



FRANKLIN TEMPLETON
INVESTMENTS

June 30, 2018

Semi-Annual Management Report of Fund Performance



This semi-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 semi-annual financial statements with this report, you can get a copy of the semi-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

Katrina Dudley, CFA, MBA

Franklin Mutual Advisers, LLC (Sub-Advisor)

Industry Experience: 20 years

Location: Short Hills, NJ

Co-Lead Manager

Mandana Hormozi, MBA

Franklin Mutual Advisers, LLC (Sub-Advisor)

Industry Experience: 26 years

Location: Short Hills, NJ

RESULTS OF OPERATIONS

As at June 30, 2018, total net asset value of the Fund was \$336.7 million, a decrease of 24.5% from December 31, 2017. This was primarily driven by \$111.9 million in net redemptions and partially offset by an increase of \$2.6 million in net assets from operations.

During the six months, the Fund's Series A units generated total returns of -1.5%. Over the same time period, the Fund's benchmark, the MSCI Europe Net Return Index (the "Index"), returned 2.1%. 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 and an overweighted exposure to the Telecommunication Services sector and stock selection in the Industrials and Materials sectors weighed on relative returns. Conversely, stock selection, including not holding poorly performing names that are represented in the Index, in the Financials and Health Care sectors, as well as a small overweighted position and stock selection in the Energy 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 were Vodafone Group and Rexel.

Vodafone Group is a UK-based global mobile telecommunications company. In May 2018, it reported better-than-expected fiscal year-end results, but the outlook for fiscal year 2019 was below expectations with much of the growth forecast to come in the latter part of the year. In addition, Vodafone chief executive officer (CEO) Vittorio Colao announced his intention to retire in October 2018. The CEO's decision was not a total surprise given his decade long tenure, but the timing was unexpected given Vodafone's purchase of certain Liberty Global (not a fund holding) assets is still being reviewed by government regulators. The portfolio manager believes Vodafone's board is confident of

receiving regulatory approval. In addition, the naming of Nick Read, the current chief financial officer (CFO), as the new CEO and promoting the deputy CFO signal the board's focus on operating performance.

Rexel is a distributor of low voltage electrical equipment headquartered in Paris. In April, shares of Rexel dropped in response to slightly weaker-than-expected quarterly revenue and earnings results, although free cash flow showed significant improvement. In the portfolio manager's view, the results were negatively affected by investments in digital technology and workers, unfavourable weather and fewer working days, as well as a change in how the company accounts for bonus payments. The portfolio manager believes the positive catalysts for Rexel remain in place as its reorganization efforts and branch openings in the United States are starting to produce positive results and the market environment in Europe continues to improve.

Conversely, two of the Fund's key contributors were Nokia and Royal Dutch Shell.

Nokia, a Finland-based global communications and Information Technology company, announced solid quarterly and full-year results in February 2018, particularly better-than-expected profits for 2017 and significant improvement in cash flow. Management also issued a new earnings target for 2020 that was higher than many investors had anticipated. Subsequent quarterly results issued in April 2018 were weaker than expected, but management emphasized the company's strong levels of new and existing orders and indicated that sales for full-year 2018 could exceed its previous guidance.

Shares of Royal Dutch Shell, a UK-based global integrated oil and gas company, were supported by rising crude oil prices and strong operational performance. Crude oil prices rose on the continuing trend of strengthening demand and a gradual rise in supply, reinforced by the Organization of the Petroleum Exporting Countries and non-member country Russia agreeing to a modest increase in crude oil production in June 2018. In addition, Shell has continued to be disciplined with its capital spending, and has stated its intention to buy back \$25 billion in stock from 2018-2020, but has been reluctant to commit to a starting date. The portfolio manager believes the recent stream of closed and announced asset sales, including a placement of more assets into its master limited partnership (MLP), coupled with the strength of crude oil prices during the period, positions the company for a near-term commencement of the buyback program.

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 six months ended June 30, 2018. 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, as applicable, remained relatively flat 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

Corporate and economic fundamentals in Europe remain generally favourable, and the portfolio manager remains generally optimistic about European equity markets. The recent softening of economic activity data appears to be reversing, business and consumer confidence remains strong, and corporate earnings growth remains healthy. At period-end, Europe's equity market overall was still trading at an attractively lower price-to-earnings (P/E) multiple and higher dividend yield than the US equity market.

