | – |
| Management expense ratio before waivers or absorptions | – | – | – |
| Trading expense ratio (3) | 0.11% | 0.09% | 0.11% |
| Portfolio turnover rate (4) | 24.82% | 18.52% | 32.47% |
| Net asset value per unit | \$10.57 | \$9.65 | \$10.52 |

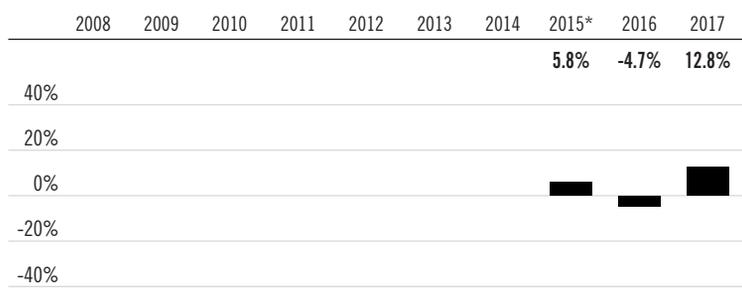
For explanatory notes, please refer to “Explanatory Notes to Financial Highlights” at the end of the section.

PAST PERFORMANCE

The following information assumes that all distributions made by the Fund in the periods shown were reinvested in additional securities of the Fund and does not take into account sales, redemption, distribution or other optional charges that would have reduced returns. Past performance does not necessarily indicate how the Fund will perform in the future.

Year-by-Year Returns

The bar chart shows the Fund's annual performance for each of the years shown, and illustrates how the investment Fund's performance has changed from year to year. In percentage terms, the bar chart indicates how much an investment made on January 1 would have grown or decreased by the December 31 of each year shown.



*2015 Series 0 return: September 28 to December 31

Annual Compound Returns

The table shows the annual compound total returns for each of the periods shown ended December 31, 2017. The returns are compared against the benchmark(s) over the same period.‡

| | 1 Year | 3 Years | 5 Years | 10 Years | Since Inception |
|------------------------------|--------------|------------|------------|------------|-----------------|
| Series 0 Units | 12.8% | N/A | N/A | N/A | 5.8% |
| MSCI Europe Net Return Index | 17.9% | N/A | N/A | N/A | 9.8% |

‡ For a definition of the benchmark(s), please refer to “Benchmark(s) Information” at the end of the section.

FRANKLIN MUTUAL EUROPEAN FUND
MANAGEMENT REPORT OF FUND PERFORMANCE
 Series PF (AS AT DECEMBER 31, 2017)

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the fiscal periods ended December 31.

| Net assets per unit (1) | 2017 | 2016 | 2015 |
|--|----------------|----------------|----------------|
| Net assets – beginning of period | \$9.52 | \$10.49 | \$10.00 |
| Increase (decrease) from operations: | | | |
| Total revenue | 0.32 | 0.36 | 0.04 |
| Total expenses | (0.11) | (0.11) | (0.03) |
| Realized gains (losses) for the period | 0.21 | (0.66) | (0.04) |
| Unrealized gains (losses) for the period | 0.89 | (0.10) | 0.59 |
| Total increase (decrease) from operations (2) | 1.31 | (0.51) | 0.56 |
| Distributions: | | | |
| From income (excluding dividends) | – | – | (0.02) |
| From dividends | (0.31) | (0.36) | (0.02) |
| From capital gains | – | – | (0.02) |
| Returns of capital | – | – | – |
| Total annual distributions (3) | (0.31) | (0.36) | (0.06) |
| Net assets – end of period | \$10.32 | \$9.52 | \$10.49 |
| Ratios and supplemental data: | 2017 | 2016 | 2015 |
| Total net asset value (\$ millions) (1) | \$0.33 | \$0.17 | \$0.14 |
| Number of units outstanding | 32,371 | 17,512 | 13,074 |
| Management expense ratio (2) | 1.07% | 1.16% | 1.16% |
| Management expense ratio before waivers or absorptions | 1.07% | 1.16% | 1.16% |
| Trading expense ratio (3) | 0.11% | 0.09% | 0.11% |
| Portfolio turnover rate (4) | 24.82% | 18.52% | 32.47% |
| Net asset value per unit | \$10.32 | \$9.52 | \$10.49 |

