

SECURITIES AND EXCHANGE COMMISSION

FORM N-CSRS

Certified semi-annual shareholder report of registered management investment companies filed on
Form N-CSR

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FILER

FRANKLIN MUTUAL SERIES FUNDS

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Mailing Address
*101 JOHN F KENNEDY
PARKWAY
SHORT HILLS NJ 07078*

Business Address
*101 JOHN F KENNEDY PKWY
SHORT HILLS NJ 07078
973-912-2000*

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM N-CSRS

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number 811-05387

Franklin Mutual Series Funds

(Exact name of registrant as specified in charter)

101 John F. Kennedy Parkway, Short Hills, NJ 07078-2705

(Address of principal executive offices) (Zip code)

Craig S. Tyle, One Franklin Parkway, San Mateo, CA 94403-1906

(Name and address of agent for service)

Registrant's telephone number, including area code: (210) 912-2100

Date of fiscal year end: 12/31

Date of reporting period: 06/30/08

Item 1. Reports to Stockholders.

JUNE 30, 2008

(GRAPHIC)

SEMIANNUAL REPORT AND SHAREHOLDER LETTER

VALUE

MUTUAL BEACON FUND

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(FRANKLIN TEMPLETON INVESTMENTS(R) LOGO)

Franklin - Templeton - MUTUAL SERIES

Semiannual Report

Mutual Beacon Fund

YOUR FUND'S GOALS AND MAIN INVESTMENTS: Mutual Beacon Fund seeks capital appreciation, with income as a secondary goal, by investing primarily in equity securities of companies the Fund's managers believe are at prices below their intrinsic value. The Fund may invest up to 35% of its assets in foreign securities.

This semiannual report for Mutual Beacon Fund covers the period ended June 30, 2008.

PERFORMANCE OVERVIEW

PERFORMANCE DATA REPRESENT PAST PERFORMANCE, WHICH DOES NOT GUARANTEE FUTURE RESULTS. INVESTMENT RETURN AND PRINCIPAL VALUE WILL FLUCTUATE, AND YOU MAY HAVE A GAIN OR LOSS WHEN YOU SELL YOUR SHARES. CURRENT PERFORMANCE MAY DIFFER FROM FIGURES SHOWN. PLEASE VISIT FRANKLINTEMPLETON.COM OR CALL 1-800/342-5236 FOR MOST RECENT MONTH-END PERFORMANCE.

Mutual Beacon Fund - Class Z had a -14.69% cumulative total return for the six months ended June 30, 2008. The Fund underperformed its benchmark, the Standard & Poor's 500 Index (S&P 500), which had a -11.91% total return for the same period. (1) You can find the Fund's long-term performance data in the Performance Summary beginning on page 10.

ECONOMIC AND MARKET OVERVIEW

During the first half of 2008, the U.S. economy grew marginally as energy prices rose, housing prices declined, the labor situation and consumer demand softened, and a credit crisis originally related to U.S. subprime loan losses spread globally. A weaker U.S. dollar compared with most foreign currencies contributed to increased export demand, which helped the fragile economy. Also supporting the economy were inventory buildup, expanding government spending and a boost to household finances from a \$168 billion government stimulus package. Many economists agreed, however, that the slowing U.S.

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THE DOLLAR VALUE, NUMBER OF SHARES OR PRINCIPAL AMOUNT, AND NAMES OF ALL PORTFOLIO HOLDINGS ARE LISTED IN THE FUND'S STATEMENT OF INVESTMENTS (SOI). THE SOI BEGINS ON PAGE 19.

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economy -- which is the world's largest and accounts for roughly 25% of global gross domestic product -- could have a meaningfully negative impact on growth prospects around the world. (2) Nevertheless, growth remained relatively strong in developing economies, particularly in Asia where China-led demand continued to impact commodities' prices and related equities.

In the six months under review, prices increased significantly for oil, natural gas, and most agricultural and industrial commodities, as well as for precious metals, adding to global inflationary pressures. For the 12 months ended June 30, 2008, the core U.S. Consumer Price Index (CPI), which excludes food and energy costs, rose 2.4%, which was higher than its 10-year average rate. (3) Many of the world's monetary authorities faced the choice between lowering short-term interest rates to stimulate growth and raising them to fight inflation, which Merrill Lynch estimated at 5.5% globally at the end of June, up from 3.5% at the beginning of 2008. The U.S. focused on reigniting its economy through fiscal and monetary policies, but the eurozone made controlling inflation its main goal. Accordingly, while the U.S. Federal Reserve Board (Fed) eased rates aggressively down to 2.00% from 4.25%, the European Central Bank maintained rates at 4.00%. Interest rate differentials pressured the U.S. dollar, particularly in the first quarter, but the greenback regained ground as the Fed paused and implied that its next move could be a rate hike. Indicators also signaled growth was slowing outside the U.S. For the period, however, the U.S. dollar declined versus many of the world's currencies, and the dollar's weakness contributed to higher commodities' prices, as most of these prices are set in U.S. dollars.

Many global and U.S. equity markets were volatile, and a majority of them declined over the reporting period. In this uncertain environment, U.S. Treasury prices fluctuated, and the 10-year Treasury note yield fell from 4.04% at the beginning of the period to 3.99% on June 30, 2008. Despite negative economic data and an outlook for decelerating corporate earnings and profit margins globally, many companies' balance sheets remained relatively strong.

GEOGRAPHIC BREAKDOWN

Based on Total Net Assets as of 6/30/08

(BAR CHART)

<TABLE>	<C>
<S>	
U.S.	57.0%
U.K.	6.3%
Germany	4.5%
France	4.4%
Denmark	3.8%
Norway	2.5%
Switzerland	2.3%
Belgium	1.4%
Italy	1.4%
South Korea	1.4%
Sweden	1.3%
Other	3.7%
Short-Term Investments & Other Net Assets	10.0%
</TABLE>	

INVESTMENT STRATEGY

At Mutual Series, we are committed to our distinctive value approach to investing, which we believe can generate above-average risk-adjusted returns over time for our shareholders. Our major investment strategy is investing in undervalued stocks. When selecting undervalued equities, we are always attracted to fundamentally strong companies with healthy balance sheets, high-quality assets, substantial free cash flow and shareholder-oriented management teams

(2.) Source: Global Insight.

(3.) Source: Bureau of Labor Statistics.

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and whose stocks are trading at discounts to our assessment of the companies' intrinsic or business value. We also look for asset rich companies whose shares may be trading at depressed levels due to concerns over short-term earnings disappointments, litigation, management strategy or other perceived negatives. This strict value approach is not only intended to improve the likelihood of upside potential, but it is also intended to reduce the risk of substantial declines. While the vast majority of our undervalued equity investments are made in publicly traded companies globally, we may invest occasionally in privately held companies as well.

We complement this more traditional investment strategy with two others. One is distressed investing, a highly specialized field that has proven quite profitable during certain periods over the years. Distressed investing is complex and can take many forms. The most common distressed investment the Fund undertakes is the purchase of financially troubled or bankrupt companies' debt at a substantial discount to face value. After the financially distressed company is reorganized, often in bankruptcy court, the old debt is typically replaced with new securities issued by the financially stronger company.

The other piece of our investment strategy is participating in arbitrage situations, another highly specialized field. When companies announce proposed mergers or takeovers, commonly referred to as "deals," the target company may trade at a discount to the bid it ultimately accepts. One form of arbitrage involves purchasing the target company's stock when it is trading below the value it would receive in a deal. In keeping with our commitment to a relatively conservative investment approach, we typically focus our arbitrage efforts on announced deals, and eschew rumored deals or other situations we consider relatively risky.

In addition, we will generally seek to hedge the Fund's currency exposure when we deem it advantageous for our shareholders.

MANAGER'S DISCUSSION

The Fund had disappointments during the first half of 2008. Among these were several of its European holdings, including Belgian bank Fortis, Norwegian conglomerate Orkla, and German electronics and industrial engineering firm Siemens.

Fortis shares fell more than 40% in local currency during the first half of 2008 as banks suffered globally due to the ongoing U.S. subprime mortgage crisis and deceleration of the U.S. and European economies. In addition, Fortis' stock dropped as the company unexpectedly raised capital to strengthen its balance sheet after the sale of non-core assets failed to generate expected proceeds.

TOP 10 SECTORS/INDUSTRIES

Based on Equity Securities as of 6/30/08

<TABLE>

<CAPTION>

	% OF TOTAL NET ASSETS -----
<S>	<C>
Insurance	8.6%
Media	8.4%
Tobacco	7.7%
Commercial Banks	6.1%
Paper & Forest Products	4.2%
Industrial Conglomerates	4.1%
Food Products	3.9%
Beverages	3.7%
Health Care Providers & Services	3.4%
Software	2.6%

</TABLE>

<TABLE>
<CAPTION>

COMPANY SECTOR/INDUSTRY, COUNTRY	% OF TOTAL NET ASSETS

<S>	<C>
White Mountains Insurance Group Ltd. INSURANCE, U.S.	2.6%
ComCast Corp., A MEDIA, U.S.	2.4%
Microsoft Corp. SOFTWARE, U.S.	2.3%
Carlsberg AS, A & B BEVERAGES, DENMARK	2.3%
Imperial Tobacco Group PLC TOBACCO, U.K.	2.1%
Berkshire Hathaway Inc., A & B INSURANCE, U.S.	2.1%
Weyerhaeuser Co. PAPER & FOREST PRODUCTS, U.S.	2.0%
News Corp., A MEDIA, U.S.	1.9%
Orkla ASA INDUSTRIAL CONGLOMERATES, NORWAY	1.7%
U.S. Bancorp COMMERCIAL BANKS, U.S.	1.7%

</TABLE>

Orkla reported good core operating results in 2008's first quarter while its management continued to refocus the company by selling its remaining media assets and its eastern European food operations, which had below-average profitability. However, those positive developments were offset by a 52% decline in local currency of Renewable Energy Corp. (REC), a company in which Orkla owns a stake of just under 40%. REC's stock price declined after it provided operating profit, capital expenditure and production start-up guidance for 2008 that failed to meet market expectations. The fall in REC shares contributed to a nearly 36% price decline in local currency for Orkla shares.

Siemens shares, down almost 36% in local currency during 2008's first half, were negatively impacted by an announcement of projected losses at several of its engineering projects and pressured more generally by economic deceleration. The company also announced significant charges related to legacy contracts in its energy, transport and technology divisions, the magnitude of which surprised the market.

In contrast to these disappointments, the Fund's top contributors to performance were broad equity market index put options, which allow holders to profit if the market declines within a preset period of time. The Fund initially began purchasing such options in July 2007 and liquidated the position during the first week of April 2008. Their addition to Fund performance helped offset some of the broad equity market's negative impact on other portfolio securities. Among the Fund's best performing individual stock investments were Chicago-based steel company Esmark and French transportation infrastructure company Groupe Eurotunnel.

During the period, Esmark received competing acquisition bids from Russian steelmaker Severstal and Indian conglomerate Essar. Esmark reached a deal with Severstal in June, and it is expected to close in the third quarter.

The Fund also benefited from its investments in Groupe Eurotunnel, which owns and operates the undersea English Channel Tunnel, or Chunnel, and its rail link between France and England. The company posted strong operating results and also completed a comprehensive debt restructuring. Mutual Series portfolio managers actively participated on the creditor committee that negotiated Groupe Eurotunnel's restructuring transaction. Overall, the Fund's investment appreciated more than 17% during the period.

Finally, investors should note that we maintained our currency hedging posture of being generally hedged to the U.S. dollar for most of our non-U.S. holdings. Since the dollar was weaker compared with most foreign currencies during the first half of 2008, the Fund benefited slightly by not being fully hedged.

Thank you for your continued participation in Mutual Beacon Fund. We look forward to serving your future investment needs.

(PHOTO OF MICHAEL J. EMBLER)

/s/ Michael J. Embler
Michael J. Embler
Co-Portfolio Manager

(PHOTO OF CHRISTIAN CORREA)

/s/ Christian Correa
Christian Correa, CFA
Co-Portfolio Manager

Mutual Beacon Fund

THE FOREGOING INFORMATION REFLECTS OUR ANALYSIS, OPINIONS AND PORTFOLIO HOLDINGS AS OF JUNE 30, 2008, THE END OF THE REPORTING PERIOD. THE WAY WE IMPLEMENT OUR MAIN INVESTMENT STRATEGIES AND THE RESULTING PORTFOLIO HOLDINGS MAY CHANGE DEPENDING ON FACTORS SUCH AS MARKET AND ECONOMIC CONDITIONS. THESE OPINIONS MAY NOT BE RELIED UPON AS INVESTMENT ADVICE OR AN OFFER FOR A PARTICULAR SECURITY. THE INFORMATION IS NOT A COMPLETE ANALYSIS OF EVERY ASPECT OF ANY MARKET, COUNTRY, INDUSTRY, SECURITY OR THE FUND. STATEMENTS OF FACT ARE FROM SOURCES CONSIDERED RELIABLE, BUT THE INVESTMENT MANAGER MAKES NO REPRESENTATION OR WARRANTY AS TO THEIR COMPLETENESS OR ACCURACY. ALTHOUGH HISTORICAL PERFORMANCE IS NO GUARANTEE OF FUTURE RESULTS, THESE INSIGHTS MAY HELP YOU UNDERSTAND OUR INVESTMENT MANAGEMENT PHILOSOPHY.

MICHAEL EMBLER, Chief Investment Officer for Franklin Mutual Advisers, LLC, has been portfolio manager for Mutual Beacon Fund since 2005. He also manages another fund for Franklin Mutual Advisers, and has been a member of the management team of the Mutual Series Funds since 2001. Before joining Franklin Templeton Investments in 2001, he was Managing Director and portfolio manager at Nomura Holding America, Inc.

CHRISTIAN CORREA has been co-portfolio manager for Mutual Beacon Fund since 2007. He has been an analyst for Franklin Mutual Advisers since 2003, when he joined Franklin Templeton Investments. Previously, he covered U.S. risk arbitrage and special situations at Lehman Brothers Holdings Inc.

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Performance Summary as of 6/30/08

Your dividend income will vary depending on dividends or interest paid by securities in the Fund's portfolio, adjusted for operating expenses of each class. Capital gain distributions are net profits realized from the sale of portfolio securities. The performance table does not reflect any taxes that a shareholder would pay on Fund dividends, capital gain distributions, if any, or any realized gains on the sale of Fund shares. Total return reflects reinvestment of the Fund's dividends and capital gain distributions, if any, and any unrealized gains or losses.

PRICE INFORMATION

<TABLE> <CAPTION> CLASS Z (SYMBOL: BEGRX)	CHANGE	6/30/08	12/31/07
<S>	<C>	<C>	<C>
Net Asset Value (NAV)	-\$2.31	\$13.42	\$15.73

<TABLE> <CAPTION> CLASS A (SYMBOL: TEBIX)	CHANGE	6/30/08	12/31/07
<S>	<C>	<C>	<C>
Net Asset Value (NAV)	-\$2.31	\$13.31	\$15.62

<TABLE> <CAPTION> CLASS B (SYMBOL: TEBBX)	CHANGE	6/30/08	12/31/07
<S>	<C>	<C>	<C>
Net Asset Value (NAV)	-\$2.29	\$12.90	\$15.19

<TABLE> <CAPTION> CLASS C (SYMBOL: TEMEX)	CHANGE	6/30/08	12/31/07
---	--------	---------	----------

<S> <C> <C> <C>
 Net Asset Value (NAV) -\$2.34 \$13.13 \$15.47
 </TABLE>

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Performance Summary (CONTINUED)

PERFORMANCE(1)

CUMULATIVE TOTAL RETURN EXCLUDES SALES CHARGES. AVERAGE ANNUAL TOTAL RETURN AND VALUE OF \$10,000 INVESTMENT INCLUDE MAXIMUM SALES CHARGES. CLASS Z: NO SALES CHARGES; CLASS A: 5.75% MAXIMUM INITIAL SALES CHARGE; CLASS B: CONTINGENT DEFERRED SALES CHARGE (CDSC) DECLINING FROM 4% TO 1% OVER SIX YEARS, AND ELIMINATED THEREAFTER; CLASS C: 1% CDSC IN FIRST YEAR ONLY. UNTIL AUGUST 31, 2008, THE FUND MAY CHARGE A 2% FEE ON REDEMPTIONS MADE WITHIN SEVEN DAYS OF PURCHASE.

CLASS Z	6-MONTH	1-YEAR	5-YEAR	10-YEAR
<S>	<C>	<C>	<C>	<C>
Cumulative Total Return(2)	-14.69%	-19.86%	+55.42%	+101.39%
Average Annual Total Return(3)	-14.69%	-19.86%	+9.22%	+7.25%
Value of \$10,000 Investment(4)	\$ 8,531	\$ 8,014	\$15,542	\$ 20,139
Total Annual Operating Expenses(5)	0.82%			

CLASS A	6-MONTH	1-YEAR	5-YEAR	10-YEAR
<S>	<C>	<C>	<C>	<C>
Cumulative Total Return(2)	-14.79%	-20.13%	+52.81%	+94.69%
Average Annual Total Return(3)	-19.67%	-24.72%	+7.56%	+6.26%
Value of \$10,000 Investment(4)	\$ 8,033	\$ 7,528	\$14,397	\$18,346
Total Annual Operating Expenses(5)	1.14%			

CLASS B	6-MONTH	1-YEAR	5-YEAR	INCEPTION (1/1/99)
<S>	<C>	<C>	<C>	<C>
Cumulative Total Return(2)	-15.08%	-20.69%	+47.84%	+98.98%
Average Annual Total Return(3)	-18.47%	-23.63%	+7.84%	+7.51%
Value of \$10,000 Investment(4)	\$ 8,153	\$ 7,637	\$14,584	\$19,898
Total Annual Operating Expenses(5)	1.81%			

CLASS C	6-MONTH	1-YEAR	5-YEAR	10-YEAR
<S>	<C>	<C>	<C>	<C>
Cumulative Total Return(2)	-15.13%	-20.73%	+47.77%	+82.28%
Average Annual Total Return(3)	-15.97%	-21.47%	+8.12%	+6.19%
Value of \$10,000 Investment(4)	\$ 8,403	\$ 7,853	\$14,777	\$18,228
Total Annual Operating Expenses(5)	1.81%			

PERFORMANCE DATA REPRESENT PAST PERFORMANCE, WHICH DOES NOT GUARANTEE FUTURE RESULTS. INVESTMENT RETURN AND PRINCIPAL VALUE WILL FLUCTUATE, AND YOU MAY HAVE A GAIN OR LOSS WHEN YOU SELL YOUR SHARES. CURRENT PERFORMANCE MAY DIFFER FROM FIGURES SHOWN. FOR MOST RECENT MONTH-END PERFORMANCE, SEE "FUNDS AND PERFORMANCE" AT FRANKLINTEMPLETON.COM OR CALL 1-800/342-5236.

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Performance Summary (CONTINUED)

ENDNOTES

VALUE SECURITIES MAY NOT INCREASE IN PRICE AS ANTICIPATED OR MAY DECLINE FURTHER IN VALUE. THE FUND'S INVESTMENTS IN FOREIGN SECURITIES INVOLVE SPECIAL RISKS. FOREIGN SECURITIES RISKS INCLUDE CURRENCY FLUCTUATIONS, AND ECONOMIC AND POLITICAL UNCERTAINTIES. THE FUND MAY ALSO INVEST IN COMPANIES ENGAGED IN MERGERS, REORGANIZATIONS OR LIQUIDATIONS, WHICH INVOLVE SPECIAL RISKS AS PENDING

DEALS MAY NOT BE COMPLETED ON TIME OR ON FAVORABLE TERMS, AS WELL AS LOWER-RATED BONDS, WHICH ENTAIL HIGHER CREDIT RISK. THE FUND'S PROSPECTUS ALSO INCLUDES A DESCRIPTION OF THE MAIN INVESTMENT RISKS.

CLASS Z: Shares are available to certain eligible investors as described in the prospectus.

CLASS A: Prior to 8/3/98, these shares were offered at a lower initial sales charge; thus actual total returns may differ.

CLASS B: These shares have higher annual fees and expenses than Class A shares.

CLASS C: Prior to 1/1/04, these shares were offered with an initial sales charge; thus actual total returns would have differed. These shares have higher annual fees and expenses than Class A shares.

- (1.) Past expense reductions by the Fund's manager increased the Fund's total returns. If the manager had not taken this action, the Fund's total returns would have been lower.
- (2.) Cumulative total return represents the change in value of an investment over the periods indicated.
- (3.) Average annual total return represents the average annual change in value of an investment over the periods indicated. Six-month return has not been annualized.
- (4.) These figures represent the value of a hypothetical \$10,000 investment in the Fund over the periods indicated.
- (5.) Figures are as stated in the Fund's prospectus current as of the date of this report.

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Your Fund's Expenses

As a Fund shareholder, you can incur two types of costs:

- Transaction costs, including sales charges (loads) on Fund purchases and redemption fees; and
- Ongoing Fund costs, including management fees, distribution and service (12b-1) fees, and other Fund expenses. All mutual funds have ongoing costs, sometimes referred to as operating expenses.

The following table shows ongoing costs of investing in the Fund and can help you understand these costs and compare them with those of other mutual funds. The table assumes a \$1,000 investment held for the six months indicated.

ACTUAL FUND EXPENSES

The first line (Actual) for each share class listed in the table provides actual account values and expenses. The "Ending Account Value" is derived from the Fund's actual return, which includes the effect of Fund expenses.

You can estimate the expenses you paid during the period by following these steps. OF COURSE, YOUR ACCOUNT VALUE AND EXPENSES WILL DIFFER FROM THOSE IN THIS ILLUSTRATION:

1. Divide your account value by \$1,000.

IF AN ACCOUNT HAD AN \$8,600 VALUE, THEN $\$8,600 / \$1,000 = 8.6$.

2. Multiply the result by the number under the heading "Expenses Paid During Period."

IF EXPENSES PAID DURING PERIOD WERE \$7.50, THEN $8.6 \times \$7.50 = \64.50 .

In this illustration, the estimated expenses paid this period are \$64.50.

HYPOTHETICAL EXAMPLE FOR COMPARISON WITH OTHER FUNDS

Information in the second line (Hypothetical) for each class in the table can help you compare ongoing costs of investing in the Fund with those of other mutual funds. This information may not be used to estimate the actual ending account balance or expenses you paid during the period. The hypothetical "Ending Account Value" is based on the actual expense ratio for each class and an assumed 5% annual rate of return before expenses, which does not represent the Fund's actual return. The figure under the heading "Expenses Paid During Period" shows the hypothetical expenses your account would have incurred under this

scenario. You can compare this figure with the 5% hypothetical examples that appear in shareholder reports of other funds.

Your Fund's Expenses (CONTINUED)

PLEASE NOTE THAT EXPENSES SHOWN IN THE TABLE ARE MEANT TO HIGHLIGHT ONGOING COSTS AND DO NOT REFLECT ANY TRANSACTION COSTS, SUCH AS SALES CHARGES OR REDEMPTION FEES. Therefore, the second line for each class is useful in comparing ongoing costs only, and will not help you compare total costs of owning different funds. In addition, if transaction costs were included, your total costs would have been higher. Please refer to the Fund prospectus for additional information on operating expenses.

<TABLE>
<CAPTION>

	BEGINNING ACCOUNT VALUE 1/1/08	ENDING ACCOUNT VALUE 6/30/08	EXPENSES PAID DURING PERIOD* 1/1/08-6/30/08
<S>	<C>	<C>	<C>
CLASS Z			
Actual	\$1,000	\$ 853.10	\$3.82
Hypothetical (5% return before expenses)	\$1,000	\$1,020.74	\$4.17
CLASS A			
Actual	\$1,000	\$ 852.10	\$5.16
Hypothetical (5% return before expenses)	\$1,000	\$1,019.29	\$5.62
CLASS B			
Actual	\$1,000	\$ 849.20	\$8.41
Hypothetical (5% return before expenses)	\$1,000	\$1,015.76	\$9.17
CLASS C			
Actual	\$1,000	\$ 848.70	\$8.41
Hypothetical (5% return before expenses)	\$1,000	\$1,015.76	\$9.17

</TABLE>

* Expenses are calculated using the most recent six-month expense ratio, annualized for each class (Z: 0.83%; A: 1.12%; B: 1.83%; and C: 1.83%), multiplied by the average account value over the period, multiplied by 182/366 to reflect the one-half year period.

Mutual Beacon Fund

FINANCIAL HIGHLIGHTS

<TABLE>
<CAPTION>

CLASS Z	SIX MONTHS ENDED	YEAR ENDED DECEMBER 31,				
	JUNE 30, 2008 (UNAUDITED)	2007	2006	2005	2004	2003
<S>	<C>	<C>	<C>	<C>	<C>	<C>
PER SHARE OPERATING PERFORMANCE (for a share outstanding throughout the period)						
Net asset value, beginning of period...	\$ 15.73	\$ 16.71	\$ 15.52	\$ 15.94	\$ 14.40	\$ 11.31
Income from investment operations(a):						
Net investment income(b)	0.18	0.51	0.26	0.31	0.30	0.19
Net realized and unrealized gains (losses)	(2.49)	--	2.91	1.16	1.76	3.13
Total from investment operations	(2.31)	0.51	3.17	1.47	2.06	3.32
Less distributions from:						
Net investment income	--	(0.57)	(0.28)	(0.30)	(0.37)	(0.23)
Net realized gains	--	(0.92)	(1.70)	(1.59)	(0.15)	--
Total distributions	--	(1.49)	(1.98)	(1.89)	(0.52)	(0.23)
Redemption fees	-- (c)	-- (c)	-- (c)	-- (c)	-- (c)	--
Net asset value, end of period	\$ 13.42	\$ 15.73	\$ 16.71	\$ 15.52	\$ 15.94	\$ 14.40
Total return(d)	(14.69)%	3.03%	20.98%	9.25%	14.52%	29.44%
RATIOS TO AVERAGE NET ASSETS (e)						
Expenses(f)	0.83% (g)	0.82% (g)	0.85% (g)	0.89% (g)	0.83% (g)	0.86%
Expenses - excluding dividend expense on securities sold short	0.82% (g)	0.81% (g)	0.82% (g)	0.84% (g)	0.82% (g)	0.83%

Net investment income	2.49%	2.89%	1.59%	1.91%	1.99%	1.48%
SUPPLEMENTAL DATA						
Net assets, end of period (000's)	\$3,172,529	\$3,883,935	\$3,925,029	\$3,433,665	\$3,359,389	\$3,112,212
Portfolio turnover rate	20.99%	49.84%	40.72%	35.36%	29.17%	49.61%

</TABLE>

- (a) The amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations 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) Amount rounds to less than \$0.01 per share.
- (d) Total return is not annualized for periods less than one year.
- (e) Ratios are annualized for periods less than one year.
- (f) Includes dividend expense on securities sold short which varies from period to period. See below for expense ratios that reflect only operating expenses.
- (g) Benefit of expense reduction rounds to less than 0.01%.

The accompanying notes are an integral part of these financial statements.

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Mutual Beacon Fund

FINANCIAL HIGHLIGHTS (CONTINUED)

<TABLE>

<CAPTION>

CLASS A	SIX MONTHS ENDED	YEAR ENDED DECEMBER 31,				
	JUNE 30, 2008 (UNAUDITED)	2007	2006	2005	2004	2003
<S>	<C>	<C>	<C>	<C>	<C>	<C>
PER SHARE OPERATING PERFORMANCE (for a share outstanding throughout the period)						
Net asset value, beginning of period	\$ 15.62	\$ 16.61	\$ 15.44	\$ 15.87	\$ 14.34	\$ 11.27
Income from investment operations(a):						
Net investment income(b)	0.16	0.45	0.21	0.26	0.25	0.14
Net realized and unrealized gains (losses)	(2.47)	--	2.90	1.15	1.75	3.12
Total from investment operations	(2.31)	0.45	3.11	1.41	2.00	3.26
Less distributions from:						
Net investment income	--	(0.52)	(0.24)	(0.25)	(0.32)	(0.19)
Net realized gains	--	(0.92)	(1.70)	(1.59)	(0.15)	--
Total distributions	--	(1.44)	(1.94)	(1.84)	(0.47)	(0.19)
Redemption fees	-- (c)	-- (c)	-- (c)	-- (c)	-- (c)	--
Net asset value, end of period	\$ 13.31	\$ 15.62	\$ 16.61	\$ 15.44	\$ 15.87	\$ 14.34
Total return(d)	(14.79)%	2.67%	20.65%	8.89%	14.13%	28.99%
RATIOS TO AVERAGE NET ASSETS(e)						
Expenses(f)	1.12%(g)	1.14%(g)	1.15%(g)	1.22%(g)	1.18%(g)	1.21%
Expenses - excluding dividend expense on securities sold short	1.11%(g)	1.13%(g)	1.12%(g)	1.17%(g)	1.17%(g)	1.18%
Net investment income	2.20%	2.57%	1.29%	1.58%	1.64%	1.13%
SUPPLEMENTAL DATA						
Net assets, end of period (000's) ...	\$2,311,468	\$2,654,731	\$2,176,658	\$1,633,022	\$1,462,133	\$1,301,620
Portfolio turnover rate	20.99%	49.84%	40.72%	35.36%	29.17%	49.61%

</TABLE>

- (a) The amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations 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) Amount rounds to less than \$0.01 per share.

- (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 expense on securities sold short which varies from period to period. See below for expense ratios that reflect only operating expenses.
- (g) Benefit of expense reduction rounds to less than 0.01%.

The accompanying notes are an integral part of these financial statements.

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Mutual Beacon Fund

FINANCIAL HIGHLIGHTS (CONTINUED)

<TABLE>
<CAPTION>

CLASS B	SIX MONTHS ENDED	YEAR ENDED DECEMBER 31,				
	JUNE 30, 2008 (UNAUDITED)	2007	2006	2005	2004	2003
<S>	<C>	<C>	<C>	<C>	<C>	<C>
PER SHARE OPERATING PERFORMANCE (for a share outstanding throughout the period)						
Net asset value, beginning of period	\$ 15.19	\$ 16.17	\$ 15.09	\$ 15.54	\$ 14.06	\$ 11.07
Income from investment operations(a):						
Net investment income(b)	0.10	0.32	0.10	0.14	0.15	0.05
Net realized and unrealized gains (losses)	(2.39)	0.01	2.80	1.14	1.71	3.06
Total from investment operations	(2.29)	0.33	2.90	1.28	1.86	3.11
Less distributions from:						
Net investment income	--	(0.39)	(0.12)	(0.14)	(0.23)	(0.12)
Net realized gains	--	(0.92)	(1.70)	(1.59)	(0.15)	--
Total distributions	--	(1.31)	(1.82)	(1.73)	(0.38)	(0.12)
Redemption fees	--(c)	--(c)	--(c)	--(c)	--(c)	--
Net asset value, end of period	\$ 12.90	\$ 15.19	\$ 16.17	\$ 15.09	\$ 15.54	\$ 14.06
Total return(d)	(15.08)%	1.95%	19.86%	8.17%	13.32%	28.22%
RATIOS TO AVERAGE NET ASSETS(e)						
Expenses(f)	1.83%(g)	1.81%(g)	1.85%(g)	1.89%(g)	1.83%(g)	1.86%
Expenses - excluding dividend expense on securities sold short	1.82%(g)	1.80%(g)	1.82%(g)	1.84%(g)	1.82%(g)	1.83%
Net investment income	1.49%	1.90%	0.59%	0.91%	0.99%	0.48%
SUPPLEMENTAL DATA						
Net assets, end of period (000's) ...	\$127,768	\$171,628	\$199,461	\$186,169	\$186,840	\$155,572
Portfolio turnover rate	20.99%	49.84%	40.72%	35.36%	29.17%	49.61%

</TABLE>

- (a) The amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations 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) Amount rounds to less than \$0.01 per share.
- (d) Total return does not reflect 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 expense on securities sold short which varies from period to period. See below for expense ratios that reflect only operating expenses
- (g) Benefit of expense reduction rounds to less than 0.01%.

Mutual Beacon Fund

FINANCIAL HIGHLIGHTS (CONTINUED)

<TABLE>

<CAPTION>

CLASS C ----- <S>	SIX MONTHS ENDED	YEAR ENDED DECEMBER 31,				
	JUNE 30, 2008 (UNAUDITED)	2007	2006	2005	2004	2003
<C>	<C>	<C>	<C>	<C>	<C>	<C>
PER SHARE OPERATING PERFORMANCE (for a share outstanding throughout the period)						
Net asset value, beginning of period	\$ 15.47	\$ 16.46	\$ 15.33	\$ 15.77	\$ 14.26	\$ 11.22
Income from investment operations(a):						
Net investment income(b)	0.10	0.33	0.10	0.15	0.14	0.06
Net realized and unrealized gains (losses)	(2.44)	--	2.85	1.14	1.74	3.09
Total from investment operations	(2.34)	0.33	2.95	1.29	1.88	3.15
Less distributions from:						
Net investment income	--	(0.40)	(0.12)	(0.14)	(0.23)	(0.11)
Net realized gains	--	(0.92)	(1.70)	(1.59)	(0.14)	--
Total distributions	--	(1.32)	(1.82)	(1.73)	(0.37)	(0.11)
Redemption fees	-- (c)	-- (c)	-- (c)	-- (c)	-- (c)	--
Net asset value, end of period	\$ 13.13	\$ 15.47	\$ 16.46	\$ 15.33	\$ 15.77	\$ 14.26
Total return(d)	(15.13)%	1.99%	19.84%	8.12%	13.39%	28.24%
RATIOS TO AVERAGE NET ASSETS(e)						
Expenses(f)	1.83% (g)	1.81% (g)	1.85% (g)	1.89% (g)	1.83% (g)	1.86%
Expenses - excluding dividend expense on securities sold short	1.82% (g)	1.80% (g)	1.82% (g)	1.84% (g)	1.82% (g)	1.83%
Net investment income	1.49%	1.90%	0.59%	0.91%	0.99%	0.48%
SUPPLEMENTAL DATA						
Net assets, end of period (000's) ...	\$692,889	\$875,060	\$825,234	\$697,400	\$658,813	\$579,825
Portfolio turnover rate	20.99%	49.84%	40.72%	35.36%	29.17%	49.61%

</TABLE>

- (a) The amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations 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) Amount rounds to less than \$0.01 per share.
- (d) Total return does not reflect the 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 expense on securities sold short which varies from period to period. See below for expense ratios that reflect only operating expenses.
- (g) Benefit of expense reduction rounds to less than 0.01%.

The accompanying notes are an integral part of these financial statements.

Mutual Beacon Fund

STATEMENT OF INVESTMENTS, JUNE 30, 2008 (UNAUDITED)

<TABLE>

<CAPTION>

SHARES/WARRANTS/

	COUNTRY	CONTRACTS	VALUE
<S>	<C>	<C>	<C>
COMMON STOCKS AND OTHER EQUITY INTERESTS 86.4%			
AIR FREIGHT & LOGISTICS 1.2%			
Deutsche Post AG	Germany	2,364,674	\$ 61,548,063
TNT NV	Netherlands	474,002	16,211,017

			77,759,080

AIRLINES 0.2%			
(a) ACE Aviation Holdings Inc., A	Canada	920,863	14,485,080
(a, b) ACE Aviation Holdings Inc., A, 144A	Canada	46,508	731,566
(a, c) Northwest Airlines Corp., Contingent Distribution	United States	35,952,000	224,700

			15,441,346

AUTO COMPONENTS 0.3%			
(a, c, d) Collins & Aikman Products Co., Contingent Distribution	United States	1,506,604	--
(a) Dana Holding Corp.	United States	612,004	3,274,221
(a, c) Dana Holding Corp., Contingent Distribution	United States	16,890,000	1,224,525
(a) Goodyear Tire & Rubber Co.	United States	673,549	12,009,379

			16,508,125

AUTOMOBILES 0.8%			
Daimler AG	Germany	444,830	27,456,830
(a, e, f) International Automotive Components Group Brazil LLC	Brazil	2,387,711	9,837,128
(a, e, f) International Automotive Components Group Japan LLC	Japan	378,194	2,198,666
(a, e, f) International Automotive Components Group LLC	Luxembourg	10,149,082	7,930,493
(a, e, f) International Automotive Components Group NA LLC, A	United States	6,469,827	4,943,594

			52,366,711

BEVERAGES 3.7%			
Anheuser-Busch Cos. Inc.	United States	642,192	39,892,967
Brown-Forman Corp., A	United States	308,260	23,433,925
Brown-Forman Corp., B	United States	362,618	27,403,043
Carlsberg AS, A	Denmark	74,900	7,227,165
Carlsberg AS, B	Denmark	1,417,508	136,926,209

			234,883,309

BUILDING PRODUCTS 0.0%(g)			
Armstrong World Industries Inc.	United States	757	22,120
(a, c) Armstrong World Industries Inc., Contingent Distribution	United States	2,583,000	12,915

			35,035

CHEMICALS 0.2%			
(a, c, d) Dow Corning Corp., Contingent Distribution	United States	23,723,548	3,149,637
Huntsman Corp.	United States	1,011,460	11,530,644

			14,680,281

COMMERCIAL BANKS 6.1%			
Banco Popolare SpA	Italy	2,450,074	43,516,962
BNP Paribas SA	France	727,050	65,872,539
Danske Bank AS	Denmark	1,524,804	44,106,699
(a, f, h) FE Capital Holdings Ltd.	Japan	35,242	3,800,022
(a, f, h) First Chicago Bancorp	United States	1,157,143	16,200,002
Intesa Sanpaolo SpA	Italy	7,552,024	43,136,117
(a, f) NCB Warrant Holdings Ltd., A	Japan	163,895	1,602,068

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Mutual Beacon Fund

STATEMENT OF INVESTMENTS, JUNE 30, 2008 (UNAUDITED) (CONTINUED)

<TABLE>			
<CAPTION>			
	COUNTRY	SHARES/WARRANTS/ CONTRACTS	VALUE
<S>	<C>	<C>	<C>
COMMON STOCKS AND OTHER EQUITY INTERESTS (CONTINUED)			
COMMERCIAL BANKS (CONTINUED)			
Societe Generale, A	France	224,132	\$ 19,512,851
Svenska Handelsbanken AB, A	Sweden	702,960	16,745,756
(i) U.S. Bancorp	United States	3,787,160	105,623,892

Wells Fargo & Co.	United States	905,530	21,506,338
			381,623,246

COMMERCIAL SERVICES & SUPPLIES 0.0%(g)			
(a) Comdisco Holding Co. Inc.	United States	1,202	11,479
(a, c) Comdisco Holding Co. Inc., Contingent Distribution	United States	54,914,113	--
			11,479

COMMUNICATIONS EQUIPMENT 1.7%			
Motorola Inc.	United States	5,287,933	38,813,428
Telefonaktiebolaget LM Ericsson, B	Sweden	4,881,885	50,894,334
Telefonaktiebolaget LM Ericsson, B, ADR	Sweden	1,448,000	15,059,200
			104,766,962

COMPUTERS & PERIPHERALS 1.8%			
(a, f, h) DecisionOne Corp.	United States	1,142,353	--
(a, f, h) DecisionOne Corp., wts., 6/08/17	United States	627,237	--
(a) Dell Inc.	United States	4,187,940	91,632,127
(a) Lexmark International Inc., A	United States	664,600	22,217,578
			113,849,705

CONSUMER FINANCE 1.8%			
American Express Co.	United States	650,540	24,505,842
(a, f) Cerberus CG Investor I LLC	United States	20,610,629	10,732,177
(a, f) Cerberus CG Investor II LLC	United States	20,610,629	10,732,177
(a, f) Cerberus CG Investor III LLC	United States	10,305,315	5,366,089
(a, f) Cerberus FIM Investors Auto Finance LLC	United States	5,706,149	1,903,554
(a, f) Cerberus FIM Investors Commercial Finance LLC	United States	475,305	158,560
(a, f) Cerberus FIM Investors Commercial Mortgage LLC	United States	890,886	297,197
(a, f) Cerberus FIM Investors Insurance LLC	United States	4,357,377	1,453,607
(a, f) Cerberus FIM Investors Rescap LLC	United States	8,112,533	2,706,316
(a) SLM Corp.	United States	2,785,220	53,894,007
			111,749,526

CONTAINERS & PACKAGING 0.6%			
Temple-Inland Inc.	United States	3,074,547	34,650,145

DIVERSIFIED CONSUMER SERVICES 0.3%			
Hillenbrand Inc.	United States	889,128	19,027,339

DIVERSIFIED FINANCIAL SERVICES 1.6%			
CIT Group Inc.	United States	1,677,000	11,420,370
Fortis	Belgium	5,623,830	90,058,229
(a) Fortis VVPR Strip	Belgium	2,249,532	35,421
(a, c) Marconi Corp., Contingent Distribution	United Kingdom	42,651,300	--
			101,514,020

</TABLE>

Mutual Beacon Fund

STATEMENT OF INVESTMENTS, JUNE 30, 2008 (UNAUDITED) (CONTINUED)

<S>	COUNTRY	SHARES/WARRANTS/ CONTRACTS	VALUE
		<C>	<C>
COMMON STOCKS AND OTHER EQUITY INTERESTS (CONTINUED)			
DIVERSIFIED TELECOMMUNICATION SERVICES 1.7%			
(a, e, f) AboveNet Inc.	United States	466,432	\$ 23,321,600
(a, e, f) AboveNet Inc., stock grant, grant price \$20.95, expiration date 9/09/13	United States	613	17,072
(a, e, f) AboveNet Inc., wts., 9/08/08	United States	16,857	539,424
(a, e, f) AboveNet Inc., wts., 9/08/10	United States	19,829	571,075
(a, c, d) Global Crossing Holdings Ltd., Contingent Distribution	United States	60,632,757	--
Telefonica SA	Spain	1,317,275	35,012,180
(a) TW Telecom Inc., A	United States	3,001,430	48,112,923
			107,574,274

ELECTRIC UTILITIES 0.9%			
Exelon Corp.	United States	575,350	51,758,486

Iberdrola SA, Br.	Spain	512,298	6,864,715
			58,623,201

ELECTRONIC EQUIPMENT & INSTRUMENTS 1.0%			
Tyco Electronics Ltd.	United States	1,705,745	61,099,786

ENERGY EQUIPMENT & SERVICES 2.1%			
(a) Exterran Holding Inc.	United States	360,110	25,744,264
(a) Pride International Inc.	United States	560,490	26,505,572
Seadrill Ltd.	Bermuda	1,440,060	44,049,127
(a, i) Transocean Inc.	United States	232,300	35,400,197
			131,699,160

FOOD & STAPLES RETAILING 2.5%			
Carrefour SA	France	1,069,252	60,543,848
CVS Caremark Corp.	United States	2,408,574	95,307,273
			155,851,121

FOOD PRODUCTS 3.9%			
Cadbury PLC	United Kingdom	2,878,407	36,270,755
(h) Farmer Brothers Co.	United States	1,033,896	21,866,900
Groupe Danone	France	764,690	53,702,009
(a) Lighthouse Caledonia ASA	Norway	134,273	158,223
(a, j) Marine Harvest	Norway	72,384,735	53,167,624
Nestle SA	Switzerland	1,752,350	79,185,978
			244,351,489

HEALTH CARE EQUIPMENT & SUPPLIES 0.4%			
Hill-Rom Holdings Inc.	United States	889,128	23,988,673

HEALTH CARE PROVIDERS & SERVICES 3.4%			
(a) Community Health Systems Inc.	United States	1,692,360	55,814,033
(a, f) Kindred Healthcare Inc.	United States	1,639,289	44,788,654
(a, f) Kindred Healthcare Inc., stock grants:			
grant price \$18.15, expiration date 7/17/11	United States	5,731	52,565
grant price \$19.87, expiration date 1/01/12	United States	1,720	12,817
grant price \$6.94, expiration date 1/01/13	United States	1,710	34,853
grant price \$19.87, expiration date 1/01/14	United States	1,702	12,683
grant price \$21.33, expiration date 1/10/15	United States	1,064	6,376

</TABLE>

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Mutual Beacon Fund

STATEMENT OF INVESTMENTS, JUNE 30, 2008 (UNAUDITED) (CONTINUED)

	COUNTRY	SHARES/WARRANTS/ CONTRACTS	VALUE
<S>	<C>	<C>	<C>
COMMON STOCKS AND OTHER EQUITY INTERESTS (CONTINUED)			
HEALTH CARE PROVIDERS & SERVICES (CONTINUED)			
(a, f) Kindred Healthcare Inc., stock grants: (continued)			
grant price \$22.08, expiration date 1/10/16	United States	709	\$ 3,717
grant price \$19.40, expiration date 1/10/17	United States	354	2,804
(a) PharMerica Inc.	United States	600,019	13,554,429
Quest Diagnostics Inc.	United States	938,540	45,491,034
(a) Tenet Healthcare Corp.	United States	9,752,777	54,225,440
			213,999,405

HOTELS, RESTAURANTS & LEISURE 0.0%g			
(a) Trump Entertainment Resorts Inc.	United States	895,133	1,709,704

INDEPENDENT POWER PRODUCERS & ENERGY TRADERS 1.4%			
Constellation Energy Group	United States	1,105,426	90,755,475

INDUSTRIAL CONGLOMERATES 4.1%			
Koninklijke Philips Electronics NV	Netherlands	939,100	31,954,856
(e) Orkla ASA	Norway	8,348,283	107,226,856
Siemens AG	Germany	738,980	81,591,489
Tyco International Ltd.	United States	935,315	37,450,013
			258,223,214

INSURANCE 8.6%			
(a) Alleghany Corp.	United States	173,003	57,445,646
Allianz SE	Germany	244,340	43,017,531
American International Group Inc.	United States	630,930	16,694,408
(a) Berkshire Hathaway Inc., A	United States	741	89,475,750
(a) Berkshire Hathaway Inc., B	United States	10,755	43,149,060
Hartford Financial Services Group Inc.	United States	348,410	22,496,834
Old Republic International Corp.	United States	1,800,972	21,323,509
(a, f) Olymplus Re Holdings Ltd.	United States	106,700	322,607
Prudential Financial Inc.	United States	429,840	25,678,642
(f) Symetra Financial	United States	4,450,920	58,129,015
White Mountains Insurance Group Ltd.	United States	383,121	164,358,909
			542,091,911
IT SERVICES 1.7%			
(a) Alliance Data Systems Corp.	United States	906,740	51,276,147
(a) DST Systems Inc.	United States	403,219	22,197,206
Electronic Data Systems Corp.	United States	1,441,130	35,509,443
			108,982,796
LEISURE EQUIPMENT & PRODUCTS 1.6%			
Eastman Kodak Co.	United States	2,450,015	35,353,716
Mattel Inc.	United States	3,704,432	63,419,876
			98,773,592
MACHINERY 0.0%			
(a, f) Motor Coach Industries International Inc., wts., 5/27/09	United States	6	--
MARINE 0.8%			
A.P. Moller - Maersk AS	Denmark	4,291	52,548,034

</TABLE>

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Mutual Beacon Fund

STATEMENT OF INVESTMENTS, JUNE 30, 2008 (UNAUDITED) (CONTINUED)

<TABLE> <CAPTION>		COUNTRY	SHARES/WARRANTS/ CONTRACTS	VALUE
<S>	<C>	<C>	<C>	<C>
COMMON STOCKS AND OTHER EQUITY INTERESTS (CONTINUED)				
MEDIA 8.4%				
(a) Adelphia Recovery Trust	United States	48,268,724	\$	2,413,436
(a, c) Adelphia Recovery Trust, Arahova Contingent Value Vehicle, Contingent Distribution	United States	6,161,087		2,649,267
(a, c) Century Communications Corp., Contingent Distribution	United States	16,986,000		--
Comcast Corp., A	United States	8,218,025		154,170,149
(a) Liberty Media Corp-Entertainment, Series A	United States	75,335		1,825,367
News Corp., A	United States	7,966,387		119,814,460
(a) Time Warner Cable Inc., A	United States	1,830,954		48,483,662
Time Warner Inc.	United States	5,961,920		88,236,416
(a, d) TVMAX Holdings Inc.	United States	133,855		--
(a) Viacom Inc., B	United States	1,622,840		49,561,534
Virgin Media Inc.	United Kingdom	4,420,350		60,160,964
				527,315,255
METALS & MINING 1.8%				
Alcoa Inc.	United States	1,083,040		38,577,885
(a, f, h) Esmark Inc.	United States	3,954,729		68,052,977
(a, f, h) PMG LLC	United States	29,737		8,475,058
				115,105,920
MULTI-UTILITIES 2.1%				
Energy East Corp.	United States	1,421,030		35,127,862
(a, c) NorthWestern Corp., Contingent Distribution	United States	11,863,900		870,784
Puget Energy Inc.	United States	927,650		22,254,323
RWE AG	Germany	566,745		71,347,117
				129,600,086
PAPER & FOREST PRODUCTS 4.2%				
(a) Domtar Corp.	United States	9,496,004		51,753,222

International Paper Co.	United States	2,181,840	50,836,872
MeadWestvaco Corp.	United States	1,560,233	37,195,955
Weyerhaeuser Co.	United States	2,468,965	126,262,870

			266,048,919

PHARMACEUTICALS 1.0%			
Novartis AG	Switzerland	1,185,468	65,279,075

REAL ESTATE 2.2%			
(a) Alexander's Inc.	United States	38,800	12,051,280
(d) Canary Wharf Group PLC	United Kingdom	10,069,634	78,225,815
(j) The St. Joe Co.	United States	726,998	24,950,571
Ventas Inc.	United States	608,900	25,920,873

			141,148,539

SEMICONDUCTORS & SEMICONDUCTOR EQUIPMENT 1.0%			
(a) LSI Corp.	United States	10,548,673	64,768,852

SOFTWARE 2.6%			
Microsoft Corp.	United States	5,372,610	147,800,501
(a) Take-Two Interactive Software Inc.	United States	623,310	15,938,037

			163,738,538

</TABLE>

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Mutual Beacon Fund

STATEMENT OF INVESTMENTS, JUNE 30, 2008 (UNAUDITED) (CONTINUED)

	COUNTRY	SHARES/WARRANTS/ CONTRACTS	VALUE
	-----	-----	-----
<S>	<C>	<C>	<C>
COMMON STOCKS AND OTHER EQUITY INTERESTS (CONTINUED)			
THRIFTS & MORTGAGE FINANCE 0.6%			
People's United Financial Inc.	United States	1,692,640	\$ 26,405,184
Washington Mutual Inc.	United States	2,711,800	12,940,970

			39,346,154

TOBACCO 7.7%			
Altria Group Inc.	United States	2,138,378	43,965,052
British American Tobacco PLC	United Kingdom	2,620,106	90,774,175
Imperial Tobacco Group PLC	United Kingdom	3,583,024	133,557,221
Japan Tobacco Inc.	Japan	12,406	52,935,694
KT&G Corp.	South Korea	1,007,362	86,634,095
(k) Reynolds American Inc.	United States	1,608,714	75,078,682

			482,944,919

TRANSPORTATION INFRASTRUCTURE 0.0%g			
(a) Groupe Eurotunnel SA, wts., 12/30/11	France	1,570,655	643,020

WIRELESS TELECOMMUNICATION SERVICES 0.4%			
Sprint Nextel Corp.	United States	2,478,870	23,549,265

TOTAL COMMON STOCKS AND OTHER EQUITY INTERESTS (COST \$5,111,763,963)			5,448,626,686

PREFERRED STOCKS 0.1%			
AUTO COMPONENTS 0.1%			
(f) Dana Holding Corp., 4.00%, cvt. pfd., B	United States	60,625	5,961,456

DIVERSIFIED TELECOMMUNICATION SERVICES 0.0%g			
(f) PTV Inc., 10.00%, pfd., A	United Kingdom	114,246	57,123

TOTAL PREFERRED STOCKS (COST \$6,222,444)			6,018,579

</TABLE>

<TABLE>
<CAPTION>

		PRINCIPAL AMOUNT (1)	
	-----	-----	-----
<S>	<C>	<C>	<C>

CORPORATE BONDS & NOTES 3.2%				
(b)	ACE Aviation Holdings Inc., cvt., 144A, 4.25%, 6/01/35	Canada	1,993,000 CAD	1,914,186
(f)	Cerberus CG Investor I LLC, 12.00%, 7/31/14	United States	18,089,600	9,419,450
(f)	Cerberus CG Investor II LLC, 12.00%, 7/31/14	United States	18,089,600	9,419,450
(f)	Cerberus CG Investor III LLC, 12.00%, 7/31/14	United States	9,044,800	4,709,725
(f)	Cerberus FIM Investors Auto Finance LLC, 12.00%, 11/22/13	United States	17,106,799	5,706,775
(f)	Cerberus FIM Investors Commercial Finance LLC, 12.00%, 11/22/13	United States	1,425,915	475,681
(f)	Cerberus FIM Investors Commercial Mortgage LLC, 12.00%, 11/22/13	United States	2,672,657	891,590
(f)	Cerberus FIM Investors Insurance LLC, 12.00%, 11/22/13	United States	13,072,130	4,360,822
(f)	Cerberus FIM Investors Rescap LLC, 12.00%, 11/22/13	United States	24,337,605	8,118,949
(f, h)	DecisionOne Corp., 12.00%, 4/15/10	United States	1,440,958	1,440,958
(m)	FRN, 7.25%, 5/12/09	United States	263,440	263,440

</TABLE>

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Mutual Beacon Fund

STATEMENT OF INVESTMENTS, JUNE 30, 2008 (UNAUDITED) (CONTINUED)

<TABLE> <CAPTION>				
		COUNTRY	PRINCIPAL AMOUNT (1)	VALUE
<S>		<C>	<C>	<C>
CORPORATE BONDS & NOTES (CONTINUED)				
Groupe Eurotunnel SA, cvt., sub. bond,				
	NRS I, T1, 3.00%, 7/28/08	France	21,700 EUR	\$ 84,818
	NRS I, T1, 3.00%, 7/28/08	France	24,211 GBP	129,273
	NRS I, T2, 3.00%, 7/28/09	France	21,700 EUR	83,109
	NRS I, T2, 3.00%, 7/28/09	France	24,211 GBP	126,861
	NRS I, T3, 3.00%, 7/28/10	France	5,574,500 EUR	20,911,029
	NRS I, T3, 3.00%, 7/28/10	France	5,182,586 GBP	26,639,484
	NRS II, 6.00%, 7/28/10	France	5,620,600 EUR	12,298,504
	NRS II, 6.00%, 7/28/10	France	6,686,123 GBP	18,451,280
(b)	Indianapolis Downs LLC, senior secured note, 144A, 11.00%, 11/01/12	United States	6,400,000	5,856,000
(n)	senior secured sub. note, 144A, PIK, 15.50%, 11/01/13	United States	23,283,299	22,235,551
(e, f)	International Automotive Components Group NA LLC, 9.00%, 4/01/17	United States	1,947,800	1,947,800
(f, m)	Pontus I LLC, junior note, 144A, FRN, 5.231%, 7/24/09	United States	8,138,304	6,983,236
	5.685%, 7/24/09	United States	7,351,376	8,825,634
	6.475%, 7/24/09	United States	7,159,748	6,157,150
(f, m)	Pontus II Trust, junior note, 144A, FRN, 6.475%, 6/25/09	United States	3,579,830	3,078,537
(m)	Realogy Corp., FRN, 4.721%, 4/10/13	United States	3,755,409	3,163,932
	Delayed Draw Term B Loan, 5.71%, 10/10/13	United States	862,505	736,209
	Initial Term Loan B, 5.475%, 10/10/13	United States	4,763,604	4,066,074
	Synthetic Letter of Credit, 2.30%, 10/10/13	United States	1,282,467	1,094,676
	Trump Entertainment Resorts Inc., 8.50%, 5/20/15	United States	17,380,260	10,906,113
(d, n)	TVMAX Holdings Inc., PIK, 11.50%, 9/30/08	United States	453,085	317,160
	14.00%, 9/30/08	United States	920,740	644,518
TOTAL CORPORATE BONDS & NOTES (COST \$254,685,278)				201,457,974
CORPORATE BONDS & NOTES IN REORGANIZATION 0.3%				
(f, m, p)	Motor Coach Industries International Inc., FRN, 15.649%, 12/01/08	United States	33,375,735	22,027,985
(d, p)	Safety Kleen Services, senior sub. note, 9.25%, 6/01/08	United States	50,000	250
TOTAL CORPORATE BONDS & NOTES IN REORGANIZATION (COST \$33,377,239)				22,028,235
TOTAL INVESTMENTS BEFORE SHORT TERM INVESTMENTS (COST \$5,406,048,924)				5,678,131,474
SHORT TERM INVESTMENTS 9.0%				
U.S. GOVERNMENT AND AGENCY SECURITIES 8.5%				
(q)	FHLB, 7/01/08 - 4/15/09	United States	335,800,000	333,959,036
	7/03/08	United States	100,000,000	99,988,200
	7/25/08	United States	102,000,000	101,855,466
TOTAL U.S. GOVERNMENT AND AGENCY SECURITIES (COST \$535,674,593)				535,802,702

</TABLE>

Mutual Beacon Fund

STATEMENT OF INVESTMENTS, JUNE 30, 2008 (UNAUDITED) (CONTINUED)

<TABLE>

<CAPTION>

	COUNTRY	SHARES/CONTRACTS	VALUE
<S>	<C>	<C>	<C>
SHORT TERM INVESTMENTS (CONTINUED)			
TOTAL INVESTMENTS BEFORE MONEY MARKET FUND (COST \$5,941,723,517)			\$6,213,934,176
(r) INVESTMENTS FROM CASH COLLATERAL RECEIVED FOR LOANED SECURITIES 0.5% MONEY MARKET FUND (COST \$30,085,548) 0.5%			
(s) Bank of New York Institutional Cash Reserve Fund, 2.53%	United States	30,085,548	30,085,548
TOTAL INVESTMENTS (COST \$5,971,809,065) 99.0%			6,244,019,724
OPTIONS WRITTEN 0.0%(g)			(979,870)
NET UNREALIZED LOSS ON FORWARD EXCHANGE CONTRACTS (0.2)%			(12,534,898)
OTHER ASSETS, LESS LIABILITIES 1.2%			74,149,306
NET ASSETS 100.0%			\$6,304,654,262
(t) OPTIONS WRITTEN 0.0%g COMMERCIAL BANKS 0.0%g U.S. Bancorp, Dec. 35.00 Calls, 12/20/08	United States	4,250	208,250
ENERGY EQUIPMENT & SERVICES 0.0%g Transocean Inc., Aug. 165.00 Calls, 8/16/08	United States	1,882	771,620
TOTAL OPTIONS WRITTEN (PREMIUMS RECEIVED \$1,599,740)			\$ 979,870

</TABLE>

CURRENCY ABBREVIATIONS

CAD - Canadian Dollar

EUR - Euro

GBP - British Pound Sterling

SELECTED PORTFOLIO ABBREVIATIONS

ADR - American Depository Receipt

FHLB - Federal Home Loan Bank

FRN - Floating Rate Note

PIK - Payment-In-Kind

Mutual Beacon Fund

STATEMENT OF INVESTMENTS, JUNE 30, 2008 (UNAUDITED) (CONTINUED)

- (a) Non-income producing for the twelve months ended June 30, 2008.
- (b) Security was purchased pursuant to Rule 144A under the Securities Act of 1933 and may be sold in transactions exempt from registration only to qualified institutional buyers or in a public offering registered under the Securities Act of 1933. These securities have been deemed liquid under guidelines approved by the Trusts' Board of Trustees. At June 30, 2008, the aggregate value of these securities was \$30,737,303, representing 0.49% of net assets.
- (c) Contingent distributions represent the right to receive additional distributions, if any, during the reorganization of the underlying company. Shares represent total underlying principal of debt securities.
- (d) Security has been deemed illiquid because it may not be able to be sold within seven days. At June 30, 2008, the aggregate value of these

securities was \$82,337,380, representing 1.31% of net assets.