The portfolio manager is paying close attention to escalating trade tensions with the United States, Brexit negotiations, Italy's new odd-couple coalition government, a potentially fraying relationship between Germany's two conservative parties and the future of the international nuclear deal with Iran. While the portfolio manager believes the economic recovery is fairly resilient at this stage, any of these has the potential to slow economic growth and rattle financial markets. Conversely, the portfolio manager views bouts of short-term volatility as opportunities to acquire companies at undeservedly discounted prices.

Regarding the potential for additional trade tariffs and an outright trade war, the portfolio manager is looking for companies that are being punished unfairly or companies operating in industries with minimal direct exposure to tariffs or potential supply chain disruptions.

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 six months ended June 30, 2018, the Fund paid management fees of \$17,000 (2017—\$10,000).

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 six months ended June 30, 2018, the Fund paid Administration Fees of \$3,000 (2017—\$2,000).

During the six months ended June 30, 2018, the Manager waived fund costs of \$1,000 (2017—\$1,000).

As at June 30, 2018, Franklin Quotential Balanced Growth Portfolio and Franklin Bissett Canadian Balanced Fund held 27% and 15% of the Fund respectively.

FRANKLIN MUTUAL EUROPEAN FUND
MANAGEMENT REPORT OF FUND PERFORMANCE

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

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.

FRANKLIN MUTUAL EUROPEAN FUND
MANAGEMENT REPORT OF FUND PERFORMANCE
Summary of Investment Portfolio (AS AT JUNE 30, 2018)

REGIONAL WEIGHTINGS (%)*

Europe	94.07
Latin America & Caribbean	0.40

INDUSTRY WEIGHTINGS (%)*

Insurance	13.65
Oil, Gas & Consumable Fuels	9.78
Banks	9.06
Pharmaceuticals	7.20
Automobiles	7.03
Diversified Telecommunication Services	4.71
Construction Materials	4.53
Trading Companies & Distributors	4.40
Health Care Equipment & Supplies	3.89
Multi-Utilities	3.34
Hotels, Restaurants & Leisure	3.24
Auto Components	3.09
Capital Markets	3.02
Wireless Telecommunication Services	2.98
Machinery	2.94
Communications Equipment	2.03
Specialty Retail	1.60
Tobacco	1.49
Food & Staples Retailing	1.41
Commercial Services & Supplies	1.34
Marine	1.10
Metals & Mining	0.97
Textiles, Apparel & Luxury Goods	0.74
Electrical Equipment	0.50
Household Durables	0.43

ASSET CLASS WEIGHTINGS (%)

Common Stocks	90.63
Preferred Stocks	3.84
Short-term securities and all other assets, net	5.53

TOP 25 HOLDINGS (%)

Cash and cash equivalents**	5.11
Koninklijke Philips NV	3.89
Novartis AG	3.69
Enel SpA	3.34
Accor SA	3.23
BP PLC	3.21
Peugeot SA	3.06
NN Group NV	3.02
Vodafone Group PLC	2.98
LafargeHolcim Ltd., B	2.91
RSA Insurance Group PLC	2.85
Rexel SA	2.69
GlaxoSmithKline PLC	2.53
Koninklijke KPN NV	2.53
Societe Generale SA	2.25
ASR Nederland NV	2.23
Royal Dutch Shell PLC, A	2.19
Standard Chartered PLC	2.19
Hellenic Telecommunications Organization SA	2.18
Direct Line Insurance Group PLC	2.09
Volkswagen AG, Preferred	1.94
Schaeffler AG, Preferred	1.90
Credit Suisse Group AG	1.75
KloECKner & Co. SE	1.71
Total SA	1.70

TOTAL NET ASSET VALUE: \$336,711,000

* 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 JUNE 30, 2018)

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 six months ended June 30, 2018, and for the fiscal periods ended December 31.