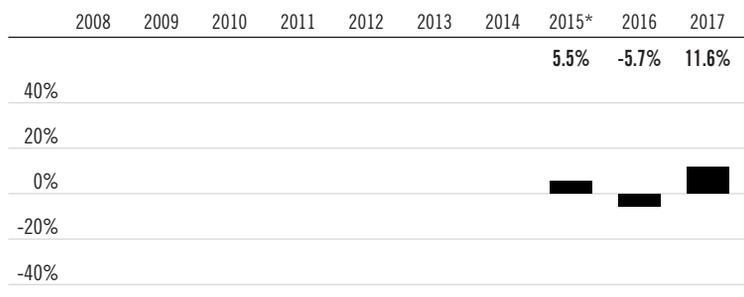
For explanatory notes, please refer to “Explanatory Notes to Financial Highlights” at the end of the section.

PAST PERFORMANCE

The following information assumes that all distributions made by the Fund in the periods shown were reinvested in additional securities of the Fund and does not take into account sales, redemption, distribution or other optional charges that would have reduced returns. Past performance does not necessarily indicate how the Fund will perform in the future.

Year-by-Year Returns

The bar chart shows the Fund's annual performance for each of the years shown, and illustrates how the investment Fund's performance has changed from year to year. In percentage terms, the bar chart indicates how much an investment made on January 1 would have grown or decreased by the December 31 of each year shown.



*2015 Series PF return: September 28 to December 31

Annual Compound Returns

The table shows the annual compound total returns for each of the periods shown ended December 31, 2017. The returns are compared against the benchmark(s) over the same period.‡

| | 1 Year | 3 Years | 5 Years | 10 Years | Since Inception |
|------------------------------|--------------|------------|------------|------------|-----------------|
| Series PF Units | 11.6% | N/A | N/A | N/A | 4.7% |
| MSCI Europe Net Return Index | 17.9% | N/A | N/A | N/A | 9.8% |

‡ For a definition of the benchmark(s), please refer to “Benchmark(s) Information” at the end of the section.

NOTES TO FINANCIAL HIGHLIGHTS

Net Assets per Unit:

- (1) This information is derived from the Fund's audited annual financial statements. In the period a fund or series is established, the financial information is provided from the date of inception to the end of the period. In cases where the net assets per unit presented in the financial statements differ from the net asset value calculated for Fund pricing purposes, an explanation of these differences can be found in the notes to the financial statements.
- (2) Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease in net assets from operations is based on the weighted average number of units outstanding over the fiscal period. This table is not intended to be a reconciliation of opening and closing net assets per unit.
- (3) Distributions were paid in cash or reinvested in additional units of the Fund or both, and exclude distributions of management fee reductions to unitholders.

Ratios and Supplemental Data:

- (1) This information is provided as at the period-end of the year shown.
- (2) Management expense ratio is based on total expenses for the stated period and is expressed as an annualized percentage of daily average net asset value during the period.
- (3) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of net asset value during the period.
- (4) The Fund's portfolio turnover rate indicates how actively the Fund's portfolio manager manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling each security in its portfolio once in the course of the relevant period. The higher the portfolio turnover rate in the period, the greater the trading costs payable by the Fund and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of the Fund.

OTHER FUND INFORMATION

Reported year-by-year returns for past years may be revised, based on the results of recalculations, audits and/or other historical review processes. Such revisions are considered immaterial to performance disclosure unless otherwise stated.

Series I and V, as applicable, are presently capped (closed to new investors). Investors who currently own units of Series I and Series V may continue to purchase additional units in those series. These series may become available for purchase by new investors at the discretion of the Manager.

BENCHMARK(S) INFORMATION

MSCI Europe Net Return Index is an equity-market benchmark that captures large- and mid-capitalization representation across 15 developed-market countries in Europe and covers approximately 85% of the free float-adjusted market capitalization across the European developed-markets equity universe. Returns are shown in Canadian-dollar terms.