- (e) See Note 13 regarding other considerations.
- (f) See Note 9 regarding restricted securities.
- (g) Rounds to less than 0.1% of net assets.
- (h) See Note 12 regarding holdings of 5% voting securities.
- (i) A portion or all of the security is held in connection with written option contracts open at period end.
- (j) A portion or all of the security is on loan as of June 30, 2008. See Note 1(g).
- (k) Security or a portion of the security has been segregated as collateral for securities sold short. At June 30, 2008, the value of securities and or cash pledged amounted to \$4,667,000.
- (l) The principal amount is stated in U.S. dollars unless otherwise indicated.
- (m) The coupon rate shown represents the rate at period end.
- (n) Income may be received in additional securities and/or cash.
- (o) See Note 10 regarding unfunded loan commitments.
- (p) See Note 8 regarding defaulted securities.
- (q) The security is traded on a discount basis with no stated coupon rate.
- (r) See Note 1(g) regarding securities on loan.
- (s) The rate shown is the annualized seven-day yield at period end.
- (t) See Note 1(e) regarding written options.

The accompanying notes are an integral part of these financial statements.

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Mutual Beacon Fund

FINANCIAL STATEMENTS

STATEMENT OF ASSETS AND LIABILITIES

June 30, 2008 (unaudited)

<TABLE>		<C>
<S>		
Assets:		
Investments in securities:		
Cost - Unaffiliated issuers		\$5,856,846,340
Cost - Controlled affiliated issuers (Note 12)		2,081,593
Cost - Non-controlled affiliated issuers (Note 12)		112,881,132

Total cost of investments		\$5,971,809,065
		=====
Value - Unaffiliated issuers		\$6,123,920,367
Value - Controlled affiliated issuers (Note 12)		8,475,058
Value - Non-controlled affiliated issuers (Note 12)		111,624,299

Total value of investments (includes securities loaned in the amount of \$ 29,201,988)...		6,244,019,724
Cash		213,899
Cash on deposit with brokers for securities sold short		204,369
Foreign currency, at value (cost \$ 79,918,352)		79,905,385
Receivables:		
Investment securities sold		17,439,710
Capital shares sold		14,406,493
Dividends and interest		31,386,739
Unrealized gain on forward exchange contracts (Note 7)		8,775,294
Unrealized gain on unfunded loan commitments (Note 10)		665,407
Other assets		1,121,656

Total assets		6,398,138,676

Liabilities:		
Payables:		
Investment securities purchased		17,628,621
Capital shares redeemed		13,077,191
Affiliates		6,563,533

Options written, at value (premiums received \$1,599,740)	979,870
Payable upon return of securities loaned	30,085,548
Unrealized loss on forward exchange contracts (Note 7)	21,310,192
Accrued expenses and other liabilities	3,839,459

Total liabilities	93,484,414

Net assets, at value	\$6,304,654,262
	=====
Net assets consist of:	
Paid-in capital	\$5,839,666,299
Undistributed net investment income	86,336,091
Net unrealized appreciation (depreciation)	261,066,578
Accumulated net realized gain (loss)	117,585,294

Net assets, at value	\$6,304,654,262
	=====

</TABLE>

The accompanying notes are an integral part of these financial statements.

Mutual Beacon Fund

FINANCIAL STATEMENTS (CONTINUED)

STATEMENT OF ASSETS AND LIABILITIES (CONTINUED)
June 30, 2008 (unaudited)

<TABLE>	<C>
<S>	
CLASS Z:	
Net assets, at value.....	\$3,172,528,873

Shares outstanding.....	236,438,171

Net asset value and maximum offering price per share(a).....	\$ 13.42

CLASS A:	
Net assets, at value.....	\$2,311,467,567

Shares outstanding.....	173,658,503

Net asset value per share(a).....	\$ 13.31

Maximum offering price per share (net asset value per share / 94.25%).....	\$ 14.12

CLASS B:	
Net assets, at value.....	\$ 127,768,374

Shares outstanding.....	9,906,059

Net asset value and maximum offering price per share(a).....	\$ 12.90

CLASS C:	
Net assets, at value.....	\$ 692,889,448

Shares outstanding.....	52,757,576

Net asset value and maximum offering price per share(a).....	\$ 13.13

</TABLE>

(a) Redemption price is equal to net asset value less contingent deferred sales charges, if applicable, and redemption fees retained by the Fund.

The accompanying notes are an integral part of these financial statements.

Mutual Beacon Fund

FINANCIAL STATEMENTS (CONTINUED)

STATEMENT OF OPERATIONS
for the six months ended June 30, 2008 (unaudited)

<TABLE>

<S>	<C>
Investment income:	
Dividends: (net of foreign taxes of \$7,847,200)	
Unaffiliated issuers.....	\$ 91,697,271
Non-controlled affiliated issuers (Note 12).....	237,796
Interest:	
Unaffiliated issuers.....	21,333,661
Non-controlled affiliated issuers (Note 12).....	96,255
Income from securities loaned.....	563,967

Total investment income.....	113,928,950

Expenses:	
Management fees (Note 3a).....	20,359,075
Administrative fees (Note 3b).....	2,616,313
Distribution fees: (Note 3c)	
Class A.....	3,521,632
Class B.....	749,293
Class C.....	3,915,227
Transfer agent fees (Note 3e).....	3,681,262
Custodian fees (Note 4).....	437,548
Reports to shareholders.....	196,232
Registration and filing fees.....	120,953
Professional fees.....	533,131
Trustees' fees and expenses.....	75,348
Dividends on securities sold short.....	291,585
Other.....	93,888

Total expenses.....	36,591,487
Expense reductions (Note 4).....	(32,477)

Net expenses.....	36,559,010

Net investment income.....	77,369,940

Realized and unrealized gains (losses):	
Net realized gain (loss) from:	
Investments.....	48,052,882
Written options.....	2,874,249
Foreign currency transactions.....	(100,777,127)
Securities sold short.....	6,249,980

Net realized gain (loss).....	(43,600,016)

Net change in unrealized appreciation (depreciation) on:	
Investments.....	(1,139,245,387)
Translation of assets and liabilities denominated in foreign currencies.....	274,205

Net change in unrealized appreciation (depreciation).....	(1,138,971,182)

Net realized and unrealized gain (loss).....	(1,182,571,198)
Net increase (decrease) in net assets resulting from operations.....	\$ (1,105,201,258)
	=====

</TABLE>

The accompanying notes are an integral part of these financial statements.

Mutual Beacon Fund

FINANCIAL STATEMENTS (CONTINUED)

STATEMENTS OF CHANGES IN NET ASSETS

<TABLE>

<CAPTION>

	SIX MONTHS ENDED JUNE 30, 2008 (UNAUDITED)	YEAR ENDED DECEMBER 31, 2007
	-----	-----
<S>	<C>	<C>
Increase (decrease) in net assets:		
Operations:		
Net investment income.....	\$ 77,369,940	\$ 207,076,836
Net realized gain (loss) from investments, written options, securities sold short, synthetic equity swaps, and foreign currency transactions.....	(43,600,016)	562,437,203
Net unrealized appreciation (depreciation) on investments and translation of assets and liabilities denominated in foreign currencies.....	(1,138,971,182)	(587,191,848)
	-----	-----

Net increase (decrease) in net assets resulting from operations.....	(1,105,201,258)	182,322,191
Distributions to shareholders from:		
Net investment income:		
Class Z	--	(130,125,357)
Class A.....	--	(80,817,727)
Class B.....	--	(4,105,340)
Class C.....	--	(20,964,655)
Net realized gains:		
Class Z	--	(213,170,126)
Class A.....	--	(145,346,463)
Class B.....	--	(9,918,571)
Class C.....	--	(48,866,936)
Total distributions to shareholders.....	--	(653,315,175)
Capital share transactions: (Note 2)		
Class Z	(154,263,316)	183,737,378
Class A.....	52,981,350	659,455,776
Class B.....	(19,588,885)	(18,583,161)
Class C.....	(54,639,513)	105,335,071
Total capital share transactions.....	(175,510,364)	929,945,064
Redemption fees.....	12,245	19,015
Net increase (decrease) in net assets.....	(1,280,699,377)	458,971,095
Net assets:		
Beginning of period.....	7,585,353,639	7,126,382,544
End of period.....	\$ 6,304,654,262	\$7,585,353,639
Undistributed net investment income included in net assets:		
End of period.....	\$ 86,336,091	\$ 8,966,151

</TABLE>

The accompanying notes are an integral part of these financial statements.

Mutual Beacon Fund

NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Franklin Mutual Series Funds (Trust) is registered under the Investment Company Act of 1940, as amended, (1940 Act) as an open-end investment company, consisting of six separate funds. The Mutual Beacon Fund (Fund) included in this report is diversified. The financial statements of the remaining funds in the Trust are presented separately. The Fund offers four classes of shares: Class Z, Class A, Class B, and Class C. Each class of shares differs by its initial sales load, contingent deferred sales charges, distribution fees, voting rights on matters affecting a single class and its exchange privilege.

The following summarizes the Fund's significant accounting policies.

A. SECURITY VALUATION

Securities listed on a securities exchange or on the NASDAQ National Market System are valued at the last quoted sale price or the official closing price of the day, respectively. Over-the-counter securities and listed securities for which there is no reported sale are valued within the range of the most recent quoted bid and ask prices. Securities that trade in multiple markets or on multiple exchanges are valued according to the broadest and most representative market. Investments in open-end mutual funds are valued at the closing net asset value.

Corporate debt securities and government securities generally trade in the over-the-counter market rather than on a securities exchange. The Trust may utilize independent pricing services, quotations from bond dealers, and information with respect to bond and note transactions, to assist in determining a current market value for each security. The Trust's pricing services may use valuation models or matrix pricing which considers information with respect to comparable bond and note transactions, quotations from bond dealers, or by reference to other securities that are considered comparable in such characteristics as rating, interest rate and maturity date, option adjusted spread models, prepayment projections, interest rate spreads and yield curves, to determine current value.

Foreign securities are valued as of the close of trading on the foreign stock

exchange on which the security is primarily traded, or the NYSE, whichever is earlier. 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. The value is then converted into its U.S. dollar equivalent at the foreign exchange rate in effect at the close of the NYSE on the day that the value of the foreign security is determined.

Mutual Beacon Fund

NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. SECURITY VALUATION (CONTINUED)

The Trust has procedures to determine the fair value of individual securities and other assets for which market prices are not readily available or which may not be reliably priced. Methods for valuing these securities may include: fundamental analysis, 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. Due to the inherent uncertainty of valuations of such securities, the fair values may differ significantly from the values that would have been used had a ready market for such investments existed. Occasionally, events occur between the time at which trading in a security is completed and the close of the NYSE that might call into question the availability (including the reliability) of the value of a portfolio security held by the Fund. 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 Depository 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. If such an event occurs, the securities may be valued using fair value procedures, which may include the use of independent pricing services. All security valuation procedures are approved by the Trust's Board of Trustees.

B. FOREIGN CURRENCY TRANSLATION

Portfolio securities and other assets and liabilities denominated in foreign currencies are translated into U.S. dollars based on the exchange rate of such currencies against U.S. dollars on the date of valuation. Purchases and sales of securities, income and expense items denominated in foreign currencies are translated into U.S. dollars at the exchange rate in effect on the transaction date. Occasionally, events 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 Trust's Board of Trustees.

The Fund does not separately report the effect of changes in foreign exchange rates from changes in market prices on securities held. Such changes are included in net realized and unrealized gain or loss from investments on the Statement of Operations.

Realized foreign exchange gains or losses arise from sales of foreign currencies, currency gains or losses realized between the trade and settlement dates on securities transactions and the difference between the recorded amounts of dividends, interest, and foreign withholding taxes and the U.S. dollar equivalent of the amounts actually received or paid. Net unrealized foreign exchange gains and losses arise from changes in foreign exchange rates on foreign denominated assets and liabilities other than investments in securities held at the end of the reporting period.

Mutual Beacon Fund

NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. FOREIGN CURRENCY CONTRACTS

When the Fund purchases or sells foreign securities it may enter into foreign exchange contracts to minimize foreign exchange risk from the trade date to the settlement date of the transactions. A foreign exchange contract is an agreement between two parties to exchange different currencies at an agreed upon exchange rate at a future date. Realized and unrealized gains and losses on these

contracts are included in the Statement of Operations.

The Fund may also enter into forward exchange contracts to hedge against fluctuations in foreign exchange rates. These contracts are valued daily by the Fund and the unrealized gains or losses on the contracts, as measured by the difference between the contractual forward foreign exchange rates and the forward rates at the reporting date, are included in the Statement of Assets and Liabilities. Realized and unrealized gains and losses on these contracts are included in the Statement of Operations.

The risks of these contracts include movement in the values of the foreign currencies relative to the U.S. dollar and the possible inability of the counterparties to fulfill their obligations under the contracts, which may be in excess of the amount reflected in the Statement of Assets and Liabilities.

D. SYNTHETIC EQUITY SWAPS

The Fund may engage in synthetic equity swaps. Synthetic equity swaps are contracts entered into between a broker and the Fund under which the parties agree to make payments to each other so as to replicate the economic consequences that would apply had a purchase or short sale of the underlying security taken place. Upon entering into synthetic equity swaps, the Fund is required to pledge to the broker an amount of cash and/or other assets equal to a certain percentage of the contract amount (margin account). Periodically, payments are made to recognize changes in value of the contract resulting from interest on the notional value of the contract, market value changes in the underlying security, and/or dividends paid by the issuer of the underlying security. The Fund recognizes a realized gain or loss when cash is received from, or paid to, the broker. Synthetic equity swaps are valued daily by the Fund and the unrealized gains or losses on the contracts (as measured by the difference between the contract amount plus or minus cash received or paid and the market value of the underlying securities) are recorded in the Statement of Operations. The margin account and any net unrealized gains or losses on open synthetic equity swaps are included in the Statement of Assets and Liabilities. The risks of entering into synthetic equity swaps include unfavorable price movements in the underlying securities or the inability of the counterparties to fulfill their obligations under the contract.

Mutual Beacon Fund

NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. OPTIONS

The Fund may purchase or write options. Options are contracts entitling the holder to purchase or sell securities, currencies, or other financial instruments at a specified price or exchange rate, or, in the case of index options, to receive or pay the difference between the index value and the strike price of the index option. Options purchased are recorded as investments; options written (sold) are recorded as liabilities. Upon closing of an option which results in a cash settlement, the difference between the premium (original option value) and the settlement proceeds is realized as a gain or loss. When securities are acquired or delivered upon exercise of an option, the acquisition cost or sale proceeds are adjusted by the amount of the premium. When an option expires, the premium is realized as a gain for options written or as a loss for options purchased. The risks include the possibility there may be an illiquid options market or the inability of the counterparties to fulfill their obligations under the contract. Writing options involves, to varying degrees, elements of market risk in excess of the amount recognized in the Statement of Assets and Liabilities.

F. SECURITIES SOLD SHORT

The Fund may engage in selling securities short, which obligates the Fund to replace a borrowed security with the same security at current market value. The Fund incurs a loss if the price of the security increases between the date of the short sale and the date on which the Fund replaces the borrowed security. The Fund realizes a gain if the price of the security declines between those dates. Gains are limited to the price at which the fund sold the security short, while losses are potentially unlimited in size.

The Fund is required to establish a margin account with the broker lending the security sold short. While the short sale is outstanding, the broker retains the proceeds of the short sale and the fund must maintain a deposit with broker consisting of cash and securities having a value equal to a specified percentage of the value of the securities sold short. The Fund is obligated to pay the counterparty any dividends or interest due on securities sold short. Such dividends and interest are recorded as an expense to the Fund.

G. SECURITIES LENDING

The Fund may loan securities to certain brokers through a securities lending agent for which it receives initial cash collateral against the loaned securities in an amount equal to at least 102% of the market value of the loaned securities. Collateral is maintained over the life of the loan in an amount not less than 100% of the market value of loaned securities, as determined at the close of fund business each day; any additional collateral required due to changes in security values is delivered to the fund on the next business day. The collateral is invested in short-term instruments as noted in the Statement of Investments. The Fund receives interest income from the investment of cash collateral, adjusted by lender fees and broker rebates. The Fund bears the risk of loss with respect to the investment of the collateral and the securities loaned. The securities lending agent has agreed to indemnify the Fund in the case of default of any securities borrower.

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Mutual Beacon Fund

NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. INCOME TAXES

No provision has been made for U.S. income taxes because it is the Fund's policy to qualify as a regulated investment company under the Internal Revenue Code and to distribute to shareholders substantially all of its taxable income and net realized gains.

Foreign securities held by the Fund may be subject to foreign taxation on dividend and interest income received. Foreign taxes, if any, are recorded based on the tax regulations and rates that exist in the foreign markets in which the Fund invests.

The Fund has reviewed the tax positions taken on federal income tax returns, for each of the three open tax years and as of June 30, 2008, and has determined that no provision for income tax is required in the Fund's financial statements.

I. SECURITY TRANSACTIONS, INVESTMENT INCOME, EXPENSES AND DISTRIBUTIONS

Security transactions are accounted for on trade date. Realized gains and losses on security transactions are determined on a specific identification basis. Interest income and estimated expenses are accrued daily. Amortization of premium and accretion of discount on debt securities are included in interest income. Dividend income and dividends declared on securities sold short are recorded on the ex-dividend date except that certain dividends from foreign securities are recognized as soon as the Fund is notified of the ex-dividend date. Distributions to shareholders are recorded on the ex-dividend date and are determined according to income tax regulations (tax basis). Distributable earnings determined on a tax basis may differ from earnings recorded in accordance with accounting principles generally accepted in the United States of America. These differences may be permanent or temporary. Permanent differences are reclassified among capital accounts to reflect their tax character. These reclassifications have no impact on net assets or the results of operations. Temporary differences are not reclassified, as they may reverse in subsequent periods.

Common expenses incurred by the Trust are allocated among the funds based on the ratio of net assets of each fund to the combined net assets of the Trust. Fund specific expenses are charged directly to the fund that incurred the expense.

Realized and unrealized gains and losses and net investment income, other than class specific expenses, are allocated daily to each class of shares based upon the relative proportion of net assets of each class. Differences in per share distributions, by class, are generally due to differences in class specific expenses.

J. ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

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NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. REDEMPTION FEES

A short term trading redemption fee will be imposed, with some exceptions, on any fund shares that are redeemed or exchanged within seven calendar days following their purchase date. The redemption fee is 2% of the amount redeemed. Such fees are retained by the Fund and accounted for as an addition to paid-in capital.

L. GUARANTEES AND INDEMNIFICATIONS

Under the Trust's organizational documents, its officers and trustees are indemnified by the Trust against certain liabilities arising out of the performance of their duties to the Trust. Additionally, in the normal course of business, the Trust, on behalf of the Fund, enters into contracts with service providers that contain general indemnification clauses. The Trust's maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Trust that have not yet occurred. Currently, the Trust expects the risk of loss to be remote.

2. SHARES OF BENEFICIAL INTEREST

At June 30, 2008, there were an unlimited number of shares authorized (without par value). Transactions in the Fund's shares were as follows:

	SIX MONTHS ENDED JUNE 30, 2008		YEAR ENDED DECEMBER 31, 2007	
	SHARES	AMOUNT	SHARES	AMOUNT
<S>	<C>	<C>	<C>	<C>
CLASS Z SHARES:				
Shares sold	4,430,816	\$ 65,116,175	14,093,045	\$ 246,409,474
Shares issued in reinvestment of distributions	--	--	19,675,347	314,926,373
Shares redeemed	(14,975,755)	(219,379,491)	(21,723,780)	(377,598,469)
Net increase (decrease)	(10,544,939)	\$(154,263,316)	12,044,612	\$ 183,737,378
CLASS A SHARES:				
Shares sold	23,957,286	\$ 346,994,350	53,732,297	\$ 934,047,432
Shares issued in reinvestment of distributions	--	--	13,427,605	213,312,929
Shares redeemed	(20,232,222)	(294,013,000)	(28,289,809)	(487,904,585)
Net increase (decrease)	3,725,064	\$ 52,981,350	38,870,093	\$ 659,455,776
CLASS B SHARES:				
Shares sold	126,902	\$ 1,783,952	337,672	\$ 5,656,771
Shares issued in reinvestment of distributions	--	--	826,541	12,800,173
Shares redeemed	(1,518,266)	(21,372,837)	(2,198,565)	(37,040,105)
Net increase (decrease)	(1,391,364)	\$(19,588,885)	(1,034,352)	\$ (18,583,161)

</TABLE>

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NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

2. SHARES OF BENEFICIAL INTEREST (CONTINUED)

<TABLE>
<CAPTION>

	SIX MONTHS ENDED JUNE 30, 2008		YEAR ENDED DECEMBER 31, 2007	
	SHARES	AMOUNT	SHARES	AMOUNT
<S>	<C>	<C>	<C>	<C>
CLASS C SHARES:				

Shares sold	2,405,362	\$ 34,562,407	9,340,352	\$ 160,272,572
Shares issued in reinvestment of distributions	--	--	3,919,913	61,710,344
Shares redeemed	(6,214,683)	(89,201,920)	(6,837,573)	(116,647,845)
Net increase (decrease)	(3,809,321)	\$(54,639,513)	6,422,692	\$ 105,335,071

</TABLE>

3. TRANSACTIONS WITH AFFILIATES

Franklin Resources, Inc. is the holding company for various subsidiaries that together are referred to as Franklin Templeton Investments. Certain officers and trustees of the Trust are also officers and/or directors of the following subsidiaries:

SUBSIDIARY	AFFILIATION
Franklin Mutual Advisers, LLC (Franklin Mutual)	Investment manager
Franklin Templeton Services, LLC (FT Services)	Administrative manager
Franklin Templeton Distributors, Inc. (Distributors)	Principal underwriter
Franklin Templeton Investor Services, LLC (Investor Services)	Transfer agent

A. MANAGEMENT FEES

The Fund pays an investment management fee to Franklin Mutual based on the average daily net assets of the Fund as follows:

ANNUALIZED FEE RATE	NET ASSETS
0.600%	Up to and including \$5 billion
0.570%	Over \$5 billion, up to and including \$7 billion
0.550%	Over \$7 billion, up to and including \$10 billion
0.540%	In excess of \$10 billion

B. ADMINISTRATIVE FEES

The Fund pays its allocated share of an administrative fee to FT Services based on the Trust's aggregate average daily net assets as follows:

ANNUALIZED FEE RATE	NET ASSETS
0.150%	Up to and including \$200 million
0.135%	Over \$200 million, up to and including \$700 million
0.100%	Over \$700 million, up to and including \$1.2 billion
0.075%	In excess of \$1.2 billion

Mutual Beacon Fund

NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

3. TRANSACTIONS WITH AFFILIATES (CONTINUED)

C. DISTRIBUTION FEES

The Fund's Board of Trustees has adopted distribution plans for each share class, with the exception of Class Z shares, pursuant to Rule 12b-1 under the 1940 Act. Under the Fund's Class A reimbursement distribution plan, the Fund reimburses Distributors for costs incurred in connection with the servicing, sale and distribution of the Fund's shares up to the maximum annual plan rate. Under the Class A reimbursement distribution plan, costs exceeding the maximum for the current plan year cannot be reimbursed in subsequent periods.

In addition, under the Fund's Class B and C compensation distribution plans, the Fund pays Distributors for costs incurred in connection with the servicing, sale and distribution of the Fund's shares up to the maximum annual plan rate for each class.

The maximum annual plan rates, based on the average daily net assets, for each class, are as follows:

<TABLE>	
<S>	<C>
Class A	0.35%
Class B	1.00%
Class C	1.00%

D. SALES CHARGES/UNDERWRITING AGREEMENTS

Distributors has advised the Fund of the following commission transactions related to the sales and redemptions of the Fund's shares for the period:

<TABLE>	
<S>	<C>
Sales charges retained net of commissions paid to unaffiliated broker/dealers ..	\$563,526
Contingent deferred sales charges retained	\$ 88,922

E. TRANSFER AGENT FEES

For the period ended June 30, 2008, the Fund paid transfer agent fees of \$3,681,262, of which \$1,985,584 was retained by Investor Services.

4. EXPENSE OFFSET ARRANGEMENT

The Fund has entered into an arrangement with its custodian whereby credits realized as a result of uninvested cash balances are used to reduce a portion of the Fund's custodian expenses. During the period ended June 30, 2008, the custodian fees were reduced as noted in the Statement of Operations.

Mutual Beacon Fund

NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

5. INCOME TAXES

At June 30, 2008, the cost of investments and net unrealized appreciation (depreciation) for income tax purposes were as follows:

<TABLE>	
<S>	<C>
Cost of investments	\$6,017,501,936
	=====
Unrealized appreciation	\$1,102,683,312
Unrealized depreciation	(876,165,524)

Net unrealized appreciation (depreciation) ..	\$ 226,517,788
	=====

Net investment income differs for financial statement and tax purposes primarily due to differing treatments of defaulted securities, foreign currency transactions, bond discounts and premiums, synthetic equity swaps, pass-through entity income, and certain dividends on securities sold short.

Net realized gains (losses) differ for financial statement and tax purposes primarily due to differing treatments of wash sales, foreign currency transactions, bond discounts and premiums, synthetic equity swaps and pass-through entity income.

6. INVESTMENT TRANSACTIONS

Purchases and sales of investments (excluding short term securities and securities sold short) for the period ended June 30, 2008, aggregated \$1,380,751,777 and \$1,514,727,236, respectively.

Transactions in options written during the period ended June 30, 2008, were as follows:

<TABLE>		
<CAPTION>		
	NUMBER OF CONTRACTS	PREMIUMS RECEIVED
	-----	-----
<S>	<C>	<C>
Options outstanding at December 31, 2007 ..	3,364	\$ 2,764,825
Options written	9,689	3,312,808

Options expired	--	--
Options exercised	--	--
Options closed	(6,921)	(4,477,893)
	-----	-----
Options outstanding at June 30, 2008	6,132	\$ 1,599,740
	=====	=====

</TABLE>

7. FORWARD EXCHANGE CONTRACTS

At June 30, 2008, the Fund had the following forward exchange contracts outstanding:

<TABLE>

<CAPTION>

		CONTRACT AMOUNT	SETTLEMENT DATE	UNREALIZED GAIN	UNREALIZED LOSS
<S>	<C>	<C>	<C>	<C>	<C>
CONTRACTS TO BUY					
7,544,425	Swiss Franc	\$ 7,480,306	7/07/08	\$--	\$(122,299)
8,360,000	British Pound Sterling	16,568,274	9/10/08	--	(36,341)
193,144,447	Swedish Krona	31,969,340	9/16/08	--	(29,394)
2,500,000,000	Japanese Yen	23,675,139	9/19/08	--	(11,890)

</TABLE>

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Mutual Beacon Fund

NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

7. FORWARD EXCHANGE CONTRACTS (CONTINUED)

<TABLE>

<CAPTION>

		CONTRACT AMOUNT	SETTLEMENT DATE	UNREALIZED GAIN	UNREALIZED LOSS
<S>	<C>	<C>	<C>	<C>	<C>
CONTRACTS TO BUY (CONTINUED)					
8,600,000,000	South Korean Won	\$ 8,301,158	9/29/08	\$ --	\$(574)
3,829,688	Canadian Dollar	3,750,000	10/27/08	--	(78,185)
31,624,056	Euro	49,393,230	12/15/08	--	(25,937)
CONTRACTS TO SELL					
97,407,050	Swiss Franc	94,189,040	7/07/08	--	(1,176,637)
77,200,000	Euro	121,447,520	7/14/08	--	(20,447)
286,000,000	Danish Krone	59,369,048	7/23/08	--	(935,493)
24,500,000	Euro	36,122,800	7/25/08	--	(2,403,272)
64,020,000	British Pound Sterling	124,455,549	8/12/08	--	(2,652,918)
107,471,017	Euro	166,107,840	8/13/08	--	(2,725,907)
205,481,600	Danish Krone	42,927,836	8/25/08	--	(322,190)
48,800,000	Euro	76,419,092	8/28/08	--	(186,714)
109,000,000	British Pound Sterling	213,698,000	9/10/08	--	(2,244,911)
677,743,776	Swedish Krona	110,734,988	9/16/08	--	(1,283,037)
4,917,699,920	Japanese Yen	50,627,942	9/19/08	4,099,046	--
91,000,000	Euro	141,618,960	9/24/08	--	(1,033,787)
57,576,781,150	South Korean Won	57,168,000	9/29/08	2,307,020	--
612,500,000	Norwegian Krone	119,771,570	10/10/08	714,116	--
22,200,000	Euro	34,326,750	10/14/08	--	(437,670)
393,550,330	Danish Krone	81,258,332	10/23/08	--	(1,309,784)
20,344,825	Canadian Dollar	19,912,716	10/27/08	709	--
30,560,000	British Pound Sterling	58,947,184	11/12/08	--	(1,300,056)
88,700,000	Euro	136,408,607	11/13/08	--	(2,272,621)
93,740,039	Norwegian Krone	18,340,000	11/19/08	190,004	--
48,800,000	Euro	76,040,648	11/28/08	--	(197,145)
25,858,962	Euro	39,859,004	12/15/08	--	(502,983)
1,750,000,000	Japanese Yen	18,115,942	12/19/08	1,464,399	--
				-----	-----
	Unrealized gain (loss) on forward exchange contracts			8,775,294	(21,310,192)
	NET UNREALIZED LOSS ON FORWARD EXCHANGE CONTRACTS			-----	-----
					\$(12,534,898)
					=====

</TABLE>

8. CREDIT RISK AND DEFAULTED SECURITIES

The Fund may purchase the pre-default or defaulted debt of distressed companies. Distressed companies are financially troubled and are about to be/or are already involved in financial restructuring or bankruptcy. The Fund does not accrue income on these securities, if it becomes probable that the income will not be collected. Risks associated with purchasing these securities include the

possibility that the bankruptcy or other restructuring process takes longer than expected, or that distributions in restructuring are less than anticipated, either or both of which may result in unfavorable consequences to the Fund. At June 30, 2008, the aggregate value of these securities was \$22,028,235, representing 0.35% of the Fund's net assets. For information as to specific securities, see the accompanying Statement of Investments.

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Mutual Beacon Fund

NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

9. RESTRICTED SECURITIES

The Fund may invest in securities that are restricted under the Securities Act of 1933 (1933 Act) or which are subject to legal, contractual, or other agreed upon restrictions on resale. Restricted securities are often purchased in private placement transactions, and cannot be sold without prior registration unless the sale is pursuant to an exemption under the 1933 Act. Disposal of these securities may require greater effort and expense, and prompt sale at an acceptable price may be difficult. The Fund may have registration rights for restricted securities. The issuer generally incurs all registration costs.

At June 30, 2008, the Fund held investments in restricted securities, excluding 144A securities deemed to be liquid, valued in accordance with procedures approved by the Trust's Board of Trustees as reflecting fair value, as follows:

<TABLE>
<CAPTION>
PRINCIPAL AMOUNT/
SHARES/WARRANTS/
CONTRACTS

	ISSUER	ACQUISITION DATES	COST	VALUE
<S>	<C>	<C>	<C>	<C>
466,432	AboveNet Inc.	10/02/01 - 12/12/07	\$23,428,396	\$23,321,600
613	AboveNet Inc., stock grant, grant price \$20.95, expiration date, 9/09/13	4/17/06 - 9/08/06	--	17,072
16,857	AboveNet Inc., wts., 9/08/08 ...	10/02/01 - 9/07/07	1,927,924	539,424
19,829	AboveNet Inc., wts., 9/08/10 ...	10/02/01 - 9/07/07	2,071,196	571,075
20,610,629	Cerberus CG Investor I LLC	7/26/07 - 6/17/08	20,610,629	10,732,177
18,089,600	Cerberus CG Investor I LLC, 12.00%, 7/31/14	7/26/07	18,089,600	9,419,450
20,610,629	Cerberus CG Investor II LLC	7/26/07 - 6/17/08	20,610,629	10,732,177
18,089,600	Cerberus CG Investor II LLC, 12.00%, 7/31/14	7/26/07	18,089,600	9,419,450
10,305,315	Cerberus CG Investor III LLC ...	7/26/07 - 6/17/08	10,305,315	5,366,089
9,044,800	Cerberus CG Investor III LLC, 12.00%, 7/31/14	7/26/07	9,044,800	4,709,725
5,706,149	Cerberus FIM Investors Auto Finance LLC	11/20/06	5,706,149	1,903,554
17,106,799	Cerberus FIM Investors Auto Finance LLC, 12.00%, 11/22/13	11/20/06	17,106,799	5,706,775
475,305	Cerberus FIM Investors Commercial Finance LLC	11/20/06	475,305	158,560
1,425,915	Cerberus FIM Investors Commercial Finance LLC, 12.00%, 11/22/13	11/20/06	1,425,915	475,681
890,886	Cerberus FIM Investors Commercial Mortgage LLC	11/20/06	890,886	297,197
2,672,657	Cerberus FIM Investors Commercial Mortgage LLC, 12.00%, 11/22/13	11/20/06	2,672,657	891,590
4,357,377	Cerberus FIM Investors Insurance LLC	11/20/06	4,357,377	1,453,607
13,072,130	Cerberus FIM Investors Insurance LLC, 12.00%, 11/22/13	11/20/06	13,072,130	4,360,822

</TABLE>

Mutual Beacon Fund

NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

9. RESTRICTED SECURITIES (CONTINUED)

<TABLE>

<CAPTION> PRINCIPAL AMOUNT/ SHARES/WARRANTS/ CONTRACTS	ISSUER	ACQUISITION DATES	COST	VALUE
<S>	<C>	<C>	<C>	<C>
8,112,533	Cerberus FIM Investors Rescap LLC	11/20/06	\$ 8,112,533	\$ 2,706,316
24,337,605	Cerberus FIM Investors Rescap LLC, 12.00%, 11/22/13	11/20/06	24,337,605	8,118,949
60,625	(a) Dana Holding Corp., 4.00%, cvt. pfd., B	12/27/07	6,062,500	5,961,456
1,142,353	DecisionOne Corp.	3/12/99 - 7/18/00	793,798	--
1,440,958	DecisionOne Corp., 12.00%, 4/15/10	3/12/99 - 4/15/08	2,328,648	1,440,958
263,440	DecisionOne Corp., FRN, 7.25%, 5/12/09	7/09/07	263,440	263,440
627,237	DecisionOne Corp., wts., 6/08/17	7/09/07	--	--
3,954,729	Esmark Inc.	11/08/04 - 11/28/07	73,249,520	68,052,977
35,242	FE Capital Holdings Ltd.	8/29/03 - 3/11/08	4,615,356	3,800,022
1,157,143	First Chicago Bancorp	11/16/06	16,200,002	16,200,002
2,387,711	International Automotive Components Group Brazil LLC	4/13/06 - 8/21/06	1,431,796	9,837,128
378,194	International Automotive Components Group Japan LLC	9/26/06 - 3/27/07	3,285,993	2,198,666
10,149,082	International Automotive Components Group LLC	1/12/06 - 10/16/06	10,154,061	7,930,493
6,469,827	International Automotive Components Group NA LLC	3/30/07 - 10/10/07	6,458,850	4,943,594
1,947,800	International Automotive Components Group NA LLC, 9.00%, 4/01/17	3/30/07	1,977,017	1,947,800
1,639,289	Kindred Healthcare Inc.	4/28/99 - 3/29/06	15,010,878	44,788,654
5,731	Kindred Healthcare Inc., stock grants: grant price \$18.15, expiration date, 7/17/11	7/17/02 - 7/17/05	--	52,565
1,720	grant price \$19.87, expiration date, 1/01/12	1/13/03 - 1/01/06	--	12,817
1,710	grant price \$6.94, expiration date, 1/01/13	1/01/04 - 1/03/07	--	34,853
1,702	grant price \$19.87, expiration date, 1/01/14	1/04/05 - 1/01/08	--	12,683
1,064	grant price \$21.33, expiration date, 1/01/15	1/06/06 - 1/10/08	--	6,376
709	grant price \$22.08, expiration date, 1/10/16	1/09/07 - 1/10/08	--	3,717
354	grant price \$19.40, expiration date, 1/10/17	1/10/08	--	2,804
33,375,735	Motor Coach Industries International Inc., FRN, 15.649%, 12/01/08	5/27/04 - 5/30/08	33,375,735	22,027,985

</TABLE>

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Mutual Beacon Fund

NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

9. RESTRICTED SECURITIES (CONTINUED)

<TABLE>

<CAPTION> PRINCIPAL AMOUNT/ SHARES/WARRANTS/ CONTRACTS	ISSUER	ACQUISITION DATES	COST	VALUE
<S>	<C>	<C>	<C>	<C>
6	Motor Coach Industries International Inc., wts., 5/27/09	3/30/07	\$ --	\$ --
163,895	NCB Warrant Holdings Ltd., A	12/16/05 - 3/11/08	1,725,660	1,602,068
106,700	Olympus Re Holdings Ltd.	12/19/01	10,595,910	322,607
29,737	PMG LLC	3/22/04	2,081,593	8,475,058
8,138,304	Pontus I LLC, junior note, 144A, FRN, 5.231%, 7/24/09	1/22/08	8,138,304	6,983,236
7,351,376	5.685%, 7/24/09	2/25/08	7,351,376	8,825,634
7,159,748	6.475%, 7/24/09	2/12/08	7,159,748	6,157,150
3,579,830	Pontus II Trust, junior note, 144A, FRN, 6.475%, 6/25/09	2/29/08	3,579,830	3,078,537

114,246	PTV Inc., 10.00%, pfd., A	12/07/01 - 3/06/02	159,944	57,123
4,450,920	Symetra Financial	7/27/04	51,160,000	58,129,015
TOTAL RESTRICTED SECURITIES (6.09% of Net Assets)				\$384,050,708

</TABLE>

(a) The Fund also invests in unrestricted securities of the issuer, valued at \$4,498,746 as of June 30, 2008.

10. UNFUNDED LOAN COMMITMENTS

The Fund may enter into certain credit agreements, all or a portion of which may be unfunded. The Fund is obligated to fund these loan commitments at the borrowers' discretion. Funded portions of credit agreements are presented on the Statement of Investments.

At June 30, 2008, unfunded commitments were as follows:

<TABLE>	
<CAPTION>	
	UNFUNDED COMMITMENT -----
<S>	<C>
BORROWER	
Realogy Corp., FRN, 4.721%, 4/10/13	\$8,411,450 =====

</TABLE>

Unfunded loan commitments and funded portions of credit agreements are marked to market daily and any unrealized gain or loss is included in the Statement of Assets and Liabilities and Statement of Operations.

11. UNFUNDED CAPITAL COMMITMENTS

At June 30, 2008, the Fund had aggregate unfunded capital commitments to investments of \$62,820,065.

Mutual Beacon Fund

NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

12. HOLDINGS OF 5% VOTING SECURITIES OF PORTFOLIO COMPANIES

The 1940 Act defines "affiliated companies" to include investments in portfolio companies in which a fund owns 5% or more of the outstanding voting securities. Investments in "affiliated companies" for the Fund for the period ended June 30, 2008, were as shown below.

<TABLE>								
<CAPTION>								
NAME OF ISSUER	NUMBER OF SHARES/WARRANTS/ PRINCIPAL AMOUNT HELD AT BEGINNING OF PERIOD	GROSS ADDITIONS	GROSS REDUCTIONS	NUMBER OF SHARES/WARRANTS/ PRINCIPAL AMOUNT HELD AT END OF PERIOD	VALUE AT END OF PERIOD	INVESTMENT INCOME	REALIZED CAPITAL GAIN (LOSS)	
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
CONTROLLED AFFILIATES (a)								
PMG, LLC	29,737	--	--	29,737	\$ 8,475,058	\$ --	\$--	
NON-CONTROLLED AFFILIATES								
DecisionOne Corp.	1,142,353	--	--	1,142,353	--	--	--	
DecisionOne Corp., 12.00%, 4/15/10	1,412,099	28,859	--	1,440,958	1,440,958	85,159	--	
DecisionOne Corp., FRN, 7.25%, 5/12/09	263,440	--	--	263,440	263,440	11,096	--	
DecisionOne Corp., wts., 6/08/17	627,237	--	--	627,237	--	--	--	
Esmark Inc.	3,954,729	--	--	3,954,729	68,052,977	--	--	
Farmer Brothers Co.	1,033,896	--	--	1,033,896	21,866,900	237,796	--	
FE Capital Holdings Ltd.	14,498	20,744	--	35,242	3,800,022	--	--	
First Chicago Bancorp	1,157,143	--	--	1,157,143	16,200,002	--	--	
TOTAL NON-CONTROLLED AFFILIATES					\$111,624,299	\$334,051	\$--	
TOTAL AFFILIATED SECURITIES (1.90% of Net Assets)					\$120,099,357	\$334,051	\$--	

</TABLE>

(a) Issuer in which the Fund owns 25% or more of the outstanding voting

securities.

13. OTHER CONSIDERATIONS

Officers, directors or employees of the Fund's Investment Manager, may serve from time to time as members of boards of directors of companies in which the Fund invests. Such participation may result in the possession by the Investment Manager of material non-public information which, pursuant to the Fund's policies and the requirements of applicable securities laws, could prevent the Fund from trading in the securities of such companies for limited or extended periods of time.

14. REORGANIZATION TO A DELAWARE STATUTORY TRUST

On April 11, 2007, the Board and shareholders approved an Agreement and Plan of Reorganization whereby the investment company would be reorganized and its domicile changed from a Maryland corporation to a Delaware statutory trust. In connection with these changes, the Trust's name was also changed to Franklin Mutual Series Funds, formerly known as the Franklin Mutual Series Funds, Inc. The reorganization became effective on May 1, 2008.

Mutual Beacon Fund

NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

15. FAIR VALUE MEASUREMENTS

The Fund adopted Financial Accounting Standards Board (FASB) issued FASB Statement No. 157, "Fair Value Measurement" (SFAS 157), on January 1, 2008. SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The Fund has determined that the implementation of SFAS 157 did not have a material impact on the Fund's financial statements.

SFAS 157 establishes a fair value hierarchy that distinguishes between market data obtained from independent sources (observable inputs) and the Trust's own market assumptions (unobservable inputs). These inputs are used in determining the value of the Fund's investments and are summarized in the following fair value hierarchy:

- Level 1 - quoted prices in active markets for identical securities
- Level 2 - other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speed, credit risk, etc.)
- Level 3 - significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments)

The inputs or methodology used for valuing securities are not an indication of the risk associated with investing in those securities.

The following is a summary of the inputs used as of June 30, 2008, in valuing the Fund's assets and liabilities carried at fair value:

<TABLE>
<CAPTION>

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
ASSETS:				
Investments in Securities	\$5,083,090,495	\$694,598,263	\$ 466,330,966	\$6,244,019,724
Other Financial Instruments(a)...	--	8,775,294	--	8,775,294
LIABILITIES:				
Options Written	979,870	--	--	979,870
Other Financial Instruments(a)...	--	21,310,192	--	21,310,192

</TABLE>

(a) Other financial instruments may include net unrealized appreciation (depreciation) of futures, forward exchange contracts, swaps, and unfunded loan commitments.

Mutual Beacon Fund

NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

15. FAIR VALUE MEASUREMENTS (CONTINUED)

At June 30, 2008, the reconciliation of assets in which significant unobservable inputs (Level 3) were used in determining the Fund's fair value, is as follows:

<TABLE> <CAPTION>	INVESTMENTS IN SECURITIES
<S>	<C>
Beginning Balance - January 1, 2008	\$ 528,497,600
Net realized gain (loss)	1,296
Net change in unrealized appreciation (depreciation) ...	(101,340,147)
Net purchases (sales)	39,096,800
Transfers in and/or out of Level 3	75,417

Ending Balance	\$ 466,330,966
	=====
Net change in unrealized appreciation (depreciation) attributable to assets still held at end of period	\$ (101,340,147)
	=====

</TABLE>

16. NEW ACCOUNTING PRONOUNCEMENT

In March 2008, FASB issued FASB Statement No. 161, "Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133" (SFAS 161), which expands disclosures about derivative investments and hedging activities. SFAS 161 is effective for fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. The Fund is currently evaluating the impact, if any, of applying the various provisions of SFAS 161.

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Mutual Beacon Fund

SHAREHOLDER INFORMATION

BOARD REVIEW OF INVESTMENT MANAGEMENT AGREEMENT

The Board of Trustees (Board), including a majority of the independent trustees, in 2008, approved renewal of the Fund's investment management agreement, as well as the Fund's administrative services agreement. Prior to a meeting of all the trustees for the purpose of considering such renewals, the independent trustees held three meetings solely dedicated to the renewal process (those trustees unable to attend in person were present by telephonic conference means). Throughout the process, the independent trustees received assistance and advice from and met separately with independent counsel. The independent trustees met with and interviewed officers of the investment manager (including portfolio managers), the transfer agent and shareholder services group and the distributor. In approving the renewal of the investment management agreement and the administrative services agreement for the Fund, the Board, including a majority of independent trustees, determined that the existing investment management fee structure was fair and reasonable and that continuance of the agreements was in the best interests of the Fund and its shareholders.