Net assets per unit (1)	Jun. 30, 2018	2017	2016	2015
Net assets – beginning of period	\$9.99	\$9.36	\$10.46	\$10.00
Increase (decrease) from operations:				
Total revenue	0.25	0.32	0.36	0.05
Total expenses	(0.13)	(0.26)	(0.23)	(0.09)
Realized gains (losses) for the period	0.52	0.19	(0.64)	0.05
Unrealized gains (losses) for the period	(0.88)	0.52	0.07	0.26
Total increase (decrease) from operations (2)	(0.24)	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	\$9.84	\$9.99	\$9.36	\$10.46
Ratios and supplemental data:	Jun. 30, 2018	2017	2016	2015
Total net asset value (\$ millions) (1)	\$1.36	\$1.00	\$0.78	\$0.54
Number of units outstanding	138,012	100,078	83,820	51,172
Management expense ratio (2)	2.58%	2.58%	2.46%	2.58%
Management expense ratio before waivers or absorptions	2.58%	2.58%	2.46%	2.58%
Trading expense ratio (3)	0.10%	0.11%	0.09%	0.11%
Portfolio turnover rate (4)	10.17%	24.82%	18.52%	32.47%
Net asset value per unit	\$9.84	\$9.99	\$9.36	\$10.46

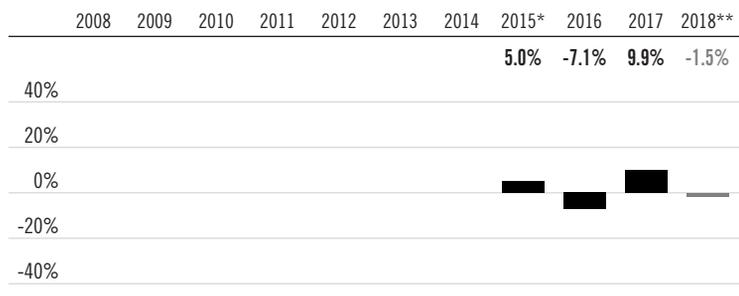
For explanatory notes, please refer to "Explanatory Notes to Financial Highlights" at the end of the section.

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 performance for the six-month period ended June 30, 2018, and for each of the previous 12-month periods ended December 31. In percentage terms, the bar chart indicates how much an investment made on January 1 would have grown or decreased by the end of the period.



* 2015 Series A return: September 28 to December 31

** For the period January 1 to June 30, 2018

FRANKLIN MUTUAL EUROPEAN FUND
MANAGEMENT REPORT OF FUND PERFORMANCE
Series F (AS AT JUNE 30, 2018)

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 six months ended June 30, 2018, and for the fiscal periods ended December 31.

Net assets per unit (1)	Jun. 30, 2018	2017	2016	2015
Net assets – beginning of period	\$10.24	\$9.49	\$10.49	\$10.00
Increase (decrease) from operations:				
Total revenue	0.23	0.24	0.39	0.05
Total expenses	(0.07)	(0.14)	(0.13)	(0.05)
Realized gains (losses) for the period	0.49	0.11	(0.70)	0.03
Unrealized gains (losses) for the period	(0.65)	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	\$10.13	\$10.24	\$9.49	\$10.49
Ratios and supplemental data:	Jun. 30, 2018	2017	2016	2015
Total net asset value (\$ millions) (1)	\$0.05	\$0.10	\$0.06	\$0.03
Number of units outstanding	5,003	9,868	6,103	2,679
Management expense ratio (2)	1.38%	1.36%	1.37%	1.46%
Management expense ratio before waivers or absorptions	1.38%	1.36%	1.37%	1.46%
Trading expense ratio (3)	0.10%	0.11%	0.09%	0.11%
Portfolio turnover rate (4)	10.17%	24.82%	18.52%	32.47%
Net asset value per unit	\$10.13	\$10.24	\$9.49	\$10.49

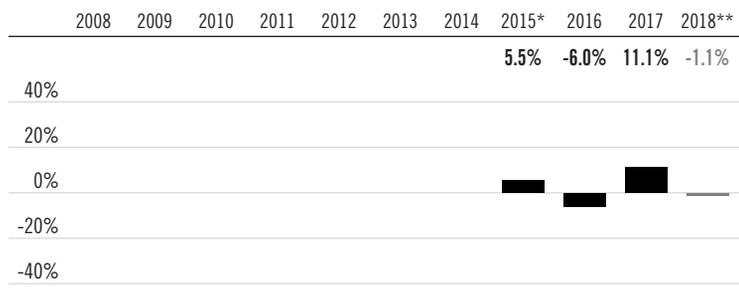
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PAST PERFORMANCE

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Year-by-Year Returns

The bar chart shows the Fund's performance for the six-month period ended June 30, 2018, and for each of the previous 12-month periods ended December 31. In percentage terms, the bar chart indicates how much an investment made on January 1 would have grown or decreased by the end of the period.