In reaching their decision on the investment management agreement (as well as the administrative services agreement), the trustees took into account information furnished throughout the year at regular Board meetings, as well as information specifically requested and furnished for the renewal process, which culminated in the meetings referred to above for the specific purpose of considering such agreements. Information furnished throughout the year included, among others, reports on the Fund's investment performance, expenses, portfolio composition, portfolio brokerage execution, soft dollars, derivatives, securities lending, portfolio turnover, Rule 12b-1 plans, distribution, shareholder servicing, compliance, pricing of securities and sales and redemptions, along with related financial statements and other information about the scope and quality of services provided by the investment manager and its affiliates and enhancements to such services over the past year. In addition, the trustees received periodic reports throughout the year and during the renewal process relating to compliance with the Fund's investment policies and restrictions. During the renewal process, the independent trustees considered the investment manager's methods of operation within the Franklin Templeton group and its activities on behalf of other clients.

The information obtained by the trustees during the renewal process also included a special report prepared by Lipper, Inc. (Lipper), an independent third-party analyst, comparing the Fund's investment performance and expenses with those of other mutual funds deemed comparable to the Fund as selected by Lipper (Lipper Section 15(c) Report). The trustees reviewed the Lipper Section 15(c) Report and its usefulness in the renewal process with respect to matters such as comparative fees, expenses, expense ratios, performance and volatility.

They concluded that the report continues to be a reliable resource in the performance of their duties. In addition, the trustees received and reviewed a report on the investment manager's (and its parent's) profitability (Profitability Study). Over the past year, the Board and counsel to the independent trustees continued to receive reports on management's handling of recent regulatory actions and pending legal actions against the investment manager and its affiliates. The independent trustees were satisfied with the actions taken to date by management in response to such regulatory and legal proceedings.

Mutual Beacon Fund

SHAREHOLDER INFORMATION (CONTINUED)

BOARD REVIEW OF INVESTMENT MANAGEMENT AGREEMENT (CONTINUED)

In addition to the above and other matters considered by the trustees throughout the course of the year, the following discussion relates to certain primary factors relevant to the Board's decision.

NATURE, EXTENT AND QUALITY OF SERVICES. The trustees reviewed the nature, extent and quality of the services provided by the investment manager. In this regard, they reviewed the Fund's investment approach and concluded that, in their view, it continues to differentiate the Fund from typical core investment products in the mutual fund field. The trustees cited the investment manager's ability to implement the Fund's disciplined value investment approach and its long-term relationship with the Fund as reasons that shareholders choose to invest, and remain invested, in the Fund. The trustees reviewed the Fund's portfolio management team, including its performance, staffing, skills and compensation program. With respect to portfolio manager compensation, management assured the trustees that the Fund's long-term performance is a significant component of incentive-based compensation. The trustees noted that the portfolio manager compensation program aligned the interests of the portfolio managers with that of Fund shareholders. The trustees discussed with management various other products, portfolios and entities that are advised by the investment manager and the allocation of assets and expenses among and within them, as well as their relative fees and reasons for differences with respect thereto and any potential conflicts. During regular Board meetings and the aforementioned meetings of the independent trustees, the trustees received reports and presentations on the investment manager's best execution trading policies. The trustees considered periodic reports provided to them showing that the investment manager complied with the investment policies and restrictions of the Fund as well as other reports periodically furnished to the Board covering matters such as the compliance of portfolio managers and other management personnel with the code of ethics covering the investment management personnel, the adherence to fair value pricing procedures established by the Board and the accuracy of net asset value calculations. The Board noted the extent of the benefits provided to Fund shareholders from being part of the Franklin Templeton group, including the right to exchange investments between funds (same class) without a sales charge, the ability to reinvest Fund dividends into other funds and the right to combine holdings of other funds to obtain reduced sales charges. The trustees considered the significant recent efforts to develop, test and implement compliance procedures established in accordance with SEC requirements. They also reviewed the nature, extent and quality of the Fund's other service agreements to determine that, on an overall basis, Fund shareholders were well served. In this connection, the Board also took into account administrative and transfer agent and shareholder services provided to Fund shareholders by an affiliate of the investment manager, noting continuing expenditures by management to increase and improve the scope of such services, favorable periodic reports on shareholder services conducted by independent third parties and the firsthand experience of individual trustees who deal with the shareholder services group in their capacities as shareholders in one or more of the various Franklin Templeton funds. While such considerations directly affected the trustees' decision in renewing the Fund's administrative services and transfer agent and shareholder services agreement, the Board also considered these commitments as incidental benefits to Fund shareholders deriving from the investment management relationship.

Mutual Beacon Fund

SHAREHOLDER INFORMATION (CONTINUED)

BOARD REVIEW OF INVESTMENT MANAGEMENT AGREEMENT (CONTINUED)

Based on their review, the trustees were satisfied with the nature and quality

of the overall services provided by the investment manager and its affiliates to the Fund and its shareholders and were confident in the abilities of the management team to continue the disciplined value investment approach of the Fund and to provide quality services to the Fund and its shareholders.

INVESTMENT PERFORMANCE. The trustees reviewed and placed significant emphasis on the investment performance of the Fund over the one-, three-, five- and 10-year periods ended December 31, 2007. They considered the history of successful performance of the Fund relative to various benchmarks. As part of their review, they inquired of management regarding benchmarks, style drift and restrictions on permitted investments. Consideration was also given to performance in the context of available levels of cash during the periods. The trustees had meetings during the year, including the meetings referred to above held in connection with the renewal process, with the Fund's portfolio managers to discuss performance. In addition, particular attention in assessing performance was given to the Lipper Section 15(c) Report. That report showed the investment performance of the Fund (Class A shares) in comparison to other funds determined comparable by Lipper.

The comparable funds to the Fund, as chosen by Lipper, included all retail and institutional multi-cap core funds. The Fund had total returns in the second lowest performing quintile for the one-year period ended December 31, 2007, and had annualized total returns for the three- and five-year periods in the second best performing quintile. The trustees noted that the Fund's total return on an annualized basis for the 10-year period ended December 31, 2007, was in the best performing quintile and exceeded 9%, as shown in the Lipper Section 15(c) Report. In discussing the Fund's performance during 2007, management noted that the Fund's strategy of investing in event driven arbitrage situations, as well as its holdings in the financial sector, had been adversely affected by the volatility and credit turmoil existing in the market during such year, noting that it had reduced its financial sector holdings somewhat since year end. The Board was satisfied with such explanation and with the Fund's comparative performance as shown in the Lipper Section 15(c) Report noting the high rankings during both the medium- and long-term periods.

The trustees also compared Fund performance to other industry benchmarks, including measures of risk-adjusted performance of a fund, as part of their evaluation of investment performance. According to the Lipper Section 15(c) Report, the Fund's risk-adjusted performance was in Lipper's best performing quintile of peer funds for the three-, five- and 10-year periods ended December 31, 2007. The trustees concluded that the Fund had continued to perform well in comparison to its various benchmarks and in the context of the Fund's objectives.

COMPARATIVE EXPENSES AND MANAGEMENT PROFITABILITY. The trustees considered the cost of the services provided and to be provided and the profits realized by the investment manager and its affiliates from their respective relationships with the Fund. As part of the approval process, they explored with management the trends in expense ratios over the past three fiscal years. The trustees noted that the Fund's overall expense ratio has declined over such period. In considering the appropriateness of the management fee and other expenses charged the Fund, the

Mutual Beacon Fund

SHAREHOLDER INFORMATION (CONTINUED)

BOARD REVIEW OF INVESTMENT MANAGEMENT AGREEMENT (CONTINUED)

Board took into account various factors including investment performance and matters relating to Fund operations, including, but not limited to, the quality and experience of its portfolio managers and research staff and the effective investment management fee rate charged comparable accounts managed by the Fund's investment manager. The trustees noted that the effective investment management fee rates of comparable accounts managed by the investment manager were the same or higher than those charged to the Fund.

Consideration was also given to a comparative analysis in the Lipper Section 15(c) Report of the investment management fee and total expense ratios of the Fund in comparison with those of a group of other funds selected by Lipper as its appropriate Lipper expense group. Prior to making such comparison, the Board relied upon a survey showing that the scope of services covered under the Fund's investment management agreement was similar to those provided by fund managers to other mutual fund groups. In reviewing comparative costs, emphasis was given to the Fund's contractual management fee in comparison with the contractual management fee that would have been charged by other funds within its Lipper expense group assuming they were the same size as the Fund, as well as the actual total expenses of the Fund in comparison with those of its Lipper expense group. The Lipper contractual management fee analysis includes administrative charges as being part of the management fee, and total expenses, for comparative

consistency, are shown by Lipper for Fund Class A shares.

The Fund's contractual management fee rate and total expenses were in each case in the middle quintile of its Lipper expense group. The Board was satisfied with such comparative expenses.

The trustees also reviewed the Profitability Study addressing profitability of Franklin Resources, Inc., from its overall U.S. fund business, as well as profitability of the investment manager to the Fund, from providing investment management and other services to the Fund. The trustees noted that this analysis is reviewed every other year by independent accountants based on agreed-upon methodologies. The trustees reviewed the basis on which such reports are prepared and the reasonableness of the cost allocation methodology utilized in the Profitability Study. The independent trustees reviewed the investment manager's method of assignment and allocation of actual expenses to the Fund, allocations for other accounts managed by the investment manager and the method of allocations in the Profitability Study.

The independent trustees met with management to discuss the Profitability Study. This included, among other things, a comparison of investment management income with investment management expenses of the Fund; comparison of underwriting revenues and expenses; the relative relationship of investment management and underwriting expenses; shareholder servicing profitability (losses); economies of scale; and the relative contribution of the Fund to the profitability of the investment manager and its parent. In discussing the Profitability Study with the Board, the investment manager stated its belief that the costs incurred in establishing the infrastructure necessary to operate the type of mutual fund operations conducted by it and its affiliates may not be fully reflected in the expenses allocated to the Fund in determining its profitability.

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Mutual Beacon Fund

SHAREHOLDER INFORMATION (CONTINUED)

BOARD REVIEW OF INVESTMENT MANAGEMENT AGREEMENT (CONTINUED)

The trustees considered an additional Lipper study analyzing the profitability of the parent of the investment manager as compared to other publicly held investment managers, which also aided the trustees in considering profitability outside the context of distribution. The Board also took into account management's expenditures in improving shareholder services provided to the Funds, as well as the need to meet additional regulatory and compliance requirements resulting from the Sarbanes-Oxley Act and recent SEC and other regulatory requirements. The trustees also considered the extent to which the investment manager may derive ancillary benefits from Fund operations, including those derived from economies of scale, discussed below, the allocation of Fund brokerage and the use of commission dollars to pay for research and other similar services. The Board noted the interest an affiliate of the investment manager has in a joint venture that financed up-front commissions paid to brokers/dealers who sold Fund Class B shares, noting that the Fund has ceased offering Class B shares and the benefits derived from the Fund as a result of this arrangement will diminish over time.

Based upon their consideration of all these factors, the trustees determined that the level of profits realized by the manager and its affiliates in providing services to the Fund was not excessive in view of the nature, quality and extent of services provided.

ECONOMIES OF SCALE. The Board considered economies of scale realized by the investment manager and its affiliates as the Fund grows larger and the extent to which they are shared with Fund shareholders, as for example, in the level of the investment management fee charged, in the quality and efficiency of services rendered and in increased capital commitments benefiting the Fund directly or indirectly. The trustees noted that, based upon the Profitability Study, as some funds increase in size, at some point economies of scale may result in the investment manager realizing a larger profit margin on investment management services provided such a fund. The trustees also noted that benefits of economies of scale will be shared with Fund shareholders due to the decline in the effective investment management fee rate as breakpoints are achieved by the Fund.

The trustees assessed the savings from the breakpoints that were instituted as part of the Fund's investment management fee in 2004 and noted that, as a result of the breakpoints, the Fund and its shareholders experienced savings. The trustees believed that the breakpoints approved in 2004 were, and continue to be, appropriate and they agreed to continue to monitor the appropriateness of the breakpoints. The trustees also considered the effects a continued increase in assets under management would have on the investment management fee of the Fund. To the extent further economies of scale may be realized by the investment manager and its affiliates, the Board believed the investment management and

administrative fees provide a sharing of benefits with the Fund and its shareholders.

Mutual Beacon Fund

SHAREHOLDER INFORMATION (CONTINUED)

PROXY VOTING POLICIES AND PROCEDURES

The Fund's investment manager has established Proxy Voting Policies and Procedures (Policies) that the Fund uses to determine how to vote proxies relating to portfolio securities. Shareholders may view the Fund's complete Policies online at franklintempleton.com. Alternatively, shareholders may request copies of the Policies free of charge by calling the Proxy Group collect at 1-954/527-7678 or by sending a written request to: Franklin Templeton Companies, LLC, 500 East Broward Boulevard, Suite 1500, Fort Lauderdale, FL 33394, Attention: Proxy Group. Copies of the Fund's proxy voting records are also made available online at franklintempleton.com and posted on the U.S. Securities and Exchange Commission's website at sec.gov and reflect the most recent 12-month period ended June 30.

QUARTERLY STATEMENT OF INVESTMENTS

The Fund files a complete statement of investments with the U.S. Securities and Exchange Commission for the first and third quarters for each fiscal year on Form N-Q. Shareholders may view the filed Form N-Q by visiting the Commission's website at sec.gov. The filed form may also be viewed and copied at the Commission's Public Reference Room in Washington, DC. Information regarding the operations of the Public Reference Room may be obtained by calling 1-800/SEC-0330.

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To ensure the highest quality of service, telephone calls to or from our service departments may be monitored, recorded and accessed. These calls can be

identified by the presence of a regular beeping tone.

476 S2009 08/08

JUNE 30, 2008

(GRAPHIC)

SEMIANNUAL REPORT AND SHAREHOLDER LETTER

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Franklin - Templeton - MUTUAL SERIES

Semiannual Report

Mutual Discovery Fund

YOUR FUND'S GOAL AND MAIN INVESTMENTS: Mutual Discovery Fund seeks capital appreciation by investing primarily in equity securities of companies of any nation the Fund's managers believe are at prices below their intrinsic value. The Fund may invest up to 100% of its assets in foreign securities.

This semiannual report for Mutual Discovery Fund covers the period ended June 30, 2008.

PERFORMANCE OVERVIEW

PERFORMANCE DATA REPRESENT PAST PERFORMANCE, WHICH DOES NOT GUARANTEE FUTURE RESULTS. INVESTMENT RETURN AND PRINCIPAL VALUE WILL FLUCTUATE, AND YOU MAY HAVE A GAIN OR LOSS WHEN YOU SELL YOUR SHARES. CURRENT PERFORMANCE MAY DIFFER FROM FIGURES SHOWN. PLEASE VISIT FRANKLINTEMPLETON.COM OR CALL 1-800/342-5236 FOR MOST RECENT MONTH-END PERFORMANCE.

Mutual Discovery Fund - Class Z had a -9.86% cumulative total return for the six months ended June 30, 2008. The Fund performed better than its benchmarks, the Standard & Poor's 500 Index (S&P 500) and the Morgan Stanley Capital International (MSCI) World Index, which had -11.91% and -10.25% total returns for the same period.(1) You can find the Fund's long-term performance data in the Performance Summary beginning on page 11.

ECONOMIC AND MARKET OVERVIEW

During the first half of 2008, the U.S. economy grew marginally as energy prices rose, housing prices declined, the labor situation and consumer demand softened, and a credit crisis originally related to U.S. subprime loan losses spread globally. Some economists speculated whether the U.S. would enter a recession while others believed one was already under way. Many agreed, however, that the slowing U.S. economy -- which is the world's largest and accounts for roughly 25% of global gross domestic product -- could have a meaningfully negative impact on growth prospects around the world.(2) Nevertheless, growth remained relatively strong in developing economies, particularly in Asia where China-led demand continued to impact commodities' prices and related equities.

(1.) Source: (C) 2008 Morningstar. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. The S&P 500 consists of 500 stocks chosen for market size, liquidity and industry group representation. Each stock's weight in the index is proportionate to its market value. The S&P 500 is one of the most widely used benchmarks of U.S. equity performance. The MSCI World Index is a free float-adjusted, market capitalization-weighted index designed to measure equity market performance in global developed markets. The indexes are unmanaged and include reinvested dividends. One cannot invest directly in an index, nor is an index representative of the Fund's portfolio.

(2.) Source: Global Insight.

THE DOLLAR VALUE, NUMBER OF SHARES OR PRINCIPAL AMOUNT, AND NAMES OF ALL PORTFOLIO HOLDINGS ARE LISTED IN THE FUND'S STATEMENT OF INVESTMENTS (SOI). THE SOI BEGINS ON PAGE 21.

In the six months under review, prices increased significantly for oil, natural gas, and most agricultural and industrial commodities, as well as for precious metals, adding to global inflationary pressures. Many of the world's monetary authorities faced the choice between lowering short-term interest rates to stimulate growth and raising them to fight inflation, which Merrill Lynch estimated at 5.5% globally at the end of June, up from 3.5% at the beginning of 2008. The U.S. focused on reigniting its economy through fiscal and monetary policies, but the eurozone made controlling inflation its main goal. Accordingly, while the U.S. Federal Reserve Board (Fed) eased rates aggressively down to 2.00% from 4.25%, the European Central Bank maintained rates at 4.00%. Overall, rising inflation led more than three-quarters of the world's central banks to raise rates as of the end of June, according to Merrill Lynch's estimate. Interest rate differentials pressured the U.S. dollar, particularly in the first quarter, but the greenback regained ground as the Fed paused and implied that its next move could be a rate hike. Indicators also signaled growth was slowing outside the U.S. For the period, however, the U.S. dollar declined versus many of the world's currencies, and the dollar's weakness contributed to higher commodities' prices, as most of these prices are set in U.S. dollars.

Against this challenging economic backdrop, many global equity markets were volatile, and a majority of them declined over the six-month period. Despite negative economic data and an outlook for decelerating corporate earnings and profit margins globally, many companies' balance sheets remained relatively strong. Many financial institutions were hurt by their subprime loan exposure, but abundant global liquidity sources such as sovereign wealth funds offered some relief with quick recapitalizations during the period.

INVESTMENT STRATEGY

At Mutual Series, we are committed to our distinctive value approach to investing, which we believe can generate above-average risk-adjusted returns over time for our shareholders. Our major investment strategy is investing in undervalued stocks. When selecting undervalued equities, we are always attracted to fundamentally strong companies with healthy balance sheets, high-quality assets, substantial free cash flow and shareholder-oriented management teams and whose stocks are trading at discounts to our assessment of the companies' intrinsic or business value. We also look for asset rich companies whose shares may be trading at depressed levels due to concerns over short-term earnings disappointments, litigation, management strategy or other perceived negatives. This strict value approach is not only intended to improve

GEOGRAPHIC BREAKDOWN

Based on Total Net Assets as of 6/30/08

(BAR CHART)

<S>	<C>
U.S.	17.0%
France	11.4%
U.K.	8.4%
Germany	5.7%
South Korea	4.9%
Switzerland	4.5%
Norway	4.3%
Hong Kong	4.1%
Denmark	3.8%
Japan	2.4%
Italy	1.9%
Bermuda	1.9%
Netherlands	1.5%
Belgium	1.2%
Other	4.7%
Short-Term Investments & Other Net Assets	22.3%

the likelihood of upside potential, but it is also intended to reduce the risk of substantial declines. While the vast majority of our undervalued equity investments are made in publicly traded companies globally, we may invest occasionally in privately held companies as well.

TOP 10 SECTORS/INDUSTRIES

Based on Equity Securities as of 6/30/08

<TABLE>
<CAPTION>

% OF TOTAL
NET ASSETS

<S>	<C>
Tobacco	10.4%
Food Products	6.9%
Beverages	6.4%
Commercial Banks	6.4%
Industrial Conglomerates	5.3%
Insurance	5.2%
Energy Equipment & Services	5.2%
Media	4.8%
Real Estate	2.6%
Diversified Financial Services	2.4%

We complement this more traditional investment strategy with two others. One is distressed investing, a highly specialized field that has proven quite profitable during certain periods over the years. Distressed investing is complex and can take many forms. The most common distressed investment the Fund undertakes is the purchase of financially troubled or bankrupt companies' debt at a substantial discount to face value. After the financially distressed company is reorganized, often in bankruptcy court, the old debt is typically replaced with new securities issued by the financially stronger company.

The other piece of our investment strategy is participating in arbitrage situations, another highly specialized field. When companies announce proposed mergers or takeovers, commonly referred to as "deals," the target company may trade at a discount to the bid it ultimately accepts. One form of arbitrage involves purchasing the target company's stock when it is trading below the value it would receive in a deal. In keeping with our commitment to a relatively conservative investment approach, we typically focus our arbitrage efforts on announced deals, and eschew rumored deals or other situations we consider relatively risky.

In addition, we will generally seek to hedge the Fund's currency exposure when we deem it advantageous for our shareholders.

MANAGER'S DISCUSSION

Some of the Fund's top contributors to performance were broad equity market index put options, which allow holders to profit if the market declines within a preset period of time. The Fund began purchasing such options in May 2007 and held a position throughout the reporting period. Purchased to hedge our equity investments from the broader market's downdrafts, the options contributed to Fund performance and helped offset some of the broad equity market's negative impact on other portfolio securities. Among the Fund's best performing individual stock investments were those exposed to the cyclically strong commodities markets, including Kloeckner & Co., a trader and distributor of steel and metal-based products, and Seadrill, a Norwegian oil and gas drilling company. KT&G, a South Korean tobacco and ginseng producer, also was a significant contributor to the Fund's performance.

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Shares of Germany-based Kloeckner, the largest independent distributor of steel and metal-based products, advanced nearly 36% in local currency during the six-month period. Industry-wide tight inventories and unprecedented steel price increases in Europe and the U.S. drove Kloeckner's earnings and projections significantly higher. Kloeckner beat market expectations in 2008's first quarter, and with earnings growth seemingly accelerating in the second quarter, company management upgraded its overall earnings guidance for fiscal year 2008. In the meantime, Kloeckner continued to consolidate the industry by making value-accretive acquisitions in the U.S. and Switzerland.

Seadrill shares rose almost 21% in local currency in the first half of 2008 driven by several positive developments. As oil prices reached record highs, the market remained tight for ultra-deepwater oil exploration and production vessels. The company was able to lease three of its 15 ultra-deepwater vessels to Brazilian oil company Petrobras for an unusually long period of six years, and at day rates that approached \$600,000. These contracts exceeded many analysts' expectations. In addition, Seadrill began to sell and lease back some of its fleet, solidifying its ability to pay dividends. The company started paying a dividend in the second quarter of 2008, which was earlier than investors had expected. Furthermore, we believe there is potential for future dividends to increase considering some analysts estimated that as the sale and lease-back program progresses, Seadrill could pay cumulative dividends of up to 120 Norwegian krone per share through 2012, or approximately 77% of its 155.75 krone share price on June 30, 2008. Also during the period, the company ordered several new rigs, scheduled for delivery in 2010. Investors viewed this

development as a signal of management's confidence that the cycle could last longer than initially expected. Finally, some experts have suggested that Brazil's new oil discoveries in the Atlantic Ocean's Santos Basin could require up to 45 ultra-deep rigs, which is three times larger than Seadrill's current ultra-deep offshore rig fleet, already the largest such portfolio in the world.

The share price of leading South Korean tobacco company KT&G appreciated 13% in local currency terms. It benefited from stable raw materials costs and resilient domestic cigarette consumption, as consumer demand has been fairly inelastic. There was also no threat of a tax hike for its products, nor a decrease in volumes. KT&G's growing ginseng business continued to be robust due to high demand for healthy products and expansion of distribution channels. Related sales grew at double-digit rates with high profit margins. The company also continued its shareholder-friendly policy of returning cash to shareholders. Despite its strong fundamentals, KT&G stock generally traded below its global peer group, which prompted many analysts to recommend KT&G among their top picks.

TOP 10 HOLDINGS
6/30/08

COMPANY SECTOR/INDUSTRY, COUNTRY -----	% OF TOTAL NET ASSETS -----
<S>	<C>
Carlsberg AS, A & B BEVERAGES, DENMARK	3.0%
Imperial Tobacco Group PLC TOBACCO, U.K.	2.7%
KT&G Corp. TOBACCO, SOUTH KOREA	2.7%
British American Tobacco PLC TOBACCO, U.K.	2.3%
Pernod Ricard SA BEVERAGES, FRANCE	1.7%
Orkla ASA INDUSTRIAL CONGLOMERATES, NORWAY	1.7%
Carrefour SA FOOD & STAPLES RETAILING, FRANCE	1.6%
Seadrill Ltd. ENERGY EQUIPMENT & SERVICES, BERMUDA	1.5%
Japan Tobacco Inc. TOBACCO, JAPAN	1.4%
Berkshire Hathaway Inc., A & B INSURANCE, U.S.	1.4%

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Unfortunately, the Fund was not immune to the widespread crisis in the financial services sector, which includes two of our biggest detractors from overall performance, Belgian bank Fortis and German securities exchange platform provider Deutsche Boerse. Norwegian conglomerate Orkla's share price also dropped significantly.

Fortis shares fell more than 40% in local currency during the first half of 2008 as banks suffered globally due to the ongoing U.S. subprime mortgage crisis and deceleration of the U.S. and European economies. In addition, Fortis' stock dropped as the company unexpectedly raised capital to strengthen its balance sheet after the sale of non-core assets failed to generate expected proceeds.

Shares of Frankfurt-based Deutsche Boerse fell on investor concerns about declining equity and derivatives trade volumes on the exchanges it operates. Despite overall growth in revenues and earnings, the company subsequently confirmed the drop in equity volumes and decelerating derivatives trading growth rates. Thus, Deutsche Boerse shares lost almost 46% in local currency for the six months under review.

Orkla reported good core operating results in 2008's first quarter while its management continued to refocus the company by selling its remaining media assets and its eastern European food operations, which had below-average profitability. However, those positive developments were offset by a 52% decline in local currency of Renewable Energy Corp. (REC), a company in which Orkla owns a stake of just under 40%. REC's stock price declined after it provided operating profit, capital expenditure and production start-up guidance for 2008 that failed to meet market expectations. The fall in REC shares contributed to a nearly 36% price decline in local currency for Orkla shares.

Finally, investors should note that we maintained our currency hedging posture of being generally hedged to the U.S. dollar for most of our non-U.S. holdings.

Since the dollar was weaker compared with most foreign currencies during the first half of 2008, the Fund benefited slightly by not being fully hedged.

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Thank you for your continued participation in Mutual Discovery Fund. We look forward to serving your future investment needs.

(PHOTO OF ANNE E. GUDEFIN)

/s/ Anne E. Gudefin
Anne E. Gudefin, CFA
Co-Portfolio Manager

(PHOTO OF CHARLES M. LAHR)

/s/ Charles M. Lahr
Charles M. Lahr, CFA
Co-Portfolio Manager

(PHOTO OF MANDANA HORMOZI)

/s/ Mandana Hormozi
Mandana Hormozi
Assistant Portfolio Manager

Mutual Discovery Fund

THE FOREGOING INFORMATION REFLECTS OUR ANALYSIS, OPINIONS AND PORTFOLIO HOLDINGS AS OF JUNE 30, 2008, THE END OF THE REPORTING PERIOD. THE WAY WE IMPLEMENT OUR MAIN INVESTMENT STRATEGIES AND THE RESULTING PORTFOLIO HOLDINGS MAY CHANGE DEPENDING ON FACTORS SUCH AS MARKET AND ECONOMIC CONDITIONS. THESE OPINIONS MAY NOT BE RELIED UPON AS INVESTMENT ADVICE OR AN OFFER FOR A PARTICULAR SECURITY. THE INFORMATION IS NOT A COMPLETE ANALYSIS OF EVERY ASPECT OF ANY MARKET, COUNTRY, INDUSTRY, SECURITY OR THE FUND. STATEMENTS OF FACT ARE FROM SOURCES CONSIDERED RELIABLE, BUT THE INVESTMENT MANAGER MAKES NO REPRESENTATION OR WARRANTY AS TO THEIR COMPLETENESS OR ACCURACY. ALTHOUGH HISTORICAL PERFORMANCE IS NO GUARANTEE OF FUTURE RESULTS, THESE INSIGHTS MAY HELP YOU UNDERSTAND OUR INVESTMENT MANAGEMENT PHILOSOPHY.

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ANNE GUDEFIN has been portfolio manager for Mutual Discovery Fund since 2005. She is also portfolio manager for Mutual Qualified Fund, and has been a member of the management team of the Funds since 2000, when she joined Franklin Templeton Investments. Previously, she was an analyst at Perry Capital.

CHARLES LAHR has been portfolio manager for Mutual Discovery Fund since 2007. He has also been portfolio manager for Mutual Financial Services Fund since 2004. He joined Franklin Templeton Investments in 2003. Previously, he was a senior analyst for the State of Wisconsin Investment Board and also worked for U.S. Bancorp and Principal Financial Group.

MANDANA HORMOZI has been assistant portfolio manager for Mutual Discovery Fund since 2007. She joined Franklin Templeton Investments in 2003. Previously, she was a senior vice president in the equity research department at Lazard Freres. Also, she was an economic research analyst at Mitsubishi Bank.

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Performance Summary as of 6/30/08

Your dividend income will vary depending on dividends or interest paid by securities in the Fund's portfolio, adjusted for operating expenses of each class. Capital gain distributions are net profits realized from the sale of portfolio securities. The performance table does not reflect any taxes that a shareholder would pay on Fund dividends, capital gain distributions, if any, or any realized gains on the sale of Fund shares. Total return reflects reinvestment of the Fund's dividends and capital gain distributions, if any, and any unrealized gains or losses.

PRICE INFORMATION

<TABLE> <CAPTION>			
CLASS Z (SYMBOL: MDISX)	CHANGE	6/30/08	12/31/07
<S>	<C>	<C>	<C>
Net Asset Value (NAV)	-\$ 3.20	\$29.25	\$32.45

<TABLE> <CAPTION>			
CLASS A (SYMBOL: TEDIX)	CHANGE	6/30/08	12/31/07
<S>	<C>	<C>	<C>
Net Asset Value (NAV)	-\$ 3.19	\$28.90	\$32.09

<TABLE> <CAPTION>			
CLASS B (SYMBOL: TEDBX)	CHANGE	6/30/08	12/31/07
<S>	<C>	<C>	<C>
Net Asset Value (NAV)	-\$ 3.24	\$28.22	\$31.46

<TABLE> <CAPTION>			
CLASS C (SYMBOL: TEDSX)	CHANGE	6/30/08	12/31/07
<S>	<C>	<C>	<C>
Net Asset Value (NAV)	-\$ 3.28	\$28.56	\$31.84

<TABLE> <CAPTION>			
CLASS R (SYMBOL: TEDRX)	CHANGE	6/30/08	12/31/07
<S>	<C>	<C>	<C>
Net Asset Value (NAV)	-\$ 3.20	\$28.65	\$31.85

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Performance Summary (CONTINUED)

PERFORMANCE

CUMULATIVE TOTAL RETURN EXCLUDES SALES CHARGES. AVERAGE ANNUAL TOTAL RETURN AND VALUE OF \$10,000 INVESTMENT INCLUDE MAXIMUM SALES CHARGES. CLASS Z/R: NO SALES CHARGES; CLASS A: 5.75% MAXIMUM INITIAL SALES CHARGE; CLASS B: CONTINGENT DEFERRED SALES CHARGE (CDSC) DECLINING FROM 4% TO 1% OVER SIX YEARS, AND ELIMINATED THEREAFTER; CLASS C: 1% CDSC IN FIRST YEAR ONLY. UNTIL AUGUST 31, 2008, THE FUND MAY CHARGE A 2% FEE ON REDEMPTIONS MADE WITHIN SEVEN DAYS OF PURCHASE.

<TABLE> <CAPTION>				
CLASS Z (1)	6-MONTH	1-YEAR	5-YEAR	10-YEAR
<S>	<C>	<C>	<C>	<C>
Cumulative Total Return(2)	-9.86%	-11.11%	+102.49%	+159.25%
Average Annual Total Return(3)	-9.86%	-11.11%	+15.15%	+9.99%
Value of \$10,000 Investment(4)	\$9,014	\$ 8,889	\$ 20,249	\$ 25,925
Total Annual Operating Expenses(5)		1.01%		

<TABLE> <CAPTION>				
CLASS A (1)	6-MONTH	1-YEAR	5-YEAR	10-YEAR
<S>	<C>	<C>	<C>	<C>
Cumulative Total Return(2)	-9.94%	-11.39%	+99.27%	+150.46%
Average Annual Total Return(3)	-15.12%	-16.48%	+13.43%	+8.97%
Value of \$10,000 Investment(4)	\$ 8,488	8,352	\$18,781	\$ 23,610
Total Annual Operating Expenses(5)		1.32%		

<TABLE> <CAPTION>				
CLASS B (1)	6-MONTH	1-YEAR	5-YEAR	INCEPTION (1/1/99)

	<C>	<C>	<C>	<C>
Cumulative Total Return(2)	-10.30%	-12.00%	+92.66%	+171.96%
Average Annual Total Return(3)	-13.89%	-15.40%	+13.78%	+11.11%
Value of \$10,000 Investment(4)	\$ 8,611	\$ 8,460	\$19,066	\$27,196
Total Annual Operating Expenses(5)	2.01%			

CLASS C(1)	6-MONTH	1-YEAR	5-YEAR	10-YEAR
Cumulative Total Return(2)	-10.30%	-12.01%	+92.67%	+134.59%
Average Annual Total Return(3)	-11.20%	-12.86%	+14.02%	+8.90%
Value of \$10,000 Investment(4)	\$ 8,880	\$ 8,714	\$19,267	\$ 23,459
Total Annual Operating Expenses(5)	2.01%			

CLASS R	6-MONTH	1-YEAR	5-YEAR	INCEPTION (1/1/02)
Cumulative Total Return(2)	-10.05%	-11.53%	+97.60%	+98.26%
Average Annual Total Return(3)	-10.05%	-11.53%	+14.59%	+11.12%
Value of \$10,000 Investment(4)	\$ 8,995	\$ 8,847	\$19,760	\$19,826
Total Annual Operating Expenses(5)	1.51%			

PERFORMANCE DATA REPRESENT PAST PERFORMANCE, WHICH DOES NOT GUARANTEE FUTURE RESULTS. INVESTMENT RETURN AND PRINCIPAL VALUE WILL FLUCTUATE, AND YOU MAY HAVE A GAIN OR LOSS WHEN YOU SELL YOUR SHARES. CURRENT PERFORMANCE MAY DIFFER FROM FIGURES SHOWN. FOR MOST RECENT MONTH-END PERFORMANCE, SEE "FUNDS AND PERFORMANCE" AT FRANKLINTEMPLETON.COM OR CALL 1-800/342-5236.

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Performance Summary (CONTINUED)

ENDNOTES

VALUE SECURITIES MAY NOT INCREASE IN PRICE AS ANTICIPATED OR MAY DECLINE FURTHER IN VALUE. THE FUND'S INVESTMENTS IN FOREIGN SECURITIES INVOLVE CERTAIN RISKS INCLUDING CURRENCY FLUCTUATIONS, AND ECONOMIC AND POLITICAL UNCERTAINTIES. SMALLER-COMPANY STOCKS HAVE EXHIBITED GREATER PRICE VOLATILITY THAN LARGER-COMPANY STOCKS, PARTICULARLY OVER THE SHORT TERM. FOREIGN SECURITIES RISKS INCLUDE EXPOSURE TO CURRENCY VOLATILITY AND POLITICAL, ECONOMIC AND REGULATORY UNCERTAINTY. THE FUND'S INVESTMENTS IN COMPANIES ENGAGED IN MERGERS, REORGANIZATIONS OR LIQUIDATIONS ALSO INVOLVE SPECIAL RISKS AS PENDING DEALS MAY NOT BE COMPLETED ON TIME OR ON FAVORABLE TERMS. THE FUND MAY INVEST IN LOWER-RATED BONDS, WHICH ENTAIL HIGHER CREDIT RISK. THE FUND'S PROSPECTUS ALSO INCLUDES A DESCRIPTION OF THE MAIN INVESTMENT RISKS.

CLASS Z: Shares are available to certain eligible investors as described in the prospectus.

CLASS A: Prior to 8/3/98, these shares were offered at a lower initial sales charge; thus actual total returns may differ.

CLASS B: These shares have higher annual fees and expenses than Class A shares.

CLASS C: Prior to 1/1/04, these shares were offered with an initial sales charge; thus actual total returns would have differed. These shares have higher annual fees and expenses than Class A shares.

CLASS R: Shares are available to certain eligible investors as described in the prospectus. These shares have higher annual fees and expenses than Class A shares.

1. Past expense reductions by the Fund's manager increased the Fund's total returns. If the manager had not taken this action, the Fund's total returns would have been lower.
2. Cumulative total return represents the change in value of an investment over the periods indicated.
3. Average annual total return represents the average annual change in value of an investment over the periods indicated. Six-month return has not been annualized.

4. These figures represent the value of a hypothetical \$10,000 investment in the Fund over the periods indicated. 5. Figures are as stated in the Fund's prospectus current as of the date of this report.

Your Fund's Expenses

As a Fund shareholder, you can incur two types of costs:

- Transaction costs, including sales charges (loads) on Fund purchases and redemption fees; and
- Ongoing Fund costs, including management fees, distribution and service (12b-1) fees, and other Fund expenses. All mutual funds have ongoing costs, sometimes referred to as operating expenses.

The following table shows ongoing costs of investing in the Fund and can help you understand these costs and compare them with those of other mutual funds. The table assumes a \$1,000 investment held for the six months indicated.

ACTUAL FUND EXPENSES

The first line (Actual) for each share class listed in the table provides actual account values and expenses. The "Ending Account Value" is derived from the Fund's actual return, which includes the effect of Fund expenses.

You can estimate the expenses you paid during the period by following these steps. OF COURSE, YOUR ACCOUNT VALUE AND EXPENSES WILL DIFFER FROM THOSE IN THIS ILLUSTRATION:

1. Divide your account value by \$1,000.
IF AN ACCOUNT HAD AN \$8,600 VALUE, THEN $\$8,600 / \$1,000 = 8.6$.
2. Multiply the result by the number under the heading "Expenses Paid During Period."
IF EXPENSES PAID DURING PERIOD WERE \$7.50, THEN $8.6 \times \$7.50 = \64.50 .

In this illustration, the estimated expenses paid this period are \$64.50.

HYPOTHETICAL EXAMPLE FOR COMPARISON WITH OTHER FUNDS

Information in the second line (Hypothetical) for each class in the table can help you compare ongoing costs of investing in the Fund with those of other mutual funds. This information may not be used to estimate the actual ending account balance or expenses you paid during the period. The hypothetical "Ending Account Value" is based on the Fund's actual expense ratio for each class and an assumed 5% annual rate of return before expenses, which does not represent the Fund's actual return. The figure under the heading "Expenses Paid During Period" shows the hypothetical expenses your account would have incurred under this scenario. You can compare this figure with the 5% hypothetical examples that appear in shareholder reports of other funds.

Your Fund's Expenses (CONTINUED)

PLEASE NOTE THAT EXPENSES SHOWN IN THE TABLE ARE MEANT TO HIGHLIGHT ONGOING COSTS AND DO NOT REFLECT ANY TRANSACTION COSTS, SUCH AS SALES CHARGES OR REDEMPTION FEES. Therefore, the second line for each class is useful in comparing ongoing costs only, and will not help you compare total costs of owning different funds. In addition, if transaction costs were included, your total costs would have been higher. Please refer to the Fund prospectus for additional information on operating expenses.

<TABLE>
<CAPTION>

	BEGINNING ACCOUNT VALUE 1/1/08	ENDING ACCOUNT VALUE 6/30/08	EXPENSES PAID DURING PERIOD* 1/1/08-6/30/08
<S>	<C>	<C>	<C>
CLASS Z			
Actual	\$1,000	\$ 901.40	\$ 4.77
Hypothetical (5% return before expenses)	\$1,000	\$1,019.84	\$ 5.07
CLASS A			
Actual	\$1,000	\$ 900.60	\$ 6.10
Hypothetical (5% return before expenses)	\$1,000	\$1,018.45	\$ 6.47

CLASS B			
Actual	\$1,000	\$ 897.00	\$ 9.48
Hypothetical (5% return before expenses)	\$1,000	\$1,014.87	\$10.07
CLASS C			
Actual	\$1,000	\$ 897.00	\$ 9.43
Hypothetical (5% return before expenses)	\$1,000	\$1,014.92	\$10.02
CLASS R			
Actual	\$1,000	\$ 899.50	\$ 7.13
Hypothetical (5% return before expenses)	\$1,000	\$1,017.35	\$ 7.57

* Expenses are calculated using the most recent six-month expense ratio, annualized for each class (Z: 1.01%; A: 1.29%; B: 2.01%; C: 2.00%; and R: 1.51%) multiplied by the average account value over the period, multiplied by 182/366 to reflect the one-half year period.

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Mutual Discovery Fund

FINANCIAL HIGHLIGHTS

CLASS Z	SIX MONTHS ENDED YEAR ENDED DECEMBER 31,					
	MONTHS ENDED JUNE 30, 2008 (UNAUDITED)	2007	2006	2005	2004	2003
<S>	<C>	<C>	<C>	<C>	<C>	<C>
PER SHARE OPERATING PERFORMANCE						
(for a share outstanding throughout the period)						
Net asset value, beginning of period	\$ 32.45	\$ 30.45	\$ 26.28	\$ 24.26	\$ 20.81	\$ 16.16
Income from investment operations(a):						
Net investment income(b)	0.40	0.69	0.67	0.37	0.41	0.28
Net realized and unrealized gains (losses)	(3.60)	2.76	5.36	3.43	3.58	4.80
Total from investment operations	(3.20)	3.45	6.03	3.80	3.99	5.08
Less distributions from:						
Net investment income	--	(0.74)	(0.63)	(0.44)	(0.54)	(0.43)
Net realized gains	--	(0.71)	(1.23)	(1.34)	--	--
Total distributions	--	(1.45)	(1.86)	(1.78)	(0.54)	(0.43)
Redemption fees	-- (c)	-- (c)	-- (c)	-- (c)	-- (c)	--
Net asset value, end of period	\$ 29.25	\$ 32.45	\$ 30.45	\$ 26.28	\$ 24.26	\$ 20.81
Total return(d)	(9.86)%	11.32%	23.43%	15.70%	19.39%	31.55%
RATIOS TO AVERAGE NET ASSETS (e)						
Expenses(f)	1.01%(g)	1.01%(g)	1.05%(g)	1.07%(g)	1.07%(g)	1.11%
Expenses - excluding dividend expense on securities sold short	1.00%(g)	1.01%(g)	1.02%(g)	1.04%(g)	1.06%(g)	1.08%
Net investment income	2.63%	2.09%	2.28%	1.42%	1.87%	1.55%
SUPPLEMENTAL DATA						
Net assets, end of period (000's)	\$4,245,715	\$4,720,388	\$3,923,802	\$3,033,756	\$2,578,585	\$2,168,161
Portfolio turnover rate	6.14%	25.12%	22.27%	25.69%	34.34%	46.34%

(a) The amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations for the period due to 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) Amount rounds to less than \$0.01 per share.

(d) Total return is not annualized for periods less than one year.

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

(f) Includes dividend expense on securities sold short which varies from period to period. See below for expense ratios that reflect only operating expenses.

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

Mutual Discovery Fund

FINANCIAL HIGHLIGHTS (CONTINUED)

<TABLE>
<CAPTION>

CLASS A	SIX	YEAR ENDED DECEMBER 31,				
	MONTHS ENDED JUNE 30, 2008 (UNAUDITED)	2007	2006	2005	2004	2003
<S>	<C>	<C>	<C>	<C>	<C>	<C>
PER SHARE OPERATING PERFORMANCE (for a share outstanding throughout the period)						
Net asset value, beginning of period	\$ 32.09	\$ 30.14	\$ 26.04	\$ 24.07	\$ 20.67	\$ 16.06
Income from investment operations(a):						
Net investment income(b)	0.35	0.58	0.55	0.27	0.33	0.21
Net realized and unrealized gains (losses)	(3.54)	2.73	5.34	3.41	3.54	4.78
Total from investment operations	(3.19)	3.31	5.89	3.68	3.87	4.99
Less distributions from:						
Net investment income	--	(0.65)	(0.56)	(0.37)	(0.47)	(0.38)
Net realized gains	--	(0.71)	(1.23)	(1.34)	--	--
Total distributions	--	(1.36)	(1.79)	(1.71)	(0.47)	(0.38)
Redemption fees	-- (c)	-- (c)	-- (c)	-- (c)	-- (c)	--
Net asset value, end of period	\$ 28.90	\$ 32.09	\$ 30.14	\$ 26.04	\$ 24.07	\$ 20.67
Total return(d)	(9.94)%	10.96%	23.02%	15.29%	18.98%	31.13%
RATIOS TO AVERAGE NET ASSETS(e)						
Expenses(f)	1.29% (g)	1.32% (g)	1.36% (g)	1.42% (g)	1.42% (g)	1.46%
Expenses - excluding dividend expense on securities sold short	1.28% (g)	1.32% (g)	1.33% (g)	1.39% (g)	1.41% (g)	1.43%
Net investment income	2.35%	1.78%	1.97%	1.07%	1.52%	1.20%
SUPPLEMENTAL DATA						
Net assets, end of period (000's)	\$8,133,129	\$8,913,527	\$6,128,353	\$3,545,288	\$2,106,695	\$1,439,579
Portfolio turnover rate	6.14%	25.12%	22.27%	25.69%	34.34%	46.34%

</TABLE>

- (a) The amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations for the period due to 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) Amount rounds to less than \$0.01 per share.
- (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. eRatios are annualized for periods less than one year.
- (f) Includes dividend expense on securities sold short which varies from period to period. See below for expense ratios that reflect only operating expenses.
- (g) Benefit of expense reduction rounds to less than 0.01%.

The accompanying notes are an integral part of these financial statements.

Mutual Discovery Fund

FINANCIAL HIGHLIGHTS (CONTINUED)

<TABLE>

<CAPTION>

CLASS B ----- <S>	SIX MONTHS ENDED JUNE 30, 2008 (UNAUDITED)						YEAR ENDED DECEMBER 31,					
	2007		2006		2005		2004		2003			
PER SHARE OPERATING PERFORMANCE (for a share outstanding throughout the period)	<C>		<C>		<C>		<C>		<C>			
Net asset value, beginning of period	\$ 31.46	\$ 29.55	\$ 25.57	\$ 23.67	\$ 20.35	\$ 15.85						
Income from investment operations(a):												
Net investment income(b)	0.23	0.36	0.38	0.11	0.18	0.09						
Net realized and unrealized gains (losses)	(3.47)	2.67	5.19	3.33	3.49	4.69						
Total from investment operations	(3.24)	3.03	5.57	3.44	3.67	4.78						
Less distributions from:												
Net investment income	--	(0.41)	(0.36)	(0.20)	(0.35)	(0.28)						
Net realized gains	--	(0.71)	(1.23)	(1.34)	--	--						
Total distributions	--	(1.12)	(1.59)	(1.54)	(0.35)	(0.28)						
Redemption fees	--(c)	--(c)	--(c)	--(c)	--(c)	--						
Net asset value, end of period	\$ 28.22	\$ 31.46	\$ 29.55	\$ 25.57	\$ 23.67	\$ 20.35						
Total return(d)	(10.30)%	10.22%	22.16%	14.59%	18.22%	30.22%						
RATIOS TO AVERAGE NET ASSETS (e)												
Expenses(f)	2.01%(g)	2.01%(g)	2.05%(g)	2.07%(g)	2.07%(g)	2.11%						
Expenses - excluding dividend expense on securities sold short	2.00%(g)	2.01%(g)	2.02%(g)	2.04%(g)	2.06%(g)	2.08%						
Net investment income	1.63%	1.09%	1.28%	0.42%	0.87%	0.55%						
SUPPLEMENTAL DATA												
Net assets, end of period (000's)	\$228,347	\$276,175	\$274,181	\$225,158	\$186,841	\$115,801						
Portfolio turnover rate	6.14%	25.12%	22.27%	25.69%	34.34%	46.34%						

(a) The amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations for the period due to 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) Amount rounds to less than \$0.01 per share.

(d) Total return does not reflect 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 expense on securities sold short which varies from period to period. See below for expense ratios that reflect only operating expenses.

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

The accompanying notes are an integral part of these financial statements.

Mutual Discovery Fund

FINANCIAL HIGHLIGHTS (CONTINUED)

<TABLE>
<CAPTION>

CLASS C ----- <S>	SIX MONTHS ENDED JUNE 30, 2008 (UNAUDITED)						YEAR ENDED DECEMBER 31,					
	2007		2006		2005		2004		2003			
PER SHARE OPERATING PERFORMANCE (for a share outstanding throughout the period)	<C>		<C>		<C>		<C>		<C>			
Net asset value, beginning of period	\$ 31.84	\$ 29.93	\$ 25.90	\$ 23.97	\$ 20.59	\$ 16.02						

Income from investment operations(a):						
Net investment income(b)	0.24	0.36	0.36	0.11	0.19	0.10
Net realized and unrealized gains (losses)	(3.52)	2.70	5.28	3.38	3.53	4.73
Total from investment operations	(3.28)	3.06	5.64	3.49	3.72	4.83
Less distributions from:						
Net investment income	--	(0.44)	(0.38)	(0.22)	(0.34)	(0.26)
Net realized gains	--	(0.71)	(1.23)	(1.34)	--	--
Total distributions	--	(1.15)	(1.61)	(1.56)	(0.34)	(0.26)
Redemption fees	-- (c)	-- (c)	-- (c)	-- (c)	-- (c)	--
Net asset value, end of period	\$ 28.56	\$ 31.84	\$ 29.93	\$ 25.90	\$ 23.97	\$ 20.59
Total return(d)	(10.30)%	10.24%	22.17%	14.56%	18.17%	30.29%
RATIOS TO AVERAGE NET ASSETS (e)						
Expenses(f)	2.00%(g)	2.01%(g)	2.05%(g)	2.07%(g)	2.07%(g)	2.11%
Expenses - excluding dividend expense on securities sold short	1.99%(g)	2.01%(g)	2.02%(g)	2.04%(g)	2.06%(g)	2.08%
Net investment income	1.64%	1.09%	1.28%	0.42%	0.87%	0.55%
SUPPLEMENTAL DATA						
Net assets, end of period (000's)	\$2,747,431	\$3,075,593	\$2,242,348	\$1,435,702	\$968,934	\$725,489
Portfolio turnover rate	6.14%	25.12%	22.27%	25.69%	34.34%	46.34%

(a) The amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations for the period due to 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) Amount rounds to less than \$0.01 per share.

(d) Total return does not reflect 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 expense on securities sold short which varies from period to period. See below for expense ratios that reflect only operating expenses.

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

The accompanying notes are an integral part of these financial statements.

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FINANCIAL HIGHLIGHTS (CONTINUED)

<TABLE>

<CAPTION>

CLASS R	SIX	YEAR ENDED DECEMBER 31,				
	MONTHS ENDED JUNE 30, 2008 (UNAUDITED)	2007	2006	2005	2004	2003
<S>	<C>	<C>	<C>	<C>	<C>	<C>
PER SHARE OPERATING PERFORMANCE (for a share outstanding throughout the period)						
Net asset value, beginning of period	\$ 31.85	\$ 29.93	\$ 25.88	\$ 23.94	\$ 20.57	\$ 16.01
Income from investment operations(a):						
Net investment income(b)	0.32	0.51	0.50	0.22	0.29	0.17
Net realized and unrealized gains (losses)	(3.52)	2.72	5.29	3.40	3.54	4.76
Total from investment operations	(3.20)	3.23	5.79	3.62	3.83	4.93
Less distributions from:						
Net investment income	--	(0.60)	(0.51)	(0.34)	(0.46)	(0.37)
Net realized gains	--	(0.71)	(1.23)	(1.34)	--	--
Total distributions	--	(1.31)	(1.74)	(1.68)	(0.46)	(0.37)

	-----	-----	-----	-----	-----	-----
Redemption fees	--(c)	--(c)	--(c)	--(c)	--(c)	--
Net asset value, end of period	\$ 28.65	\$ 31.85	\$ 29.93	\$ 25.88	\$ 23.94	\$ 20.57
	=====	=====	=====	=====	=====	=====
Total return(d)	(10.05)%	10.76%	22.78%	15.13%	18.84%	30.87%
RATIOS TO AVERAGE NET ASSETS (e)						
Expenses (f)	1.51% (g)	1.51% (g)	1.55% (g)	1.57% (g)	1.57% (g)	1.61%
Expenses - excluding dividend expense on securities sold short	1.50% (g)	1.51% (g)	1.52% (g)	1.54% (g)	1.56% (g)	1.58%
Net investment income	2.13%	1.59%	1.78%	0.92%	1.37%	1.05%
SUPPLEMENTAL DATA						
Net assets, end of period (000's)	\$258,727	\$275,002	\$175,790	\$99,501	\$46,690	\$19,546
Portfolio turnover rate	6.14%	25.12%	22.27%	25.69%	34.34%	46.34%

- </TABLE>
- (a) The amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations for the period due to 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) Amount rounds to less than \$0.01 per share.
- (d) Total return does not reflect 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 expense on securities sold short which varies from period to period. See below for expense ratios that reflect only operating expenses.
- (g) Benefit of expense reduction rounds to less than 0.01%.

The accompanying notes are an integral part of these financial statements.

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Mutual Discovery Fund

STATEMENT OF INVESTMENTS, JUNE 30, 2008 (UNAUDITED)

<TABLE>
<CAPTION>

	COUNTRY	SHARES/WARRANTS/ CONTRACTS	VALUE
<S>	<C>	<C>	<C>
COMMON STOCKS AND OTHER EQUITY INTERESTS 74.6%			
AIRLINES 0.2%			
(a) ACE Aviation Holdings Inc., A	Canada	1,277,511	\$ 20,095,116
(a, b) ACE Aviation Holdings Inc., A, 144A	Canada	64,416	1,013,257
(a) Northwest Airlines Corp.	United States	1,819,547	12,118,183
(a, c) Northwest Airlines Corp., Contingent Distribution	United States	69,160,000	432,250
			33,658,806
AUTO COMPONENTS 0.0%(d)			
(a, c, e) Collins & Aikman Products Co., Contingent Distribution	United States	1,967,916	--
(a) Dana Holding Corp.	United States	906,837	4,851,578
(a, c) Dana Holding Corp., Contingent Distribution	United States	25,003,000	1,812,717
			6,664,295
AUTOMOBILES 0.2%			
(a, f, g, h) International Automotive Components Group Brazil LLC	Brazil	3,204,016	13,200,221
(a, f, g, h) International Automotive Components Group Japan LLC	Japan	650,533	3,781,934
(a, f, g) International Automotive Components Group LLC	Luxembourg	13,618,870	10,641,785
(a, f, g) International Automotive Components Group NA LLC, A	United States	11,533,276	8,812,576
			36,436,516
BEVERAGES 6.4%			
Brown-Forman Corp., A	United States	143,200	10,886,064
Brown-Forman Corp., B	United States	391,650	29,596,990
Carlsberg AS, A	Denmark	113,300	10,932,414
Carlsberg AS, B	Denmark	4,809,806	464,610,077
(a) Dr Pepper Snapple Group Inc.	United States	1,263,719	26,512,825
Fomento Economico Mexicano SAB de CV, ADR	Mexico	3,150,684	143,387,629
Lotte Chilsung Beverage Co. Ltd.	South Korea	55,692	53,802,783
Pernod Ricard SA	France	2,606,996	267,849,688

1,007,578,470

BUILDING PRODUCTS 0.6%				
	Armstrong World Industries Inc.	United States	200,703	5,864,542
(a, c)	Armstrong World Industries Inc., Contingent Distribution ...	United States	2,542,000	12,710
	KCC Corp.	South Korea	160,170	66,654,596
(a)	Owens Corning Inc.	United States	750,622	17,076,650
				89,608,498
CAPITAL MARKETS 1.0%				
	Legg Mason Inc.	United States	852,120	37,126,868
(a)	Marfin Investment Group Holdings SA	Greece	14,276,740	112,850,382
				149,977,250
CHEMICALS 0.9%				
(a, c, e)	Dow Corning Corp., Contingent Distribution	United States	14,735,153	2,857,538
	Sika AG	Switzerland	85,406	134,442,338
				137,299,876
COMMERCIAL BANKS 6.4%				
	Banco Popolare SpA	Italy	8,696,292	154,459,092
	Bank of Ireland	Ireland	189,939	1,658,387
	BNP Paribas SA	France	1,957,306	177,336,793

</TABLE>

Mutual Discovery Fund

STATEMENT OF INVESTMENTS, JUNE 30, 2008 (UNAUDITED) (CONTINUED)

<TABLE>
<CAPTION>

		COUNTRY	SHARES/WARRANTS/ CONTRACTS	VALUE
<S>	<C>	<C>	<C>	<C>
COMMON STOCKS AND OTHER EQUITY INTERESTS (CONTINUED)				
COMMERCIAL BANKS (CONTINUED)				
	Danske Bank AS	Denmark	3,875,695	\$ 112,108,909
(a, g, h)	FE Capital Holdings Ltd.	Japan	29,212	3,149,787
	Hypo Real Estate Holding AG	Germany	977,352	27,346,938
	Intesa Sanpaolo SpA	Italy	9,756,274	55,726,488
(a)	Investors Bancorp Inc.	United States	1,775	23,182
	Mitsubishi UFJ Financial Group Inc.	Japan	5,860,123	51,941,560
(a, g)	NCB Warrant Holdings Ltd., A	Japan	135,864	1,328,071
	PacWest Bancorp	United States	518,434	7,714,298
	Societe Generale, A	France	1,115,982	97,156,988
	Sumitomo Mitsui Financial Group Inc.	Japan	12,485	93,962,370
	Svenska Handelsbanken AB, A	Sweden	3,204,537	76,337,765
	Swedbank AB, A	Sweden	2,532,015	48,968,234
	Unione di Banche Italiane SCPA	Italy	1,785,203	41,855,504
	U.S. Bancorp	United States	1,485,634	41,434,332
				992,508,698
COMMERCIAL SERVICES & SUPPLIES 0.4%				
(a)	Comdisco Holding Co. Inc.	United States	913	8,719
(a, c)	Comdisco Holding Co. Inc., Contingent Distribution	United States	41,726,153	--
	Fursys Inc.	South Korea	547,260	12,576,783
	Teleperformance	France	1,465,107	54,075,085
				66,660,587
COMPUTERS & PERIPHERALS 0.3%				
(a, g)	DecisionOne Corp.	United States	359,884	--
(a, g)	DecisionOne Corp., wts., 6/08/17	United States	197,603	--
(a)	Dell Inc.	United States	1,871,150	40,940,762
				40,940,762
CONSTRUCTION MATERIALS 0.6%				
	Ciments Francais SA	France	399,572	65,489,899
	Hanil Cement Co. Ltd.	South Korea	296,309	25,199,714
				90,689,613
CONSUMER FINANCE 0.6%				

American Express Co.	United States	7,500	282,525
(a, g) Cerberus CG Investor I LLC	United States	9,005,073	4,689,039
(a, g) Cerberus CG Investor II LLC	United States	9,005,073	4,689,039
(a, g) Cerberus CG Investor III LLC	United States	4,502,537	2,344,519
(a, g) Cerberus FIM Investors Auto Finance LLC	United States	8,723,795	2,910,231
(a, g) Cerberus FIM Investors Commercial Finance LLC	United States	726,666	242,414
(a, g) Cerberus FIM Investors Commercial Mortgage LLC	United States	1,362,023	454,367
(a, g) Cerberus FIM Investors Insurance LLC	United States	6,661,738	2,222,335
(a, g) Cerberus FIM Investors Rescap LLC	United States	12,402,778	4,137,528
(a) SLM Corp.	United States	3,606,190	69,779,776

			91,751,773

DIVERSIFIED FINANCIAL SERVICES 2.4%			
Deutsche Boerse AG	Germany	1,404,621	158,557,943
Fortis	Belgium	11,437,685	183,159,458
(a) Fortis VVPR Strip	Belgium	3,397,596	53,498

</TABLE>

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STATEMENT OF INVESTMENTS, JUNE 30, 2008 (UNAUDITED) (CONTINUED)

<TABLE>

<CAPTION>

	COUNTRY	SHARES/WARRANTS/ CONTRACTS	VALUE
<S>	<C>	<C>	<C>

			<C>

			COMMON STOCKS AND OTHER EQUITY INTERESTS (CONTINUED)
			DIVERSIFIED FINANCIAL SERVICES (CONTINUED)
			Guinness Peat Group PLC
			United Kingdom
			30,515,624
			\$ 31,823,035

			(a, c) Marconi Corp., Contingent Distribution
			United Kingdom
			33,909,700

			373,593,934

			DIVERSIFIED TELECOMMUNICATION SERVICES 0.6%
			(a, f, g) AboveNet Inc.
			United States
			352,895
			17,644,750

			(a, f, g) AboveNet Inc., stock grant, grant price \$20.95, expiration
			date 9/09/13
			United States
			464
			12,922

			(a, f, g) AboveNet Inc., wts., 9/08/08
			United States
			12,673
			405,536

			(a, f, g) AboveNet Inc., wts., 9/08/10
			United States
			14,911
			429,437

			(a, c, e) Global Crossing Holdings Ltd., Contingent Distribution
			United States
			45,658,716

			Koninklijke (Royal) KPN NV
			Netherlands
			4,511,679
			77,434,582

			95,927,227

			ENERGY EQUIPMENT & SERVICES 5.2%
			Bourbon SA
			France
			1,031,595
			64,145,564

			(a) BW Offshore Ltd.
			Norway
			18,666,535
			58,655,988

			(a) Compagnie Generale de Geophysique SA
			France
			2,902,660
			137,344,385

			(a, h) Dockwise Ltd.
			Norway
			12,379,100
			46,192,486

			(a) Petroleum Geo-Services ASA
			Norway
			1,796,568
			44,104,442

			(a) Pride International Inc.
			United States
			2,855,610
			135,041,797

			Seadrill Ltd.
			Bermuda
			7,785,547
			238,147,403

			(a) Transocean Inc.
			United States
			551,774
			84,084,840

			807,716,905

			FOOD & STAPLES RETAILING 1.9%
			Carrefour SA
			France
			4,298,988
			243,419,957

			CVS Caremark Corp.
			United States
			1,232,553
			48,772,122

			292,192,079

			FOOD PRODUCTS 6.9%
			Cadbury PLC
			United Kingdom
			6,739,836
			84,928,553

			Cermaq ASA
			Norway
			1,259,560
			15,027,745

			(h) CSM NV
			Netherlands
			4,036,926
			141,051,710

			(h) Farmer Brothers Co
			United States
			904,637
			19,133,073

			Groupe Danone
			France
			2,686,412
			188,659,093

			(a) Lighthouse Caledonia ASA
			Norway
			1,401,289
			1,651,230

			Lotte Confectionary Co. Ltd.
			South Korea
			52,189
			63,285,085

			(a, h, i) Marine Harvest
			Norway
			178,709,281
			131,264,526

			Nestle SA
			Switzerland
			2,192,290
			99,066,183

			Nong Shim Co. Ltd.
			South Korea
			210,569
			44,971,019

			Premier Foods PLC
			United Kingdom
			24,478,659
			46,573,069

			Rieber & Son ASA
			Norway
			3,605,065
			31,612,819

			Wm. Wrigley Jr. Co.
			United States
			2,674,774
			208,043,922

HEALTH CARE EQUIPMENT & SUPPLIES 0.2%
Covidien Ltd

United States 781,630 37,432,261

</TABLE>

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Mutual Discovery Fund

STATEMENT OF INVESTMENTS, JUNE 30, 2008 (UNAUDITED) (CONTINUED)

<TABLE>
<CAPTION>

	COUNTRY	SHARES/WARRANTS/ CONTRACTS	VALUE
<S>	<C>	<C>	<C>
COMMON STOCKS AND OTHER EQUITY INTERESTS (CONTINUED)			
HEALTH CARE PROVIDERS & SERVICES 1.3%			
(a, g) Kindred Healthcare Inc.	United States	1,135,557	\$ 31,025,688
(a, g) Kindred Healthcare Inc., stock grants:			
grant price \$18.15, expiration date 7/17/11	United States	3,928	36,028
grant price \$19.87, expiration date 1/01/12	United States	1,175	8,756
grant price \$6.94, expiration date 1/01/13	United States	1,174	23,929
grant price \$19.87, expiration date 1/01/14	United States	1,173	8,741
grant price \$21.33, expiration date 1/10/15	United States	735	4,404
grant price \$22.08, expiration date 1/10/16	United States	492	2,579
grant price \$19.40, expiration date 1/10/17	United States	246	1,949
(a) PharMerica Inc.	United States	415,641	9,389,330
Quest Diagnostics Inc.	United States	1,302,600	63,137,022
Rhoen-Klinikum AG	Germany	3,163,170	99,614,554
			203,252,980
HOTELS, RESTAURANTS & LEISURE 0.0%(d)			
(a) Trump Entertainment Resorts Inc.	United States	839,693	1,603,814
INDUSTRIAL CONGLOMERATES 5.3%			
Jardine Matheson Holdings Ltd.	Hong Kong	4,284,769	132,827,839
Jardine Strategic Holdings Ltd.	Hong Kong	9,771,983	166,123,711
Keppel Corp. Ltd.	Singapore	17,381,344	142,326,563
Koninklijke Philips Electronics NV	Netherlands	272,485	9,271,876
(f) Orkla ASA	Norway	20,568,718	264,188,333
Siemens AG	Germany	1,005,019	110,965,109
			825,703,431
INSURANCE 5.2%			
(a) Alleghany Corp.	United States	76,545	25,416,767
Allianz SE	Germany	593,700	104,524,467
American International Group Inc.	United States	1,085,700	28,727,622
Assicurazioni Generali SpA	Italy	1,206,738	46,306,162
(a) Berkshire Hathaway Inc., A	United States	853	102,999,750
(a) Berkshire Hathaway Inc., B	United States	29,300	117,551,600
(a) Conseco Inc	United States	2,684,120	26,626,471
E-L Financial Corp. Ltd.	Canada	177,619	97,919,796
Hartford Financial Services Group Inc.	United States	511,000	32,995,270
(a, g, h) Imagine Group Holdings Ltd.	Bermuda	4,551,501	55,664,857
Old Republic International Corp.	United States	1,793,887	21,239,622
(a, g) Olympus Re Holdings Ltd.	United States	47,160	142,588
Prudential Financial Inc.	United States	421,200	25,162,488
White Mountains Insurance Group Ltd.	United States	172,815	74,137,635
Zurich Financial Services AG	Switzerland	237,664	60,841,053
			820,256,148
MACHINERY 1.9%			
(a, h) Aker Yards ASA	Norway	5,752,030	76,817,243
(a, g) Motor Coach Industries International Inc., wts., 5/27/09 ...	United States	5	--
Schindler Holding AG	Switzerland	2,263,002	168,700,541
Schindler Holding AG, Registered	Switzerland	659,880	49,418,326
			294,936,110

</TABLE>

STATEMENT OF INVESTMENTS, JUNE 30, 2008 (UNAUDITED) (CONTINUED)

<TABLE> <CAPTION>		COUNTRY	SHARES/WARRANTS/ CONTRACTS	VALUE
<S>	<C>	<C>	<C>	<C>
COMMON STOCKS AND OTHER EQUITY INTERESTS (CONTINUED)				
MEDIA 4.8%				
(a)	Adelphia Recovery Trust	United States	45,477,593	\$ 2,273,880
(a, c)	Adelphia Recovery Trust, Arahova Contingent Value Vehicle, Contingent Distribution	United States	5,538,790	2,381,680
(a, c)	Century Communications Corp., Contingent Distribution	United States	15,282,000	--
	CJ CGV Co. Ltd.	South Korea	849,040	13,224,417
	Daekyo Co. Ltd.	South Korea	367,570	24,516,375
(a)	Eutelsat Communications	France	6,644,123	185,069,888
	JC Decaux SA	France	2,791,333	71,158,824
	News Corp., A	United States	5,033,010	75,696,470
(a)	Premiere AG	Germany	3,927,965	86,589,635
(a)	Time Warner Cable Inc., A	United States	1,019,698	27,001,603
	Time Warner Inc.	United States	7,333,400	108,534,320
(a, e)	TVMAX Holdings Inc.	United States	118,432	--
(a)	Viacom Inc., B	United States	1,406,510	42,954,815
	Virgin Media Inc.	United Kingdom	5,672,663	77,204,943
	WPP Group PLC	United Kingdom	3,258,420	31,435,513
				748,042,363
METALS & MINING 0.4%				
(a, g, h)	Esmark Inc.	United States	3,850,425	66,258,113
MULTI-UTILITIES 1.5%				
	Energy East Corp.	United States	1,290,320	31,896,710
	NorthWestern Corp.	United States	328,196	8,342,742
(a, c)	NorthWestern Corp., Contingent Distribution	United States	9,839,500	722,152
	RWE AG	Germany	1,172,783	147,640,802
	Suez SA	France	600,297	40,871,646
				229,474,052
MULTILINE RETAIL 0.3%				
	Jelmoli Holding AG	Switzerland	19,024	49,259,403
OIL, GAS & CONSUMABLE FUELS 1.9%				
	BP PLC	United Kingdom	5,264,794	61,175,848
	BP PLC, ADR	United Kingdom	180,900	12,585,213
	Royal Dutch Shell PLC, A	United Kingdom	3,324,863	136,825,336
	Total SA, B	France	510,684	43,583,470
	Total SA, B, ADR	France	417,296	35,582,830
				289,752,697
PAPER & FOREST PRODUCTS 1.0%				
(a)	Domtar Corp.	United States	3,018,373	16,450,133
	Mondi Ltd.	United Kingdom	278,762	1,728,569
	Weyerhaeuser Co.	United States	2,781,353	142,238,392
				160,417,094
PERSONAL PRODUCTS 0.2%				
	Amorepacific Corp.	South Korea	64,004	39,631,717

</TABLE>

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STATEMENT OF INVESTMENTS, JUNE 30, 2008 (UNAUDITED) (CONTINUED)

<TABLE> <CAPTION>		COUNTRY	SHARES/WARRANTS/ CONTRACTS	VALUE
<S>	<C>	<C>	<C>	<C>
COMMON STOCKS AND OTHER EQUITY INTERESTS (CONTINUED)				
PHARMACEUTICALS 1.4%				

Novartis AG	Switzerland	2,508,989	\$ 138,160,187
Pfizer Inc.	United States	2,675,730	46,745,003
Sanofi-Aventis	France	400,519	26,758,787

			211,663,977

REAL ESTATE 2.6%			
(e) Canary Wharf Group PLC	United Kingdom	5,400,183	41,951,248
Great Eagle Holdings Ltd.	Hong Kong	12,911,868	38,086,885
Link REIT	Hong Kong	76,947,795	175,266,003
Swire Pacific Ltd., A	Hong Kong	9,379,950	95,937,800
Swire Pacific Ltd., B	Hong Kong	13,605,000	27,917,535
Ventas Inc.	United States	516,500	21,987,405

			401,146,876

SOFTWARE 0.5%			
Microsoft Corp.	United States	2,949,730	81,147,072

THRIFTS & MORTGAGE FINANCE 0.1%			
Washington Mutual Inc.	United States	2,953,571	13,896,261

TOBACCO 10.4%			
Altria Group Inc.	United States	1,213,908	24,957,948
British American Tobacco PLC	United Kingdom	10,342,443	358,316,317
Imperial Tobacco Group PLC	United Kingdom	11,259,039	419,680,682
ITC Ltd.	India	15,068,790	65,638,568
Japan Tobacco Inc.	Japan	52,347	223,361,664
KT&G Corp.	South Korea	4,837,575	416,036,073
Philip Morris International Inc.	United States	1,213,908	59,954,916
Reynolds American Inc.	United States	1,229,730	57,391,499

			1,625,337,667

TRADING COMPANIES & DISTRIBUTORS 1.0%			
(h) Kloeckner & Co. AG	Germany	2,796,264	159,564,628

TRANSPORTATION INFRASTRUCTURE 0.0%(d)			
(a) Groupe Eurotunnel SA, wts., 12/30/11	France	200,763	82,192

TOTAL COMMON STOCKS AND OTHER EQUITY INTERESTS (COST \$9,682,234,929)			
			11,647,332,172

PREFERRED STOCKS 0.1%			
AUTO COMPONENTS 0.1%			
(g) Dana Holding Corp., 4.00%, cvt. pfd., B	United States	89,831	8,833,379

DIVERSIFIED TELECOMMUNICATION SERVICES 0.0%(d)			
(g) PTV Inc., 10.00%, pfd., A	United Kingdom	86,280	43,140

TOTAL PREFERRED STOCKS (COST \$9,103,892)			
			8,876,519

</TABLE>

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Mutual Discovery Fund

STATEMENT OF INVESTMENTS, JUNE 30, 2008 (UNAUDITED) (CONTINUED)

<TABLE>
<CAPTION>

	COUNTRY	SHARES/WARRANTS/ CONTRACTS	VALUE
<S>	<C>	<C>	<C>
OPTIONS PURCHASED 1.6%			
PUT OPTIONS			
(a) Dow Jones EUROSTOXX 50, exercise price \$3,300.00, expiration date 12/19/08, contracts	United States	127,610	\$ 20,889,757
(a) Dow Jones EUROSTOXX 50, exercise price \$3,350.00, expiration date 2/20/09, contracts	United States	93,629	19,283,829
(a) Dow Jones EUROSTOXX 50, exercise price \$3,400.00, expiration date 2/20/09, contracts	United States	92,342	21,812,104
(a) Dow Jones EUROSTOXX 50, exercise price \$3,300.00, expiration date 3/20/09, contracts	United States	95,640	18,821,952
(a) Dow Jones EUROSTOXX 50, exercise price \$3,200.00, expiration date 6/19/09, contracts	United States	155,656	33,799,144
(a) Dow Jones EUROSTOXX 50, exercise price \$3,300.00, expiration date 6/19/09, contracts	United States	94,559	24,017,040
(a) Dow Jones EUROSTOXX 50, exercise price \$3,350.00, expiration date 6/19/09, contracts	United States	93,242	25,568,821
(a) Dow Jones EUROSTOXX 50, exercise price \$3,400.00, expiration			

date 6/19/09, contracts	United States	91,545	27,929,464
(a) S&P 500 Index, exercise price \$1,200.00, expiration date 12/20/08, contracts	United States	2,283	10,889,910
(a) S&P 500 Index, exercise price \$1,225.00, expiration date 12/20/08, contracts	United States	645	3,483,000
(a) S&P 500 Index, exercise price \$1,300.00, expiration date 12/20/08, contracts	United States	2,154	17,662,800
(a) S&P 500 Index, exercise price \$1,200.00, expiration date 3/21/09, contracts	United States	655	4,257,500
(a) S&P 500 Index, exercise price \$1,225.00, expiration date 6/20/09, contracts	United States	1,293	11,022,825
(a) S&P 500 Index, exercise price \$1,250.00, expiration date 6/20/09, contracts	United States	1,257	11,847,225
(a) S&P 500 Index, exercise price \$1,275.00, expiration date 6/20/09, contracts	United States	610	6,340,950
TOTAL OPTIONS PURCHASED (COST \$235,131,807)			257,626,321

</TABLE>

<TABLE>
<CAPTION>

		PRINCIPAL AMOUNT (J)	
		-----	-----
<S>	<C>	<C>	<C>
CORPORATE BONDS & NOTES 1.3%			
(b) ACE Aviation Holdings Inc., cvt., 144A, 4.25%, 6/01/35	Canada	2,761,000 CAD	2,651,816
(g) Cerberus CG Investor I LLC, 12.00%, 7/31/14	United States	7,903,600	4,115,490
(g) Cerberus CG Investor II LLC, 12.00%, 7/31/14	United States	7,903,600	4,115,490
(g) Cerberus CG Investor III LLC, 12.00%, 7/31/14	United States	3,951,800	2,057,745
(g) Cerberus FIM Investors Auto Finance LLC, 12.00%, 11/22/13 ...	United States	26,153,583	8,724,754
(g) Cerberus FIM Investors Commercial Finance LLC, 12.00%, 11/22/13	United States	2,179,997	727,240
(g) Cerberus FIM Investors Commercial Mortgage LLC, 12.00%, 11/22/13	United States	4,086,069	1,363,100
(g) Cerberus FIM Investors Insurance LLC, 12.00%, 11/22/13	United States	19,985,213	6,667,005
(g) Cerberus FIM Investors Rescap LLC, 12.00%, 11/22/13	United States	37,208,337	12,412,585
			1,258,541,523

</TABLE>

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Mutual Discovery Fund

STATEMENT OF INVESTMENTS, JUNE 30, 2008 (UNAUDITED) (CONTINUED)

<TABLE>
<CAPTION>

		COUNTRY	PRINCIPAL AMOUNT (J)	VALUE
		-----	-----	-----
<S>	<C>	<C>	<C>	<C>
CORPORATE BONDS & NOTES (CONTINUED)				
(g) DecisionOne Corp., 12.00%, 4/15/10	United States	453,956	\$	453,956
(k) FRN, 7.25%, 5/12/09	United States	82,993		82,993
Groupe Eurotunnel SA, cvt., sub. bond,				
NRS I, T1, 3.00%, 7/28/08	France	9,600 EUR		37,524
NRS I, T1, 3.00%, 7/28/08	France	11,935 GBP		63,726
NRS I, T2, 3.00%, 7/28/09	France	9,600 EUR		36,768
NRS I, T2, 3.00%, 7/28/09	France	11,935 GBP		62,537
NRS I, T3, 3.00%, 7/28/10	France	7,220,400 EUR		27,085,119
NRS I, T3, 3.00%, 7/28/10	France	4,866,820 GBP		25,016,386
NRS II, 6.00%, 7/28/10	France	8,142,400 EUR		17,816,485
NRS II, 6.00%, 7/28/10	France	5,948,609 GBP		16,416,006
(f, g) International Automotive Components Group NA LLC, 9.00%, 4/01/17	United States	3,472,200		3,472,200
(g, k) Pontus I LLC, junior note, 144A, FRN, 5.231%, 7/24/09	United States	17,328,283		14,868,883
5.685%, 7/24/09	United States	15,652,670		18,791,687
6.475%, 7/24/09	United States	15,244,597		13,109,855
(g, k) Pontus II Trust, junior note, 144A, FRN, 6.475%, 6/25/09	United States	7,622,342		6,554,965
Trump Entertainment Resorts Inc., 8.50%, 5/20/15	United States	17,141,134		10,756,062
(e, l) TVMAX Holdings Inc., PIK, 11.50%, 9/30/08	United States	354,025		247,817
14.00%, 9/30/08	United States	781,952		547,367
TOTAL CORPORATE BONDS & NOTES (COST \$257,085,607)				198,255,561
CORPORATE BONDS & NOTES IN REORGANIZATION 0.1%				
(g, k, m) Motor Coach Industries International Inc., FRN, 15.649%, 12/01/08	United States	30,383,284		20,052,967

(e, m) Safety Kleen Services, senior sub. note, 9.25%, 6/01/08	United States	40,000	200
TOTAL CORPORATE BONDS & NOTES IN REORGANIZATION			
(COST \$ 30,384,487)			
			20,053,167
COMPANIES IN LIQUIDATION 0.0%			
(a, g, h) Augsburg Re AG	Switzerland	66,860	--
(g, h) Augsburg Re AG, zero cpn., 8/31/08	Switzerland	768,890	--
TOTAL COMPANIES IN LIQUIDATION (COST \$835,750)			
			--
TOTAL INVESTMENTS BEFORE SHORT TERM INVESTMENTS			
(COST \$10,214,776,472)			
			12,132,143,740
SHORT TERM INVESTMENTS 22.7%			
U.S. GOVERNMENT AND AGENCY SECURITIES 22.6%			
(n) FHLB,			
7/01/08	United States	209,200,000	209,200,000
7/02/08	United States	294,046,000	294,028,651
7/03/08 - 6/19/09	United States	2,540,779,000	2,517,347,328
7/07/08	United States	300,810,000	300,703,513
9/17/08	United States	210,000,000	208,946,640
TOTAL U.S. GOVERNMENT AND AGENCY SECURITIES			
(COST \$3,531,423,557)			
			3,530,226,132

</TABLE>

Mutual Discovery Fund

STATEMENT OF INVESTMENTS, JUNE 30, 2008 (UNAUDITED) (CONTINUED)

<TABLE>			
<CAPTION>			
	COUNTRY	PRINCIPAL AMOUNT (J)	VALUE
<S>	<C>	<C>	<C>
SHORT TERM INVESTMENTS (CONTINUED)			
TOTAL INVESTMENTS BEFORE MONEY MARKET FUND			
(COST \$13,746,200,029)			
			\$15,662,369,872
(o) INVESTMENTS FROM CASH COLLATERAL RECEIVED FOR			
LOANED SECURITIES 0.1%			
MONEY MARKET FUND (COST \$10,549,699) 0.1%			
(p) Bank of New York Institutional Cash Reserve Fund, 2.53%	United States	10,549,699	10,549,699
TOTAL INVESTMENTS (COST \$13,756,749,728)			
100.4%			15,672,919,571
NET UNREALIZED LOSS ON FORWARD EXCHANGE CONTRACTS			
(0.4)%			(61,755,698)
OTHER ASSETS, LESS LIABILITIES 0.0%(d)			
			2,186,431
NET ASSETS 100.0%			
			\$15,613,350,304

</TABLE>

CURRENCY ABBREVIATIONS

- CAD - Canadian Dollar
- EUR - Euro
- GBP - British Pound Sterling

SELECTED PORTFOLIO ABBREVIATIONS

- ADR - American Depository Receipt
- FHLB - Federal Home Loan Bank
- FRN - Floating Rate Note
- PIK - Payment-In-Kind
- REIT - Real Estate Investment Trust

(a) Non-income producing for the twelve months ended June 30, 2008.

(b) Security was purchased pursuant to Rule 144A under the Securities Act of 1933 and may be sold in transactions exempt from registration only to qualified institutional buyers or in a public offering registered under the Securities Act of 1933. These securities have been deemed liquid under guidelines approved by the Trust's Board of Trustees. At June 30, 2008, the aggregate value of these securities was \$3,665,073, representing 0.02% of net assets.

(c) Contingent distributions represent the right to receive additional distributions, if any, during the reorganization of the underlying company.

Shares represent total underlying principal of debt securities.

- (d) Rounds to less than 0.1% of net assets.
- (e) Security has been deemed illiquid because it may not be able to be sold within seven days. At June 30, 2008, the aggregate value of these securities was \$45,604,170, representing 0.29% of net assets.
- (f) See Note 13 regarding other considerations.
- (g) See Note 10 regarding restricted securities.
- (h) See Note 12 regarding holdings of 5% voting securities.
- (i) A portion or all of the security is on loan as of June 30, 2008. See Note 1(g).
- (j) The principal amount is stated in U.S. dollars unless otherwise indicated.
- (k) The coupon rate shown represents the rate at period end.
- (l) Income may be received in additional securities and/or cash.
- (m) See Note 9 regarding defaulted securities.
- (n) The security is traded on a discount basis with no stated coupon rate.
- (o) See Note 1(g) regarding securities on loan.
- (p) The rate shown is the annualized seven-day yield at period end.

The accompanying notes are an integral part of these financial statements.

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Mutual Discovery Fund

FINANCIAL STATEMENTS

STATEMENT OF ASSETS AND LIABILITIES

June 30, 2008 (unaudited)

<TABLE>	<C>
<S>	
Assets:	
Investments in securities:	
Cost - Unaffiliated issuers	\$13,071,468,469
Cost - Non-controlled affiliated issuers (Note 12)	685,281,259

Total cost of investments	\$13,756,749,728
	=====
Value - Unaffiliated issuers	\$14,956,840,993
Value - Non-controlled affiliated issuers (Note 12)	716,078,578

Total value of investments (includes securities loaned in the amount of \$9,682,807)....	15,672,919,571
Cash	69,242
Foreign currency, at value (cost \$38,605,874)	38,561,437
Receivables:	
Investment securities sold	5,212,154
Capital shares sold	21,474,353
Dividends and interest	54,642,139
Unrealized gain on forward exchange contracts (Note 7)	55,467,836
Other assets	2,352,057

Total assets	15,850,698,789

Liabilities:	
Payables:	
Investment securities purchased	44,205,433
Capital shares redeemed	38,867,853
Affiliates	21,010,065
Payable upon return of securities loaned	10,549,699
Unrealized loss on forward exchange contracts (Note 7)	117,223,534
Accrued expenses and other liabilities	5,491,901

Total liabilities	237,348,485

Net assets, at value	\$15,613,350,304
	=====
Net assets consist of:	
Paid-in capital	\$12,886,914,493
Undistributed net investment income	173,641,357
Net unrealized appreciation (depreciation)	1,854,591,089

Accumulated net realized gain (loss)	698,203,365
Net assets, at value	\$15,613,350,304
	=====

</TABLE>

The accompanying notes are an integral part of these financial statements.

Mutual Discovery Fund

FINANCIAL STATEMENTS (CONTINUED)

STATEMENT OF ASSETS AND LIABILITIES (CONTINUED)

June 30, 2008 (unaudited)

<TABLE>	
<S>	<C>
CLASS Z:	
Net assets, at value	\$4,245,715,485
Shares outstanding	145,129,531
Net asset value and maximum offering price per share(a)	\$ 29.25
CLASS A:	
Net assets, at value	\$8,133,129,215
Shares outstanding	281,469,529
Net asset value per share(a)	\$ 28.90
Maximum offering price per share (net asset value per share / 94.25%)	\$ 30.66
CLASS B:	
Net assets, at value	\$ 228,346,975
Shares outstanding	8,091,032
Net asset value and maximum offering price per share(a)	\$ 28.22
CLASS C:	
Net assets, at value	\$2,747,431,388
Shares outstanding	96,184,845
Net asset value and maximum offering price per share(a)	\$ 28.56
CLASS R:	
Net assets, at value	\$ 258,727,241
Shares outstanding	9,031,217
Net asset value and maximum offering price per share(a)	\$ 28.65

</TABLE>

(a) Redemption price is equal to net asset value less contingent deferred sales charges, if applicable, and redemption fees retained by the Fund.

The accompanying notes are an integral part of these financial statements.

Mutual Discovery Fund

FINANCIAL STATEMENTS (CONTINUED)

STATEMENT OF OPERATIONS

for the six months ended June 30, 2008 (unaudited)

<TABLE>	
<S>	<C>
Investment income:	
Dividends: (net of foreign taxes of \$25,376,022)	
Unaffiliated issuers	\$ 219,040,876
Non-controlled affiliated issuers (Note 12)	7,401,125
Interest	66,753,309

Income from securities loaned	206,655
Total investment income	293,401,965
Expenses:	
Management fees (Note 3a)	60,894,023
Administrative fees (Note 3b)	6,139,790
Distribution fees: (Note 3c)	
Class A	11,674,779
Class B	1,231,562
Class C	14,189,470
Class R	660,644
Transfer agent fees (Note 3e)	9,688,565
Custodian fees (Note 4)	2,216,208
Reports to shareholders	466,942
Registration and filing fees	403,217
Professional fees	461,834
Trustees' fees and expenses	134,428
Dividends on securities sold short	894,030
Other	165,201
Total expenses	109,220,693
Expense reductions (Note 4)	(39,717)
Net expenses	109,180,976
Net investment income	184,220,989
Realized and unrealized gains (losses):	
Net realized gain (loss) from:	
Investments:	
Unaffiliated issuers	917,328,309
Controlled affiliated issuers (Note 12)	(10,726,352)
Non-controlled affiliated issuers (Note 12)	(6,610,300)
Foreign currency transactions	(308,331,377)
Securities sold short	20,902,319
Net realized gain (loss)	612,562,599
Net change in unrealized appreciation (depreciation) on:	
Investments	(2,504,004,900)
Translation of assets and liabilities denominated in foreign currencies.....	(27,618,262)
Net change in unrealized appreciation (depreciation)	(2,531,623,162)
Net realized and unrealized gain (loss)	(1,919,060,563)
Net increase (decrease) in net assets resulting from operations	\$ (1,734,839,574)

</TABLE>

The accompanying notes are an integral part of these financial statements.

Mutual Discovery Fund

FINANCIAL STATEMENTS (CONTINUED)

STATEMENTS OF CHANGES IN NET ASSETS

<TABLE>

<CAPTION>

	SIX MONTHS ENDED JUNE 30, 2008 (UNAUDITED)	YEAR ENDED DECEMBER 31, 2007
	-----	-----
<S>	<C>	<C>
Increase (decrease) in net assets:		
Operations:		
Net investment income	\$ 184,220,989	\$ 271,664,382
Net realized gain (loss) from investments, written options, securities sold short, synthetic equity swaps, and foreign currency transactions	612,562,599	477,542,610
Net change in unrealized appreciation (depreciation) on investments and translation of assets and liabilities denominated in foreign currencies	(2,531,623,162)	717,017,288
Net increase (decrease) in net assets resulting from operations	(1,734,839,574)	1,466,224,280
Distributions to shareholders from:		
Net investment income:		
Class Z	--	(103,525,166)
Class A	--	(172,255,326)

Class B	--	(3,477,494)
Class C	--	(40,926,857)
Class R	--	(4,909,917)
Net realized gains:		
Class Z	--	(98,813,037)
Class A	--	(188,175,584)
Class B	--	(6,040,635)
Class C	--	(65,710,419)
Class R	--	(5,833,119)
	-----	-----
Total distributions to shareholders	--	(689,667,554)
	-----	-----
Capital share transactions: (Note 2)		
Class Z	(11,274,225)	546,678,826
Class A	117,661,836	2,422,442,924
Class B	(20,189,976)	(16,203,793)
Class C	(10,990,083)	697,882,683
Class R	12,249,447	88,798,021
	-----	-----
Total capital share transactions	87,456,999	3,739,598,661
	-----	-----
Redemption fees	47,440	56,157
	-----	-----
Net increase (decrease) in net assets	(1,647,335,135)	4,516,211,544
Net assets:		
Beginning of period	17,260,685,439	12,744,473,895
	-----	-----
End of period	\$15,613,350,304	\$17,260,685,439
	=====	=====
Undistributed net investment income (distributions in excess of net investment income) included in net assets:		
End of period	\$ 173,641,357	\$ (10,579,632)
	=====	=====

</TABLE>

The accompanying notes are an integral part of these financial statements.

Mutual Discovery Fund

NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Franklin Mutual Series Funds (Trust) is registered under the Investment Company Act of 1940, as amended, (1940 Act) as an open-end investment company, consisting of six separate funds. The Mutual Discovery Fund (Fund) included in this report is diversified. The financial statements of the remaining funds in the Trust are presented separately. The Fund offers five classes of shares: Class Z, Class A, Class B, Class C, and Class R. Each class of shares differs by its initial sales load, contingent deferred sales charges, distribution fees, voting rights on matters affecting a single class and its exchange privilege.

The following summarizes the Fund's significant accounting policies.

A. SECURITY VALUATION

Securities listed on a securities exchange or on the NASDAQ National Market System are valued at the last quoted sale price or the official closing price of the day, respectively. Over-the-counter securities and listed securities for which there is no reported sale are valued within the range of the most recent quoted bid and ask prices. Securities that trade in multiple markets or on multiple exchanges are valued according to the broadest and most representative market. Investments in open-end mutual funds are valued at the closing net asset value.

Corporate debt securities and government securities generally trade in the over-the-counter market rather than on a securities exchange. The Trust may utilize independent pricing services, quotations from bond dealers, and information with respect to bond and note transactions, to assist in determining a current market value for each security. The Trust's pricing services may use valuation models or matrix pricing which considers information with respect to comparable bond and note transactions, quotations from bond dealers, or by reference to other securities that are considered comparable in such characteristics as rating, interest rate and maturity date, option adjusted spread models, prepayment projections, interest rate spreads and yield curves, to determine current value.

Foreign securities are valued as of the close of trading on the foreign stock exchange on which the security is primarily traded, or the NYSE, whichever is earlier. 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. The value is then converted into its U.S. dollar equivalent at the foreign exchange rate in effect at the close of the NYSE on the day that the value of the foreign security is determined.

The Trust has procedures to determine the fair value of individual securities and other assets for which market prices are not readily available or which may not be reliably priced. Methods for valuing these securities may include: fundamental analysis, 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. Due to the inherent uncertainty of valuations of such securities, the fair values may differ significantly from the values that would have been used had a ready market for such investments existed. Occasionally, events occur between the time at which trading in a security is completed and the close of the NYSE that might call into question the availability (including the reliability) of the value of a portfolio security held by the Fund.

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Mutual Discovery Fund

NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. SECURITY VALUATION (CONTINUED)

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 Depository 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. If such an event occurs, the securities may be valued using fair value procedures, which may include the use of independent pricing services. All security valuation procedures are approved by the Trust's Board of Trustees.

B. FOREIGN CURRENCY TRANSLATION

Portfolio securities and other assets and liabilities denominated in foreign currencies are translated into U.S. dollars based on the exchange rate of such currencies against U.S. dollars on the date of valuation. Purchases and sales of securities, income and expense items denominated in foreign currencies are translated into U.S. dollars at the exchange rate in effect on the transaction date. Occasionally, events 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 Trust's Board of Trustees.

The Fund does not separately report the effect of changes in foreign exchange rates from changes in market prices on securities held. Such changes are included in net realized and unrealized gain or loss from investments on the Statement of Operations.

Realized foreign exchange gains or losses arise from sales of foreign currencies, currency gains or losses realized between the trade and settlement dates on securities transactions and the difference between the recorded amounts of dividends, interest, and foreign withholding taxes and the U.S. dollar equivalent of the amounts actually received or paid. Net unrealized foreign exchange gains and losses arise from changes in foreign exchange rates on foreign denominated assets and liabilities other than investments in securities held at the end of the reporting period.

C. FOREIGN CURRENCY CONTRACTS

When the Fund purchases or sells foreign securities it may enter into foreign exchange contracts to minimize foreign exchange risk from the trade date to the settlement date of the transactions. A foreign exchange contract is an agreement between two parties to exchange different currencies at an agreed upon exchange rate at a future date. Realized and unrealized gains and losses on these contracts are included in the Statement of Operations.

The Fund may also enter into forward exchange contracts to hedge against fluctuations in foreign exchange rates. These contracts are valued daily by the Fund and the unrealized gains or losses on the contracts, as measured by the difference between the contractual forward foreign exchange rates and the forward rates at the reporting date, are included in the Statement of Assets and Liabilities. Realized and unrealized gains and losses on these contracts are included in the Statement of Operations.

NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. FOREIGN CURRENCY CONTRACTS (CONTINUED)

The risks of these contracts include movement in the values of the foreign currencies relative to the U.S. dollar and the possible inability of the counterparties to fulfill their obligations under the contracts, which may be in excess of the amount reflected in the Statement of Assets and Liabilities.

D. SYNTHETIC EQUITY SWAPS

The Fund may engage in synthetic equity swaps. Synthetic equity swaps are contracts entered into between a broker and the Fund under which the parties agree to make payments to each other so as to replicate the economic consequences that would apply had a purchase or short sale of the underlying security taken place. Upon entering into synthetic equity swaps, the Fund is required to pledge to the broker an amount of cash and/or other assets equal to a certain percentage of the contract amount (margin account). Periodically, payments are made to recognize changes in value of the contract resulting from interest on the notional value of the contract, market value changes in the underlying security, and/or dividends paid by the issuer of the underlying security. The Fund recognizes a realized gain or loss when cash is received from, or paid to, the broker. Synthetic equity swaps are valued daily by the Fund and the unrealized gains or losses on the contracts (as measured by the difference between the contract amount plus or minus cash received or paid and the market value of the underlying securities) are recorded in the Statement of Operations. The margin account and any net unrealized gains or losses on open synthetic equity swaps are included in the Statement of Assets and Liabilities. The risks of entering into synthetic equity swaps include unfavorable price movements in the underlying securities or the inability of the counterparties to fulfill their obligations under the contract.

E. OPTIONS

The Fund may purchase or write options. Options are contracts entitling the holder to purchase or sell securities, currencies, or other financial instruments at a specified price or exchange rate, or, in the case of index options, to receive or pay the difference between the index value and the strike price of the index option. Options purchased are recorded as investments; options written (sold) are recorded as liabilities. Upon closing of an option which results in a cash settlement, the difference between the premium (original option value) and the settlement proceeds is realized as a gain or loss. When securities are acquired or delivered upon exercise of an option, the acquisition cost or sale proceeds are adjusted by the amount of the premium. When an option expires, the premium is realized as a gain for options written or as a loss for options purchased. The risks include the possibility there may be an illiquid options market or the inability of the counterparties to fulfill their obligations under the contract. Writing options involves, to varying degrees, elements of market risk in excess of the amount recognized in the Statement of Assets and Liabilities.

NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. SECURITIES SOLD SHORT

The Fund may engage in selling securities short, which obligates the Fund to replace a borrowed security with the same security at current market value. The Fund incurs a loss if the price of the security increases between the date of the short sale and the date on which the fund replaces the borrowed security. The Fund realizes a gain if the price of the security declines between those dates. Gains are limited to the price at which the fund sold the security short, while losses are potentially unlimited in size.

The Fund is required to establish a margin account with the broker lending the security sold short. While the short sale is outstanding, the broker retains the proceeds of the short sale and the Fund must maintain a deposit with broker consisting of cash and securities having a value equal to a specified percentage of the value of the securities sold short. The Fund is obligated to pay the counterparty any dividends or interest due on securities sold short. Such dividends and interest are recorded as an expense to the Fund.

G. SECURITIES LENDING

The Fund may loan securities to certain brokers through a securities lending agent for which it receives initial cash collateral against the loaned securities in an amount equal to at least 102% of the market value of the loaned securities. Collateral is maintained over the life of the loan in an amount not less than 100% of the market value of loaned securities, as determined at the close of fund business each day; any additional collateral required due to changes in security values is delivered to the Fund on the next business day. The collateral is invested in short-term instruments as noted in the Statement of Investments. The Fund receives interest income from the investment of cash collateral, adjusted by lender fees and broker rebates. The Fund bears the risk of loss with respect to the investment of the collateral and the securities loaned. The securities lending agent has agreed to indemnify the Fund in the case of default of any securities borrower.

H. INCOME TAXES

No provision has been made for U.S. income taxes because it is each Fund's policy to qualify as a regulated investment company under the Internal Revenue Code and to distribute to shareholders substantially all of its taxable income and net realized gains.

Foreign securities held by the Fund may be subject to foreign taxation on dividend and interest income received. Foreign taxes, if any, are recorded based on the tax regulations and rates that exist in the foreign markets in which the Fund invests.

The Fund has reviewed the tax positions taken on federal income tax returns, for each of the three open tax years and as of June 30, 2008, and has determined that no provision for income tax is required in the Fund's financial statements.

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Mutual Discovery Fund

NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. SECURITY TRANSACTIONS, INVESTMENT INCOME, EXPENSES AND DISTRIBUTIONS

Security transactions are accounted for on trade date. Realized gains and losses on security transactions are determined on a specific identification basis. Interest income and estimated expenses are accrued daily. Amortization of premium and accretion of discount on debt securities are included in interest income. Dividend income and dividends declared on securities sold short, are recorded on the ex-dividend date except that certain dividends from foreign securities are recognized as soon as the Fund is notified of the ex-dividend date. Distributions to shareholders are recorded on the ex-dividend date and are determined according to income tax regulations (tax basis). Distributable earnings determined on a tax basis may differ from earnings recorded in accordance with accounting principles generally accepted in the United States of America. These differences may be permanent or temporary. Permanent differences are reclassified among capital accounts to reflect their tax character. These reclassifications have no impact on net assets or the results of operations. Temporary differences are not reclassified, as they may reverse in subsequent periods.

Common expenses incurred by the Trust are allocated among the funds based on the ratio of net assets of each fund to the combined net assets of the Trust. Fund specific expenses are charged directly to the fund that incurred the expense.

Realized and unrealized gains and losses and net investment income, other than class specific expenses, are allocated daily to each class of shares based upon the relative proportion of net assets of each class. Differences in per share distributions, by class, are generally due to differences in class specific expenses.

J. ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

K. REDEMPTION FEES

A short term trading redemption fee will be imposed, with some exceptions, on any Fund shares that are redeemed or exchanged within seven calendar days

following their purchase date. The redemption fee is 2% of the amount redeemed. Such fees are retained by the Fund and accounted for as an addition to paid-in capital.

Mutual Discovery Fund

NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1. GUARANTEES AND INDEMNIFICATIONS

Under the Trust's organizational documents, its officers and trustees are indemnified by the Trust against certain liabilities arising out of the performance of their duties to the Trust. Additionally, in the normal course of business, the Trust, on behalf of the Fund, enters into contracts with service providers that contain general indemnification clauses. The Trust's maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Trust that have not yet occurred. Currently, the Trust expects the risk of loss to be remote.

2. SHARES OF BENEFICIAL INTEREST

At June 30, 2008, there were an unlimited number of shares authorized (without par value). Transactions in the Fund's shares were as follows:

<TABLE>
<CAPTION>

	SIX MONTHS ENDED JUNE 30, 2008		YEAR ENDED DECEMBER 31, 2007	
	SHARES	AMOUNT	SHARES	AMOUNT
<S>	<C>	<C>	<C>	<C>
CLASS Z SHARES:				
Shares sold	9,165,253	\$ 279,616,950	24,056,002	\$ 798,541,198
Shares issued in reinvestment of distributions	--	--	5,514,378	177,662,386
Shares redeemed	(9,517,312)	(290,891,175)	(12,948,159)	(429,524,758)
Net increase (decrease)	(352,059)	\$ (11,274,225)	16,622,221	\$ 546,678,826
CLASS A SHARES:				
Shares sold	34,682,306	\$1,047,888,226	99,655,862	\$ 3,253,322,579
Shares issued in reinvestment of distributions	--	--	10,564,327	336,532,210
Shares redeemed	(30,955,162)	(930,226,390)	(35,803,944)	(1,167,411,865)
Net increase (decrease)	3,727,144	\$ 117,661,836	74,416,245	\$ 2,422,442,924
CLASS B SHARES:				
Shares sold	345,223	\$ 10,196,822	764,950	\$ 24,471,455
Shares issued in reinvestment of distributions	--	--	272,720	8,514,149
Shares redeemed	(1,033,579)	(30,386,798)	(1,535,785)	(49,189,397)
Net increase (decrease)	(688,356)	\$ (20,189,976)	(498,115)	\$ (16,203,793)
CLASS C SHARES:				
Shares sold	8,846,547	\$ 264,578,211	27,970,919	\$ 903,746,320
Shares issued in reinvestment of distributions	--	--	2,910,663	91,972,642
Shares redeemed	(9,263,935)	(275,568,294)	(9,203,919)	(297,836,279)
Net increase (decrease)	(417,388)	\$ (10,990,083)	21,677,663	\$ 697,882,683
CLASS R SHARES:				
Shares sold	1,392,869	\$ 41,938,263	3,907,963	\$ 126,322,542
Shares issued in reinvestment of distributions	--	--	333,189	10,535,932
Shares redeemed	(994,815)	(29,688,816)	(1,480,501)	(48,060,453)
Net increase (decrease)	398,054	\$ 12,249,447	2,760,651	\$ 88,798,021

</TABLE>

NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

3. TRANSACTIONS WITH AFFILIATES

Franklin Resources, Inc. is the holding company for various subsidiaries that together are referred to as Franklin Templeton Investments. Certain officers and trustees of the Trust are also officers and/or directors of the following subsidiaries:

SUBSIDIARY	AFFILIATION
Franklin Mutual Advisers, LLC (Franklin Mutual)	Investment manager
Franklin Templeton Investment Management Limited (FTIML)	Investment manager
Franklin Templeton Services, LLC (FT Services)	Administrative manager
Franklin Templeton Distributors, Inc. (Distributors)	Principal underwriter
Franklin Templeton Investor Services, LLC (Investor Services)	Transfer agent

A. MANAGEMENT FEES

The Fund pays an investment management fee to Franklin Mutual based on the average daily net assets of the Fund as follows:

ANNUALIZED FEE RATE	NET ASSETS
0.800%	Up to and including \$4 billion
0.770%	Over \$4 billion, up to and including \$7 billion
0.750%	Over \$7 billion, up to and including \$10 billion
0.730%	Over \$10 billion, up to and including \$13 billion
0.710%	Over \$13 billion, up to and including \$16 billion
0.690%	In excess of \$ 16 billion

Under a subadvisory agreement, FTIML, an affiliate of Franklin Mutual, provides subadvisory services to the Fund and receives from Franklin Mutual fees based on the average daily net assets of the Fund.

B. ADMINISTRATIVE FEES

The Fund pays its allocated share of an administrative fee to FT Services based on the Trust's aggregate average daily net assets as follows:

ANNUALIZED FEE RATE	NET ASSETS
0.150%	Up to and including \$200 million
0.135%	Over \$200 million, up to and including \$700 million
0.100%	Over \$700 million, up to and including \$1.2 billion
0.075%	In excess of \$ 1.2 billion

C. DISTRIBUTION FEES

The Fund's Board of Trustees has adopted distribution plans for each share class, with the exception of Class Z shares, pursuant to Rule 12b-1 under the 1940 Act. Under the Fund's Class A reimbursement distribution plan, the Fund reimburses Distributors for costs incurred in connection with the servicing, sale and distribution of the Fund's shares up to the maximum annual plan rate. Under the Class A reimbursement distribution plan, costs exceeding the maximum for the current plan year cannot be reimbursed in subsequent periods.

NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

3. TRANSACTIONS WITH AFFILIATES (CONTINUED)

C. DISTRIBUTION FEES (CONTINUED)

In addition, under the Fund's Class B, C, and R compensation distribution plans, the Fund pays Distributors for costs incurred in connection with the servicing, sale and distribution of the Fund's shares up to the maximum annual plan rate for each class.

The maximum annual plan rates, based on the average daily net assets, for each class, are as follows:

<S>	<C>
Class A ...	0.35%
Class B ...	1.00%
Class C ...	1.00%
Class R ...	0.50%

D. SALES CHARGES/UNDERWRITING AGREEMENTS

Distributors has advised the Fund of the following commission transactions related to the sales and redemptions of the Fund's shares for the period:

<S>	<C>
Sales charges retained net of commissions paid to unaffiliated broker/dealers	\$2,486,598
Contingent deferred sales charges retained	\$ 362,055

E. TRANSFER AGENT FEES

For the period ended June 30, 2008, the Fund paid transfer agent fees of \$9,688,565, of which \$5,082,474 was retained by Investor Services.

4. EXPENSE OFFSET ARRANGEMENT

The Fund has entered into an arrangement with its custodian whereby credits realized as a result of uninvested cash balances are used to reduce a portion of the Fund's custodian expenses. During the period ended June 30, 2008, the custodian fees were reduced as noted in the Statement of Operations.

5. INCOME TAXES

For tax purposes, realized currency losses, occurring subsequent to October 31, may be deferred and treated as occurring on the first day of the following fiscal year. At December 31, 2007, the Fund deferred realized currency losses of \$1,763,159.

Mutual Discovery Fund

NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

5. INCOME TAXES (CONTINUED)

At June 30, 2008, the cost of investments and net unrealized appreciation (depreciation) for income tax purposes were as follows:

<S>	<C>
Cost of investments.....	\$13,780,231,246
Unrealized appreciation.....	\$ 3,148,584,373
Unrealized depreciation.....	(1,255,896,048)
Net unrealized appreciation (depreciation)...	\$ 1,892,688,325

Net investment income (loss) differs for financial statement and tax purposes primarily due to differing treatments of defaulted securities, foreign currency transactions, passive foreign investment company shares, pass-through entity income, bond discounts and premiums, synthetic equity swaps, and certain dividends on securities sold short.

Net realized gains (losses) differ for financial statement and tax purposes primarily due to differing treatments of wash sales, defaulted securities, foreign currency transactions, pass-through entity income, bond discounts and premiums, synthetic equity swaps, and certain dividends on securities sold short.

6. INVESTMENT TRANSACTIONS

Purchases and sales of investments (excluding short term securities and securities sold short) for the period ended June 30, 2008, aggregated \$785,599,339 and \$2,047,686,368, respectively.

7. FORWARD EXCHANGE CONTRACTS

At June 30, 2008, the Fund had the following forward exchange contracts outstanding:

<TABLE> <CAPTION>				
	CONTRACT AMOUNT	SETTLEMENT DATE	UNREALIZED GAIN	UNREALIZED LOSS
<S>	<C>	<C>	<C>	<C>
CONTRACTS TO BUY				
24,177,167 British Pound Sterling ..	\$ 47,492,417	8/12/08	\$510,122	\$ --
30,800,000 British Pound Sterling ..	61,041,040	9/10/08	--	(17,691)
126,575,046 Japanese Yen	1,198,673	9/19/08	--	(1,146)
36,280,154 Canadian Dollar	36,223,175	10/27/08	--	(714,800)
7,285,003 Canadian Dollar	7,118,876	10/27/08	11,169	--
CONTRACTS TO SELL				
623,989,899 Swiss Franc	602,203,491	7/07/08	--	(8,709,370)
4,948,840 Swiss Franc	4,960,000	7/07/08	114,873	--
124,410,000 Euro	195,448,110	7/14/08	--	(300,981)
83,200,000 Euro	131,156,480	7/14/08	247,997	--
822,000,000 Danish Krone	170,634,117	7/23/08	--	(2,688,724)
145,139,609 Singapore Dollar	103,755,164	7/24/08	--	(3,055,455)

</TABLE>

Mutual Discovery Fund

NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

7. FORWARD EXCHANGE CONTRACTS (CONTINUED)

<TABLE> <CAPTION>				
	CONTRACT AMOUNT	SETTLEMENT DATE	UNREALIZED GAIN	UNREALIZED LOSS
<S>	<C>	<C>	<C>	<C>
CONTRACTS TO SELL (CONTINUED)				
19,624,210 Singapore Dollar	\$ 14,500,000	7/24/08	\$ 58,222	\$ --
447,886,205 Euro	657,319,564	7/25/08	--	(46,978,241)
217,805,000 British Pound Sterling ..	423,419,093	8/12/08	--	(9,021,701)
656,824,703 Euro	1,014,970,983	8/13/08	--	(16,880,943)
664,121,200 Danish Krone	138,743,742	8/25/08	--	(1,041,327)
144,000,000 Euro	225,498,960	8/28/08	--	(550,961)
300,000,000 British Pound Sterling ..	588,160,000	9/10/08	--	(6,178,286)
727,014,796 Swedish Krona	118,785,053	9/16/08	--	(1,376,525)
21,242,626,400 Japanese Yen	217,902,127	9/19/08	16,914,681	--
155,000,000 Euro	241,219,200	9/24/08	--	(1,760,754)
588,520,016,315 South Korean Won	584,307,000	9/29/08	23,546,498	--
1,560,689,259 Norwegian Krone	305,186,399	10/10/08	1,820,376	--
119,850,000 Euro	185,318,063	10/14/08	--	(2,362,827)
1,124,890,507 Danish Krone	232,263,119	10/23/08	--	(3,742,502)
160,023,784 Canadian Dollar	156,471,872	10/27/08	--	(147,553)
96,325,000 British Pound Sterling ..	185,801,292	11/12/08	--	(4,097,773)
189,100,000 Euro	291,417,794	11/13/08	--	(4,237,452)
403,212,173 Norwegian Krone	77,956,946	11/19/08	--	(113,207)
274,496,710 Norwegian Krone	53,625,000	11/19/08	476,803	--
144,000,000 Euro	224,382,240	11/28/08	--	(581,738)
38,180,252 New Zealand Dollar	28,444,288	12/10/08	121,603	--
136,937,943 Euro	211,076,146	12/15/08	--	(2,663,577)
13,916,705,803 Japanese Yen	144,065,277	12/19/08	11,645,492	--
Unrealized gain (loss) on forward exchange contracts			55,467,836	(117,223,534)
NET UNREALIZED LOSS ON FORWARD EXCHANGE CONTRACTS				\$ (61,755,698)

</TABLE>

8. CONCENTRATION OF RISK

Investing in foreign securities may include certain risks and considerations not typically associated with investing in U.S. securities, such as fluctuating currency values and changing local and regional economic, political and social

conditions, which may result in greater market volatility. In addition, certain foreign securities may not be as liquid as U.S. securities.

9. CREDIT RISK AND DEFAULTED SECURITIES

The Fund may purchase the pre-default or defaulted debt of distressed companies. Distressed companies are financially troubled and are about to be/or are already involved in financial restructuring or bankruptcy. The Fund does not accrue income on these securities, if it becomes probable that the income will not be collected. Risks associated with purchasing these securities include the possibility that the bankruptcy or other restructuring process takes longer than expected, or that distributions in restructuring are less than anticipated, either or both of which

Mutual Discovery Fund

NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

9. CREDIT RISK AND DEFAULTED SECURITIES (CONTINUED)

may result in unfavorable consequences to the Fund. At June 30, 2008, the aggregate value of these securities was \$20,053,167, representing 0.13% of the Fund's net assets. For information as to specific securities, see the accompanying Statement of Investments.

10. RESTRICTED SECURITIES

The Fund may invest in securities that are restricted under the Securities Act of 1933 (1933 Act) or which are subject to legal, contractual, or other agreed upon restrictions on resale. Restricted securities are often purchased in private placement transactions, and cannot be sold without prior registration unless the sale is pursuant to an exemption under the 1933 Act. Disposal of these securities may require greater effort and expense, and prompt sale at an acceptable price may be difficult. The Fund may have registration rights for restricted securities. The issuer generally incurs all registration costs.

At June 30, 2008, the Fund held investments in restricted securities, excluding 144A securities deemed to be liquid, valued in accordance with procedures approved by the Trust's Board of Trustees as reflecting fair value, as follows:

<TABLE>
<CAPTION>
PRINCIPAL AMOUNT/
SHARES/WARRANTS/
CONTRACTS

ISSUER	ACQUISITION DATES	COST	VALUE
352,895 AboveNet Inc.	10/02/01 - 12/12/07	\$17,427,178	\$ 17,644,750
464 AboveNet Inc., stock grant, grant price \$20.95, expiration date 9/09/13	4/17/06 - 9/08/06	--	12,922
12,673 AboveNet Inc., wts., 9/08/08	10/02/01 - 9/07/07	1,506,203	405,536
14,911 AboveNet Inc., wts., 9/08/10	10/02/01 - 9/07/07	1,843,189	429,437
66,860 Augsburg Re AG	5/25/06	66,860	--
768,890 Augsburg Re AG, zero cpn., 8/31/08	5/25/06	768,890	--
9,005,073 Cerberus CG Investor I LLC	7/26/07 - 6/17/08	9,005,073	4,689,039
7,903,600 Cerberus CG Investor I LLC, 12.00%, 7/31/14	7/26/07	7,903,600	4,115,490
9,005,073 Cerberus CG Investor II LLC	7/26/07 - 6/17/08	9,005,073	4,689,039
7,903,600 Cerberus CG Investor II LLC, 12.00%, 7/31/14	7/26/07	7,903,600	4,115,490
4,502,537 Cerberus CG Investor III LLC	7/26/07 - 6/17/08	4,502,537	2,344,519
3,951,800 Cerberus CG Investor III LLC, 12.00%, 7/31/14	7/26/07	3,951,800	2,057,745
8,723,795 Cerberus FIM Investors Auto Finance LLC	11/20/06	8,723,795	2,910,231
26,153,583 Cerberus FIM investors Auto Finance LLC, 12.00%, 11/22/13	11/21/06	26,153,583	8,724,754
726,666 Cerberus FIM Investors Commercial Finance LLC	11/20/06	726,666	242,414

</TABLE>

Mutual Discovery Fund

NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

10. RESTRICTED SECURITIES (CONTINUED)

<TABLE>				
<CAPTION>				
PRINCIPAL AMOUNT/ SHARES/WARRANTS/ CONTRACTS	ISSUER	ACQUISITION DATES	COST	VALUE
-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
2,179,997	Cerberus FIM Investors Commercial Finance LLC, 12.00%, 11/22/13	11/20/06	\$ 2,179,997	\$ 727,240
1,362,023	Cerberus FIM Investors Commercial Mortgage LLC	11/20/06	1,362,023	454,367
4,086,069	Cerberus FIM Investors Commercial Mortgage LLC, 12.00%, 11/22/13	11/20/06	4,086,069	1,363,100
6,661,738	Cerberus FIM Investors Insurance LLC	11/20/06	6,661,738	2,222,335
19,985,213	Cerberus FIM Investors Insurance LLC, 12.00%, 11/22/13	11/20/06	19,985,213	6,667,005
12,402,778	Cerberus FIM Investors Rescap LLC	11/20/06	12,402,779	4,137,528
37,208,337	Cerberus FIM Investors Rescap LLC, 12.00%, 11/22/13	11/20/06	37,208,336	12,412,585
89,831	(a) Dana Holding Corp., 4.00%, cvt. pfd., B	12/27/07	8,983,100	8,833,379
359,884	DecisionOne Corp.	9/28/99 - 7/18/00	273,004	--
453,956	DecisionOne Corp., 12.00%, 4/15/10	10/29/99 - 4/15/08	759,398	453,956
82,993	DecisionOne Corp., FRN, 7.25%, 5/12/09	7/09/07	82,993	82,993
197,603	DecisionOne Corp., wts., 6/08/17	7/09/07	--	--
3,850,425	Esmark Inc.	11/08/04 - 11/28/07	71,317,488	66,258,113
29,212	FE Capital Holdings Ltd.	8/29/03 - 3/10/08	3,825,606	3,149,787
4,551,501	Imagine Group Holdings Ltd.	8/31/04	46,614,197	55,664,857
3,204,016	International Automotive Components Group Brazil LLC	4/13/06 - 8/21/06	1,923,244	13,200,221
650,533	International Automotive Components Group Japan LLC	9/26/06 - 3/27/07	5,652,170	3,781,934
13,618,870	International Automotive Components Group LLC	1/12/06 - 10/16/06	13,624,192	10,641,785
11,533,276	International Automotive Components Group NA LLC, A	3/30/07 - 10/10/07	11,513,709	8,812,576
3,472,200	International Automotive Components Group NA LLC, 9.00%, 4/01/17	3/30/07	3,524,283	3,472,200
1,135,557	Kindred Healthcare Inc.	5/20/99 - 3/29/06	10,626,030	31,025,688
3,928	Kindred Healthcare Inc., stock grants: grant price \$18.15, expiration date 7/17/11	7/17/02 - 7/17/05	--	36,028
1,175	grant price \$19.87, expiration date 1/01/12	1/01/03 - 1/01/06	--	8,756
1,174	grant price \$6.94, expiration date 1/01/13	1/01/04 - 1/03/07	--	23,929
1,173	grant price \$19.87, expiration date 1/01/14	1/01/04 - 1/01/08	--	8,741
735	grant price \$21.33, expiration date 1/10/15	1/01/06 - 1/10/08	--	4,404
492	grant price \$22.08, expiration date 1/10/16	1/09/07 - 1/10/08	--	2,579

</TABLE>

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Mutual Discovery Fund

NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

10. RESTRICTED SECURITIES (CONTINUED)

<TABLE>				
<CAPTION>				
PRINCIPAL AMOUNT/ SHARES/WARRANTS/ CONTRACTS	ISSUER	ACQUISITION DATES	COST	VALUE
-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
246	Kindred Healthcare Inc., stock grants: (continued) grant price \$19.40, expiration date 1/10/17	1/10/08	\$ --	\$ 1,949
30,383,284	Motor Coach Industries International Inc., FRN, 15.649%, 12/01/08	5/27/04 - 2/29/08	30,383,284	20,052,967
5	Motor Coach Industries International Inc., wts., 5/27/09	3/30/07	--	--

135,864	NCB Warrant Holdings Ltd., A	12/16/05 - 3/10/08	1,430,514	1,328,071
47,160	Olympus Re Holdings Ltd.	12/19/01	4,642,320	142,588
	Pontus I LLC, junior note, 144A, FRN,			
17,328,283	5.231%, 7/24/09	1/22/08	17,328,283	14,868,883
15,652,670	5.685%, 7/24/09	2/25/08	15,652,670	18,791,687
15,244,597	6.475%, 7/24/09	2/12/08	15,244,597	13,109,855
7,622,342	Pontus II Trust, junior note, 144A,			
	FRN, 6.475%, 6/25/09	2/29/08	7,622,342	6,554,965
86,280	PTV Inc., 10.00%, pfd., A	12/07/01- 3/06/02	120,792	43,140
	TOTAL RESTRICTED SECURITIES (2.31%			
	of Net Assets)			\$360,721,557
				=====

</TABLE>

(a) The Fund also invests in unrestricted securities of the issuer, valued at \$6,664,295 as of June 30, 2008.

11. UNFUNDED CAPITAL COMMITMENTS

At June 30, 2008, the Fund had aggregate unfunded capital commitments to investments of \$3,174,017.

12. HOLDINGS OF 5% VOTING SECURITIES OF PORTFOLIO COMPANIES

The 1940 Act defines "affiliated companies" to include investments in portfolio companies in which a fund owns 5% or more of the outstanding voting securities. Investments in "affiliated companies" for the Fund for the period ended June 30, 2008, were as shown below.

<TABLE>

NAME OF ISSUER	NUMBER OF SHARES/ PRINCIPAL AMOUNT HELD AT		GROSS ADDITIONS	GROSS REDUCTIONS	NUMBER OF SHARES/ PRINCIPAL AMOUNT HELD AT		VALUE AT END OF PERIOD	INVESTMENT INCOME	REALIZED CAPITAL GAIN (LOSS)
	BEGINNING OF PERIOD	END OF PERIOD			BEGINNING OF PERIOD	END OF PERIOD			
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
CONTROLLED AFFILIATES (a)									
Hancock Discovery LLC	8,758,216		--	8,758,216	--		\$--	\$--	\$(10,726,352)
							---	---	-----

</TABLE>

Mutual Discovery Fund

NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

12. HOLDINGS OF 5% VOTING SECURITIES OF PORTFOLIO COMPANIES (CONTINUED)

<TABLE>

NAME OF ISSUER	NUMBER OF SHARES/ PRINCIPAL AMOUNT HELD AT		GROSS ADDITIONS	GROSS REDUCTIONS	NUMBER OF SHARES/ PRINCIPAL AMOUNT HELD AT		VALUE AT END OF PERIOD	INVESTMENT INCOME	REALIZED CAPITAL GAIN (LOSS)
	BEGINNING OF PERIOD	END OF PERIOD			BEGINNING OF PERIOD	END OF PERIOD			
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
NON-CONTROLLED AFFILIATES									
Aker Yards ASA	5,752,030		--	--	5,752,030		\$ 76,817,243	\$ --	\$ --
Augsberg Re AG	66,860		--	--	66,860		--	--	--
Augsberg Re AG, zero cpn., 8/31/08	768,890		--	--	768,890		--	--	--
CSM NV	4,036,926		--	--	4,036,926		141,051,710	4,735,067	--
Dockwise Ltd.	12,379,100		--	--	12,379,100		46,192,486	--	--
Esmark Inc.	3,850,425		--	--	3,850,425		66,258,113	--	--
Farmer Brothers Co.	904,637		--	--	904,637		19,133,073	208,066	--
FE Capital Holdings Ltd.	12,017	17,195	--	--	29,212		3,149,787	--	--
Imagine Group Holdings Ltd.	4,551,501		--	--	4,551,501		55,664,857	--	--
International Automotive Components Group Brazil LLC ...	3,204,016		--	--	3,204,016		13,200,221	--	(1,917,450)
International Automotive Components Group Japan LLC	650,533		--	--	650,533		3,781,934	--	(4,692,850)
Kloekner & Co. AG	2,796,264		--	--	2,796,264		159,564,628	2,457,992	--
Marine Harvest	164,857,626	13,851,655	--	--	178,709,281		131,264,526	--	--
TOTAL NON-CONTROLLED AFFILIATES							\$716,078,578	\$7,401,125	\$(6,610,300)
							-----	-----	-----

</TABLE>

(a) Issuer in which the Fund owns 25% or more of the outstanding voting securities.

13. OTHER CONSIDERATIONS

Officers, directors or employees of the Fund's Investment Manager, may serve from time to time as members of boards of directors of companies in which the Fund invests. Such participation may result in the possession by the Investment Manager of material non-public information which, pursuant to the Fund's policies and the requirements of applicable securities laws, could prevent the Fund from trading in the securities of such companies for limited or extended periods of time.

14. REORGANIZATION TO A DELAWARE STATUTORY TRUST

On April 11, 2007, the Board and shareholders approved an Agreement and Plan of Reorganization whereby the investment company would be reorganized and its domicile changed from a Maryland corporation to a Delaware statutory trust. In connection with these changes, the Trust's name was also changed to Franklin Mutual Series Funds, formerly known as the Franklin Mutual Series Funds, Inc. The reorganization became effective on May 1, 2008.

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Mutual Discovery Fund

NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

15. FAIR VALUE MEASUREMENTS

The Fund adopted Financial Accounting Standards Board (FASB) issued FASB Statement No. 157, "Fair Value Measurement" (SFAS 157), on January 1, 2008. SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The Fund has determined that the implementation of SFAS 157 did not have a material impact on the Fund's financial statements.

SFAS 157 establishes a fair value hierarchy that distinguishes between market data obtained from independent sources (observable inputs) and the Trust's own market assumptions (unobservable inputs). These inputs are used in determining the value of the Fund's investments and are summarized in the following fair value hierarchy:

- Level 1 - quoted prices in active markets for identical securities
- Level 2 - other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speed, credit risk, etc.)
- Level 3 - significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments)

The inputs or methodology used for valuing securities are not an indication of the risk associated with investing in those securities.

The following is a summary of the inputs used as of June 30, 2008, in valuing the Fund's assets and liabilities carried at fair value:

<TABLE>

<CAPTION>

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
ASSETS:				
Investments in Securities.....	\$11,517,168,908	\$3,749,468,073	\$406,282,590	\$15,672,919,571
Other Financial Instruments(a)...	--	55,467,836	--	55,467,836
LIABILITIES:				
Other Financial Instruments(a)...	--	117,223,534	--	117,223,534

</TABLE>

(a) Other financial instruments may include net unrealized appreciation (depreciation) of futures, forward exchange contracts, swaps, and unfunded loan commitments.

At June 30, 2008, the reconciliation of assets in which significant unobservable inputs (Level 3) were used in determining the Fund's fair value, is as follows:

<TABLE>

<CAPTION>

INVESTMENTS

IN SECURITIES

<S>	<C>
Beginning Balance - January 1, 2008	\$411,076,030
Net realized gain (loss).....	(142)
Net change in unrealized appreciation (depreciation)...	(71,855,475)
Net purchases (sales)	64,106,130
Transfers in and/or out of Level 3	2,956,047
Ending Balance	\$406,282,590
Net change in unrealized appreciation (depreciation)	=====
attributable to assets still held at end of period....	\$(71,855,475)
	=====

</TABLE>

Mutual Discovery Fund

NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

16. NEW ACCOUNTING PRONOUNCEMENT

In March 2008, FASB issued FASB Statement No. 161, "Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133" (SFAS 161), which expands disclosures about derivative investments and hedging activities. SFAS 161 is effective for fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. The Fund is currently evaluating the impact, if any, of applying the various provisions of SFAS 161.

Mutual Discovery Fund

SHAREHOLDER INFORMATION

BOARD REVIEW OF INVESTMENT MANAGEMENT AGREEMENT

The Board of Trustees (Board), including a majority of the independent trustees, in 2008, approved renewal of the Fund's investment management agreement, as well as the Fund's administrative services agreement. Prior to a meeting of all the trustees for the purpose of considering such renewals, the independent trustees held three meetings solely dedicated to the renewal process (those trustees unable to attend in person were present by telephonic conference means). Throughout the process, the independent trustees received assistance and advice from and met separately with independent counsel. The independent trustees met with and interviewed officers of the investment manager (including portfolio managers), the transfer agent and shareholder services group and the distributor. In approving the renewal of the investment management agreement and the administrative services agreement for the Fund, the Board, including a majority of independent trustees, determined that the existing investment management fee structure was fair and reasonable and that continuance of the agreements was in the best interests of the Fund and its shareholders.

In reaching their decision on the investment management agreement (as well as the administrative services agreement), the trustees took into account information furnished throughout the year at regular Board meetings, as well as information specifically requested and furnished for the renewal process, which culminated in the meetings referred to above for the specific purpose of considering such agreements. Information furnished throughout the year included, among others, reports on the Fund's investment performance, expenses, portfolio composition, portfolio brokerage execution, soft dollars, derivatives, securities lending, portfolio turnover, Rule 12b-1 plans, distribution, shareholder servicing, compliance, pricing of securities and sales and redemptions, along with related financial statements and other information about the scope and quality of services provided by the investment manager and its affiliates and enhancements to such services over the past year. In addition, the trustees received periodic reports throughout the year and during the renewal process relating to compliance with the Fund's investment policies and restrictions. During the renewal process, the independent trustees considered the investment manager's methods of operation within the Franklin Templeton group and its activities on behalf of other clients.

The information obtained by the trustees during the renewal process also included a special report prepared by Lipper, Inc. (Lipper), an independent third-party analyst, comparing the Fund's investment performance and expenses with those of other mutual funds deemed comparable to the Fund as selected by Lipper (Lipper Section 15(c) Report). The trustees reviewed the Lipper Section 15(c) Report and its usefulness in the renewal process with respect to matters such as comparative fees, expenses, expense ratios, performance and volatility.

They concluded that the report continues to be a reliable resource in the performance of their duties. In addition, the trustees received and reviewed a report on the investment manager's (and its parent's) profitability (Profitability Study). Over the past year, the Board and counsel to the independent trustees continued to receive reports on management's handling of recent regulatory actions and pending legal actions against the investment manager and its affiliates. The independent trustees were satisfied with the actions taken to date by management in response to such regulatory and legal proceedings.

Mutual Discovery Fund

SHAREHOLDER INFORMATION (CONTINUED)

BOARD REVIEW OF INVESTMENT MANAGEMENT AGREEMENT (CONTINUED)

In addition to the above and other matters considered by the trustees throughout the course of the year, the following discussion relates to certain primary factors relevant to the Board's decision.

NATURE, EXTENT AND QUALITY OF SERVICES. The trustees reviewed the nature, extent and quality of the services provided by the investment manager. In this regard, they reviewed the Fund's investment approach and concluded that, in their view, it continues to differentiate the Fund from typical core investment products in the mutual fund field. The trustees cited the investment manager's ability to implement the Fund's disciplined value investment approach and its long-term relationship with the Fund as reasons that shareholders choose to invest, and remain invested, in the Fund. The trustees reviewed the Fund's portfolio management team, including its performance, staffing, skills and compensation program. With respect to portfolio manager compensation, management assured the trustees that the Fund's long-term performance is a significant component of incentive-based compensation. The trustees noted that the portfolio manager compensation program aligned the interests of the portfolio managers with that of Fund shareholders. The trustees discussed with management various other products, portfolios and entities that are advised by the investment manager and the allocation of assets and expenses among and within them, as well as their relative fees and reasons for differences with respect thereto and any potential conflicts. During regular Board meetings and the aforementioned meetings of the independent trustees, the trustees received reports and presentations on the investment manager's best execution trading policies. The trustees considered periodic reports provided to them showing that the investment manager complied with the investment policies and restrictions of the Fund as well as other reports periodically furnished to the Board covering matters such as the compliance of portfolio managers and other management personnel with the code of ethics covering the investment management personnel, the adherence to fair value pricing procedures established by the Board and the accuracy of net asset value calculations. The Board noted the extent of the benefits provided to Fund shareholders from being part of the Franklin Templeton group, including the right to exchange investments between funds (same class) without a sales charge, the ability to reinvest Fund dividends into other funds and the right to combine holdings of other funds to obtain reduced sales charges. The trustees considered the significant recent efforts to develop, test and implement compliance procedures established in accordance with SEC requirements. They also reviewed the nature, extent and quality of the Fund's other service agreements to determine that, on an overall basis, Fund shareholders were well served. In this connection, the Board also took into account administrative and transfer agent and shareholder services provided to Fund shareholders by an affiliate of the investment manager, noting continuing expenditures by management to increase and improve the scope of such services, favorable periodic reports on shareholder services conducted by independent third parties and the firsthand experience of individual trustees who deal with the shareholder services group in their capacities as shareholders in one or more of the various Franklin Templeton funds. While such considerations directly affected the trustees' decision in renewing the Fund's administrative services and transfer agent and shareholder services agreement, the Board also considered these commitments as incidental benefits to Fund shareholders deriving from the investment management relationship.

Mutual Discovery Fund

SHAREHOLDER INFORMATION (CONTINUED)

BOARD REVIEW OF INVESTMENT MANAGEMENT AGREEMENT (CONTINUED)

Based on their review, the trustees were satisfied with the nature and quality

of the overall services provided by the investment manager and its affiliates to the Fund and its shareholders and were confident in the abilities of the management team to continue the disciplined value investment approach of the Fund and to provide quality services to the Fund and its shareholders.

INVESTMENT PERFORMANCE. The trustees reviewed and placed significant emphasis on the investment performance of the Fund over the one-, three-, five- and 10-year periods ended December 31, 2007. They considered the history of successful performance of the Fund relative to various benchmarks. As part of their review, they inquired of management regarding benchmarks, style drift and restrictions on permitted investments. Consideration was also given to performance in the context of available levels of cash during the periods. The trustees had meetings during the year, including the meetings referred to above held in connection with the renewal process, with the Fund's portfolio managers to discuss performance. In addition, particular attention in assessing performance was given to the Lipper Section 15(c) Report. That report showed the investment performance of the Fund (Class A shares) in comparison to other funds determined comparable by Lipper.

The comparable funds to the Fund, as chosen by Lipper, included all retail and institutional global multi-cap value funds. The Fund had total returns in the middle performing quintile for the one-year period ended December 31, 2007, and had annualized total returns for the three- and five-year periods in the middle and second lowest performing quintiles, respectively. The trustees noted that the Fund's total return on an annualized basis for the 10-year period ended December 31, 2007, was in the second best performing quintile and exceeded 12%, as shown in the Lipper Section 15(c) Report. The Board was satisfied with such comparative performance noting that the Fund's total return on an annualized basis for the five-year period ended December 31, 2007, exceeded 19%, as shown in the Lipper Section 15(c) Report.

The trustees also compared Fund performance to other industry benchmarks, including measures of risk-adjusted performance of a fund, as part of their evaluation of investment performance. According to the Lipper Section 15(c) Report, the Fund's risk-adjusted performance was in Lipper's best performing quintile of peer funds for the three- and five-year periods ended December 31, 2007, and in the second best performing quintile for the 10-year period ended December 31, 2007. The independent trustees noted that the Fund was awarded a Lipper Fund Award as a result of the Fund's risk-adjusted returns over the three-year period ended December 31, 2007. The trustees concluded that the Fund had continued to perform well in comparison to its various benchmarks and in the context of the Fund's objectives.

COMPARATIVE EXPENSES AND MANAGEMENT PROFITABILITY. The trustees considered the cost of the services provided and to be provided and the profits realized by the investment manager and its affiliates from their respective relationships with the Fund. As part of the approval process, they explored with management the trends in expense ratios over the past three fiscal years.

Mutual Discovery Fund

SHAREHOLDER INFORMATION (CONTINUED)

BOARD REVIEW OF INVESTMENT MANAGEMENT AGREEMENT (CONTINUED)

The trustees noted that the Fund's overall expense ratio has declined over such period. In considering the appropriateness of the management fee and other expenses charged the Fund, the Board took into account various factors including investment performance and matters relating to Fund operations, including, but not limited to, the quality and experience of its portfolio managers and research staff and the effective investment management fee rate charged comparable accounts managed by the Fund's investment manager. The trustees noted that the effective investment management fee of the Fund was within the range of fees charged by the investment manager to other comparable accounts.

Consideration was also given to a comparative analysis in the Lipper Section 15(c) Report of the investment management fee and total expense ratios of the Fund in comparison with those of a group of other funds selected by Lipper as its appropriate Lipper expense group. Prior to making such comparison, the Board relied upon a survey showing that the scope of services covered under the Fund's investment management agreement was similar to those provided by fund managers to other mutual fund groups. In reviewing comparative costs, emphasis was given to the Fund's contractual management fee in comparison with the contractual management fee that would have been charged by other funds within its Lipper expense group assuming they were the same size as the Fund, as well as the actual total expenses of the Fund in comparison with those of its Lipper expense group. The Lipper contractual management fee analysis includes administrative charges as being part of the management fee, and total expenses, for comparative consistency, are shown by Lipper for Fund Class A shares.

The Fund's contractual management fee rate and total expenses were in each case in the second most expensive quintile of its Lipper expense group. The Board believed such expenses were acceptable in view of the Fund's performance and other factors such as the quality and experience of its portfolio managers and research staff and noted that the Fund's contractual fee rate and total expense ratio were within 6 and 2 basis points, respectively, of its Lipper expense group median.

The trustees also reviewed the Profitability Study addressing profitability of Franklin Resources, Inc., from its overall U.S. fund business, as well as profitability of the investment manager to the Fund, from providing investment management and other services to the Fund. The trustees noted that this analysis is reviewed every other year by independent accountants based on agreed-upon methodologies. The trustees reviewed the basis on which such reports are prepared and the reasonableness of the cost allocation methodology utilized in the Profitability Study. The independent trustees reviewed the investment manager's method of assignment and allocation of actual expenses to the Fund, allocations for other accounts managed by the investment manager and the method of allocations in the Profitability Study.

The independent trustees met with management to discuss the Profitability Study. This included, among other things, a comparison of investment management income with investment management expenses of the Fund; comparison of underwriting revenues and expenses; the relative relationship

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Mutual Discovery Fund

SHAREHOLDER INFORMATION (CONTINUED)

BOARD REVIEW OF INVESTMENT MANAGEMENT AGREEMENT (CONTINUED)

of investment management and underwriting expenses; shareholder servicing profitability (losses); economies of scale; and the relative contribution of the Fund to the profitability of the investment manager and its parent. In discussing the Profitability Study with the Board, the investment manager stated its belief that the costs incurred in establishing the infrastructure necessary to operate the type of mutual fund operations conducted by it and its affiliates may not be fully reflected in the expenses allocated to the Fund in determining its profitability.

The trustees considered an additional Lipper study analyzing the profitability of the parent of the investment manager as compared to other publicly held investment managers, which also aided the trustees in considering profitability outside the context of distribution. The Board also took into account management's expenditures in improving shareholder services provided to the Funds, as well as the need to meet additional regulatory and compliance requirements resulting from the Sarbanes-Oxley Act and recent SEC and other regulatory requirements. The trustees also considered the extent to which the investment manager may derive ancillary benefits from Fund operations, including those derived from economies of scale, discussed below, the allocation of Fund brokerage and the use of commission dollars to pay for research and other similar services. The Board noted the interest an affiliate of the investment manager has in a joint venture that financed up-front commissions paid to brokers/dealers who sold Fund Class B shares, noting that the Fund has ceased offering Class B shares and the benefits derived from the Fund as a result of this arrangement will diminish over time.

Based upon their consideration of all these factors, the trustees determined that the level of profits realized by the manager and its affiliates in providing services to the Fund was not excessive in view of the nature, quality and extent of services provided.

ECONOMIES OF SCALE. The Board considered economies of scale realized by the investment manager and its affiliates as the Fund grows larger and the extent to which they are shared with Fund shareholders, as for example, in the level of the investment management fee charged, in the quality and efficiency of services rendered and in increased capital commitments benefiting the Fund directly or indirectly. The trustees noted that, based upon the Profitability Study, as some funds increase in size, at some point economies of scale may result in the investment manager realizing a larger profit margin on investment management services provided such a fund. The trustees also noted that benefits of economies of scale will be shared with Fund shareholders due to the decline in the effective investment management fee rate as breakpoints are achieved by the Fund.

The trustees assessed the savings from the breakpoints that were instituted as part of the Fund's investment management fee in 2004 and 2006 and noted that, as a result of the breakpoints, the Fund and its shareholders experienced savings. The trustees believed that the breakpoints approved in 2004 and 2006 were, and continue to be, appropriate and they agreed to continue to monitor the

appropriateness of the breakpoints. The trustees also considered the effects a continued increase in assets under management would have on the investment management fee of the Fund. To the extent further economies

Mutual Discovery Fund

SHAREHOLDER INFORMATION (CONTINUED)

BOARD REVIEW OF INVESTMENT MANAGEMENT AGREEMENT (CONTINUED)

of scale may be realized by the investment manager and its affiliates, the Board believed the investment management and administrative fees provide a sharing of benefits with the Fund and its shareholders.

PROXY VOTING POLICIES AND PROCEDURES

The Fund's investment manager has established Proxy Voting Policies and Procedures (Policies) that the Fund uses to determine how to vote proxies relating to portfolio securities. Shareholders may view the Fund's complete Policies online at franklintempleton.com. Alternatively, shareholders may request copies of the Policies free of charge by calling the Proxy Group collect at 1-954/527-7678 or by sending a written request to: Franklin Templeton Companies, LLC, 500 East Broward Boulevard, Suite 1500, Fort Lauderdale, FL 33394, Attention: Proxy Group. Copies of the Fund's proxy voting records are also made available online at franklintempleton.com and posted on the U.S. Securities and Exchange Commission's website at sec.gov and reflect the most recent 12-month period ended June 30.

QUARTERLY STATEMENT OF INVESTMENTS

The Fund files a complete statement of investments with the U.S. Securities and Exchange Commission for the first and third quarters for each fiscal year on Form N-Q. Shareholders may view the filed Form N-Q by visiting the Commission's website at sec.gov. The filed form may also be viewed and copied at the Commission's Public Reference Room in Washington, DC. Information regarding the operations of the Public Reference Room may be obtained by calling 1-800/SEC-0330.

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identified by the presence of a regular beeping tone.

477 S2008 08/08

JUNE 30, 2008

(GRAPHIC)

SEMIANNUAL REPORT AND SHAREHOLDER LETTER

INTERNATIONAL

MUTUAL EUROPEAN FUND

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Franklin - Templeton - MUTUAL SERIES

Semiannual Report

Mutual European Fund

YOUR FUND'S GOALS AND MAIN INVESTMENTS: Mutual European Fund seeks capital appreciation, with income as a secondary goal, by investing at least 80% of its net assets in securities of European companies that the manager believes are available at market prices less than their intrinsic value. The Fund defines European companies as issuers organized under the laws of, or whose principal business operations are located in, or who earn at least 50% of their revenue from, European countries, as defined in the prospectus.

This semiannual report for Mutual European Fund covers the period ended June 30, 2008.

PERFORMANCE OVERVIEW

PERFORMANCE DATA REPRESENT PAST PERFORMANCE, WHICH DOES NOT GUARANTEE FUTURE RESULTS. INVESTMENT RETURN AND PRINCIPAL VALUE WILL FLUCTUATE, AND YOU MAY HAVE A GAIN OR LOSS WHEN YOU SELL YOUR SHARES. CURRENT PERFORMANCE MAY DIFFER FROM FIGURES SHOWN. PLEASE VISIT FRANKLINTEMPLETON.COM OR CALL 1-800/342-5236 FOR MOST RECENT MONTH-END PERFORMANCE.

Mutual European Fund - Class Z had a -13.68% cumulative total return for the six months ended June 30, 2008. The Fund underperformed its old benchmark, the Morgan Stanley Capital International (MSCI) All Country (AC) Europe Index, which had a -11.67% total return (in U.S. dollars) for the same period.(1) However, the Fund performed better than its new benchmark, the MSCI Europe Index, which had a -18.90% total return in local currency terms.(2) We are changing the benchmark index because we think the new index better reflects the Fund's portfolio as well as its long-standing policy of hedging European currencies against the U.S. dollar. You can find the Fund's long-term performance data in the Performance Summary beginning on page 10.

ECONOMIC AND MARKET OVERVIEW

During the first half of 2008, the U.S. economy grew marginally as energy prices rose, housing prices declined, the labor situation and consumer demand softened, and a credit crisis originally related to U.S. subprime loan losses

(1.) Source: (C) 2008 Morningstar. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. The MSCI AC Europe Index is a free float-adjusted, market capitalization-weighted index designed to measure equity market performance in the European region.

(2.) Source: MSCI, Inc. The MSCI Europe Index is a market capitalization-weighted index designed to measure equity market performance in the European region and includes reinvested daily net dividends.

THE DOLLAR VALUE, NUMBER OF SHARES OR PRINCIPAL AMOUNT, AND NAMES OF ALL PORTFOLIO HOLDINGS ARE LISTED IN THE FUND'S STATEMENT OF INVESTMENTS (SOI). THE SOI BEGINS ON PAGE 19.

spread globally. Some economists speculated whether the U.S. would enter a recession while others believed one was already under way. Many agreed, however, that the slowing U.S. economy -- which is the world's largest and accounts for roughly 25% of global gross domestic product -- could have a meaningfully negative impact on growth prospects around the world.(3) Nevertheless, growth remained relatively strong in developing economies, particularly in Asia where China-led demand continued to impact commodities' prices and related equities.

GEOGRAPHIC BREAKDOWN

Based on Total Net Assets as of 6/30/08

(BAR CHART)

<TABLE>	<C>
<S>	
Germany	19.8%
France	17.9%
U.K.	11.5%
Switzerland	8.8%
Netherlands	8.7%
U.S.	6.4%
Denmark	5.5%
Italy	4.1%
Sweden	3.5%
Norway	2.8%
Belgium	2.2%
Spain	1.3%
Other	2.1%
Short-Term Investments & Other Net Assets	5.4%

</TABLE>

In the six months under review, prices increased significantly for oil, natural gas, and most agricultural and industrial commodities, as well as for precious metals, adding to global inflationary pressures. Many of the world's monetary authorities faced the choice between lowering short-term interest rates to stimulate growth and raising them to fight inflation, which Merrill Lynch estimated at 5.5% globally at the end of June, up from 3.5% at the beginning of 2008. The U.S. focused on reigniting its economy through fiscal and monetary policies, but the eurozone made controlling inflation its main goal. Accordingly, while the U.S. Federal Reserve Board (Fed) eased rates aggressively down to 2.00% from 4.25%, the European Central Bank maintained rates at 4.00%. Overall, rising inflation led more than three-quarters of the world's central banks to raise rates as of the end of June, according to Merrill Lynch's estimate. Interest rate differentials pressured the U.S. dollar, particularly in the first quarter, but the greenback regained ground as the Fed paused and implied that its next move could be a rate hike. Indicators also signaled growth was slowing outside the U.S. For the period, however, the U.S. dollar declined versus many of the world's currencies, and the dollar's weakness contributed to higher commodities' prices, as most of these prices are set in U.S. dollars.

Against this challenging economic backdrop, many global equity markets were volatile, and a majority of them declined over the six-month period. Despite negative economic data and an outlook for decelerating corporate earnings and profit margins globally, many companies' balance sheets remained relatively strong. Many financial institutions were hurt by their subprime loan exposure, but abundant global liquidity sources such as sovereign wealth funds offered some relief with quick recapitalizations during the period.

During the reporting period, European and U.S. equities exhibited a marked difference in relative performance and valuation. The Standard & Poor's 500 Index (S&P 500) fell 11.91%, while its comparable European counterpart, the

(3.) Source: Global Insight.

TOP 10 SECTORS/INDUSTRIES

Based on Equity Securities as of 6/30/08

<TABLE>	<C>
<CAPTION>	
	% OF TOTAL NET ASSETS -----
<S>	<C>
Food Products	7.0%
Industrial Conglomerates	6.1%
Commercial Banks	6.0%
Insurance	5.3%
Diversified Financial Services	4.9%
Diversified Telecommunication	4.4%

Services	
Air Freight & Logistics	4.3%
Tobacco	4.2%
Chemicals	4.1%
Oil, Gas & Consumable Fuels	3.7%

Dow Jones Euro STOXX 600 (STOXX 600) Index, lost 18.29%. (4) At period-end, the average price-to-earnings (P/E) multiple for the S&P 500 was 14.0 compared with 10.8 for the STOXX 600, while the S&P 500's cash-flow multiples were 8.7% for this year's estimates compared with 6.9% for the STOXX 600. Finally, the dividend yield of the S&P 500 was 2.4%, while the STOXX 600's was 4.1%. We believe either the outlook for corporate earnings growth was significantly better in the U.S. than in Europe, or consensus expectations for European corporate earnings were overly optimistic and might be severely curtailed as the rest of 2008 unfolds. During the period, Europe had no subprime mortgage crisis (even if Spain and the U.K. were feeling the negative effects of past excesses). European consumers were much less indebted than their American counterparts. European industrial companies, on the whole, held low relative debt and produced solid cash flow, the result of an ongoing, decades-long restructuring and deleveraging process.

INVESTMENT STRATEGY

We follow a distinctive value investment approach, which combines investments in what we believe are undervalued common stocks with distressed debt investing and risk arbitrage. Our style aims to provide our shareholders with superior risk-adjusted results over time. We employ rigorous, fundamental analysis to find compelling situations. In our opinion, successful investing is as much about assessing risk and containing losses as it is about achieving profits. In choosing investments, we look at the market price of an individual company's securities relative to our evaluation of its intrinsic value based on factors including book value, cash flow generation, long-term earnings potential and earnings multiples. We may invest in bankrupt or distressed companies if we believe the market overreacted to adverse developments or failed to appreciate positive changes.

In addition, we will generally seek to hedge the Fund's currency exposure when we deem it advantageous for our shareholders.

(4.) Source: (C) 2008 Morningstar. The S&P 500 consists of 500 stocks chosen for market size, liquidity and industry group representation. Each stock's weight in the index is proportionate to its market value. The S&P 500 is one of the most widely used benchmarks of U.S. equity performance. The STOXX 600 is derived from the Dow Jones STOXX Total Market Index(TM) and a subset of the Dow Jones STOXX Global 1800 Index. With a fixed number of 600 components, the index represents large-, mid- and small-capitalization companies across 18 countries in the European region: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the U.K.

MANAGER'S DISCUSSION

Three investments that declined in value during the first half of 2008 were German companies: securities exchange platform provider Deutsche Boerse, electronics and industrial engineering firm Siemens, and vehicle manufacturer Daimler AG.

Shares of Frankfurt-based Deutsche Boerse fell on investor concerns about declining equity and derivatives trade volumes on the exchanges it operates. Despite overall growth in revenues and earnings, the company subsequently confirmed the drop in equity volumes and decelerating derivatives trading growth rates. Thus, Deutsche Boerse shares lost almost 46% in local currency for the six months under review.

Siemens shares, down almost 36% in local currency during 2008's first half, were negatively impacted by macroeconomic concerns. The company also announced significant charges related to legacy contracts in its energy, transport and technology divisions, the magnitude of which surprised the market.

Daimler AG shares fell nearly 38% in local currency on declining U.S. car sales and forecasts for flat sales in Germany, a key market. With oil prices having doubled since June 2007, investors grew concerned about the implications for even lower future sales at Daimler.

Among the top contributors to the Fund's overall return were French transportation infrastructure company Groupe Eurotunnel; Kloeckner & Co., a trader and distributor of steel and metal-based products; and Globe Specialty Metals, a leading producer of silicon metal and silicon-based specialty alloys

used in a number of industrial applications, particularly solar panels.

The Fund benefited from its investments in Groupe Eurotunnel, which owns and operates the undersea English Channel Tunnel, or Chunnel, and its rail link between France and England. The company posted strong operating results and also completed a comprehensive debt restructuring. Mutual Series portfolio managers actively participated on the creditor committee that negotiated Groupe Eurotunnel's restructuring transaction. Overall, the Fund's investment appreciated approximately 17% during the period.

Shares of Germany-based Kloeckner, the largest independent distributor of steel and metal-based products, advanced nearly 36% in local currency during the six-month period. Industry-wide tight inventories and unprecedented steel price increases in Europe and the U.S. drove Kloeckner's earnings significantly higher.

TOP 10 HOLDINGS
6/30/08

COMPANY	% OF TOTAL
SECTOR/INDUSTRY, COUNTRY	NET ASSETS
-----	-----
<S>	<C>
Nestle SA	2.5%
FOOD PRODUCTS, SWITZERLAND	
A.P. Moller-Maersk AG	2.4%
MARINE, DENMARK	
Schindler Holding AG	2.3%
MACHINERY, SWITZERLAND	
E.ON AG	2.3%
ELECTRIC UTILITIES, GERMANY	
British American Tobacco PLC	2.2%
TOBACCO, U.K.	
RWE AG	2.2%
MULTI-UTILITIES, GERMANY	
Koninklijke Philips Electronics NV	2.1%
INDUSTRIAL CONGLOMERATES, NETHERLANDS	
Carrefour SA	2.1%
FOOD & STAPLES RETAILING, FRANCE	
BNP Paribas SA	2.0%
COMMERCIAL BANKS, FRANCE	
Imperial Tobacco Group PLC	2.0%
TOBACCO, U.K.	

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The Fund's investment in London-listed Globe Specialty Metals rose more than 158% in value during the six months under review, largely the result of increases in the price of silicon, one of its major products.

The Fund also benefited from its investments in Dow Jones Euro STOXX index put options, which allow holders to profit if the market declines within a preset period of time. Consistent with Mutual Series' focus on limiting volatility and downside risk, the Fund purchased some index puts with a view to partly protect the Fund's portfolio at a time of significant market dislocation. We do not expect that owning a modest amount of put protection will be a permanent feature of the Fund's investment portfolio. Rather, it is a risk control strategy that we may employ from time to time in periods of unusual market upheavals.

Finally, investors should note that in accordance with our general currency hedging policy, the Fund was predominantly hedged to the U.S. dollar for most of its European holdings throughout the period. As a result, the Fund did not benefit to any meaningful extent from the dollar's weakness compared with most foreign currencies during the first half of 2008.

Consistent with our strategy, we continued to identify suitable "value" investment opportunities across the region, and as a result reduced the Fund's cash position by period-end. This did not reflect a sudden optimism about the region's equity markets. We recognize the ongoing U.S. credit crisis is by no means over. We believe Europe and the world will feel the effects for a while, and it is impossible to guess how long this will last. Even if financial stressors recede, the pressure of rising commodity costs looms large with notable economic, social and political consequences. We have been in similar circumstances before. True to our time-tested investment approach, we have, cautiously and with a keen eye on risk, sought to take advantage of specific situations to invest in what we view to be good businesses at attractive prices.

Thank you for your continued participation in Mutual European Fund.
We look forward to serving your future investment needs.

(PHOTO OF PHILIPPE BRUGERE-TRELAT)

/s/ Philippe Brugere-Trelat
Philippe Brugere-Trelat
Portfolio Manager

(PHOTO OF KATRINA DUDLEY)

/s/ Katrina Dudley
Katrina Dudley, CFA
Assistant Portfolio Manager

Mutual European Fund

THE FOREGOING INFORMATION REFLECTS OUR ANALYSIS, OPINIONS AND PORTFOLIO HOLDINGS AS OF JUNE 30, 2008, THE END OF THE REPORTING PERIOD. THE WAY WE IMPLEMENT OUR MAIN INVESTMENT STRATEGIES AND THE RESULTING PORTFOLIO HOLDINGS MAY CHANGE DEPENDING ON FACTORS SUCH AS MARKET AND ECONOMIC CONDITIONS. THESE OPINIONS MAY NOT BE RELIED UPON AS INVESTMENT ADVICE OR AN OFFER FOR A PARTICULAR SECURITY. THE INFORMATION IS NOT A COMPLETE ANALYSIS OF EVERY ASPECT OF ANY MARKET, COUNTRY, INDUSTRY, SECURITY OR THE FUND. STATEMENTS OF FACT ARE FROM SOURCES CONSIDERED RELIABLE, BUT THE INVESTMENT MANAGER MAKES NO REPRESENTATION OR WARRANTY AS TO THEIR COMPLETENESS OR ACCURACY. ALTHOUGH HISTORICAL PERFORMANCE IS NO GUARANTEE OF FUTURE RESULTS, THESE INSIGHTS MAY HELP YOU UNDERSTAND OUR INVESTMENT MANAGEMENT PHILOSOPHY.

PHILIPPE BRUGERE-TRELAT has been lead portfolio manager for Mutual European Fund since 2005. He has been a member of the management team of the Mutual Series Funds since 2004, when he rejoined Franklin Templeton Investments. Previously, he was president and portfolio manager of Eurovest. Between 1984 and 1994, Mr. Brugere-Trelat was employed at Heine Securities Corporation, the Fund's former manager.

KATRINA DUDLEY has been assistant portfolio manager for Mutual European Fund since 2007. She follows industrial companies (foreign and domestic) including transportation, manufacturers, machinery, electrical equipment and general industrial, as well as domestic health care companies. Prior to joining Franklin Templeton Investments in 2002, Ms. Dudley was an investment analyst at Federated Investors, Inc., responsible for the technology and health care sectors. From 1995 to 2001, Ms. Dudley was a senior manager in the corporate finance division of Ernst & Young LLP, where she specialized in valuation and litigation consulting.

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Performance Summary as of 6/30/08

Your dividend income will vary depending on dividends or interest paid by securities in the Fund's portfolio, adjusted for operating expenses of each class. Capital gain distributions are net profits realized from the sale of portfolio securities. The performance table does not reflect any taxes that a shareholder would pay on Fund dividends, capital gain distributions, if any, or any realized gains on the sale of Fund shares. Total return reflects reinvestment of the Fund's dividends and capital gain distributions, if any, and any unrealized gains or losses.