* 2015 Series F return: September 28 to December 31

** For the period January 1 to June 30, 2018

FRANKLIN MUTUAL EUROPEAN FUND
MANAGEMENT REPORT OF FUND PERFORMANCE
Series I (AS AT JUNE 30, 2018)

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 six months ended June 30, 2018, and for the fiscal periods ended December 31.

Net assets per unit (1)	Jun. 30, 2018	2017	2016	2015
Net assets – beginning of period	\$10.11	\$9.42	\$10.47	\$10.00
Increase (decrease) from operations:				
Total revenue	0.23	0.33	0.50	0.05
Total expenses	(0.10)	(0.20)	(0.19)	(0.07)
Realized gains (losses) for the period	0.47	0.20	(0.81)	0.03
Unrealized gains (losses) for the period	(0.67)	0.62	(0.12)	0.15
Total increase (decrease) from operations (2)	(0.07)	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	\$9.97	\$10.11	\$9.42	\$10.47
Ratios and supplemental data:	Jun. 30, 2018	2017	2016	2015
Total net asset value (\$ millions) (1)	\$0.02	\$0.03	\$0.02	\$0.04
Number of units outstanding	2,207	2,645	2,300	4,103
Management expense ratio (2)	2.02%	2.01%	2.01%	2.02%
Management expense ratio before waivers or absorptions	2.02%	2.01%	2.01%	2.02%
Trading expense ratio (3)	0.10%	0.11%	0.09%	0.11%
Portfolio turnover rate (4)	10.17%	24.82%	18.52%	32.47%
Net asset value per unit	\$9.97	\$10.11	\$9.42	\$10.47

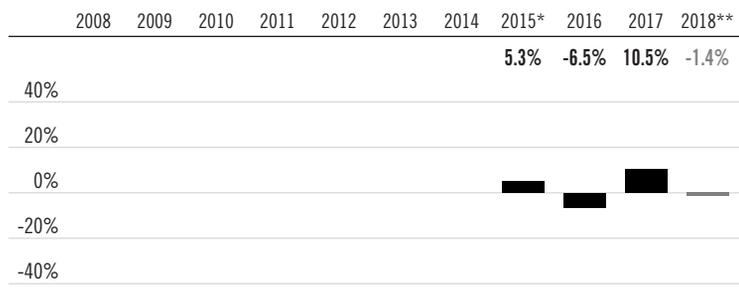
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Year-by-Year Returns

The bar chart shows the Fund's performance for the six-month period ended June 30, 2018, and for each of the previous 12-month periods ended December 31. In percentage terms, the bar chart indicates how much an investment made on January 1 would have grown or decreased by the end of the period.



* 2015 Series I return: September 28 to December 31

** For the period January 1 to June 30, 2018

FRANKLIN MUTUAL EUROPEAN FUND
MANAGEMENT REPORT OF FUND PERFORMANCE
Series O (AS AT JUNE 30, 2018)

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 six months ended June 30, 2018, and for the fiscal periods ended December 31.

Net assets per unit (1)	Jun. 30, 2018	2017	2016	2015
Net assets – beginning of period	\$10.57	\$9.65	\$10.52	\$10.00
Increase (decrease) from operations:				
Total revenue	0.24	0.35	0.37	0.05
Total expenses	–	–	–	–
Realized gains (losses) for the period	0.53	0.22	(0.69)	0.04
Unrealized gains (losses) for the period	(0.70)	0.65	(0.42)	0.71
Total increase (decrease) from operations (2)	0.07	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	\$10.52	\$10.57	\$9.65	\$10.52
Ratios and supplemental data:	Jun. 30, 2018	2017	2016	2015
Total net asset value (\$ millions) (1)	\$334.85	\$444.54	\$375.20	\$518.79
Number of units outstanding	31,817,726	42,075,911	38,882,824	49,333,624
Management expense ratio (2)	–	–	–	–
Management expense ratio before waivers or absorptions	–	–	–	–
Trading expense ratio (3)	0.10%	0.11%	0.09%	0.11%
Portfolio turnover rate (4)	10.17%	24.82%	18.52%	32.47%
Net asset value per unit	\$10.52	\$10.57	\$9.65	\$10.52