PRICE INFORMATION

<TABLE>
<CAPTION>
CLASS Z (SYMBOL: MEURX) CHANGE 6/30/08 12/31/07

<S> <C> <C> <C>
Net Asset Value (NAV) -\$3.60 \$22.72 \$26.32
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<TABLE>
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CLASS A (SYMBOL: TEMIX) CHANGE 6/30/08 12/31/07

<S> <C> <C> <C>
Net Asset Value (NAV) -\$3.57 \$22.29 \$25.86

</TABLE>

<TABLE>

<CAPTION>

CLASS B (SYMBOL: TEUBX)	CHANGE	6/30/08	12/31/07
<S>	<C>	<C>	<C>
Net Asset Value (NAV)	-\$3.56	\$21.68	\$25.24

</TABLE>

<TABLE>

<CAPTION>

CLASS C (SYMBOL: TEURX)	CHANGE	6/30/08	12/31/07
<S>	<C>	<C>	<C>
Net Asset Value (NAV)	-\$3.64	\$22.18	\$25.82

</TABLE>

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Performance Summary (CONTINUED)

PERFORMANCE (1)

CUMULATIVE TOTAL RETURN EXCLUDES SALES CHARGES. AVERAGE ANNUAL TOTAL RETURN AND VALUE OF \$10,000 INVESTMENT INCLUDE MAXIMUM SALES CHARGES. CLASS Z: NO SALES CHARGES; CLASS A: 5.75% MAXIMUM INITIAL SALES CHARGE; CLASS B: CONTINGENT DEFERRED SALES CHARGE (CDSC) DECLINING FROM 4% TO 1% OVER SIX YEARS, AND ELIMINATED THEREAFTER; CLASS C: 1% CDSC IN FIRST YEAR ONLY. UNTIL AUGUST 31, 2008, THE FUND MAY CHARGE A 2% FEE ON REDEMPTIONS MADE WITHIN SEVEN DAYS OF PURCHASE.

<TABLE>

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CLASS Z	6-MONTH	1-YEAR	5-YEAR	10-YEAR
<S>	<C>	<C>	<C>	<C>
Cumulative Total Return(2)	-13.68%	-13.37%	+120.59%	+218.56%
Average Annual Total Return(3)	-13.68%	-13.37%	+17.14%	+12.28%
Value of \$10,000 Investment(4)	\$ 8,632	\$ 8,663	\$ 22,059	\$ 31,856
Total Annual Operating Expenses(5)		1.04%		

</TABLE>

<TABLE>

<CAPTION>

CLASS A	6-MONTH	1-YEAR	5-YEAR	10-YEAR
<S>	<C>	<C>	<C>	<C>
Cumulative Total Return(2)	-13.81%	-13.62%	+117.22%	+207.17%
Average Annual Total Return(3)	-18.77%	-18.59%	+15.41%	+11.22%
Value of \$10,000 Investment(4)	\$ 8,123	\$ 8,141	\$ 20,478	\$ 28,953
Total Annual Operating Expenses(5)		1.34%		

</TABLE>

<TABLE>

<CAPTION>

CLASS B	6-MONTH	1-YEAR	5-YEAR	INCEPTION (1/1/99)
<S>	<C>	<C>	<C>	<C>
Cumulative Total Return(2)	-14.10%	-14.22%	+109.95%	+233.00%
Average Annual Total Return(3)	-17.54%	-17.38%	+15.77%	+13.51%
Value of \$10,000 Investment(4)	\$ 8,246	\$ 8,262	\$ 20,795	\$ 33,300
Total Annual Operating Expenses(5)		2.04%		

</TABLE>

<TABLE>

<CAPTION>

CLASS C	6-MONTH	1-YEAR	5-YEAR	10-YEAR
<S>	<C>	<C>	<C>	<C>
Cumulative Total Return(2)	-14.10%	-14.23%	+110.04%	+188.58%
Average Annual Total Return(3)	-14.96%	-15.02%	+16.00%	+11.18%
Value of \$10,000 Investment(4)	\$ 8,504	\$ 8,498	\$ 21,004	\$ 28,858
Total Annual Operating Expenses(5)		2.04%		

</TABLE>

PERFORMANCE DATA REPRESENT PAST PERFORMANCE, WHICH DOES NOT GUARANTEE FUTURE RESULTS. INVESTMENT RETURN AND PRINCIPAL VALUE WILL FLUCTUATE, AND YOU MAY HAVE A GAIN OR LOSS WHEN YOU SELL YOUR SHARES. CURRENT PERFORMANCE MAY DIFFER FROM FIGURES SHOWN. FOR MOST RECENT MONTH-END PERFORMANCE, SEE "FUNDS AND PERFORMANCE" AT FRANKLINTEMPLETON.COM OR CALL 1-800/342-5236.

Performance Summary (CONTINUED)

ENDNOTES

VALUE SECURITIES MAY NOT INCREASE IN PRICE AS ANTICIPATED OR MAY DECLINE FURTHER IN VALUE. BECAUSE THE FUND INVESTS IN ISSUERS LOCATED IN EUROPE, IT MAY EXPERIENCE GREATER VOLATILITY THAN A GEOGRAPHICALLY DIVERSIFIED FUND. FOREIGN SECURITIES RISKS INCLUDE EXPOSURE TO CURRENCY FLUCTUATIONS AND ECONOMIC AND POLITICAL UNCERTAINTIES. IN ADDITION, THE FUND'S INVESTMENTS IN SMALLER-COMPANY STOCKS CARRY AN INCREASED RISK OF PRICE FLUCTUATION, ESPECIALLY OVER THE SHORT TERM. THE FUND MAY ALSO INVEST IN COMPANIES ENGAGED IN MERGERS, REORGANIZATIONS OR LIQUIDATIONS, WHICH INVOLVE CERTAIN RISKS, AS PENDING DEALS MAY NOT BE COMPLETED ON TIME OR ON FAVORABLE TERMS, AS WELL AS LOWER-RATED BONDS, WHICH ENTAIL HIGHER CREDIT RISK. THE FUND'S PROSPECTUS ALSO INCLUDES A DESCRIPTION OF THE MAIN INVESTMENT RISKS.

CLASS Z: Shares are available to certain eligible investors as described in the prospectus.

CLASS A: Prior to 8/3/98, these shares were offered at a lower initial sales charge; thus actual total returns may differ.

CLASS B: These shares have higher annual fees and expenses than Class A shares.

CLASS C: Prior to 1/1/04, these shares were offered with an initial sales charge; thus actual total returns would have differed. These shares have higher annual fees and expenses than Class A shares.

- (1.) Past expense reductions by the Fund's manager increased the Fund's total returns. If the manager had not taken this action, the Fund's total returns would have been lower.
- (2.) Cumulative total return represents the change in value of an investment over the periods indicated.
- (3.) Average annual total return represents the average annual change in value of an investment over the periods indicated. Six-month return has not been annualized.
- (4.) These figures represent the value of a hypothetical \$10,000 investment in the Fund over the periods indicated.
- (5.) Figures are as stated in the Fund's prospectus current as of the date of this report.

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Your Fund's Expenses

As a Fund shareholder, you can incur two types of costs:

- Transaction costs, including sales charges (loads) on Fund purchases and redemption fees; and
- Ongoing Fund costs, including management fees, distribution and service (12b-1) fees, and other Fund expenses. All mutual funds have ongoing costs, sometimes referred to as operating expenses.

The following table shows ongoing costs of investing in the Fund and can help you understand these costs and compare them with those of other mutual funds. The table assumes a \$1,000 investment held for the six months indicated.

ACTUAL FUND EXPENSES

The first line (Actual) for each share class listed in the table provides actual account values and expenses. The "Ending Account Value" is derived from the Fund's actual return, which includes the effect of Fund expenses.

You can estimate the expenses you paid during the period by following these steps. OF COURSE, YOUR ACCOUNT VALUE AND EXPENSES WILL DIFFER FROM THOSE IN THIS ILLUSTRATION:

1. Divide your account value by \$1,000.
IF AN ACCOUNT HAD AN \$8,600 VALUE, THEN $\$8,600 / \$1,000 = 8.6$.
2. Multiply the result by the number under the heading "Expenses Paid During

Period."

IF EXPENSES PAID DURING PERIOD WERE \$7.50, THEN 8.6 X \$7.50 = \$64.50.

In this illustration, the estimated expenses paid this period are \$64.50.

HYPOTHETICAL EXAMPLE FOR COMPARISON WITH OTHER FUNDS

Information in the second line (Hypothetical) for each class in the table can help you compare ongoing costs of investing in the Fund with those of other mutual funds. This information may not be used to estimate the actual ending account balance or expenses you paid during the period. The hypothetical "Ending Account Value" is based on the actual expense ratio for each class and an assumed 5% annual rate of return before expenses, which does not represent the Fund's actual return. The figure under the heading "Expenses Paid During Period" shows the hypothetical expenses your account would have incurred under this scenario. You can compare this figure with the 5% hypothetical examples that appear in shareholder reports of other funds.

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Your Fund's Expenses (CONTINUED)

PLEASE NOTE THAT EXPENSES SHOWN IN THE TABLE ARE MEANT TO HIGHLIGHT ONGOING COSTS AND DO NOT REFLECT ANY TRANSACTION COSTS, SUCH AS SALES CHARGES OR REDEMPTION FEES. Therefore, the second line for each class is useful in comparing ongoing costs only, and will not help you compare total costs of owning different funds. In addition, if transaction costs were included, your total costs would have been higher. Please refer to the Fund prospectus for additional information on operating expenses.

<TABLE>
<CAPTION>

	BEGINNING ACCOUNT VALUE 1/1/08	ENDING ACCOUNT VALUE 6/30/08	EXPENSES PAID DURING PERIOD* 1/1/08-6/30/08
<S>	<C>	<C>	<C>
CLASS Z			
Actual	\$1,000	\$ 863.20	\$ 5.05
Hypothetical (5% return before expenses)	\$1,000	\$1,019.44	\$ 5.47
CLASS A			
Actual	\$1,000	\$ 861.90	\$ 6.34
Hypothetical (5% return before expenses)	\$1,000	\$1,018.05	\$ 6.87
CLASS B			
Actual	\$1,000	\$ 859.00	\$ 9.66
Hypothetical (5% return before expenses)	\$1,000	\$1,014.47	\$10.47
CLASS C			
Actual	\$1,000	\$ 859.00	\$ 9.66
Hypothetical (5% return before expenses)	\$1,000	\$1,014.47	\$10.47

</TABLE>

* Expenses are calculated using the most recent six-month expense ratio, annualized for each class (Z: 1.09%; A: 1.37%; B: 2.09%; and C: 2.09%), multiplied by the average account value over the period, multiplied by 182/366 to reflect the one-half year period.

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MUTUAL EUROPEAN FUND

FINANCIAL HIGHLIGHTS

<TABLE>
<CAPTION>

CLASS Z	SIX MONTHS ENDED JUNE 30, 2008 (UNAUDITED)	YEAR ENDED DECEMBER 31,				
	2007	2006	2005	2004	2003	
<S>	<C>	<C>	<C>	<C>	<C>	
PER SHARE OPERATING PERFORMANCE (for a share outstanding throughout the period)						
Net asset value, beginning of period	\$ 26.32	\$ 24.59	\$ 21.30	\$ 19.75	\$ 16.79	\$ 12.97
Income from investment operations(a):						
Net investment income(b)	0.47	0.46	0.62	0.42	0.37	0.32
Net realized and unrealized gains (losses)...	(4.07)	3.74	5.08	3.11	3.21	3.93

Total from investment operations	(3.60)	4.20	5.70	3.53	3.58	4.25
Less distributions from:						
Net investment income	--	(0.68)	(0.66)	(0.55)	(0.60)	(0.43)
Net realized gains	--	(1.79)	(1.75)	(1.43)	(0.02)	--
Total distributions	--	(2.47)	(2.41)	(1.98)	(0.62)	(0.43)
Redemption fees	-- (c)	-- (c)	-- (c)	-- (c)	-- (c)	-- (c)
Net asset value, end of period	\$ 22.72	\$ 26.32	\$ 24.59	\$ 21.30	\$ 19.75	16.79
Total return(d)	(13.68)%	17.15%	27.30%	18.03%	21.58%	32.84%
RATIOS TO AVERAGE NET ASSETS (e)						
Expenses(f)	1.09% (g)	1.04% (g)	1.05% (g)	1.05% (g)	1.07% (g)	1.08%
Expenses - excluding dividend expense on securities sold short	1.05% (g)	1.04% (g)	1.04% (g)	1.04% (g)	1.07% (g)	1.08%
Net investment income	3.92%	1.65%	2.64%	1.99%	2.10%	2.19%
SUPPLEMENTAL DATA						
Net assets, end of period (000's)	\$1,071,226	\$1,250,521	\$1,034,000	\$788,228	\$650,547	\$498,667
Portfolio turnover rate	15.18%	39.60%	37.65%	29.84%	33.11%	52.33%

</TABLE>

(a) The amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations 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) Amount rounds to less than \$0.01 per share.

(d) Total return is not annualized for periods less than one year.

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

(f) Includes dividend expense on securities sold short which varies from period to period. See below for expense ratios that reflect only operating expenses.

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

The accompanying notes are an integral part of these financial statements.

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Mutual European Fund

FINANCIAL HIGHLIGHTS (CONTINUED)

<TABLE>

<CAPTION>

CLASS A	SIX MONTHS ENDED	YEAR ENDED DECEMBER 31,				
	JUNE 30, 2008 (UNAUDITED)	2007	2006	2005	2004	2003
<S>	<C>	<C>	<C>	<C>	<C>	<C>
PER SHARE OPERATING PERFORMANCE (for a share outstanding throughout the period)						
Net asset value, beginning of period.....	\$ 25.86	\$ 24.19	\$ 20.99	\$ 19.50	\$ 16.59	\$ 12.83
Income from investment operations(a):						
Net investment income(b).....	0.43	0.36	0.56	0.34	0.31	0.26
Net realized and unrealized gains (losses)...	(4.00)	3.70	4.98	3.07	3.16	3.88
Total from investment operations.....	(3.57)	4.06	5.54	3.41	3.47	4.14
Less distributions from:						
Net investment income.....	--	(0.60)	(0.59)	(0.49)	(0.54)	(0.38)
Net realized gains.....	--	(1.79)	(1.75)	(1.43)	(0.02)	--
Total distributions.....	--	(2.39)	(2.34)	(1.92)	(0.56)	(0.38)
Redemption fees.....	-- (c)	-- (c)	-- (c)	-- (c)	-- (c)	-- (c)
Net asset value, end of period.....	\$ 22.29	\$ 25.86	\$ 24.19	\$ 20.99	\$ 19.50	\$ 16.59

Total return(d).....	(13.81)%	16.86%	26.96%	17.56%	21.23%	32.34%
RATIOS TO AVERAGE NET ASSETS (e)						
Expenses (f).....	1.37% (g)	1.34% (g)	1.34% (g)	1.38% (g)	1.42% (g)	1.43%
Expenses - excluding dividend expense on securities sold short.....	1.33% (g)	1.34% (g)	1.33% (g)	1.37% (g)	1.42% (g)	1.43%
Net investment income.....	3.64%	1.35%	2.35%	1.66%	1.75%	1.84%
SUPPLEMENTAL DATA						
Net assets, end of period (000's).....	\$1,075,842	\$1,333,176	\$964,717	\$707,995	\$545,120	\$417,630
Portfolio turnover rate.....	15.18%	39.60%	37.65%	29.84%	33.11%	52.33%

</TABLE>

- (a) The amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations 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) Amount rounds to less than \$0.01 per share.
- (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 expense on securities sold short which varies from period to period. See below for expense ratios that reflect only operating expenses.
- (g) Benefit of expense reduction rounds to less than 0.01%.

The accompanying notes are an integral part of these financial statements.

Mutual European Fund

FINANCIAL HIGHLIGHTS (CONTINUED)

<TABLE>

<CAPTION>

CLASS B	SIX MONTHS ENDED	YEAR ENDED DECEMBER 31,				
	JUNE 30, 2008 (UNAUDITED)	2007	2006	2005	2004	2003
<S>	<C>	<C>	<C>	<C>	<C>	<C>
PER SHARE OPERATING PERFORMANCE (for a share outstanding throughout the period)						
Net asset value, beginning of period.....	\$ 25.24	\$ 23.65	\$ 20.58	\$ 19.14	\$ 16.31	\$ 12.64
Income from investment operations(a):						
Net investment income(b).....	0.33	0.18	0.38	0.21	0.19	0.16
Net realized and unrealized gains (losses)...	(3.89)	3.60	4.87	3.01	3.10	3.81
Total from investment operations.....	(3.56)	3.78	5.25	3.22	3.29	3.97
Less distributions from:						
Net investment income.....	--	(0.40)	(0.43)	(0.35)	(0.44)	(0.30)
Net realized gains.....	--	(1.79)	(1.75)	(1.43)	(0.02)	--
Total distributions.....	--	(2.19)	(2.18)	(1.78)	(0.46)	(0.30)
Redemption fees.....	-- (c)	-- (c)	-- (c)	-- (c)	-- (c)	-- (c)
Net asset value, end of period.....	\$ 21.68	\$ 25.24	\$ 23.65	\$ 20.58	\$ 19.14	\$ 16.31
Total return(d).....	(14.10)%	16.05%	26.01%	16.87%	20.41%	31.45%
RATIOS TO AVERAGE NET ASSETS (e)						
Expenses (f).....	2.09% (g)	2.04% (g)	2.05% (g)	2.05% (g)	2.07% (g)	2.08%
Expenses - excluding dividend expense on securities sold short	2.05% (g)	2.04% (g)	2.04% (g)	2.04% (g)	2.07% (g)	2.08%
Net investment income.....	2.92%	0.65%	1.64%	0.99%	1.10%	1.19%
SUPPLEMENTAL DATA						
Net assets, end of period (000's).....	\$49,841	\$65,317	\$63,219	\$55,303	\$50,216	\$38,526
Portfolio turnover rate.....	15.18%	39.60%	37.65%	29.84%	33.11%	52.33%

</TABLE>

- (a) The amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations 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) Amount rounds to less than \$0.01 per share.
- (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 expense on securities sold short which varies from period to period. See below for expense ratios that reflect only operating expenses.
- (g) Benefit of expense reduction rounds to less than 0.01%.

The accompanying notes are an integral part of these financial statements.

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Mutual European Fund

FINANCIAL HIGHLIGHTS (CONTINUED)

CLASS C	SIX MONTHS	YEAR ENDED DECEMBER 31,				
	ENDED JUNE 30, 2008 (UNAUDITED)	2007	2006	2005	2004	2003
<S>	<C>	<C>	<C>	<C>	<C>	<C>
PER SHARE OPERATING PERFORMANCE (for a share outstanding throughout the period)						
Net asset value, beginning of period.....	\$ 25.82	\$ 24.17	\$ 20.98	\$ 19.50	\$ 16.60	\$ 12.85
Income from investment operations(a):						
Net investment income(b).....	0.34	0.17	0.38	0.21	0.20	0.17
Net realized and unrealized gains (losses)...	(3.98)	3.69	4.99	3.05	3.15	3.87
Total from investment operations.....	(3.64)	3.86	5.37	3.26	3.35	4.04
Less distributions from:						
Net investment income.....	--	(0.42)	(0.43)	(0.35)	(0.43)	(0.29)
Net realized gains.....	--	(1.79)	(1.75)	(1.43)	(0.02)	--
Total distributions.....	--	(2.21)	(2.18)	(1.78)	(0.45)	(0.29)
Redemption fees.....	-- (c)	-- (c)	-- (c)	-- (c)	-- (c)	-- (c)
Net asset value, end of period.....	\$ 22.18	\$ 25.82	\$ 24.17	\$ 20.98	\$ 19.50	\$ 16.60
Total return(d).....	(14.10)%	16.03%	26.10%	16.78%	20.43%	31.49%
RATIOS TO AVERAGE NET ASSETS(e)						
Expenses(f).....	2.09% (g)	2.04% (g)	2.05% (g)	2.05% (g)	2.07% (g)	2.08%
Expenses - excluding dividend expense on securities sold short.....	2.05% (g)	2.04% (g)	2.04% (g)	2.04% (g)	2.07% (g)	2.08%
Net investment income.....	2.92%	0.65%	1.64%	0.99%	1.10%	1.19%
SUPPLEMENTAL DATA						
Net assets, end of period (000's).....	\$305,404	\$384,861	\$303,259	\$242,894	\$205,197	\$166,758
Portfolio turnover rate.....	15.18%	39.60%	37.65%	29.84%	33.11%	52.33%

</TABLE>

- (a) The amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations 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) Amount rounds to less than \$0.01 per share.
- (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 expense on securities sold short which varies from period to period. See below for expense ratios that reflect only operating expenses.
- (g) Benefit of expense reduction rounds to less than 0.01%.

The accompanying notes are an integral part of these financial statements.

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Mutual European Fund

STATEMENT OF INVESTMENTS, JUNE 30, 2008 (UNAUDITED)

<TABLE>
<CAPTION>

	COUNTRY	SHARES/WARRANTS/ CONTRACTS	VALUE
<S>	<C>	<C>	<C>
COMMON STOCKS AND OTHER EQUITY INTERESTS 89.3%			
AIR FREIGHT & LOGISTICS 4.3%			
Geodis Post AG.	Germany	1,807,249	\$ 47,039,328
Geodis SA.	France	53,673	11,238,607
TNT NV.	Netherlands	1,470,540	50,292,929

			108,570,864

AUTO COMPONENTS 0.8%			
(a) Goodyear Tire & Rubber Co.	United States	1,150,310	20,510,027

AUTOMOBILES 1.7%			
Daimler AG.	Germany	690,054	42,593,116

BEVERAGES 3.5%			
Carlsberg AS, A.	Denmark	28,600	2,759,638
Carlsberg AS, B.	Denmark	468,810	45,285,371
Pernod Ricard SA.	France	374,851	38,513,187

			86,558,196

CAPITAL MARKETS 0.5%			
D. Carnegie & Co. AB.	Sweden	855,858	11,437,203

CHEMICALS 4.1%			
Akzo Nobel NV.	Netherlands	67,000	4,606,052
Koninklijke DSM NV.	Netherlands	711,489	41,866,008
Lanxess.	Germany	245,850	10,095,970
Linde AG.	Germany	238,239	33,499,211
Sika AG.	Switzerland	8,141	12,815,201

			102,882,442

COMMERCIAL BANKS 6.0%			
Banco Popolare SpA.	Italy	1,109,785	19,711,434
BNP Paribas SA.	France	560,850	50,814,405
Danske Bank AS.	Denmark	1,003,366	29,023,509
Hypo Real Estate Holding AG.	Germany	312,168	8,734,661
Intesa Sanpaolo SpA.	Italy	2,921,263	16,685,850
Societe Generale, A.	France	299,375	26,063,479

			151,033,338

COMMUNICATIONS EQUIPMENT 1.0%			
Telefonaktiebolaget LM Ericsson, B.	Sweden	2,188,993	22,820,558
Telefonaktiebolaget LM Ericsson, B, ADR.	Sweden	134,200	1,395,680

			24,216,238

CONSTRUCTION MATERIALS 0.4%			
CRH PLC.	Ireland	357,799	10,110,603

DIVERSIFIED FINANCIAL SERVICES 4.9%			
Deutsche Boerse AG.	Germany	255,721	28,866,574

Fortis	Belgium	2,208,066	35,359,268
(a) Fortis VVPR Strip	Belgium	442,602	6,969
Groupe Bruxelles Lambert SA	Belgium	173,914	20,705,420
Guinness Peat Group PLC	United Kingdom	10,354,556	10,798,187
Ifil SpA	Italy	33,980	220,975

</TABLE>

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Mutual European Fund

STATEMENT OF INVESTMENTS, JUNE 30, 2008 (UNAUDITED) (CONTINUED)

<TABLE>

<CAPTION>

	COUNTRY	SHARES/WARRANTS/ CONTRACTS	VALUE
<S>	<C>	<C>	<C>
COMMON STOCKS AND OTHER EQUITY INTERESTS (CONTINUED)			
DIVERSIFIED FINANCIAL SERVICES (CONTINUED)			
Investor AB, B	Sweden	834,321	\$ 17,624,354
(a, b) Marconi Corp., Contingent Distribution	United Kingdom	28,582,000	--
Oslo Bors VPS Holding ASA	Norway	340,000	8,480,302

			122,062,049

DIVERSIFIED TELECOMMUNICATION SERVICES 4.4%			
(a, c, d) AboveNet Inc.	United States	88,848	4,442,400
(a, c, d) AboveNet Inc., stock grant, grant price \$20.95, expiration date 9/09/13	United States	117	3,258
(a, c, d) AboveNet Inc., wts., 9/08/08	United States	3,214	102,848
(a, c, d) AboveNet Inc., wts., 9/08/10	United States	3,781	108,893
Koninklijke (Royal) KPN NV	Netherlands	2,362,961	40,555,832
Telecom Italia SpA	Italy	16,785,098	33,830,165
Telefonica SA	Spain	1,202,001	31,948,284

			110,991,680

ELECTRIC UTILITIES 2.9%			
E.ON AG	Germany	280,020	56,477,380
Electricite de France	France	180,900	17,187,556

			73,664,936

ENERGY EQUIPMENT & SERVICES 1.9%			
Bourbon SA	France	373,667	23,234,971
(a) Compagnie Generale de Geophysique SA	France	236,970	11,212,646
(a) Petroleum Geo-Services ASA	Norway	233,063	5,721,528
Seadrill Ltd.	Bermuda	266,180	8,142,020

			48,311,165

FOOD & STAPLES RETAILING 2.1%			
Carrefour SA.....	France	906,000	51,300,092

FOOD PRODUCTS 7.0%			
Cadbury PLC.....	United Kingdom	1,678,343	21,148,770
CSM NV.....	Netherlands	816,226	28,519,243
Groupe Danone.....	France	556,240	39,063,157
Leroy Seafood Group ASA.....	Norway	6,693	127,174
Nestle SA.....	Switzerland	1,370,370	61,924,894
Premier Foods PLC.....	United Kingdom	5,959,452	11,338,447
Rieber & Son ASA.....	Norway	1,548,350	13,577,483

			175,699,168

HEALTH CARE PROVIDERS & SERVICES 0.9%			
Rhoen-Klinikum AG.....	Germany	746,476	23,508,023

HOTELS, RESTAURANTS & LEISURE 2.6%			
Accor SA.....	France	539,877	36,069,334
Enterprise Inns PLC.....	United Kingdom	3,499,111	28,302,684

			64,372,018

</TABLE>

STATEMENT OF INVESTMENTS, JUNE 30, 2008 (UNAUDITED) (CONTINUED)

<TABLE>
<CAPTION>

	COUNTRY	SHARES/WARRANTS/ CONTRACTS	VALUE
<S>	<C>	<C>	<C>
COMMON STOCKS AND OTHER EQUITY INTERESTS (CONTINUED)			
INDUSTRIAL CONGLOMERATES 6.1%			
C.I.R. SpA	Italy	7,562,312	\$ 20,897,868
Koninklijke Philips Electronics NV	Netherlands	1,526,224	51,932,988
(d) Orkla ASA	Norway	2,445,205	31,406,655
Siemens AG	Germany	442,535	48,860,713

			153,098,224

INSURANCE 5.3%			
Allianz SE	Germany	211,250	37,191,837
Assicurazioni Generali SpA	Italy	313,073	12,013,551
Brit Insurance Holdings PLC	United Kingdom	1,307,310	4,570,878
Lancashire Holdings Ltd.	United Kingdom	1,639,810	9,996,750
(a, c) Olympus Re Holdings Ltd.	United States	16,080	48,618
White Mountains Insurance Group Ltd.	United States	57,372	24,612,588
Zurich Financial Services AG	Switzerland	175,140	44,835,154

			133,269,376

MACHINERY 3.6%			
AB SKF, B	Sweden	2,101,767	32,971,494
Schindler Holding AG	Switzerland	406,243	30,284,292
Schindler Holding AG, Registered	Switzerland	352,315	26,384,824

			89,640,610

MARINE 2.4%			
A.P. Moller - Maersk AS	Denmark	4,819	59,013,977

MEDIA 3.5%			
(a) Eutelsat Communications	France	1,179,018	32,841,164
JC Decaux SA	France	317,411	8,091,687
(a) Premiere AG	Germany	702,674	15,490,027
Virgin Media Inc.	United Kingdom	1,632,505	22,218,393
WPP Group PLC	United Kingdom	990,271	9,553,611

			88,194,882

METALS & MINING 3.5%			
Alcoa Inc.	United States	386,190	13,756,088
(a, e) Globe Specialty Metals Inc., 144A	United States	1,593,600	47,409,600
(a) New World Resources BV	Czech Republic	427,259	15,151,481
Rio Tinto PLC, ADR	United Kingdom	24,200	11,979,000

			88,296,169

MULTI-UTILITIES 3.3%			
RWE AG	Germany	433,364	54,555,880
Suez SA	France	394,784	26,879,148

			81,435,028

MULTILINE RETAIL 0.9%			
(a) Arcandor AG	Germany	40,000	462,303
Jelmoli Holding AG	Switzerland	8,844	22,900,029

			23,362,332

</TABLE>

STATEMENT OF INVESTMENTS, JUNE 30, 2008 (UNAUDITED) (CONTINUED)

<TABLE>
<CAPTION>

COUNTRY	SHARES/WARRANTS/ CONTRACTS	VALUE
---------	-------------------------------	-------

<S>	<C>	<C>	<C>
COMMON STOCKS AND OTHER EQUITY INTERESTS (CONTINUED)			
OIL, GAS & CONSUMABLE FUELS 3.7%			
(a, c, f) Euro Wagon LP	Jersey Islands	16,127,149	\$ 20,209,714
Ganger Rolf	Norway	264,340	11,602,967
Royal Dutch Shell PLC, A	United Kingdom	701,451	28,866,233
Total SA, B	France	364,598	31,116,005
			91,794,919
PAPER & FOREST PRODUCTS 0.2%			
Mondi PLC	United Kingdom	938,283	5,542,458
PHARMACEUTICALS 0.9%			
Novartis AG	Switzerland	395,784	21,794,273
REAL ESTATE 0.1%			
(g) Canary Wharf Group PLC	United Kingdom	192,100	1,492,326
REAL ESTATE MANAGEMENT & DEVELOPMENT 0.3%			
IVG Holding AG	Germany	394,090	7,775,293
THRIFTS & MORTGAGE FINANCE 0.6%			
Aareal Bank AG	Germany	639,934	15,678,880
TOBACCO 4.2%			
British American Tobacco PLC	United Kingdom	1,581,901	54,805,324
Imperial Tobacco Group PLC	United Kingdom	1,349,474	50,301,644
			105,106,968
TRADING COMPANIES & DISTRIBUTORS 1.7%			
Kloeckner & Co. AG	Germany	446,701	25,490,326
Wolseley PLC	United Kingdom	2,227,703	16,709,603
			42,199,929
TRANSPORTATION INFRASTRUCTURE 0.0% (h)			
(a) Groupe Eurotunnel SA, wts., 12/30/11	France	444,134	181,827
TOTAL COMMON STOCKS AND OTHER EQUITY INTERESTS (COST \$ 1,904,450,274)			
			2,235,698,629
PREFERRED STOCKS 1.5%			
AUTOMOBILES 1.5%			
Porsche Automobile Holding SE, pfd.	Germany	239,870	36,905,000
DIVERSIFIED TELECOMMUNICATION SERVICES 0.0% (h)			
(c) PTV Inc., 10.00%, pfd., A	United Kingdom	46,841	23,421
TOTAL PREFERRED STOCKS (COST \$ 53,009,824)			
			36,928,421
OPTIONS PURCHASED 2.0%			
PUT OPTIONS 2.0%			
(a) Dow Jones EUROSTOXX 50, exercise price \$3,350.00, expiration date 3/20/09, contracts	United States	111,587	23,976,699
(a) Dow Jones EUROSTOXX 50, exercise price \$3,350.00, expiration date 3/25/09, contracts	United States	37,500	8,215,875

</TABLE>

Mutual European Fund

STATEMENT OF INVESTMENTS, JUNE 30, 2008 (UNAUDITED) (CONTINUED)

<TABLE>
<CAPTION>

<S>	COUNTRY	CONTRACTS	VALUE
<C>	<C>	<C>	<C>
OPTIONS PURCHASED (CONTINUED)			
PUT OPTIONS 2.0% (CONTINUED)			
(a) Dow Jones EUROSTOXX 50, exercise price \$3,200.00, expiration date 6/19/09, contracts	United States	79,488	\$ 17,260,024
(a) Volkswagen AG, exercise price \$ 170.00, expiration date 12/19/08, contracts	Germany	500	624,329
TOTAL OPTIONS PURCHASED (COST \$ 36,209,792)			
			50,076,927

</TABLE>

<TABLE>
<CAPTION>

PRINCIPAL AMOUNT (I) /
SHARES

<S>	<C>	<C>	<C>
CORPORATE BONDS & NOTES 1.8%			
Groupe Eurotunnel SA, cvt., sub. bond,			
NRS I, T1, 3.00%, 7/28/08	France	8,000 EUR	31,269
NRS I, T1, 3.00%, 7/28/08	France	9,616 GBP	51,345
NRS I, T2, 3.00%, 7/28/09	France	8,000 EUR	30,639
NRS I, T2, 3.00%, 7/28/09	France	9,616 GBP	50,387
NRS I, T3, 3.00%, 7/28/10	France	3,439,700 EUR	12,902,981
NRS I, T3, 3.00%, 7/28/10	France	2,751,256 GBP	14,141,983
NRS II, 6.00%, 7/28/10	France	3,677,100 EUR	8,045,907
NRS II, 6.00%, 7/28/10	France	3,470,425 GBP	9,577,117
TOTAL CORPORATE BONDS & NOTES (COST \$ 35,321,420) ...			44,831,628
COMPANIES IN LIQUIDATION 0.0%			
(a, c) Augsburg Re AG	Switzerland	17,909	--
(c) Augsburg Re AG, zero cpn ., 8/31/08	Switzerland	205,953	--
TOTAL COMPANIES IN LIQUIDATION (COST \$ 223,862)			--
TOTAL INVESTMENTS BEFORE SHORT TERM INVESTMENTS (COST \$ 2,029,215,712)			2,367,535,605
SHORT TERM INVESTMENTS 4.3%			
U.S. GOVERNMENT AND AGENCY SECURITIES 4.3%			
(j) FHLB,			
7/01/08 - 4/09/09	United States	77,057,000	76,574,351
7/02/08	United States	30,000,000	29,998,230
TOTAL U.S. GOVERNMENT AND AGENCY SECURITIES (COST \$ 106,558,410)			106,572,581
TOTAL INVESTMENTS (COST \$2,135,773,582) 98.9%			2,474,108,186
NET UNREALIZED LOSS ON FORWARD EXCHANGE CONTRACTS (1.5)%			(38,888,121)
OTHER ASSETS, LESS LIABILITIES 2.6%			67,092,577
NET ASSETS 100.0%			\$2,502,312,642

</TABLE>

CURRENCY ABBREVIATIONS

EUR - Euro
GBP - British Pound Sterling

SELECTED PORTFOLIO ABBREVIATIONS

ADR - American Depositary Receipt
FHLB - Federal Home Loan Bank

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Mutual European Fund

STATEMENT OF INVESTMENTS, JUNE 30, 2008 (UNAUDITED) (CONTINUED)

- (a) Non-income producing for the twelve months ended June 30, 2008.
- (b) Contingent distributions represent the right to receive additional distributions, if any, during the reorganization of the underlying company. Shares represent total underlying principal of debt securities.
- (c) See Note 10 regarding restricted securities.
- (d) See Note 12 regarding other considerations.
- (e) Security was purchased pursuant to Rule 144A under the Securities Act of 1933 and may be sold in transactions exempt from registration only to qualified institutional buyers or in a public offering registered under the Securities Act of 1933. This security has been deemed liquid under guidelines approved by the Trust's Board of Trustees. At June 30, 2008, the value of this security was \$47,409,600, representing 1.89% of net assets.
- (f) See Note 11 regarding holdings of 5% voting securities.
- (g) Security has been deemed illiquid because it may not be able to be sold

within seven days. At June 30, 2008, the value of this security was \$1,492,326, representing 0.06% of net assets.

- (h) Rounds to less than 0.1% of net assets.
- (i) The principal amount is stated in U.S. dollars unless otherwise indicated.
- (j) The security is traded on a discount basis with no stated coupon rate.

The accompanying notes are an integral part of these financial statements.

Mutual European Fund

FINANCIAL STATEMENTS

STATEMENT OF ASSETS AND LIABILITIES
June 30, 2008 (unaudited)

<TABLE>	
<S>	<C>
Assets:	
Investments in securities:	
Cost - Unaffiliated issuers	\$2,129,559,803
Cost - Controlled affiliated issuers (Note 11)	6,213,779

Total cost of investments	\$2,135,773,582
	=====
Value - Unaffiliated issuers	\$2,453,898,472
Value - Controlled affiliated issuers (Note 11)	20,209,714

Total value of investments	2,474,108,186
Foreign currency, at value (cost \$27,946,668)	27,944,024
Receivables:	
Investment securities sold	43,769,563
Capital shares sold	1,045,351
Dividends and interest	6,452,935
Unrealized gain on forward exchange contracts (Note 8)	583,093
Due from broker - synthetic equity swaps (Note 7)	1,249,675

Total assets	2,555,152,827

Liabilities:	
Payables:	
Investment securities purchased	137,216
Capital shares redeemed	9,288,073
Affiliates	3,264,809
Funds advanced by custodian	85,628
Unrealized loss on forward exchange contracts (Note 8)	39,471,214
Accrued expenses and other liabilities	593,245

Total liabilities	52,840,185

Net assets, at value	\$2,502,312,642
	=====
Net assets consist of:	
Paid-in capital	\$1,980,362,900
Undistributed net investment income	51,044,597
Net unrealized appreciation (depreciation)	298,699,324
Accumulated net realized gain (loss)	172,205,821

Net assets, at value	\$2,502,312,642
	=====

</TABLE>

The accompanying notes are an integral part of these financial statements.

Mutual European Fund

FINANCIAL STATEMENTS (CONTINUED)

STATEMENT OF ASSETS AND LIABILITIES (CONTINUED)
June 30, 2008 (unaudited)

<TABLE> <C>
<S>

CLASS Z:	
Net assets, at value	\$1,071,226,338
Shares outstanding	47,146,258
Net asset value and maximum offering price per share(a).....	\$ 22.72
CLASS A:	
Net assets, at value	\$1,075,841,941
Shares outstanding	48,264,170
Net asset value per share(a).....	\$ 22.29
Maximum offering price per share (net asset value per share / 94.25%) ...	\$ 23.65
CLASS B:	
Net assets, at value	\$ 49,840,627
Shares outstanding	2,298,922
Net asset value and maximum offering price per share(a).....	\$ 21.68
CLASS C:	
Net assets, at value	\$ 305,403,736
Shares outstanding	13,771,251
Net asset value and maximum offering price per share(a).....	\$ 22.18

</TABLE>

(a) Redemption price is equal to net asset value less contingent deferred sales charges, if applicable, and redemption fees retained by the Fund.

The accompanying notes are an integral part of these financial statements.

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Mutual European Fund

FINANCIAL STATEMENTS (CONTINUED)

STATEMENT OF OPERATIONS
for the six months ended June 30, 2008 (unaudited)

<TABLE>	
<S>	
<C>	
Investment income:	
Dividends (net of foreign taxes of \$8,911,690)	\$ 64,427,255
Interest	3,799,885
Income from securities loaned	17,721
Total investment income	68,244,861
Expenses:	
Management fees (Note 3a)	10,572,508
Administrative fees (Note 3b)	1,036,321
Distribution fees: (Note 3c)	
Class A	1,675,774
Class B	280,418
Class C	1,688,133
Transfer agent fees (Note 3e)	2,006,097
Custodian fees (Note 4)	376,698
Reports to shareholders	81,173
Registration and filing fees	94,769
Professional fees	112,341
Trustees' fees and expenses	26,238
Dividends on securities sold short	495,791
Other	27,679
Total expenses	18,473,940
Expense reductions (Note 4)	(2,858)
Net expenses	18,471,082
Net investment income	49,773,779
Realized and unrealized gains (losses):	
Net realized gain (loss) from:	
Investments:	

Unaffiliated issuers	186,720,928
Non-controlled affiliated issuers (Note 11)	26,692,621
Written options	1,311,609
Foreign currency transactions	(118,022,526)
Securities sold short	(502,575)
Synthetic equity swaps	1,484

Net realized gain (loss)	96,201,541

Net change in unrealized appreciation (depreciation) on:	
Investments	(532,624,944)
Translation of assets and liabilities denominated in foreign currencies	(27,848,954)

Net change in unrealized appreciation (depreciation)	(560,473,898)

Net realized and unrealized gain (loss)	(464,272,357)

Net increase (decrease) in net assets resulting from operations	\$ (414,498,578)
	=====

</TABLE>

The accompanying notes are an integral part of these financial statements.

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Mutual European Fund

FINANCIAL STATEMENTS (CONTINUED)

STATEMENTS OF CHANGES IN NET ASSETS

<TABLE>

<CAPTION>

	SIX MONTHS ENDED JUNE 30, 2008 (UNAUDITED)	YEAR ENDED DECEMBER 31, 2007
	-----	-----
	<C>	<C>
Increase (decrease) in net assets:		
Operations:		
Net investment income	\$ 49,773,779	\$ 38,303,729
Net realized gain (loss) from investments, written options, securities sold short, synthetic equity swaps, and foreign currency transactions	96,201,541	292,362,144
Net change in unrealized appreciation (depreciation) on investments and translation of assets and liabilities denominated in foreign currencies	(560,473,898)	76,646,805
	-----	-----
Net increase (decrease) in net assets resulting from operations	(414,498,578)	407,312,678
	-----	-----
Distributions to shareholders from:		
Net investment income:		
Class Z	--	(29,457,929)
Class A	--	(28,346,985)
Class B	--	(963,571)
Class C	--	(5,742,756)
Net realized gains:		
Class Z	--	(77,736,999)
Class A	--	(84,839,816)
Class B	--	(4,299,240)
Class C	--	(24,673,303)
	-----	-----
Total distributions to shareholders	--	(256,060,599)
	-----	-----
Capital share transactions: (Note 2)		
Class Z	(7,621,903)	143,919,250
Class A	(76,222,636)	313,315,961
Class B	(6,628,128)	(2,507,612)
Class C	(26,596,155)	62,682,338
	-----	-----
Total capital share transactions	(117,068,822)	517,409,937
	-----	-----
Redemption fees	5,686	17,946
	-----	-----
Net increase (decrease) in net assets	(531,561,714)	668,679,962
Net assets:		
Beginning of period	3,033,874,356	2,365,194,394
	-----	-----
End of period	\$2,502,312,642	\$3,033,874,356
	=====	=====

Undistributed net investment income included in net assets:		
End of period	\$ 51,044,597	\$ 1,270,818
	=====	=====

</TABLE>

The accompanying notes are an integral part of these financial statements.

Mutual European Fund

NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Franklin Mutual Series Funds (Trust) is registered under the Investment Company Act of 1940, as amended, (1940 Act) as an open-end investment company, consisting of six separate funds. The Mutual European Fund (Fund) included in this report is diversified. The financial statements of the remaining funds in the Trust are presented separately. The Fund offers four classes of shares: Class Z, Class A, Class B, and Class C. Each class of shares differs by its initial sales load, contingent deferred sales charges, distribution fees, voting rights on matters affecting a single class and its exchange privilege.

The following summarizes the Fund's significant accounting policies.

A. SECURITY VALUATION

Securities listed on a securities exchange or on the NASDAQ National Market System are valued at the last quoted sale price or the official closing price of the day, respectively. Over-the-counter securities and listed securities for which there is no reported sale are valued within the range of the most recent quoted bid and ask prices. Securities that trade in multiple markets or on multiple exchanges are valued according to the broadest and most representative market.

Corporate debt securities and government securities generally trade in the over-the-counter market rather than on a securities exchange. The Trust may utilize independent pricing services, quotations from bond dealers, and information with respect to bond and note transactions, to assist in determining a current market value for each security. The Trust's pricing services may use valuation models or matrix pricing which considers information with respect to comparable bond and note transactions, quotations from bond dealers, or by reference to other securities that are considered comparable in such characteristics as rating, interest rate and maturity date, option adjusted spread models, prepayment projections, interest rate spreads and yield curves, to determine current value.

Foreign securities are valued as of the close of trading on the foreign stock exchange on which the security is primarily traded, or the NYSE, whichever is earlier. 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. The value is then converted into its U.S. dollar equivalent at the foreign exchange rate in effect at the close of the NYSE on the day that the value of the foreign security is determined.

Mutual European Fund

NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. SECURITY VALUATION (CONTINUED)

The Trust has procedures to determine the fair value of individual securities and other assets for which market prices are not readily available or which may not be reliably priced. Methods for valuing these securities may include: fundamental analysis, 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. Due to the inherent uncertainty of valuations of such securities, the fair values may differ significantly from the values that would have been used had a ready market for such investments existed. Occasionally, events occur between the time at which trading in a security is completed and the close of the NYSE that might call into question the availability (including the reliability) of the value of a portfolio security held by the Fund. 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 Depository 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. If such an event occurs, the securities may be valued using fair value procedures, which may include the use of independent pricing services. All security valuation procedures are approved by the Trust's Board of Trustees.

B. FOREIGN CURRENCY TRANSLATION

Portfolio securities and other assets and liabilities denominated in foreign currencies are translated into U.S. dollars based on the exchange rate of such currencies against U.S. dollars on the date of valuation. Purchases and sales of securities, income and expense items denominated in foreign currencies are translated into U.S. dollars at the exchange rate in effect on the transaction date. Occasionally, events 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 Trust's Board of Trustees.

The Fund does not separately report the effect of changes in foreign exchange rates from changes in market prices on securities held. Such changes are included in net realized and unrealized gain or loss from investments on the Statement of Operations.

Realized foreign exchange gains or losses arise from sales of foreign currencies, currency gains or losses realized between the trade and settlement dates on securities transactions and the difference between the recorded amounts of dividends, interest, and foreign withholding taxes and the U.S. dollar equivalent of the amounts actually received or paid. Net unrealized foreign exchange gains and losses arise from changes in foreign exchange rates on foreign denominated assets and liabilities other than investments in securities held at the end of the reporting period.

Mutual European Fund

NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. FOREIGN CURRENCY CONTRACTS

When the Fund purchases or sells foreign securities it may enter into foreign exchange contracts to minimize foreign exchange risk from the trade date to the settlement date of the transactions. A foreign exchange contract is an agreement between two parties to exchange different currencies at an agreed upon exchange rate at a future date. Realized and unrealized gains and losses on these contracts are included in the Statement of Operations.

The Fund may also enter into forward exchange contracts to hedge against fluctuations in foreign exchange rates. These contracts are valued daily by the Fund and the unrealized gains or losses on the contracts, as measured by the difference between the contractual forward foreign exchange rates and the forward rates at the reporting date, are included in the Statement of Assets and Liabilities. Realized and unrealized gains and losses on these contracts are included in the Statement of Operations.

The risks of these contracts include movement in the values of the foreign currencies relative to the U.S. dollar and the possible inability of the counterparties to fulfill their obligations under the contracts, which may be in excess of the amount reflected in the Statement of Assets and Liabilities.

D. SYNTHETIC EQUITY SWAPS

The Fund may engage in synthetic equity swaps. Synthetic equity swaps are contracts entered into between a broker and the Fund under which the parties agree to make payments to each other so as to replicate the economic consequences that would apply had a purchase or short sale of the underlying security taken place. Upon entering into synthetic equity swaps, the Fund is required to pledge to the broker an amount of cash and/or other assets equal to a certain percentage of the contract amount (margin account). Periodically, payments are made to recognize changes in value of the contract resulting from interest on the notional value of the contract, market value changes in the underlying security, and/or dividends paid by the issuer of the underlying security. The Fund recognizes a realized gain or loss when cash is received from, or paid to, the broker. Synthetic equity swaps are valued daily by the Fund and the unrealized gains or losses on the contracts (as measured by the difference between the contract amount plus or minus cash received or paid and the market value of the underlying securities) are recorded in the Statement of

Operations. The margin account and any net unrealized gains or losses on open synthetic equity swaps are included in the Statement of Assets and Liabilities. The risks of entering into synthetic equity swaps include unfavorable price movements in the underlying securities or the inability of the counterparties to fulfill their obligations under the contract.

Mutual European Fund

NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. OPTIONS

The Fund may purchase or write options. Options are contracts entitling the holder to purchase or sell securities, currencies, or other financial instruments at a specified price or exchange rate, or, in the case of index options, to receive or pay the difference between the index value and the strike price of the index option. Options purchased are recorded as investments; options written (sold) are recorded as liabilities. Upon closing of an option which results in a cash settlement, the difference between the premium (original option value) and the settlement proceeds is realized as a gain or loss. When securities are acquired or delivered upon exercise of an option, the acquisition cost or sale proceeds are adjusted by the amount of the premium. When an option expires, the premium is realized as a gain for options written or as a loss for options purchased. The risks include the possibility there may be an illiquid options market or the inability of the counterparties to fulfill their obligations under the contract. Writing options involves, to varying degrees, elements of market risk in excess of the amount recognized in the Statement of Assets and Liabilities.

F. SECURITIES SOLD SHORT

The Fund may engage in selling securities short, which obligates the Fund to replace a borrowed security with the same security at current market value. The Fund incurs a loss if the price of the security increases between the date of the short sale and the date on which the fund replaces the borrowed security. The fund realizes a gain if the price of the security declines between those dates. Gains are limited to the price at which the fund sold the security short, while losses are potentially unlimited in size.

The Fund is required to establish a margin account with the broker lending the security sold short. While the short sale is outstanding, the broker retains the proceeds of the short sale and the Fund must maintain a deposit with broker consisting of cash and securities having a value equal to a specified percentage of the value of the securities sold short. The Fund is obligated to pay the counterparty any dividends or interest due on securities sold short. Such dividends and interest are recorded as an expense to the Fund.

G. SECURITIES LENDING

The Fund may loan securities to certain brokers through a securities lending agent for which it receives initial cash collateral against the loaned securities in an amount equal to at least 102% of the market value of the loaned securities. Collateral is maintained over the life of the loan in an amount not less than 100% of the market value of loaned securities, as determined at the close of fund business each day; any additional collateral required due to changes in security values is delivered to the Fund on the next business day. The collateral is invested in short-term instruments as noted in the Statement of Investments. The Fund receives interest income from the investment of cash collateral, adjusted by lender fees and broker rebates. The Fund bears the risk of loss with respect to the investment of the collateral and the securities loaned. The securities lending agent has agreed to indemnify the Fund in the case of default of any securities borrower. At June 30, 2008, the Fund had no securities on loan.

Mutual European Fund

NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. INCOME TAXES

No provision has been made for U.S. income taxes because it is each fund's

policy to qualify as a regulated investment company under the Internal Revenue Code and to distribute to shareholders substantially all of its taxable income and net realized gains.

Foreign securities held by the Fund may be subject to foreign taxation on dividend and interest income received. Foreign taxes, if any, are recorded based on the tax regulations and rates that exist in the foreign markets in which the Fund invests.

The Fund has reviewed the tax positions taken on federal income tax returns, for each of the three open tax years and as of June 30, 2008, and has determined that no provision for income tax is required in the Fund's financial statements.

I. SECURITY TRANSACTIONS, INVESTMENT INCOME, EXPENSES AND DISTRIBUTIONS

Security transactions are accounted for on trade date. Realized gains and losses on security transactions are determined on a specific identification basis. Interest income and estimated expenses are accrued daily. Amortization of premium and accretion of discount on debt securities are included in interest income. Dividend income and dividends declared on securities sold short are recorded on the ex-dividend date except that certain dividends from foreign securities are recognized as soon as the Fund is notified of the ex-dividend date. Distributions to shareholders are recorded on the ex-dividend date and are determined according to income tax regulations (tax basis). Distributable earnings determined on a tax basis may differ from earnings recorded in accordance with accounting principles generally accepted in the United States of America. These differences may be permanent or temporary. Permanent differences are reclassified among capital accounts to reflect their tax character. These reclassifications have no impact on net assets or the results of operations. Temporary differences are not reclassified, as they may reverse in subsequent periods.

Common expenses incurred by the Trust are allocated among the funds based on the ratio of net assets of each fund to the combined net assets of the Trust. Fund specific expenses are charged directly to the fund that incurred the expense.

Realized and unrealized gains and losses and net investment income, other than class specific expenses, are allocated daily to each class of shares based upon the relative proportion of net assets of each class. Differences in per share distributions, by class, are generally due to differences in class specific expenses.

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Mutual European Fund

NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

K. REDEMPTION FEES

A short term trading redemption fee will be imposed, with some exceptions, on any fund shares that are redeemed or exchanged within seven calendar days following their purchase date. The redemption fee is 2% of the amount redeemed. Such fees are retained by the Fund and accounted for as an addition to paid-in capital.

L. GUARANTEES AND INDEMNIFICATIONS

Under the Trust's organizational documents, its officers and trustees are indemnified by the Trust against certain liabilities arising out of the performance of their duties to the Trust. Additionally, in the normal course of business, the Trust, on behalf of the Fund, enters into contracts with service providers that contain general indemnification clauses. The Trust's maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Trust that have not yet occurred. Currently, the Trust expects the risk of loss to be remote.

2. SHARES OF BENEFICIAL INTEREST

At June 30, 2008, there were an unlimited number of shares authorized (without par value). Transactions in the Fund's shares were as follows:

<TABLE>
<CAPTION>

	SIX MONTHS ENDED JUNE 30, 2008		YEAR ENDED DECEMBER 31, 2007	
	SHARES	AMOUNT	SHARES	AMOUNT
<S>	<C>	<C>	<C>	<C>
CLASS Z SHARES:				
Shares sold	3,523,018	\$ 85,597,835	8,588,857	\$ 236,306,017
Shares issued in reinvestment of distributions	--	--	3,857,533	100,877,481
Shares redeemed	(3,894,154)	(93,219,738)	(6,985,286)	(193,264,248)
Net increase (decrease)	(371,136)	\$ (7,621,903)	5,461,104	\$ 143,919,250
CLASS A SHARES:				
Shares sold	4,599,151	\$ 109,514,041	20,148,175	\$ 546,548,967
Shares issued in reinvestment of distributions	--	--	3,168,417	81,378,544
Shares redeemed	(7,897,284)	(185,736,677)	(11,635,446)	(314,611,550)
Net increase (decrease)	(3,298,133)	\$ (76,222,636)	11,681,146	\$ 313,315,961

</TABLE>

Mutual European Fund

NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

2. SHARES OF BENEFICIAL INTEREST (CONTINUED)

<TABLE>
<CAPTION>

	SIX MONTHS ENDED JUNE 30, 2008		YEAR ENDED DECEMBER 31, 2007	
	SHARES	AMOUNT	SHARES	AMOUNT
<S>	<C>	<C>	<C>	<C>
CLASS B SHARES:				
Shares sold	30,898	\$ 722,356	235,198	\$ 6,197,833
Shares issued in reinvestment of distributions	--	--	188,922	4,735,011
Shares redeemed	(320,169)	(7,350,484)	(508,873)	(13,440,456)
Net increase (decrease)	(289,271)	\$ (6,628,128)	(84,753)	\$ (2,507,612)
CLASS C SHARES:				
Shares sold	717,458	\$ 17,048,094	3,438,611	\$ 92,797,536
Shares issued in reinvestment of distributions	--	--	1,035,139	26,543,890
Shares redeemed	(1,853,883)	(43,644,249)	(2,115,360)	(56,659,088)
Net increase (decrease)	(1,136,425)	\$ (26,596,155)	2,358,390	\$ 62,682,338

</TABLE>

3. TRANSACTIONS WITH AFFILIATES

Franklin Resources, Inc. is the holding company for various subsidiaries that together are referred to as Franklin Templeton Investments. Certain officers and trustees of the Trust are also officers and/or directors of the following subsidiaries:

SUBSIDIARY	AFFILIATION
Franklin Mutual Advisers, LLC (Franklin Mutual)	Investment manager
Franklin Templeton Services, LLC (FT Services)	Administrative manager
Franklin Templeton Distributors, Inc. (Distributors)	Principal underwriter
Franklin Templeton Investor Services, LLC (Investor Services)	Transfer agent

A. MANAGEMENT FEES

The Fund pays an investment management fee to Franklin Mutual based on the

average daily net assets of the Fund as follows:

ANNUALIZED FEE RATE	NET ASSETS
0.800%	Up to and including \$1 billion
0.770%	Over \$1 billion, up to and including \$2 billion
0.750%	Over \$2 billion, up to and including \$5 billion
0.730%	In excess of \$5 billion

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Mutual European Fund

NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

3. TRANSACTIONS WITH AFFILIATES (CONTINUED)

B. ADMINISTRATIVE FEES

The Fund pays its allocated share of an administrative fee to FT Services based on the Trust's aggregate average daily net assets as follows:

ANNUALIZED FEE RATE	NET ASSETS
0.150%	Up to and including \$200 million
0.135%	Over \$200 million, up to and including \$700 million
0.100%	Over \$700 million, up to and including \$1.2 billion
0.075%	In excess of \$1.2 billion

C. DISTRIBUTION FEES

The Fund's Board of Trustees has adopted distribution plans for each share class, with the exception of Class Z shares, pursuant to Rule 12b-1 under the 1940 Act. Under the Fund's Class A reimbursement distribution plan, the Fund reimburses Distributors for costs incurred in connection with the servicing, sale and distribution of the Fund's shares up to the maximum annual plan rate. Under the Class A reimbursement distribution plan, costs exceeding the maximum for the current plan year cannot be reimbursed in subsequent periods.

In addition, under the Fund's Class B and C compensation distribution plans, the Fund pays Distributors for costs incurred in connection with the servicing, sale and distribution of the Fund's shares up to the maximum annual plan rate for each class.

The maximum annual plan rates, based on the average daily net assets, for each class, are as follows:

Class A	0.35%
Class B	1.00%
Class C	1.00%

D. SALES CHARGES/UNDERWRITING AGREEMENTS

Distributors has advised the Fund of the following commission transactions related to the sales and redemptions of the Fund's shares for the period:

Sales charges retained net of commissions paid to unaffiliated broker/dealers	\$174,973
Contingent deferred sales charges retained	\$ 50,407

E. TRANSFER AGENT FEES

For the period ended June 30, 2008, the Fund paid transfer agent fees of \$2,006,097, of which \$1,321,262 was retained by Investor Services.

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NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

4. EXPENSE OFFSET ARRANGEMENT

The Fund has entered into an arrangement with its custodian whereby credits realized as a result of uninvested cash balances are used to reduce a portion of the Fund's custodian expenses. During the period ended June 30, 2008, the custodian fees were reduced as noted in the Statement of Operations.

5. INCOME TAXES

At June 30, 2008, the cost of investments and net unrealized appreciation (depreciation) for income tax purposes were as follows:

<TABLE>	
<S>	<C>
Cost of investments	\$2,136,936,218

Unrealized appreciation	\$ 590,264,145
Unrealized depreciation	(253,092,177)

Net unrealized appreciation (depreciation)	\$ 337,171,968
	=====

</TABLE>

Net investment income (loss) differs for financial statement and tax purposes primarily due to differing treatments of defaulted securities, foreign currency transactions, passive foreign investment company shares, synthetic equity swaps, pass-through entity income, and bond discounts and premiums.

Net realized gains (losses) differ for financial statement and tax purposes primarily due to differing treatments of wash sales, foreign currency transactions, passive foreign investment company shares, bond discounts and premiums, synthetic equity swaps, and pass-through entity income.

6. INVESTMENT TRANSACTIONS

Purchases and sales of investments (excluding short term securities and securities sold short) for the period ended June 30, 2008, aggregated \$393,638,288 and \$537,383,536, respectively.

Transactions in options written during the period ended June 30, 2008, were as follows:

<TABLE>		
<CAPTION>		
	NUMBER OF	PREMIUMS
	CONTRACTS	RECEIVED
	-----	-----
<S>	<C>	<C>
Options outstanding at December 31, 2007 ...	180,000	\$ 1,311,609
Options written	--	--
Options expired.....	(180,000)	(1,311,609)
Options exercised	--	--
Options closed	--	--
	-----	-----
Options outstanding at June 30, 2008	--	\$ --
	=====	=====

</TABLE>

NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

7. SYNTHETIC EQUITY SWAPS

As of June 30, 2008, the Fund had the following synthetic equity swaps outstanding:

<TABLE>				
<CAPTION>				
	NUMBER OF	NOTIONAL	UNREALIZED	UNREALIZED
	CONTRACTS	VALUE	GAIN	LOSS
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
Fred Olson Energy ASA (229.84 - 247.30 NOK)	59,000	3,580,463	\$--	\$(821,986)
			---	-----

</TABLE>

8. FORWARD EXCHANGE CONTRACTS

At June 30, 2008, the Fund had the following forward exchange contracts outstanding:

<TABLE>

<CAPTION>

		CONTRACT AMOUNT	SETTLEMENT DATE	UNREALIZED GAIN	UNREALIZED LOSS
<S>		<C>	<C>	<C>	<C>
CONTRACTS TO BUY					
8,057,694	Swiss Franc	\$ 7,735,333	7/07/08	\$153,495	\$ --
867,231	Euro	1,358,057	7/25/08	5,657	--
2,900,802	British Pound Sterling	5,698,190	8/12/08	61,205	--
11,120,000	British Pound Sterling	22,038,185	9/10/08	--	(6,378)
53,500,000	Swedish Krona	8,859,250	9/16/08	--	(16,224)
1,044,580	British Pound Sterling	2,041,328	11/12/08	17,999	--
26,435,352	Norwegian Krone	5,035,142	11/19/08	83,284	--
58,059,248	Euro	90,695,906	12/15/08	--	(69,299)
CONTRACTS TO SELL					
194,484,532	Swiss Franc	188,073,181	7/07/08	--	(2,335,513)
1,526,558	Swiss Franc	1,530,001	7/07/08	35,435	--
75,600,000	Euro	118,767,600	7/14/08	--	(182,897)
50,400,000	Euro	79,450,560	7/14/08	150,229	--
120,000,000	Danish Krone	24,910,090	7/23/08	--	(392,515)
178,102,638	Euro	261,383,455	7/25/08	--	(18,681,650)
37,790,000	British Pound Sterling	73,415,200	8/12/08	--	(1,614,931)
223,160,504	Euro	345,089,827	8/13/08	--	(5,488,638)
58,200,000	Danish Krone	12,158,753	8/25/08	--	(91,256)
36,800,000	Euro	57,627,512	8/28/08	--	(140,801)
81,715,357	British Pound Sterling	159,916,954	9/10/08	--	(1,971,597)
564,984,051	Swedish Krona	92,311,425	9/16/08	--	(1,069,583)
180,000,000	Euro	280,125,780	9/24/08	--	(2,044,489)
41,400,000	Euro	64,014,750	10/14/08	--	(816,196)
163,791,162	Danish Krone	33,819,065	10/23/08	--	(544,844)
26,140,000	British Pound Sterling	50,421,446	11/12/08	--	(1,112,025)
113,207	Euro	177,373	11/13/08	375	--
70,204,757	Euro	108,025,998	11/13/08	--	(1,738,173)
312,904,576	Norwegian Krone	60,496,928	11/19/08	--	(87,820)

</TABLE>

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Mutual European Fund

NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

8. FORWARD EXCHANGE CONTRACTS (CONTINUED)

<TABLE>

<CAPTION>

		CONTRACT AMOUNT	SETTLEMENT DATE	UNREALIZED GAIN	UNREALIZED LOSS
<S>		<C>	<C>	<C>	<C>
CONTRACTS TO SELL (CONTINUED)					
25,464,677	Norwegian Krone	\$ 4,965,000	11/19/08	\$ 34,516	\$ --
36,800,000	Euro	57,342,128	11/28/08	--	(148,666)
12,841,021	New Zealand Dollar	9,566,561	12/10/08	40,898	--
47,181,145	Euro	72,725,017	12/15/0	--	(917,719)
Unrealized gain (loss) on forward exchange contracts				583,093	(39,471,214)
NET UNREALIZED LOSS ON FORWARD EXCHANGE CONTRACTS					\$ (38,888,121)

=====

</TABLE>

9. CONCENTRATION OF RISK

Investing in foreign securities may include certain risks and considerations not typically associated with investing in U.S. securities, such as fluctuating currency values and changing local and regional economic, political and social conditions, which may result in greater market volatility. In addition, certain foreign securities may not be as liquid as U.S. securities.

10. RESTRICTED SECURITIES

The Fund may invest in securities that are restricted under the Securities Act of 1933 (1933 Act) or which are subject to legal, contractual, or other agreed upon restrictions on resale. Restricted securities are often purchased in private placement transactions, and cannot be sold without prior registration unless the sale is pursuant to an exemption under the 1933 Act. Disposal of these securities may require greater effort and expense, and prompt sale at an acceptable price may be difficult. The Fund may have registration rights for restricted securities. The issuer generally incurs all registration costs.

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Mutual European Fund

NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

10. RESTRICTED SECURITIES (CONTINUED)

At June 30, 2008, the Fund held investments in restricted securities, excluding 144A securities deemed to be liquid, valued in accordance with procedures approved by the Trust's Board of Trustees as reflecting fair value, as follows:

<TABLE> <CAPTION> PRINCIPAL AMOUNT/ SHARES/ WARRANTS/ CONTRACTS					ACQUISITION DATES		COST	VALUE
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
88,848	AboveNet Inc.	10/02/01 - 12/12/07	\$4,458,288	\$ 4,442,400				
117	AboveNet., stock grants, grant price \$20.95, expiration date 9/09/13	4/17/06 - 9/08/06	--	3,258				
3,214	AboveNet Inc., wts., 9/08/08	10/02/01 - 9/07/07	365,831	102,848				
3,781	AboveNet Inc., wts., 9/08/10	10/02/01 - 9/07/07	392,580	108,893				
17,909	Augsburg Re AG	5/25/06	17,909	--				
205,953	Augsburg Re AG, zero cpn., 8/31/08	5/25/06	205,953	--				
16,127,149	Euro Wagon LP	12/08/05 - 1/02/08	6,213,779	20,209,714				
16,080	Olympus Re Holdings Ltd.	12/19/01	1,582,877	48,618				
46,841	PTV Inc., 10.00%, pfd., A	12/07/01 - 3/06/02	65,577	23,421				
TOTAL RESTRICTED SECURITIES (1.00% of Net Assets)				\$24,939,152	=====			

</TABLE>

11. HOLDINGS OF 5% VOTING SECURITIES OF PORTFOLIO COMPANIES

The 1940 Act defines "affiliated companies" to include investments in portfolio companies in which a fund owns 5% or more of the outstanding voting securities. Investments in "affiliated companies" for the Fund for the period ended June 30, 2008, were as shown below.

<TABLE> <CAPTION>								
NAME OF ISSUER	NUMBER OF SHARES HELD AT BEGINNING OF PERIOD		GROSS ADDITIONS	GROSS REDUCTIONS	NUMBER OF SHARES HELD AT END OF PERIOD	VALUE AT END OF PERIOD	INVESTMENT INCOME	REALIZED CAPITAL GAIN (LOSS)
	<S>	<C>						
CONTROLLED AFFILIATES (A)								
Euro Wagon LP	16,127,149	--	--	--	16,127,149	\$20,209,714	\$--	\$ --
NON-CONTROLLED AFFILIATES								
Globe Speciality Metals Inc., 144A	2,830,952	--	1,237,352	1,593,600	-- (b)	--	--	26,692,621
TOTAL AFFILIATED SECURITIES (0.81% of Net Assets)						\$20,209,714	\$--	\$26,692,621
						=====	===	=====

</TABLE>

(a) Issuer in which the Fund owns 25% or more of the outstanding voting securities.

(b) As of June 30, 2008, no longer an affiliate.

Mutual European Fund

12. OTHER CONSIDERATIONS

Officers, directors or employees of the Fund's Investment Manager, may serve from time to time as members of boards of directors of companies in which the Fund invests. Such participation may result in the possession by the Investment Manager of material non-public information which, pursuant to the Fund's policies and the requirements of applicable securities laws, could prevent the Fund from trading in the securities of such companies for limited or extended periods of time.

13. REORGANIZATION TO A DELAWARE STATUTORY TRUST

On April 11, 2007, the Board and shareholders approved an Agreement and Plan of Reorganization whereby the investment company would be reorganized and its domicile changed from a Maryland corporation to a Delaware statutory trust. In connection with these changes, the Trust's name was also changed to Franklin Mutual Series Funds, formerly known as the Franklin Mutual Series Funds, Inc. The reorganization became effective on May 1, 2008.

14. FAIR VALUE MEASUREMENTS

The Fund adopted Financial Accounting Standards Board (FASB) issued FASB Statement No. 157, "Fair Value Measurement" (SFAS 157), on January 1, 2008. SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The Fund has determined that the implementation of SFAS 157 did not have a material impact on the Fund's financial statements.

SFAS 157 establishes a fair value hierarchy that distinguishes between market data obtained from independent sources (observable inputs) and the Trust's own market assumptions (unobservable inputs). These inputs are used in determining the value of the Fund's investments and are summarized in the following fair value hierarchy:

- Level 1 - quoted prices in active markets for identical securities
- Level 2 - other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speed, credit risk, etc.)
- Level 3 - significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments)

The inputs or methodology used for valuing securities are not an indication of the risk associated with investing in those securities.

Mutual European Fund

14. FAIR VALUE MEASUREMENTS (CONTINUED)

The following is a summary of the inputs used as of June 30, 2008, in valuing the Fund's assets and liabilities carried at fair value:

<TABLE>
<CAPTION>

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
<S>	<C>	<C>	<C>	<C>
ASSETS:				
Investments in Securities	\$2,296,295,919	\$151,404,210	\$26,408,057	\$2,474,108,186
Other Financial Instruments(a) ...	--	583,093	--	583,093
LIABILITIES:				
Other Financial Instruments(a) ...	--	40,293,200	--	40,293,200

</TABLE>

(a) Other financial instruments may include net unrealized appreciation (depreciation) of futures, forward exchange contracts, swaps, and unfunded loan commitments.

At June 30, 2008, the reconciliation of assets in which significant unobservable inputs (Level 3) were used in determining the Fund's fair value, is as follows:

<TABLE>
<CAPTION>

INVESTMENTS
IN SECURITIES

<u><S></u>	<u><C></u>
Beginning Balance - January 1, 2008	\$ 59,565,050
Net realized gain (loss)	--
Net change in unrealized appreciation (depreciation) ..	36,226,454
Net purchases (sales)	(25,123)
Transfers in and/or out of Level 3	(69,358,324)

Ending Balance	\$ 26,408,057
	=====
Net change in unrealized appreciation (depreciation)	
attributable to assets still held at end of period	\$ (570,261)
	=====

</TABLE>

15. NEW ACCOUNTING PRONOUNCEMENT

In March 2008, FASB issued FASB Statement No. 161, "Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133" (SFAS 161), which expands disclosures about derivative investments and hedging activities. SFAS 161 is effective for fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. The Fund is currently evaluating the impact, if any, of applying the various provisions of SFAS 161.

Mutual European Fund

SHAREHOLDER INFORMATION

BOARD REVIEW OF INVESTMENT MANAGEMENT AGREEMENT

The Board of Trustees (Board), including a majority of the independent trustees, in 2008, approved renewal of the Fund's investment management agreement, as well as the Fund's administrative services agreement. Prior to a meeting of all the trustees for the purpose of considering such renewals, the independent trustees held three meetings solely dedicated to the renewal process (those trustees unable to attend in person were present by telephonic conference means). Throughout the process, the independent trustees received assistance and advice from and met separately with independent counsel. The independent trustees met with and interviewed officers of the investment manager (including portfolio managers), the transfer agent and shareholder services group and the distributor. In approving the renewal of the investment management agreement and the administrative services agreement for the Fund, the Board, including a majority of independent trustees, determined that the existing investment management fee structure was fair and reasonable and that continuance of the agreements was in the best interests of the Fund and its shareholders.

In reaching their decision on the investment management agreement (as well as the administrative services agreement), the trustees took into account information furnished throughout the year at regular Board meetings, as well as information specifically requested and furnished for the renewal process, which culminated in the meetings referred to above for the specific purpose of considering such agreements. Information furnished throughout the year included, among others, reports on the Fund's investment performance, expenses, portfolio composition, portfolio brokerage execution, soft dollars, derivatives, securities lending, portfolio turnover, Rule 12b-1 plans, distribution, shareholder servicing, compliance, pricing of securities and sales and redemptions, along with related financial statements and other information about the scope and quality of services provided by the investment manager and its affiliates and enhancements to such services over the past year. In addition, the trustees received periodic reports throughout the year and during the renewal process relating to compliance with the Fund's investment policies and restrictions. During the renewal process, the independent trustees considered the investment manager's methods of operation within the Franklin Templeton group and its activities on behalf of other clients.

The information obtained by the trustees during the renewal process also included a special report prepared by Lipper, Inc. (Lipper), an independent third-party analyst, comparing the Fund's investment performance and expenses with those of other mutual funds deemed comparable to the Fund as selected by Lipper (Lipper Section 15(c) Report). The trustees reviewed the Lipper Section 15(c) Report and its usefulness in the renewal process with respect to matters such as comparative fees, expenses, expense ratios, performance and volatility. They concluded that the report continues to be a reliable resource in the performance of their duties. In addition, the trustees received and reviewed a report on the investment manager's (and its parent's) profitability (Profitability Study). Over the past year, the Board and counsel to the independent trustees continued to receive reports on management's handling of recent regulatory actions and pending legal actions against the investment manager and its affiliates. The independent trustees were satisfied with the actions taken to date by management in response to such regulatory and legal

Mutual European Fund

SHAREHOLDER INFORMATION (CONTINUED)

BOARD REVIEW OF INVESTMENT MANAGEMENT AGREEMENT (CONTINUED)

In addition to the above and other matters considered by the trustees throughout the course of the year, the following discussion relates to certain primary factors relevant to the Board's decision.

NATURE, EXTENT AND QUALITY OF SERVICES. The trustees reviewed the nature, extent and quality of the services provided by the investment manager. In this regard, they reviewed the Fund's investment approach and concluded that, in their view, it continues to differentiate the Fund from typical core investment products in the mutual fund field. The trustees cited the investment manager's ability to implement the Fund's disciplined value investment approach and its long-term relationship with the Fund as reasons that shareholders choose to invest, and remain invested, in the Fund. The trustees reviewed the Fund's portfolio management team, including its performance, staffing, skills and compensation program. With respect to portfolio manager compensation, management assured the trustees that the Fund's long-term performance is a significant component of incentive-based compensation. The trustees noted that the portfolio manager compensation program aligned the interests of the portfolio managers with that of Fund shareholders. The trustees discussed with management various other products, portfolios and entities that are advised by the investment manager and the allocation of assets and expenses among and within them, as well as their relative fees and reasons for differences with respect thereto and any potential conflicts. During regular Board meetings and the aforementioned meetings of the independent trustees, the trustees received reports and presentations on the investment manager's best execution trading policies. The trustees considered periodic reports provided to them showing that the investment manager complied with the investment policies and restrictions of the Fund as well as other reports periodically furnished to the Board covering matters such as the compliance of portfolio managers and other management personnel with the code of ethics covering the investment management personnel, the adherence to fair value pricing procedures established by the Board and the accuracy of net asset value calculations. The Board noted the extent of the benefits provided to Fund shareholders from being part of the Franklin Templeton group, including the right to exchange investments between funds (same class) without a sales charge, the ability to reinvest Fund dividends into other funds and the right to combine holdings of other funds to obtain reduced sales charges. The trustees considered the significant recent efforts to develop, test and implement compliance procedures established in accordance with SEC requirements. They also reviewed the nature, extent and quality of the Fund's other service agreements to determine that, on an overall basis, Fund shareholders were well served. In this connection, the Board also took into account administrative and transfer agent and shareholder services provided to Fund shareholders by an affiliate of the investment manager, noting continuing expenditures by management to increase and improve the scope of such services, favorable periodic reports on shareholder services conducted by independent third parties and the firsthand experience of individual trustees who deal with the shareholder services group in their capacities as shareholders in one or more of the various Franklin Templeton funds. While such considerations directly affected the trustees' decision in renewing the Fund's administrative services and transfer agent and shareholder services agreement, the Board also considered these commitments as incidental benefits to Fund shareholders deriving from the investment management relationship.

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Mutual European Fund

SHAREHOLDER INFORMATION (CONTINUED)

BOARD REVIEW OF INVESTMENT MANAGEMENT AGREEMENT (CONTINUED)

Based on their review, the trustees were satisfied with the nature and quality of the overall services provided by the investment manager and its affiliates to the Fund and its shareholders and were confident in the abilities of the management team to continue the disciplined value investment approach of the Fund and to provide quality services to the Fund and its shareholders.

INVESTMENT PERFORMANCE. The trustees reviewed and placed significant emphasis on the investment performance of the Fund over the one-, three-, five- and 10-year periods ended December 31, 2007. They considered the history of successful

performance of the Fund relative to various benchmarks. As part of their review, they inquired of management regarding benchmarks, style drift and restrictions on permitted investments. Consideration was also given to performance in the context of available levels of cash during the periods. The trustees had meetings during the year, including the meetings referred to above held in connection with the renewal process, with the Fund's portfolio managers to discuss performance. In addition, particular attention in assessing performance was given to the Lipper Section 15(c) Report. That report showed the investment performance of the Fund (Class A shares) in comparison to other funds determined comparable by Lipper.

The comparable funds to the Fund, as chosen by Lipper, included all retail and institutional European region funds. The Fund had total returns in the best performing quintile for the one-year period ended December 31, 2007, and had annualized total returns for the three- and five-year periods in the second best and middle performing quintiles, respectively. The trustees noted that the Fund's total return on an annualized basis for the 10-year period ended December 31, 2007, was in the best performing quintile and exceeded 15%, as shown in the Lipper Section 15(c) Report. The Board was satisfied with such comparative performance.

The trustees also compared Fund performance to other industry benchmarks, including measures of risk-adjusted performance of a fund, as part of their evaluation of investment performance. According to the Lipper Section 15(c) Report, the Fund's risk-adjusted performance was in Lipper's best performing quintile of peer funds for the three-, five- and 10-year periods ended December 31, 2007. The trustees concluded that the Fund had continued to perform well in comparison to its various benchmarks and in the context of the Fund's objectives.

COMPARATIVE EXPENSES AND MANAGEMENT PROFITABILITY. The trustees considered the cost of the services provided and to be provided and the profits realized by the investment manager and its affiliates from their respective relationships with the Fund. As part of the approval process, they explored with management the trends in expense ratios over the past three fiscal years. The trustees noted that the Fund's overall expense ratio has declined over such period. In considering the appropriateness of the management fee and other expenses charged the Fund, the Board took into account various factors including investment performance and matters relating to Fund operations, including, but not limited to, the quality and experience of its portfolio managers and research staff and the effective investment management fee rate charged comparable accounts managed by the Fund's investment manager. The trustees noted that the effective investment management fee rates of comparable accounts managed by the investment manager were the same or higher than those charged to the Fund.

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Mutual European Fund

SHAREHOLDER INFORMATION (CONTINUED)

BOARD REVIEW OF INVESTMENT MANAGEMENT AGREEMENT (CONTINUED)

Consideration was also given to a comparative analysis in the Lipper Section 15(c) Report of the investment management fee and total expense ratios of the Fund in comparison with those of a group of other funds selected by Lipper as its appropriate Lipper expense group. Prior to making such comparison, the Board relied upon a survey showing that the scope of services covered under the Fund's investment management agreement was similar to those provided by fund managers to other mutual fund groups. In reviewing comparative costs, emphasis was given to the Fund's contractual management fee in comparison with the contractual management fee that would have been charged by other funds within its Lipper expense group assuming they were the same size as the Fund, as well as the actual total expenses of the Fund in comparison with those of its Lipper expense group. The Lipper contractual management fee analysis includes administrative charges as being part of the management fee, and total expenses, for comparative consistency, are shown by Lipper for Fund Class A shares.

The Fund's contractual management fee rate was in the second most expensive quintile of its Lipper expense group and its total expenses were in the least expensive quintile of such group. The Board was satisfied with such comparative expenses, noting that the Fund's contractual fee rate was within 7 basis points of its Lipper expense group median.

The trustees also reviewed the Profitability Study addressing profitability of Franklin Resources, Inc., from its overall U.S. fund business, as well as profitability of the investment manager to the Fund, from providing investment management and other services to the Fund. The trustees noted that this analysis is reviewed every other year by independent accountants based on agreed-upon methodologies. The trustees reviewed the basis on which such reports are prepared and the reasonableness of the cost allocation methodology utilized in the Profitability Study. The independent trustees reviewed the investment

manager's method of assignment and allocation of actual expenses to the Fund, allocations for other accounts managed by the investment manager and the method of allocations in the Profitability Study.

The independent trustees met with management to discuss the Profitability Study. This included, among other things, a comparison of investment management income with investment management expenses of the Fund; comparison of underwriting revenues and expenses; the relative relationship of investment management and underwriting expenses; shareholder servicing profitability (losses); economies of scale; and the relative contribution of the Fund to the profitability of the investment manager and its parent. In discussing the Profitability Study with the Board, the investment manager stated its belief that the costs incurred in establishing the infrastructure necessary to operate the type of mutual fund operations conducted by it and its affiliates may not be fully reflected in the expenses allocated to the Fund in determining its profitability.

The trustees considered an additional Lipper study analyzing the profitability of the parent of the investment manager as compared to other publicly held investment managers, which also aided the trustees in considering profitability outside the context of distribution. The Board also took into

Mutual European Fund

SHAREHOLDER INFORMATION (CONTINUED)

BOARD REVIEW OF INVESTMENT MANAGEMENT AGREEMENT (CONTINUED)

account management's expenditures in improving shareholder services provided to the Funds, as well as the need to meet additional regulatory and compliance requirements resulting from the Sarbanes-Oxley Act and recent SEC and other regulatory requirements. The trustees also considered the extent to which the investment manager may derive ancillary benefits from Fund operations, including those derived from economies of scale, discussed below, the allocation of Fund brokerage and the use of commission dollars to pay for research and other similar services. The Board noted the interest an affiliate of the investment manager has in a joint venture that financed up-front commissions paid to brokers/dealers who sold Fund Class B shares, noting that the Fund has ceased offering Class B shares and the benefits derived from the Fund as a result of this arrangement will diminish over time.

Based upon their consideration of all these factors, the trustees determined that the level of profits realized by the manager and its affiliates in providing services to the Fund was not excessive in view of the nature, quality and extent of services provided.

ECONOMIES OF SCALE. The Board considered economies of scale realized by the investment manager and its affiliates as the Fund grows larger and the extent to which they are shared with Fund shareholders, as for example, in the level of the investment management fee charged, in the quality and efficiency of services rendered and in increased capital commitments benefiting the Fund directly or indirectly. The trustees noted that, based upon the Profitability Study, as some funds increase in size, at some point economies of scale may result in the investment manager realizing a larger profit margin on investment management services provided such a fund. The trustees also noted that benefits of economies of scale will be shared with Fund shareholders due to the decline in the effective investment management fee rate as breakpoints are achieved by the Fund.

The trustees assessed the savings from the breakpoints that were instituted as part of the Fund's investment management fee in 2004 and noted that, as a result of the breakpoints, the Fund and its shareholders experienced savings. The trustees believed that the breakpoints approved in 2004 were, and continue to be, appropriate and they agreed to continue to monitor the appropriateness of the breakpoints. The trustees also considered the effects a continued increase in assets under management would have on the investment management fee of the Fund. To the extent further economies of scale may be realized by the investment manager and its affiliates, the Board believed the investment management and administrative fees provide a sharing of benefits with the Fund and its shareholders.

Mutual European Fund

SHAREHOLDER INFORMATION (CONTINUED)

PROXY VOTING POLICIES AND PROCEDURES

The Fund's investment manager has established Proxy Voting Policies and Procedures (Policies) that the Fund uses to determine how to vote proxies relating to portfolio securities. Shareholders may view the Fund's complete Policies online at franklintempleton.com. Alternatively, shareholders may request copies of the Policies free of charge by calling the Proxy Group collect at 1-954/527-7678 or by sending a written request to: Franklin Templeton Companies, LLC, 500 East Broward Boulevard, Suite 1500, Fort Lauderdale, FL 33394, Attention: Proxy Group. Copies of the Fund's proxy voting records are also made available online at franklintempleton.com and posted on the U.S. Securities and Exchange Commission's website at sec.gov and reflect the most recent 12-month period ended June 30.

QUARTERLY STATEMENT OF INVESTMENTS

The Fund files a complete statement of investments with the U.S. Securities and Exchange Commission for the first and third quarters for each fiscal year on Form N-Q. Shareholders may view the filed Form N-Q by visiting the Commission's website at sec.gov. The filed form may also be viewed and copied at the Commission's Public Reference Room in Washington, DC. Information regarding the operations of the Public Reference Room may be obtained by calling 1-800/SEC-0330.

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MUTUAL EUROPEAN FUND

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Authorized for distribution only when accompanied or preceded by a prospectus. Investors should carefully consider a fund's investment goals, risks, charges and expenses before investing. The prospectus contains this and other information; please read it carefully before investing.

To ensure the highest quality of service, telephone calls to or from our service departments may be monitored, recorded and accessed. These calls can be identified by the presence of a regular beeping tone.

478 S2008 08/08

JUNE 30, 2008

(GRAPHIC)

SEMIANNUAL REPORT AND SHAREHOLDER LETTER

VALUE

MUTUAL QUALIFIED FUND

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Franklin - Templeton - MUTUAL SERIES

Semiannual Report

Mutual Qualified Fund

YOUR FUND'S GOALS AND MAIN INVESTMENTS: Mutual Qualified Fund seeks capital appreciation, with income as a secondary goal, by investing primarily in equity securities of companies the Fund's managers believe are at prices below their intrinsic value. The Fund may invest up to 50% of its assets in foreign securities.

PERFORMANCE DATA REPRESENT PAST PERFORMANCE, WHICH DOES NOT GUARANTEE FUTURE RESULTS. INVESTMENT RETURN AND PRINCIPAL VALUE WILL FLUCTUATE, AND YOU MAY HAVE A GAIN OR LOSS WHEN YOU SELL YOUR SHARES. CURRENT PERFORMANCE MAY DIFFER FROM FIGURES SHOWN. PLEASE VISIT FRANKLINTEMPLETON.COM OR CALL 1-800/342-5236 FOR MOST RECENT MONTH-END PERFORMANCE.

This semiannual report for Mutual Qualified Fund covers the period ended June 30, 2008.

PERFORMANCE OVERVIEW

Mutual Qualified Fund - Class Z had a -8.97% cumulative total return for the six months ended June 30, 2008. The Fund performed better than its benchmark, the Standard & Poor's 500 Index (S&P 500), which had a total return of -11.91% for the same period.(1) You can find the Fund's long-term performance data in the Performance Summary beginning on page 11.

ECONOMIC AND MARKET OVERVIEW

During the first half of 2008, the U.S. economy grew marginally as energy prices rose, housing prices declined, the labor situation and consumer demand softened, and a credit crisis originally related to U.S. subprime loan losses spread globally. A weaker U.S. dollar compared with most foreign currencies contributed to increased export demand, which helped the fragile economy. Also supporting the economy were inventory buildup, expanding government spending and a boost to household finances from a \$168 billion government stimulus package. Many economists agreed, however, that the slowing U.S. economy -- which is the world's largest and accounts for roughly 25% of

(1.) Source: (C) 2008 Morningstar. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. The S&P 500 consists of 500 stocks chosen for market size, liquidity and industry group representation. Each stock's weight in the index is proportionate to its market value. The S&P 500 is one of the most widely used benchmarks of U.S. equity performance. The index is unmanaged and includes reinvested dividends. One cannot invest directly in an index, nor is an index representative of the Fund's portfolio.

THE DOLLAR VALUE, NUMBER OF SHARES OR PRINCIPAL AMOUNT, AND NAMES OF ALL PORTFOLIO HOLDINGS ARE LISTED IN THE FUND'S STATEMENT OF INVESTMENTS (SOI). THE SOI BEGINS ON PAGE 20.

GEOGRAPHIC BREAKDOWN

Based on Total Net Assets as of 6/30/08

(BAR CHART)

<TABLE>	
<S>	<C>
U.S.	33.2%
France	9.7%
U.K.	7.6%
South Korea	6.0%
Germany	5.3%
Norway	3.0%
Switzerland	2.6%
Bermuda	2.1%
Japan	1.9%
Finland	1.8%
Hong Kong	1.4%
Netherlands	1.2%
Other	3.6%
Short-Term Investments & Other Net Assets	20.6%
</TABLE>	

global gross domestic product -- could have a meaningfully negative impact on growth prospects around the world.(2) Nevertheless, growth remained relatively

strong in developing economies, particularly in Asia where China-led demand continued to impact commodities' prices and related equities.

In the six months under review, prices increased significantly for oil, natural gas, and most agricultural and industrial commodities, as well as for precious metals, adding to global inflationary pressures. For the 12 months ended June 30, 2008, the core U.S. Consumer Price Index (CPI), which excludes food and energy costs, rose 2.4%, which was higher than its 10-year average rate.⁽³⁾ Many of the world's monetary authorities faced the choice between lowering short-term interest rates to stimulate growth and raising them to fight inflation, which Merrill Lynch estimated at 5.5% globally at the end of June, up from 3.5% at the beginning of 2008. The U.S. focused on reigniting its economy through fiscal and monetary policies, but the eurozone made controlling inflation its main goal. Accordingly, while the U.S. Federal Reserve Board (Fed) eased rates aggressively down to 2.00% from 4.25%, the European Central Bank maintained rates at 4.00%. Interest rate differentials pressured the U.S. dollar, particularly in the first quarter, but the greenback regained ground as the Fed paused and implied that its next move could be a rate hike. Indicators also signaled growth was slowing outside the U.S. For the period, however, the U.S. dollar declined versus many of the world's currencies, and the dollar's weakness contributed to higher commodities' prices, as most of these prices are set in U.S. dollars.

Many global and U.S. equity markets were volatile, and a majority of them declined over the reporting period. In this uncertain environment, U.S. Treasury prices fluctuated, and the 10-year Treasury note yield fell from 4.04% at the beginning of the period to 3.99% on June 30, 2008. Despite negative economic data and an outlook for decelerating corporate earnings and profit margins globally, many companies' balance sheets remained relatively strong.

INVESTMENT STRATEGY

At Mutual Series, we are committed to our distinctive value approach to investing, which we believe can generate above-average risk-adjusted returns over time for our shareholders. Our major investment strategy is investing in undervalued stocks. When selecting undervalued equities, we are always attracted to fundamentally strong companies with healthy balance sheets, high-quality assets, substantial free cash flow and shareholder-oriented management teams and whose stocks are trading at discounts to our assessment of

(2.) Source: Global Insight.

(3.) Source: Bureau of Labor Statistics.

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the companies' intrinsic or business value. We also look for asset rich companies whose shares may be trading at depressed levels due to concerns over short-term earnings disappointments, litigation, management strategy or other perceived negatives. This strict value approach is not only intended to improve the likelihood of upside potential, but it is also intended to reduce the risk of substantial declines. While the vast majority of our undervalued equity investments are made in publicly traded companies globally, we may invest occasionally in privately held companies as well.

We complement this more traditional investment strategy with two others. One is distressed investing, a highly specialized field that has proven quite profitable during certain periods over the years. Distressed investing is complex and can take many forms. The most common distressed investment the Fund undertakes is the purchase of financially troubled or bankrupt companies' debt at a substantial discount to face value. After the financially distressed company is reorganized, often in bankruptcy court, the old debt is typically replaced with new securities issued by the financially stronger company.

The other piece of our investment strategy is participating in arbitrage situations, another highly specialized field. When companies announce proposed mergers or takeovers, commonly referred to as "deals," the target company may trade at a discount to the bid it ultimately accepts. One form of arbitrage involves purchasing the target company's stock when it is trading below the value it would receive in a deal. In keeping with our commitment to a relatively conservative investment approach, we typically focus our arbitrage efforts on announced deals, and eschew rumored deals or other situations we consider relatively risky.

In addition, we will generally seek to hedge the Fund's currency exposure when we deem it advantageous for our shareholders.

MANAGER'S DISCUSSION

During the six months under review, the Fund's top contributors to performance were broad equity market index put options, which allow holders to profit if the market declines within a preset period of time. The Fund began purchasing such options in May 2007 and held a position throughout the reporting period.

Purchased to hedge our equity investments from the broader market's downdrafts, the options contributed to Fund performance and helped offset some of the broad equity market's negative impact on other portfolio securities. Among the Fund's best performing individual stock investments were those exposed to the cyclically strong commodities markets, including Kloeckner & Co., a trader and distributor of steel and metal-based products,

TOP 10 SECTORS/INDUSTRIES

Based on Equity Securities as of 6/30/08

<TABLE>

<CAPTION>

	% OF TOTAL NET ASSETS -----
<S>	<C>
Tobacco	12.8%
Insurance	9.5%
Food Products	8.4%
Energy Equipment & Services	4.0%
Industrial Conglomerates	3.9%
Real Estate	3.6%
Media	3.6%
Commercial Banks	3.0%
Beverages	3.0%
Food & Staples Retailing	2.8%

</TABLE>

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and KT&G, a South Korean tobacco and ginseng producer. French transportation infrastructure company Groupe Eurotunnel was another top contributor to the Fund's overall return.

TOP 10 HOLDINGS

6/30/08

<TABLE>

<CAPTION>

COMPANY SECTOR/INDUSTRY, COUNTRY -----	% OF TOTAL NET ASSETS -----
<S>	<C>
KT&G Corp. TOBACCO, SOUTH KOREA	4.8%
White Mountains Insurance Group Ltd. INSURANCE, U.S.	2.7%
British American Tobacco PLC TOBACCO, U.K.	2.4%
Orkla ASA INDUSTRIAL CONGLOMERATES, NORWAY	2.2%
Berkshire Hathaway Inc., A & B INSURANCE, U.S.	2.2%
Groupe Danone FOOD PRODUCTS, FRANCE	2.1%
Groupe Eurotunnel SA TRANSPORTATION INFRASTRUCTURE, FRANCE	1.8%
Kone OYJ, B MACHINERY, FINLAND	1.8%
Weyerhaeuser Co. PAPER & FOREST PRODUCTS, U.S.	1.8%
Reynolds American Inc. TOBACCO, U.S.	1.7%

</TABLE>

Shares of Germany-based Kloeckner, the largest independent distributor of steel and metal-based products, advanced nearly 36% in local currency during the six-month period. Industry-wide tight inventories and unprecedented steel price increases in Europe and the U.S. drove Kloeckner's earnings and projections significantly higher. Kloeckner beat market expectations in 2008's first quarter, and with earnings growth seemingly accelerating in the second quarter, company management upgraded its overall earnings guidance for fiscal year 2008. In the meantime, Kloeckner continued to consolidate the industry by making value-accretive acquisitions in the U.S. and Switzerland.

The share price of leading South Korean tobacco company KT&G appreciated 13% in local currency terms. It benefited from stable raw materials costs and resilient domestic cigarette consumption, as consumer demand has been fairly inelastic. There was also no threat of a tax hike for its products, nor a decrease in volumes. KT&G's growing ginseng business continued to be robust due to high demand for healthy products and expansion of distribution channels. Related sales grew at double-digit rates with high profit margins. The company also

continued its shareholder-friendly policy of returning cash to shareholders. Despite its strong fundamentals, KT&G stock generally traded below its global peer group, which prompted many analysts to recommend KT&G among their top picks.

The Fund also benefited from its investments in Groupe Eurotunnel, which owns and operates the undersea English Channel Tunnel, or Chunnel, and its rail link between France and England. The company posted strong operating results and also completed a comprehensive debt restructuring. Mutual Series portfolio managers actively participated on the creditor committee that negotiated Groupe Eurotunnel's restructuring transaction. Overall, the Fund's investment appreciated 17% during the period.

While the Fund had several positions that made significant positive contributions during the first half of 2008, it also had several underachievers. Three investments that failed to meet our expectations during the period were Norwegian conglomerate Orkla and forest products producer Weyerhaeuser, as well as property and casualty insurance and reinsurance provider White Mountains Insurance Group.

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Orkla reported good core operating results in 2008's first quarter while its management continued to refocus the company by selling its remaining media assets and its eastern European food operations, which had below-average profitability. However, those positive developments were offset by a 52% decline in local currency of Renewable Energy Corp. (REC), a company in which Orkla owns a stake of just under 40%. REC's stock price declined after it provided operating profit, capital expenditure and production start-up guidance for 2008 that failed to meet market expectations. The fall in REC shares contributed to a nearly 36% price decline in local currency for Orkla shares.

Weyerhaeuser's 29% share price decline was driven by three main factors. First, investors were disappointed by company management's postponement beyond 2009 of a highly anticipated conversion into a real estate investment trust (REIT). Secondly, investor concerns regarding the payment of ongoing dividends began to circulate throughout the market. Lastly, extreme and widespread U.S. housing market weakness raised concerns regarding the prospects for profitability within the company's operations that serve the housing and construction industries.

White Mountains, a long-time Fund holding, deteriorated in tandem with the majority of its financial services peers, many of which suffered ratings downgrades during the six-month reporting period. Overall, the company's shares fell nearly 16% in 2008's first half. Operationally, White Mountains' management analyzed its reinsurance business division, FolksAmerica, which has underperformed their high expectations for some time. Following the review, the company announced that it would increase reserves for FolksAmerica in an effort to resolve underwriting problems. According to our analysis, this should be positive for White Mountains going forward, as will a deal, awaiting Internal Revenue Service approval, with Berkshire Hathaway that could result in the cancellation of 16% of the outstanding shares.

Finally, investors should note that we maintained our currency hedging posture of being generally hedged to the U.S. dollar for most of our non-U.S. holdings. Since the dollar was weaker compared with most foreign currencies during the first half of 2008, the Fund benefited slightly by not being fully hedged.

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Thank you for your continued participation in Mutual Qualified Fund. We look forward to serving your future investment needs.

(PHOTO OF ANNE E. GUDEFIN)

/s/ Anne E. Guddefin
Anne E. Guddefin, CFA
Portfolio Manager

(PHOTO OF SHAWN M. TUMULTY)

/s/ Shawn M. Tumulty
Shawn M. Tumulty, CFA
Assistant Portfolio Manager

Mutual Qualified Fund

THE FOREGOING INFORMATION REFLECTS OUR ANALYSIS, OPINIONS AND PORTFOLIO HOLDINGS AS OF JUNE 30, 2008, THE END OF THE REPORTING PERIOD. THE WAY WE IMPLEMENT OUR MAIN INVESTMENT STRATEGIES AND THE RESULTING PORTFOLIO HOLDINGS MAY CHANGE DEPENDING ON FACTORS SUCH AS MARKET AND ECONOMIC CONDITIONS. THESE OPINIONS MAY NOT BE RELIED UPON AS INVESTMENT ADVICE OR AN OFFER FOR A PARTICULAR SECURITY. THE INFORMATION IS NOT A COMPLETE ANALYSIS OF EVERY ASPECT OF ANY MARKET, COUNTRY, INDUSTRY, SECURITY OR THE FUND. STATEMENTS OF FACT ARE FROM SOURCES CONSIDERED RELIABLE, BUT THE INVESTMENT MANAGER MAKES NO REPRESENTATION OR WARRANTY AS TO THEIR COMPLETENESS OR ACCURACY. ALTHOUGH HISTORICAL PERFORMANCE IS NO GUARANTEE OF FUTURE RESULTS, THESE INSIGHTS MAY HELP YOU UNDERSTAND OUR INVESTMENT MANAGEMENT PHILOSOPHY.

ANNE GUDEFIN has been portfolio manager for Mutual Qualified Fund since 2002. She is also portfolio manager for Mutual Discovery Fund and has been a member of the management team of the Mutual Series Funds since 2000, when she joined Franklin Templeton Investments. Previously, she was an analyst at Perry Capital.

SHAWN TUMULTY has been assistant portfolio manager for Mutual Qualified Fund since 2003. He joined Franklin Templeton Investments in 2000. Prior to joining Franklin Templeton Investments, Mr. Tumulty was an analyst an portfolio manager at Hamilton Partners Limited.

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Performance Summary as of 6/30/08

Your dividend income will vary depending on dividends or interest paid by securities in the Fund's portfolio, adjusted for operating expenses of each class. Capital gain distributions are net profits realized from the sale of portfolio securities. The performance table does not reflect any taxes that a shareholder would pay on Fund dividends, capital gain distributions, if any, or any realized gains on the sale of Fund shares. Total return reflects reinvestment of the Fund's dividends and capital gain distributions, if any, and any unrealized gains or losses.

PRICE INFORMATION

CLASS Z (SYMBOL: MQIFX)	CHANGE	6/30/08	12/31/07
<S>	<C>	<C>	<C>
Net Asset Value (NAV)	-\$1.96	\$19.88	\$21.84

CLASS A (SYMBOL: TEQIX)	CHANGE	6/30/08	12/31/07
<S>	<C>	<C>	<C>
Net Asset Value (NAV)	-\$1.97	\$19.73	\$21.70

CLASS B (SYMBOL: TEBQX)	CHANGE	6/30/08	12/31/07
<S>	<C>	<C>	<C>
Net Asset Value (NAV)	-\$2.00	\$19.24	\$21.24

CLASS C (SYMBOL: TEMQX)	CHANGE	6/30/08	12/31/07
<S>	<C>	<C>	<C>
Net Asset Value (NAV)	-\$2.02	\$19.48	\$21.50

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Performance Summary (CONTINUED)

PERFORMANCE (1)

CUMULATIVE TOTAL RETURN EXCLUDES SALES CHARGES. AVERAGE ANNUAL TOTAL RETURN AND VALUE OF \$10,000 INVESTMENT INCLUDE MAXIMUM SALES CHARGES. CLASS Z: NO SALES CHARGES; CLASS A: 5.75% MAXIMUM INITIAL SALES CHARGE; CLASS B: CONTINGENT DEFERRED SALES CHARGE (CDSC) DECLINING FROM 4% TO 1% OVER SIX YEARS, AND ELIMINATED THEREAFTER; CLASS C: 1% CDSC IN FIRST YEAR ONLY. UNTIL AUGUST 31,

2008, THE FUND MAY CHARGE A 2% FEE ON REDEMPTIONS MADE WITHIN SEVEN DAYS OF PURCHASE.

CLASS Z	6-MONTH	1-YEAR	5-YEAR	10-YEAR
Cumulative Total Return(2)	-8.97%	-11.48%	+79.67%	+128.04%
Average Annual Total Return(3)	-8.97%	-11.48%	+12.43%	+8.59%
Value of \$10,000 Investment(4)	\$9,103	\$ 8,852	\$17,967	\$ 22,804
Total Annual Operating Expenses(5)	0.80%			

CLASS A	6-MONTH	1-YEAR	5-YEAR	10-YEAR
Cumulative Total Return(2)	-9.08%	-11.75%	+76.71%	+120.53%
Average Annual Total Return(3)	-14.29%	-16.82%	+10.74%	+7.59%
Value of \$10,000 Investment(4)	\$ 8,571	\$ 8,318	\$16,654	\$ 20,782
Total Annual Operating Expenses(5)	1.14%			

CLASS B	6-MONTH	1-YEAR	5-YEAR	INCEPTION (1/1/99)
Cumulative Total Return(2)	-9.42%	-12.34%	+70.95%	+126.20%
Average Annual Total Return(3)	-13.04%	-15.59%	+11.06%	+8.98%
Value of \$10,000 Investment(4)	\$ 8,696	\$ 8,441	\$16,895	\$ 22,620
Total Annual Operating Expenses(5)	1.80%			

CLASS C	6-MONTH	1-YEAR	5-YEAR	10-YEAR
Cumulative Total Return(2)	-9.40%	-12.34%	+70.95%	+106.42%
Average Annual Total Return(3)	-10.30%	-13.15%	+11.32%	+7.52%
Value of \$10,000 Investment(4)	\$ 8,969	\$ 8,685	\$17,095	\$ 20,642
Total Annual Operating Expenses(5)	1.80%			

PERFORMANCE DATA REPRESENT PAST PERFORMANCE, WHICH DOES NOT GUARANTEE FUTURE RESULTS. INVESTMENT RETURN AND PRINCIPAL VALUE WILL FLUCTUATE, AND YOU MAY HAVE A GAIN OR LOSS WHEN YOU SELL YOUR SHARES. CURRENT PERFORMANCE MAY DIFFER FROM FIGURES SHOWN. FOR MOST RECENT MONTH-END PERFORMANCE, SEE "FUNDS AND PERFORMANCE" AT FRANKLINTEMPLETON.COM OR CALL 1-800/342-5236.