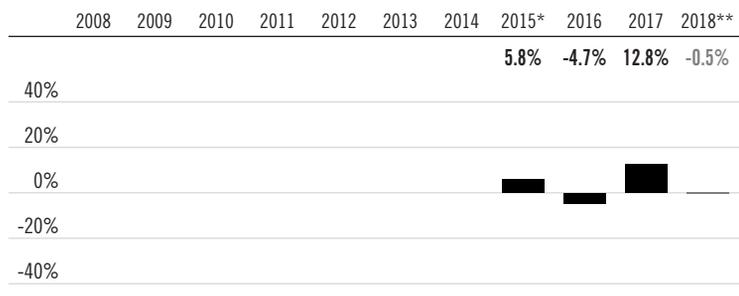
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* 2015 Series O return: September 28 to December 31

** For the period January 1 to June 30, 2017

FRANKLIN MUTUAL EUROPEAN FUND
MANAGEMENT REPORT OF FUND PERFORMANCE
Series PF (AS AT JUNE 30, 2018)

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 six months ended June 30, 2018, and for the fiscal periods ended December 31.

Net assets per unit (1)	Jun. 30, 2018	2017	2016	2015
Net assets – beginning of period	\$10.32	\$9.52	\$10.49	\$10.00
Increase (decrease) from operations:				
Total revenue	0.25	0.32	0.36	0.04
Total expenses	(0.05)	(0.11)	(0.11)	(0.03)
Realized gains (losses) for the period	0.53	0.21	(0.66)	(0.04)
Unrealized gains (losses) for the period	(0.86)	0.89	(0.10)	0.59
Total increase (decrease) from operations (2)	(0.13)	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	\$10.22	\$10.32	\$9.52	\$10.49
Ratios and supplemental data:	Jun. 30, 2018	2017	2016	2015
Total net asset value (\$ millions) (1)	\$0.43	\$0.33	\$0.17	\$0.14
Number of units outstanding	42,406	32,371	17,512	13,074
Management expense ratio (2)	1.03%	1.07%	1.16%	1.16%
Management expense ratio before waivers or absorptions	1.03%	1.07%	1.16%	1.16%
Trading expense ratio (3)	0.10%	0.11%	0.09%	0.11%
Portfolio turnover rate (4)	10.17%	24.82%	18.52%	32.47%
Net asset value per unit	\$10.22	\$10.32	\$9.52	\$10.49

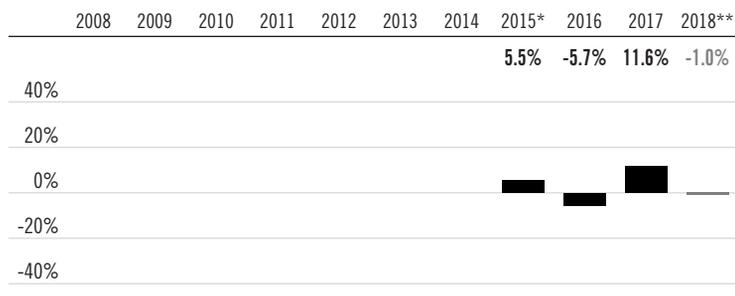
For explanatory notes, please refer to "Explanatory Notes to Financial Highlights" at the end of the section.

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 performance for the six-month period ended June 30, 2018, and for each of the previous 12-month periods ended December 31. In percentage terms, the bar chart indicates how much an investment made on January 1 would have grown or decreased by the end of the period.



* 2015 Series PF return: September 28 to December 31

** For the period January 1 to June 30, 2017

NOTES TO FINANCIAL HIGHLIGHTS

Net Assets per Unit:

- (1) This information is derived from the Fund's unaudited interim financial statements and 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.