Performance Summary (CONTINUED)

ENDNOTES

VALUE SECURITIES MAY NOT INCREASE IN PRICE AS ANTICIPATED OR MAY DECLINE FURTHER IN VALUE. THE FUND'S INVESTMENTS IN SMALLER-COMPANY STOCKS AND FOREIGN SECURITIES INVOLVE SPECIAL RISKS. SMALLER-COMPANY STOCKS HAVE EXHIBITED GREATER PRICE VOLATILITY THAN LARGER-COMPANY STOCKS, PARTICULARLY OVER THE SHORT TERM. FOREIGN SECURITIES RISKS INCLUDE CURRENCY FLUCTUATIONS, AND ECONOMIC AND POLITICAL UNCERTAINTIES. THE FUND MAY ALSO INVEST IN COMPANIES ENGAGED IN MERGERS, REORGANIZATIONS OR LIQUIDATIONS, WHICH INVOLVE SPECIAL RISKS, AS PENDING DEALS MAY NOT BE COMPLETED ON TIME OR ON FAVORABLE TERMS, AS WELL AS LOWER-RATED BONDS, WHICH ENTAIL HIGHER CREDIT RISK. THE FUND'S PROSPECTUS ALSO INCLUDES A DESCRIPTION OF THE MAIN INVESTMENT RISKS.

CLASS Z: Shares are available to certain eligible investors as described in the prospectus.

CLASS A: Prior to 8/3/98, these shares were offered at a lower initial sales charge; thus actual total returns may differ.

CLASS B: These shares have higher annual fees and expenses than Class A shares.

CLASS C: Prior to 1/1/04, these shares were offered with an initial sales charge; thus actual total returns would have differed. These shares have higher annual fees and expenses than Class A shares.

- (1.) Past expense reductions by the Fund's manager increased the Fund's total returns. If the manager had not taken this action, the Fund's total returns would have been lower.
- (2.) Cumulative total return represents the change in value of an investment over the periods indicated.
- (3.) Average annual total return represents the average annual change in value of an investment over the periods indicated. Six-month return has not been annualized.
- (4.) These figures represent the value of a hypothetical \$10,000 investment in the Fund over the periods indicated.
- (5.) Figures are as stated in the Fund's prospectus current as of the date of this report.

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Your Fund's Expenses

As a Fund shareholder, you can incur two types of costs:

- Transaction costs, including sales charges (loads) on Fund purchases and redemption fees; and
- Ongoing Fund costs, including management fees, distribution and service (12b-1) fees, and other Fund expenses. All mutual funds have ongoing costs, sometimes referred to as operating expenses.

The following table shows ongoing costs of investing in the Fund and can help you understand these costs and compare them with those of other mutual funds. The table assumes a \$1,000 investment held for the six months indicated.

ACTUAL FUND EXPENSES

The first line (Actual) for each share class listed in the table provides actual account values and expenses. The "Ending Account Value" is derived from the Fund's actual return, which includes the effect of Fund expenses.

You can estimate the expenses you paid during the period by following these steps. OF COURSE, YOUR ACCOUNT VALUE AND EXPENSES WILL DIFFER FROM THOSE IN THIS ILLUSTRATION:

1. Divide your account value by \$1,000.

IF AN ACCOUNT HAD AN \$8,600 VALUE, THEN $\$8,600 / \$1,000 = 8.6$.

2. Multiply the result by the number under the heading "Expenses Paid During Period."

IF EXPENSES PAID DURING PERIOD WERE \$7.50, THEN $8.6 \times \$7.50 = \64.50 .

In this illustration, the estimated expenses paid this period are \$64.50.

HYPOTHETICAL EXAMPLE FOR COMPARISON WITH OTHER FUNDS

Information in the second line (Hypothetical) for each class in the table can help you compare ongoing costs of investing in the Fund with those of other mutual funds. This information may not be used to estimate the actual ending account balance or expenses you paid during the period. The hypothetical "Ending Account Value" is based on the actual expense ratio for each class and an assumed 5% Semiannual rate of return before expenses, which does not represent the Fund's actual return. The figure under the heading "Expenses Paid During Period" shows the hypothetical expenses your account would have incurred under this scenario. You can compare this figure with the 5% hypothetical examples that appear in shareholder reports of other funds.

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Your Fund's Expenses (CONTINUED)

PLEASE NOTE THAT EXPENSES SHOWN IN THE TABLE ARE MEANT TO HIGHLIGHT ONGOING COSTS AND DO NOT REFLECT ANY TRANSACTION COSTS, SUCH AS SALES CHARGES OR REDEMPTION FEES. Therefore, the second line for each class is useful in comparing ongoing costs only, and will not help you compare total costs of owning different funds. In addition, if transaction costs were included, your total costs would have been higher. Please refer to the Fund prospectus for

additional information on operating expenses.

<TABLE> <CAPTION>	BEGINNING ACCOUNT VALUE 1/1/08	ENDING ACCOUNT VALUE 6/30/08	EXPENSES PAID DURING PERIOD* 1/1/08-6/30/08
<S>	<C>	<C>	<C>
CLASS Z			
Actual	\$1,000	\$ 910.30	\$3.85
Hypothetical (5% return before expenses)	\$1,000	\$1,020.84	\$4.07
CLASS A			
Actual	\$1,000	\$ 909.20	\$5.27
Hypothetical (5% return before expenses)	\$1,000	\$1,019.34	\$5.57
CLASS B			
Actual	\$1,000	\$ 905.80	\$8.58
Hypothetical (5% return before expenses)	\$1,000	\$1,015.86	\$9.07
CLASS C			
Actual	\$1,000	\$ 906.00	\$8.58
Hypothetical (5% return before expenses)	\$1,000	\$1,015.86	\$9.07

* Expenses are calculated using the most recent six-month expense ratio, annualized for each class (Z: 0.81%; A: 1.11%; B: 1.81%; and C: 1.81%), multiplied by the average account value over the period, multiplied by 182/366 to reflect the one-half year period.

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Mutual Qualified Fund

FINANCIAL HIGHLIGHTS

<TABLE> <CAPTION>	SIX MONTHS ENDED JUNE 30, 2008 (UNAUDITED)	YEAR ENDED DECEMBER 31,				
<S>	<C>	2007	2006	2005	2004	2003
PER SHARE OPERATING PERFORMANCE (for a share outstanding throughout the period)						
Net asset value, beginning of period	\$ 21.84	\$ 21.88	\$ 19.81	\$ 19.49	\$ 17.88	\$ 13.95
Income from investment operations(a):						
Net investment income(b)	0.27	0.61	0.38	0.41	0.37	0.20
Net realized and unrealized gains (losses)	(2.23)	1.37	3.39	1.77	2.56	4.04
Total from investment operations	(1.96)	1.98	3.77	2.18	2.93	4.24
Less distributions from:						
Net investment income	--	(0.71)	(0.40)	(0.42)	(0.39)	(0.31)
Net realized gains	--	(1.31)	(1.30)	(1.44)	(0.93)	--
Total distributions	--	(2.02)	(1.70)	(1.86)	(1.32)	(0.31)
Redemption fees	--(c)	--(c)	--(c)	--(c)	--(c)	--
Net asset value, end of period	\$ 19.88	\$ 21.84	\$ 21.88	\$ 19.81	\$ 19.49	\$ 17.88
Total return(d)	(8.97)%	9.12%	19.29%	11.26%	16.64%	30.50%
RATIOS TO AVERAGE NET ASSETS(e)						
Expenses(f)	0.81%(g)	0.80%(g)	0.83%(g)	0.85%(g)	0.82%(g)	0.85%
Expenses - excluding dividend expense on securities sold short	0.80%(g)	0.79%(g)	0.81%(g)	0.81%(g)	0.81%(g)	0.82%
Net investment income	2.61%	2.58%	1.77%	2.04%	2.01%	1.34%
SUPPLEMENTAL DATA						
Net assets, end of period (000's)	\$3,949,497	\$4,421,592	\$4,200,899	\$3,646,593	\$3,419,744	\$3,102,506
Portfolio turnover rate	6.40%	26.25%	23.64%	20.98%	37.61%	49.70%

(a) The amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations 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) Amount rounds to less than \$0.01 per share.

- (d) Total return is not annualized for periods less than one year.
- (e) Ratios are annualized for periods less than one year.
- (f) Includes dividend expense on securities sold short which varies from period to period. See below for expense ratios that reflect only operating expenses.
- (g) Benefit of expense reduction rounds to less than 0.01%.

The accompanying notes are an integral part of these financial statements.

Mutual Qualified Fund

FINANCIAL HIGHLIGHTS (CONTINUED)

<TABLE>
<CAPTION>

CLASS A	SIX	YEAR ENDED DECEMBER 31,				
	MONTHS ENDED JUNE 30, 2008 (UNAUDITED)	2007	2006	2005	2004	2003
<S>	<C>	<C>	<C>	<C>	<C>	<C>
PER SHARE OPERATING PERFORMANCE (for a share outstanding throughout the period)						
Net asset value, beginning of period	\$ 21.70	\$ 21.75	\$ 19.71	\$ 19.41	\$ 17.81	\$ 13.91
Income from investment operations(a):						
Net investment income(b)	0.24	0.52	0.31	0.34	0.31	0.15
Net realized and unrealized gains (losses)	(2.21)	1.38	3.36	1.75	2.55	4.01
Total from investment operations	(1.97)	1.90	3.67	2.09	2.86	4.16
Less distributions from:						
Net investment income	--	(0.64)	(0.33)	(0.35)	(0.33)	(0.26)
Net realized gains	--	(1.31)	(1.30)	(1.44)	(0.93)	--
Total distributions	--	(1.95)	(1.63)	(1.79)	(1.26)	(0.26)
Redemption fees	-- (c)	-- (c)	-- (c)	-- (c)	-- (c)	--
Net asset value, end of period	\$ 19.73	\$ 21.70	\$ 21.75	\$ 19.71	\$ 19.41	\$ 17.81
Total return(d)	(9.08)%	8.73%	18.94%	10.85%	16.27%	29.98%
RATIOS TO AVERAGE NET ASSETS (e)						
Expenses(f)	1.11% (g)	1.14% (g)	1.15% (g)	1.20% (g)	1.17% (g)	1.20%
Expenses - excluding dividend expense on securities sold short	1.10% (g)	1.13% (g)	1.13% (g)	1.16% (g)	1.16% (g)	1.17%
Net investment income	2.31%	2.24%	1.45%	1.69%	1.66%	0.99%
SUPPLEMENTAL DATA						
Net assets, end of period (000's)	\$1,130,781	\$1,290,899	\$993,364	\$794,789	\$692,523	\$625,088
Portfolio turnover rate	6.40%	26.25%	23.64%	20.98%	37.61%	49.70%

</TABLE>

- (a) The amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations 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) Amount rounds to less than \$0.01 per share.
- (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 expense on securities sold short which varies from period to period. See below for expense ratios that reflect only operating expenses.
- (g) Benefit of expense reduction rounds to less than 0.01%.

Mutual Qualified Fund

FINANCIAL HIGHLIGHTS (CONTINUED)

<TABLE>
<CAPTION>

CLASS B	SIX	YEAR ENDED DECEMBER 31,				
	MONTHS ENDED JUNE 30, 2008 (UNAUDITED)	2007	2006	2005	2004	2003
<S>	<C>	<C>	<C>	<C>	<C>	<C>
PER SHARE OPERATING PERFORMANCE (for a share outstanding throughout the period)						
Net asset value, beginning of period	\$ 21.24	\$ 21.32	\$ 19.34	\$ 19.08	\$ 17.54	\$ 13.72
Income from investment operations(a):						
Net investment income(b)	0.16	0.36	0.16	0.20	0.19	0.05
Net realized and unrealized gains (losses)	(2.16)	1.34	3.31	1.72	2.50	3.94
Total from investment operations	(2.00)	1.70	3.47	1.92	2.69	3.99
Less distributions from:						
Net investment income	--	(0.47)	(0.19)	(0.22)	(0.22)	(0.17)
Net realized gains	--	(1.31)	(1.30)	(1.44)	(0.93)	--
Total distributions	--	(1.78)	(1.49)	(1.66)	(1.15)	(0.17)
Redemption fees	-- (c)	-- (c)	-- (c)	-- (c)	-- (c)	--
Net asset value, end of period	\$ 19.24	\$ 21.24	\$ 21.32	\$ 19.34	\$ 19.08	\$ 17.54
Total return(d)	(9.42)%	8.04%	18.16%	10.12%	15.46%	29.22%
RATIOS TO AVERAGE NET ASSETS (e)						
Expenses(f)	1.81% (g)	1.80% (g)	1.82% (g)	1.85% (g)	1.82% (g)	1.85%
Expenses - excluding dividend expense on securities sold short	1.80% (g)	1.79% (g)	1.80% (g)	1.81% (g)	1.81% (g)	1.82%
Net investment income	1.61%	1.58%	0.78%	1.04%	1.01%	0.34%
SUPPLEMENTAL DATA						
Net assets, end of period (000's)	\$58,561	\$70,266	\$74,470	\$69,847	\$67,714	\$53,760
Portfolio turnover rate	6.40%	26.25%	23.64%	20.98%	37.61%	49.70%

</TABLE>

(a) The amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations 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) Amount rounds to less than \$0.01 per share.

(d) Total return does not reflect 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 expense on securities sold short which varies from period to period. See below for expense ratios that reflect only operating expenses.

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

The accompanying notes are an integral part of these financial statements.

Mutual Qualified Fund

FINANCIAL HIGHLIGHTS (CONTINUED)

<TABLE>

CLASS C ----- <S>	YEAR ENDED DECEMBER 31,					
	SIX MONTHS ENDED JUNE 30, 2008 (UNAUDITED)	2007	2006	2005	2004	2003
PER SHARE OPERATING PERFORMANCE (for a share outstanding throughout the period)	<C>	<C>	<C>	<C>	<C>	<C>
Net asset value, beginning of period	\$ 21.50	\$ 21.58	\$ 19.58	\$ 19.30	\$ 17.72	\$ 13.85
Income from investment operations(a):						
Net investment income(b)	0.16	0.36	0.16	0.20	0.19	0.05
Net realized and unrealized gains (losses)	(2.18)	1.36	3.34	1.74	2.52	3.98
Total from investment operations	(2.02)	1.72	3.50	1.94	2.71	4.03
Less distributions from:						
Net investment income	--	(0.49)	(0.20)	(0.22)	(0.20)	(0.16)
Net realized gains	--	(1.31)	(1.30)	(1.44)	(0.93)	--
Total distributions	--	(1.80)	(1.50)	(1.66)	(1.13)	(0.16)
Redemption fees	--(c)	--(c)	--(c)	--(c)	--(c)	--
Net asset value, end of period	\$ 19.48	\$ 21.50	\$ 21.58	\$ 19.58	\$ 19.30	\$ 17.72
Total return(d)	(9.40)%	8.02%	18.16%	10.08%	15.52%	29.16%
RATIOS TO AVERAGE NET ASSETS (e)						
Expenses(f)	1.81%(g)	1.80%(g)	1.83%(g)	1.85%(g)	1.82%(g)	1.85%
Expenses - excluding dividend expense on securities sold short	1.80%(g)	1.79%(g)	1.81%(g)	1.81%(g)	1.81%(g)	1.82%
Net investment income	1.61%	1.58%	0.77%	1.04%	1.01%	0.34%
SUPPLEMENTAL DATA						
Net assets, end of period (000's)	\$446,958	\$504,802	\$420,806	\$336,786	\$311,071	\$285,668
Portfolio turnover rate	6.40%	26.25%	23.64%	20.98%	37.61%	49.70%

</TABLE>

- (a) The amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations 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) Amount rounds to less than \$0.01 per share.
- (d) Total return does not reflect 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 expense on securities sold short which varies from period to period. See below for expense ratios that reflect only operating expenses.
- (g) Benefit of expense reduction rounds to less than 0.01%.

The accompanying notes are an integral part of these financial statements.

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Mutual Qualified Fund

STATEMENT OF INVESTMENTS, JUNE 30, 2008 (UNAUDITED)

<TABLE>

<CAPTION>

<S>	COUNTRY	SHARES/WARRANTS/ CONTRACTS	VALUE
	----- <C>	----- <C>	----- <C>
COMMON STOCKS AND OTHER EQUITY INTERESTS 74.4%			
AIRLINES 0.4%			
(a) ACE Aviation Holdings Inc., A	Canada	1,159,491	\$ 18,238,674
(a, b) ACE Aviation Holdings Inc., A, 144A	Canada	58,455	919,491
(a) Northwest Airlines Corp.	United States	742,764	4,946,808
(a, c) Northwest Airlines Corp., Contingent Distribution	United States	28,232,000	176,450
			----- 24,281,423

AUTO COMPONENTS 0.1%			
(a, c, d) Collins & Aikman Products Co., Contingent Distribution	United States	1,217,495	--
(a) Dana Holding Corp.	United States	492,705	2,635,972
(a, c) Dana Holding Corp., Contingent Distribution	United States	13,598,000	985,855
			3,621,827
AUTOMOBILES 0.4%			
(a, e, f) International Automotive Components Group Brazil LLC	Brazil	1,982,308	8,166,908
(a, e, f) International Automotive Components Group Japan LLC	Japan	307,801	1,789,429
(a, e, f) International Automotive Components Group LLC	Luxembourg	8,425,843	6,583,954
(a, e, f) International Automotive Components Group NA LLC, A	United States	5,182,488	3,959,939
			20,500,230
BEVERAGES 3.0%			
Brown-Forman Corp., A	United States	79,200	6,020,784
Carlsberg AS, B	Denmark	353,808	34,176,589
Coca-Cola Enterprises Inc.	United States	1,570,200	27,164,460
(a) Dr. Pepper Snapple Group Inc.	United States	516,756	10,841,541
Pernod Ricard SA	France	842,086	86,518,150
			164,721,524
BUILDING PRODUCTS 0.2%			
Armstrong World Industries Inc.	United States	142,220	4,155,668
(a, c) Armstrong World Industries Inc., Contingent Distribution	United States	2,010,000	10,050
(a) Owens Corning Inc.	United States	345,065	7,850,229
			12,015,947
CAPITAL MARKETS 0.3%			
Legg Mason Inc.	United States	398,890	17,379,637
CHEMICALS 0.2%			
(a, c, d) Dow Corning Corp., Contingent Distribution	United States	20,809,194	3,022,298
Sika AG	Switzerland	6,147	9,676,335
			12,698,633
COMMERCIAL BANKS 3.0%			
BNP Paribas SA	France	515,209	46,679,217
(a, f, g) Elephant Capital Holdings Ltd.	Japan	27,946	3,022,147
(a, f, g) First Chicago Bancorp	United States	659,105	9,227,470
(a) Guaranty Bancorp	United States	1,735,639	6,248,300
Mitsubishi UFJ Financial Group Inc.	Japan	3,848,000	34,106,984
(a, f) NCB Warrant Holdings Ltd., A	Japan	129,974	1,270,490
Sumitomo Mitsui Financial Group Inc.	Japan	1,704	12,824,340
Svenska Handelsbanken AB, A	Sweden	452,960	10,790,312

</TABLE>

Mutual Qualified Fund

STATEMENT OF INVESTMENTS, JUNE 30, 2008 (UNAUDITED) (CONTINUED)

<TABLE>
<CAPTION>

<S>	COUNTRY	SHARES/WARRANTS/ CONTRACTS	VALUE
		<C>	<C>
COMMON STOCKS AND OTHER EQUITY INTERESTS (CONTINUED)			
COMMERCIAL BANKS (CONTINUED)			
Swedbank AB, A	Sweden	877,050	\$ 16,961,823
U.S. Bancorp	United States	889,470	24,807,318
			165,938,401
COMMERCIAL SERVICES & SUPPLIES 0.1%			
(a) Comdisco Holding Co. Inc.	United States	978	9,340
(a, c) Comdisco Holding Co. Inc., Contingent Distribution	United States	44,591,246	--
Insun ENT Co. Ltd.	South Korea	1,448,946	6,043,621
			6,052,961
COMPUTERS & PERIPHERALS 0.3%			
(a, f, g) DecisionOne Corp.	United States	1,008,199	--
(a, f, g) DecisionOne Corp., wts., 6/08/17	United States	553,576	--
(a) Dell Inc.	United States	706,270	15,453,188

			15,453,188
CONSUMER FINANCE 0.7%			
(a, f) Cerberus CG Investor I LLC	United States	7,519,799	3,915,641
(a, f) Cerberus CG Investor II LLC	United States	7,519,799	3,915,641
(a, f) Cerberus CG Investor III LLC	United States	3,759,899	1,957,820
(a, f) Cerberus FIM Investors Auto Finance LLC	United States	4,648,194	1,550,623
(a, f) Cerberus FIM Investors Commercial Finance LLC	United States	387,180	129,162
(a, f) Cerberus FIM Investors Commercial Mortgage LLC	United States	725,710	242,095
(a, f) Cerberus FIM Investors Insurance LLC	United States	3,549,493	1,184,100
(a, f) Cerberus FIM Investors Rescap LLC	United States	6,608,423	2,204,549
(a) SLM Corp.	United States	798,970	15,460,069
(a, g) White River Capital Inc.	United States	549,751	8,055,914
			38,615,614
DIVERSIFIED FINANCIAL SERVICES 0.6%			
Deutsche Boerse AG	Germany	66,220	7,475,117
Fortis	Belgium	1,736,332	27,805,070
(a) Fortis VVPR Strip	Belgium	530,532	8,354
(a, c) Marconi Corp., Contingent Distribution	United Kingdom	34,293,500	--
			35,288,541
DIVERSIFIED TELECOMMUNICATION SERVICES 0.4%			
(a, e, f) AboveNet Inc.	United States	387,649	19,382,450
(a, e, f) AboveNet Inc., stock grant, grant price \$20.95, expiration date 9/09/13	United States	510	14,204
(a, e, f) AboveNet Inc., wts., 9/08/08	United States	13,684	437,888
(a, e, f) AboveNet Inc., wts., 9/08/10	United States	16,099	463,651
(a, c, d) Global Crossing Holdings Ltd., Contingent Distribution	United States	49,411,586	--
			20,298,193
ELECTRIC UTILITIES 0.7%			
E.ON AG	Germany	198,820	40,100,110

</TABLE>

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Mutual Qualified Fund

STATEMENT OF INVESTMENTS, JUNE 30, 2008 (UNAUDITED) (CONTINUED)

<TABLE>
<CAPTION>

	COUNTRY	SHARES/WARRANTS/ CONTRACTS	VALUE
<S>	<C>	<C>	<C>
COMMON STOCKS AND OTHER EQUITY INTERESTS (CONTINUED)			
ENERGY EQUIPMENT & SERVICES 4.0%			
Bourbon SA	France	579,563	\$ 36,037,782
(a) BW Offshore Ltd.	Norway	2,813,120	8,839,687
(a) Pride International Inc.	United States	1,042,880	49,317,795
Seadrill Ltd.	Bermuda	2,740,832	83,837,658
(a) Transocean Inc.	United States	294,405	44,864,378
			222,897,300
FOOD & STAPLES RETAILING 2.8%			
Carrefour SA	France	1,494,958	84,648,436
CVS Caremark Corp.	United States	1,849,966	73,203,155
			157,851,591
FOOD PRODUCTS 8.4%			
Cadbury PLC	United Kingdom	2,756,032	34,728,710
CSM NV	Netherlands	1,909,144	66,706,208
Groupe Danone	France	1,681,422	118,081,496
Kraft Foods Inc., A	United States	472,085	13,430,818
(a) Lighthouse Caledonia ASA	Norway	416,331	490,590
Lotte Confectionary Co. Ltd.	South Korea	30,405	36,869,513
(a, h) Marine Harvest	Norway	48,980,183	35,976,646
Nestle SA	Switzerland	1,607,500	72,640,431
Nong Shim Co. Ltd.	South Korea	81,743	17,457,774
Wm. Wrigley Jr. Co	United States	958,467	74,549,563
			470,931,749

HEALTH CARE EQUIPMENT & SUPPLIES 0.1%				
	Covidien Ltd.	United States	120,145	5,753,744
HEALTH CARE PROVIDERS & SERVICES 2.7%				
(a, f)	Kindred Healthcare Inc.	United States	1,444,624	39,470,017
(a, f)	Kindred Healthcare Inc., stock grants:			
	grant price \$18.15, expiration date 7/17/11	United States	5,072	46,520
	grant price \$19.87, expiration date 1/01/12	United States	1,523	11,349
	grant price \$6.94, expiration date 1/01/13	United States	1,514	30,858
	grant price \$19.87, expiration date 1/01/14	United States	1,504	11,208
	grant price \$21.33, expiration date 1/10/15	United States	939	5,627
	grant price \$22.08, expiration date 1/10/16	United States	625	3,276
	grant price \$19.40, expiration date 1/10/17	United States	312	2,472
(a)	PharMerica Inc.	United States	528,767	11,944,847
	Quest Diagnostics Inc.	United States	568,700	27,564,889
	Rhoen-Klinikum AG	Germany	2,314,092	72,875,388
				151,966,451
HOTELS, RESTAURANTS & LEISURE 0.0%(i)				
(a)	Trump Entertainment Resorts Inc.	United States	693,717	1,324,999
INDEPENDENT POWER PRODUCERS & ENERGY TRADERS 0.1%				
	Constellation Energy Group	United States	86,620	7,111,502

</TABLE>

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STATEMENT OF INVESTMENTS, JUNE 30, 2008 (UNAUDITED) (CONTINUED)

<TABLE>

<CAPTION>

	COUNTRY	SHARES/WARRANTS/ CONTRACTS	VALUE	
<S>	<C>	<C>	<C>	
COMMON STOCKS AND OTHER EQUITY INTERESTS (CONTINUED)				
INDUSTRIAL CONGLOMERATES 3.9%				
	Keppel Corp. Ltd.	Singapore	5,486,488	\$ 44,925,926
(e)	Orkla ASA	Norway	9,599,083	123,292,358
	Siemens AG	Germany	460,520	50,846,454
				219,064,738
INSURANCE 9.5%				
(a)	Alleghany Corp.	United States	146,672	48,702,438
	Allianz SE	Germany	59,630	10,498,221
	American International Group Inc.	United States	407,350	10,778,481
	Assicurazioni Generali SpA	Italy	327,778	12,577,826
(a)	Berkshire Hathaway Inc., A	United States	468	56,511,000
(a)	Berkshire Hathaway Inc., B	United States	16,044	64,368,528
(a)	Conseco Inc.	United States	1,264,210	12,540,963
	Hartford Financial Services Group Inc.	United States	482,200	31,135,654
(a, f, g)	Imagine Group Holdings Ltd.	Bermuda	2,814,856	34,425,689
	Old Republic International Corp.	United States	2,135,500	25,284,320
(a, f)	Olympus Re Holdings Ltd.	United States	97,300	294,186
	Prudential Financial Inc.	United States	461,000	27,540,140
(f)	Symetra Financial	United States	3,434,760	44,857,966
	White Mountains Insurance Group Ltd.	United States	346,730	148,747,170
				528,262,582
MACHINERY 2.0%				
	Kone OYJ, B	Finland	2,877,200	101,210,014
(a, f)	Motor Coach Industries International Inc., wts., 5/27/09	United States	5	--
	NACCO Industries Inc., A	United States	172,254	12,807,085
				114,017,099
MEDIA 3.6%				
(a)	Adelphia Recovery Trust	United States	38,254,708	1,912,735
(a, c)	Adelphia Recovery Trust, Arahova Contingent Value Vehicle, Contingent Distribution	United States	4,899,492	2,106,782
(a, c)	Century Communications Corp., Contingent Distribution	United States	13,497,000	--
	CJ CGV Co. Ltd.	South Korea	574,910	8,954,642
	Comcast Corp., A	United States	829,640	15,564,046
(a)	Liberty Media Corp-Entertainment, Series A	United States	495,148	11,997,436
(a)	Liberty Media Holding Corp.-Capital, A	United States	293,512	4,226,573
	News Corp., A	United States	1,767,710	26,586,358
(a)	Time Warner Cable Inc., A	United States	862,699	22,844,270

Time Warner Inc.	United States	3,504,460	51,866,008
(a, d) TVMAX Holdings Inc.	United States	111,391	--
(a) Viacom Inc., B	United States	188,250	5,749,155
Virgin Media Inc.	United Kingdom	3,655,939	49,757,330

			201,565,335

METALS & MINING 1.0%			
(a, f, g) Esmark Inc.	United States	3,087,162	53,123,884

</TABLE>

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STATEMENT OF INVESTMENTS, JUNE 30, 2008 (UNAUDITED) (CONTINUED)

	COUNTRY	SHARES/WARRANTS/ CONTRACTS	VALUE
<S>	<C>	<C>	<C>
COMMON STOCKS AND OTHER EQUITY INTERESTS (CONTINUED)			
MULTI-UTILITIES 0.9%			
Energy East Corp.	United States	256,070	\$ 6,330,051
NorthWestern Corp.	United States	311,667	7,922,575
(a, c) NorthWestern Corp., Contingent Distribution	United States	9,346,450	686,005
RWE AG	Germany	281,473	35,434,432

			50,373,063

MULTILINE RETAIL 1.1%			
Jelmoli Holding AG	Switzerland	24,399	63,177,048

OIL, GAS & CONSUMABLE FUELS 2.3%			
BP PLC	United Kingdom	494,400	5,744,829
BP PLC, ADR	United Kingdom	193,700	13,475,709
Eni SpA	Italy	523,870	19,549,792
Royal Dutch Shell PLC, A	United Kingdom	798,053	32,841,615
Total SA, B	France	665,472	56,793,592

			128,405,537

PAPER & FOREST PRODUCTS 2.0%			
(a) Domtar Corp.	United States	2,118,456	11,545,585
Mondi Ltd.	United Kingdom	49,172	304,909
Weyerhaeuser Co.	United States	1,952,105	99,830,650

			111,681,144

PHARMACEUTICALS 1.0%			
Pfizer Inc.	United States	1,871,640	32,697,551
Sanofi-Aventis	France	103,614	6,922,480
(a) Valeant Pharmaceuticals International	United States	1,025,100	17,539,461

			57,159,492

REAL ESTATE 3.6%			
(a) Alexander's Inc.	United States	108,590	33,728,054
(d) Canary Wharf Group PLC	United Kingdom	8,298,072	64,463,459
Link REIT	Hong Kong	12,491,769	28,452,829
Swire Pacific Ltd., A	Hong Kong	3,620,800	37,033,416
Swire Pacific Ltd., B	Hong Kong	5,292,600	10,860,444
Ventas Inc.	United States	669,525	28,501,679

			203,039,881

SOFTWARE 0.7%			
Microsoft Corp.	United States	1,354,430	37,260,369

THRIFTS & MORTGAGE FINANCE 0.1%			
(g) Imperial Capital Bancorp Inc.	United States	445,796	2,554,411
Washington Mutual Inc.	United States	491,429	2,180,468

			4,734,879

TOBACCO 12.8%			
Altria Group Inc.	United States	1,137,077	23,378,303
British American Tobacco PLC	United Kingdom	3,939,454	136,483,290
Imperial Tobacco Group PLC	United Kingdom	2,263,678	84,378,598
Japan Tobacco Inc.	Japan	12,142	51,809,222

Mutual Qualified Fund

STATEMENT OF INVESTMENTS, JUNE 30, 2008 (UNAUDITED) (CONTINUED)

<TABLE>
 <CAPTION>

	COUNTRY	SHARES/WARRANTS/ CONTRACTS	VALUE
<S>	<C>	<C>	<C>
COMMON STOCKS AND OTHER EQUITY INTERESTS (CONTINUED)			
TOBACCO (CONTINUED)			
Philip Morris International Inc.	United States	1,137,077	\$ 56,160,233
Reynolds American Inc.	United States	2,011,390	93,871,571

			712,430,477

TRADING COMPANIES & DISTRIBUTORS 1.4%			
KloECKner & Co. AG	Germany	1,343,768	76,680,114

TRANSPORTATION INFRASTRUCTURE 0.0%i			
(a) Groupe Eurotunnel SA, wts., 12/30/11	France	1,861,027	761,897

TOTAL COMMON STOCKS AND OTHER EQUITY INTERESTS (COST \$3,032,817,947)			
			4,156,541,104

PREFERRED STOCKS 0.1%			
AUTO COMPONENTS 0.1%			
(f) Dana Holding Corp., 4.00%, cvt. pfd., B	United States	48,807	4,799,354

DIVERSIFIED TELECOMMUNICATION SERVICES 0.0%(i)			
(f) PTV Inc., 10.00%, pfd., A	United Kingdom	92,938	46,469

TOTAL PREFERRED STOCKS (COST \$5,010,813)			
			4,845,823

OPTIONS PURCHASED 1.4%			
PUT OPTIONS 1.4%			
(a) Dow Jones EUROSTOXX 50, exercise price \$3,300.00, expiration date 12/19/08, contracts	United States	46,687	7,642,662
(a) Dow Jones EUROSTOXX 50, exercise price \$3,350.00, expiration date 2/20/09, contracts	United States	53,667	11,053,255
(a) Dow Jones EUROSTOXX 50, exercise price \$3,400.00, expiration date 2/20/09, contracts	United States	39,600	8,921,484
(a) Dow Jones EUROSTOXX 50, exercise price \$3,200.00, expiration date 6/19/09, contracts	United States	103,143	22,396,471
(a) S&P 500 Index, exercise price \$1,200.00, expiration date 12/20/08, contracts	United States	2,615	12,473,550
(a) S&P 500 Index, exercise price \$1,225.00, expiration date 12/20/08, contracts	United States	1,100	5,940,000
(a) S&P 500 Index, exercise price \$1,225.00, expiration date 6/20/09, contracts	United States	1,111	9,471,275

TOTAL OPTIONS PURCHASED (COST \$80,288,816)			
			77,898,697

</TABLE>

<TABLE>
 <CAPTION>

		PRINCIPAL AMOUNT (J)	
<S>	<C>	<C>	<C>
CORPORATE BONDS & NOTES 3.2%			
(b) ACE Aviation Holdings Inc., cvt., 144A, 4.25%, 6/01/35	Canada	2,505,000 CAD	2,405,939
(f) Cerberus CG Investor I LLC, 12.00%, 7/31/14	United States	6,600,000	3,436,691
(f) Cerberus CG Investor II LLC, 12.00%, 7/31/14	United States	6,600,000	3,436,691
(f) Cerberus CG Investor III LLC, 12.00%, 7/31/14	United States	3,300,000	1,718,346
(f) Cerberus FIM Investors Auto Finance LLC, 12.00%, 11/22/13	United States	13,935,097	4,648,705
(f) Cerberus FIM Investors Commercial Finance LLC, 12.00%, 11/22/13	United States	1,161,542	387,487
(f) Cerberus FIM Investors Commercial Mortgage LLC, 12.00%, 11/22/13	United States	2,177,131	726,284
(f) Cerberus FIM Investors Insurance LLC, 12.00%, 11/22/13	United States	10,648,479	3,552,299

</TABLE>

STATEMENT OF INVESTMENTS, JUNE 30, 2008 (UNAUDITED) (CONTINUED)

<TABLE> <CAPTION>	INDUSTRY	PRINCIPAL AMOUNT (J)	VALUE
<S>	<C>	<C>	<C>
CORPORATE BONDS & NOTES (CONTINUED)			
(f) Cerberus FIM Investors Rescap LLC, 12.00%, 11/22/13	United States	19,825,266	\$ 6,613,647
(f, g) DecisionOne Corp., 12.00%, 4/15/10	United States	1,271,738	1,271,738
(k) FRN, 7.25%, 5/12/09	United States	232,502	232,502
Groupe Eurotunnel SA, cvt., sub. bond,			
NRS I, T1, 3.00%, 7/28/08	France	31,400 EUR	122,732
NRS I, T1, 3.00%, 7/28/08	France	24,416 GBP	130,365
NRS I, T2, 3.00%, 7/28/09	France	31,400 EUR	120,259
NRS I, T2, 3.00%, 7/28/09	France	24,416 GBP	127,933
NRS I, T3, 3.00%, 7/28/10	France	9,114,500 EUR	34,190,255
NRS I, T3, 3.00%, 7/28/10	France	5,276,020 GBP	27,119,752
NRS II, 6.00%, 7/28/10	France	10,665,000 EUR	23,336,217
NRS II, 6.00%, 7/28/10	France	6,219,022 GBP	17,162,248
(b) Indianapolis Downs LLC, senior secured note, 144A, 11.00%, 11/01/12	United States	2,950,000	2,699,250
(l) senior secured sub. note, 144A, PIK, 15.50%, 11/01/13	United States	10,833,202	10,345,708
(e, f) International Automotive Components Group NA LLC, 9.00%, 4/01/17	United States	1,560,200	1,560,200
(f, k) Pontus I LLC, junior note, 144A, FRN, 5.231%, 7/24/09	United States	6,556,493	5,625,931
5.685%, 7/24/09	United States	5,922,557	7,110,277
6.475%, 7/24/09	United States	5,768,100	4,960,378
(f, k) Pontus II Trust, junior note, 144A, FRN, 6.475%, 6/25/09	United States	2,884,094	2,480,227
Trump Entertainment Resorts Inc., 8.50%, 5/20/15	United States	13,553,108	8,504,575
(d, l) TVMAX Holdings Inc., PIK, 11.50%, 9/30/08	United States	392,857	275,000
14.00%, 9/30/08	United States	778,166	544,716
TOTAL CORPORATE BONDS & NOTES (COST \$198,598,639)			174,846,352
CORPORATE BONDS & NOTES IN REORGANIZATION 0.3%			
(f, k, m) Motor Coach Industries International Inc., FRN, 15.649%, 12/01/08	United States	25,779,933	17,014,756
(d, m) Safety Kleen Services, senior sub. note, 9.25%, 6/01/08	United States	40,000	200
TOTAL CORPORATE BONDS & NOTES IN REORGANIZATION (COST \$25,781,136)			17,014,956
TOTAL INVESTMENTS BEFORE SHORT TERM INVESTMENTS (COST \$3,342,497,351)			4,431,146,932
SHORT TERM INVESTMENTS 20.6%			
U.S. GOVERNMENT AND AGENCY SECURITIES 20.5%			
(n) FHLE, 7/01/08	United States	66,100,000	66,100,000
7/02/08	United States	110,000,000	109,993,510
7/03/08	United States	90,000,000	89,989,380
7/07/08 - 6/19/09	United States	890,012,000	882,791,611
TOTAL U.S. GOVERNMENT AND AGENCY SECURITIES (COST \$1,148,795,347)			1,148,874,501
TOTAL INVESTMENTS BEFORE MONEY MARKET FUND (COST \$4,491,292,698)			5,580,021,433

</TABLE>

STATEMENT OF INVESTMENTS, JUNE 30, 2008 (UNAUDITED) (CONTINUED)

<TABLE> <CAPTION>	COUNTRY	SHARES	VALUE
<S>	<C>	<C>	<C>
SHORT TERM INVESTMENTS (CONTINUED)			
(o) INVESTMENTS FROM CASH COLLATERAL RECEIVED FOR LOANED SECURITIES 0.1%			
MONEY MARKET FUND (COST \$3,134,099) 0.1%			

(p) Bank of New York Institutional Cash Reserve Fund, 2.53%	United States	3,134,099	\$ 3,134,099
TOTAL INVESTMENTS (COST \$4,494,426,797) 100.0%			5,583,155,532
NET UNREALIZED LOSS ON FORWARD EXCHANGE CONTRACTS (0.2)%			(9,749,835)
OTHER ASSETS, LESS LIABILITIES 0.2%			12,391,553
NET ASSETS 100.0%			\$5,585,797,250

</TABLE>

CURRENCY ABBREVIATIONS

CAD - Canadian Dollar
 EUR - Euro
 GBP - British Pound Sterling

SELECTED PORTFOLIO ABBREVIATIONS

ADR - American Depository Receipt
 FHLB - Federal Home Loan Bank
 FRN - Floating Rate Note
 PIK - Payment-In-Kind
 REIT - Real Estate Investment Trust

- (a) Non-income producing for the twelve months ended June 30, 2008.
- (b) Security was purchased pursuant to Rule 144A under the Securities Act of 1933 and may be sold in transactions exempt from registration only to qualified institutional buyers or in a public offering registered under the Securities Act of 1933. These securities have been deemed liquid under guidelines approved by the Trust's Board of Trustees. At June 30, 2008, the aggregate value of these securities was \$16,370,388, representing 0.29% of net assets.
- (c) Contingent distributions represent the right to receive additional distributions, if any, during the reorganization of the underlying company. Shares represent total underlying principal of debt securities.
- (d) Security has been deemed illiquid because it may not be able to be sold within seven days. At June 30, 2008, the aggregate value of these securities was \$68,305,673, representing 1.22% of net assets.
- (e) See Note 12 regarding other considerations.
- (f) See Note 9 regarding restricted securities.
- (g) See Note 11 regarding holdings of 5% voting securities.
- (h) A portion or all of the security is on loan as of June 30, 2008. See Note 1(g).
- (i) Rounds to less than 0.1% of net assets.
- (j) The principal amount is stated in U.S. dollars unless otherwise indicated.
- (k) The coupon rate shown represents the rate at period end.
- (l) Income may be received in additional securities and/or cash.
- (m) See Note 8 regarding defaulted securities.
- (n) The security is traded on a discount basis with no stated coupon rate.
- (o) See Note 1(g) regarding securities on loan.
- (p) The rate shown is the annualized seven-day yield at period end.

The accompanying notes are an integral part of these financial statements.

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FINANCIAL STATEMENTS

STATEMENT OF ASSETS AND LIABILITIES
 June 30, 2008 (unaudited)

<TABLE>

<S>

<C>

Assets:

Investments in securities:	
Cost - Unaffiliated issuers	\$4,361,666,804

Cost - Non-controlled affiliated issuers (Note 11)	132,759,993
Total cost of investments	\$4,494,426,797
Value - Unaffiliated issuers	\$5,471,241,777
Value - Non-controlled affiliated issuers (Note 11)	111,913,755
Total value of investments (includes securities loaned in the amount of \$ 2,876,819)...	5,583,155,532
Cash	13,365
Cash on deposit with brokers for securities sold short	44,865
Foreign currency, at value (cost \$ 10,020,493)	9,988,382
Receivables:	
Capital shares sold	3,880,329
Dividends and interest	23,505,682
Unrealized gain on forward exchange contracts (Note 7)	15,652,527
Other assets	921,771
Total assets	5,637,162,453
Liabilities:	
Payables:	
Investment securities purchased	10,805,789
Capital shares redeemed	6,096,521
Affiliates	4,905,092
Payable upon return of securities loaned	3,134,099
Unrealized loss on forward exchange contracts (Note 7)	25,402,362
Accrued expenses and other liabilities	1,021,340
Total liabilities	51,365,203
Net assets, at value	\$5,585,797,250
Net assets consist of:	
Paid-in capital	\$4,175,677,276
Undistributed net investment income	74,000,789
Net unrealized appreciation (depreciation)	1,079,049,773
Accumulated net realized gain (loss)	257,069,412
Net assets, at value	\$5,585,797,250

</TABLE>

The accompanying notes are an integral part of these financial statements.

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Mutual Qualified Fund

FINANCIAL STATEMENTS (CONTINUED)

STATEMENT OF ASSETS AND LIABILITIES (CONTINUED)

June 30, 2008 (unaudited)

<TABLE>	<C>
<S>	
CLASS Z:	
Net assets, at value	\$3,949,496,865
Shares outstanding	198,677,897
Net asset value and maximum offering price per share(a)	\$ 19.88
CLASS A:	
Net assets, at value	\$1,130,781,245
Shares outstanding	57,326,286
Net asset value per share(a)	\$ 19.73
Maximum offering price per share (net asset value per share / 94.25%).....	\$ 20.93
CLASS B:	
Net assets, at value	\$ 58,560,998
Shares outstanding	3,044,025
Net asset value and maximum offering price per share(a)	\$ 19.24
CLASS C:	
Net assets, at value	\$ 446,958,142
Shares outstanding	22,949,711

Net asset value and maximum offering price per share(a) \$ 19.48

</TABLE>

(a) Redemption price is equal to net asset value less contingent deferred sales charges, if applicable, and redemption fees retained by the Fund.

The accompanying notes are an integral part of these financial statements.

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Mutual Qualified Fund

FINANCIAL STATEMENTS (CONTINUED)

STATEMENT OF OPERATIONS
for the six months ended June 30, 2008 (unaudited)

<TABLE>	
<S>	<C>
Investment income:	
Dividends: (net of foreign taxes of \$ 7,163,607)	
Unaffiliated issuers	\$ 72,735,381
Non-controlled affiliated issuers (Note 11)	71,327
Interest:	
Unaffiliated issuers	27,119,486
Non-controlled affiliated issuers (Note 11)	84,951
Income from securities loaned	25,333

Total investment income	100,036,478

Expenses:	
Management fees (Note 3a)	17,472,303
Administrative fees (Note 3b)	2,230,721
Distribution fees: (Note 3c)	
Class A	1,748,073
Class B	317,076
Class C	2,351,663
Transfer agent fees (Note 3e)	2,307,495
Custodian fees (Note 4)	534,184
Reports to shareholders	173,385
Registration and filing fees	101,982
Professional fees	406,742
Trustees' fees and expenses	48,883
Dividends on securities sold short	292,778
Other	67,947

Total expenses	28,053,232
Expense reductions (Note 4)	(14,504)

Net expenses	28,038,728

Net investment income	71,997,750

Realized and unrealized gains (losses):	
Net realized gain (loss) from:	
Investments	329,101,901
Foreign currency transactions	(96,611,346)

Net realized gain (loss)	232,490,555

Net change in unrealized appreciation (depreciation) on:	
Investments	(869,058,782)
Translation of assets and liabilities denominated in foreign currencies	3,311,592

Net change in unrealized appreciation (depreciation)	(865,747,190)

Net realized and unrealized gain (loss)	(633,256,635)

Net increase (decrease) in net assets resulting from operations	\$ (561,258,885)
	=====

</TABLE>

The accompanying notes are an integral part of these financial statements.

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Mutual Qualified Fund

STATEMENTS OF CHANGES IN NET ASSETS

<TABLE> <CAPTION>	SIX MONTHS ENDED JUNE 30, 2008 (UNAUDITED)	YEAR ENDED DECEMBER 31, 2007
<S>	<C>	<C>
Increase (decrease) in net assets:		
Operations:		
Net investment income	\$ 71,997,750	\$ 151,499,775
Net realized gain (loss) from investments, securities sold short, synthetic equity swaps, and foreign currency transactions	232,490,555	392,665,509
Net change in unrealized appreciation (depreciation) on investments and translation of assets and liabilities denominated in foreign currencies	(865,747,190)	(36,681,335)
Net increase (decrease) in net assets resulting from operations	(561,258,885)	507,483,949
Distributions to shareholders from:		
Net investment income:		
Class Z	--	(133,801,897)
Class A	--	(34,706,443)
Class B	--	(1,467,618)
Class C	--	(10,641,199)
Net realized gains:		
Class Z	--	(245,908,236)
Class A	--	(71,535,285)
Class B	--	(4,072,725)
Class C	--	(28,564,865)
Total distributions to shareholders	--	(530,698,268)
Capital share transactions: (Note 2)		
Class Z	(79,092,803)	219,666,981
Class A	(45,378,072)	316,804,502
Class B	(5,340,799)	(4,572,363)
Class C	(10,699,701)	89,317,402
Total capital share transactions	(140,511,375)	621,216,522
Redemption fees	8,337	17,800
Net increase (decrease) in net assets	(701,761,923)	598,020,003
Net assets:		
Beginning of period	6,287,559,173	5,689,539,170
End of period	\$5,585,797,250	\$6,287,559,173
Undistributed net investment income included in net assets:		
End of period	\$ 74,000,789	\$ 2,003,039

</TABLE>

The accompanying notes are an integral part of these financial statements.

Mutual Qualified Fund

NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Franklin Mutual Series Funds (Trust) is registered under the Investment Company Act of 1940, as amended, (1940 Act) as an open-end investment company, consisting of six separate funds. The Mutual Qualified Fund (Fund) included in this report is diversified. The financial statements of the remaining funds in the Trust are presented separately. The Fund offers four classes of shares: Class Z, Class A, Class B, and Class C. Each class of shares differs by its initial sales load, contingent deferred sales charges, distribution fees, voting rights on matters affecting a single class and its exchange privilege.

The following summarizes the Fund's significant accounting policies.

A. SECURITY VALUATION

Securities listed on a securities exchange or on the NASDAQ National Market System are valued at the last quoted sale price or the official closing price of

the day, respectively. Over-the-counter securities and listed securities for which there is no reported sale are valued within the range of the most recent quoted bid and ask prices. Securities that trade in multiple markets or on multiple exchanges are valued according to the broadest and most representative market. Investments in open-end mutual funds are valued at the closing net asset value.

Corporate debt securities and government securities generally trade in the over-the-counter market rather than on a securities exchange. The Trust may utilize independent pricing services, quotations from bond dealers, and information with respect to bond and note transactions, to assist in determining a current market value for each security. The Trust's pricing services may use valuation models or matrix pricing which considers information with respect to comparable bond and note transactions, quotations from bond dealers, or by reference to other securities that are considered comparable in such characteristics as rating, interest rate and maturity date, option adjusted spread models, prepayment projections, interest rate spreads and yield curves, to determine current value.

Foreign securities are valued as of the close of trading on the foreign stock exchange on which the security is primarily traded, or the NYSE, whichever is earlier. 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. The value is then converted into its U.S. dollar equivalent at the foreign exchange rate in effect at the close of the NYSE on the day that the value of the foreign security is determined.

The Trust has procedures to determine the fair value of individual securities and other assets for which market prices are not readily available or which may not be reliably priced. Methods for valuing these securities may include: fundamental analysis, 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. Due to the inherent uncertainty of valuations of such securities, the fair values may differ significantly from the values that would have been used had a ready market for such investments existed. Occasionally, events occur between the time at which trading in a security is completed and the close of the NYSE that might call into question the

Mutual Qualified Fund

NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. SECURITY VALUATION (CONTINUED)

availability (including the reliability) of the value of a portfolio security held by the Fund. 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 Depository 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. If such an event occurs, the securities may be valued using fair value procedures, which may include the use of independent pricing services. All security valuation procedures are approved by the Trust's Board of Trustees.

B. FOREIGN CURRENCY TRANSLATION

Portfolio securities and other assets and liabilities denominated in foreign currencies are translated into U.S. dollars based on the exchange rate of such currencies against U.S. dollars on the date of valuation. Purchases and sales of securities, income and expense items denominated in foreign currencies are translated into U.S. dollars at the exchange rate in effect on the transaction date. Occasionally, events 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 Trust's Board of Trustees.

The Fund does not separately report the effect of changes in foreign exchange rates from changes in market prices on securities held. Such changes are included in net realized and unrealized gain or loss from investments on the Statement of Operations.

Realized foreign exchange gains or losses arise from sales of foreign currencies, currency gains or losses realized between the trade and settlement dates on securities transactions and the difference between the recorded amounts of dividends, interest, and foreign withholding taxes and the U.S. dollar equivalent of the amounts actually received or paid. Net unrealized foreign

exchange gains and losses arise from changes in foreign exchange rates on foreign denominated assets and liabilities other than investments in securities held at the end of the reporting period.

C. FOREIGN CURRENCY CONTRACTS

When the Fund purchases or sells foreign securities it may enter into foreign exchange contracts to minimize foreign exchange risk from the trade date to the settlement date of the transactions. A foreign exchange contract is an agreement between two parties to exchange different currencies at an agreed upon exchange rate at a future date. Realized and unrealized gains and losses on these contracts are included in the Statement of Operations.

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Mutual Qualified Fund

NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. FOREIGN CURRENCY CONTRACTS (CONTINUED)

The Fund may also enter into forward exchange contracts to hedge against fluctuations in foreign exchange rates. These contracts are valued daily by the Fund and the unrealized gains or losses on the contracts, as measured by the difference between the contractual forward foreign exchange rates and the forward rates at the reporting date, are included in the Statement of Assets and Liabilities. Realized and unrealized gains and losses on these contracts are included in the Statement of Operations.

The risks of these contracts include movement in the values of the foreign currencies relative to the U.S. dollar and the possible inability of the counterparties to fulfill their obligations under the contracts, which may be in excess of the amount reflected in the Statement of Assets and Liabilities.

D. SYNTHETIC EQUITY SWAPS

The Fund may engage in synthetic equity swaps. Synthetic equity swaps are contracts entered into between a broker and the fund under which the parties agree to make payments to each other so as to replicate the economic consequences that would apply had a purchase or short sale of the underlying security taken place. Upon entering into synthetic equity swaps, the Fund is required to pledge to the broker an amount of cash and/or other assets equal to a certain percentage of the contract amount (margin account). Periodically, payments are made to recognize changes in value of the contract resulting from interest on the notional value of the contract, market value changes in the underlying security, and/or dividends paid by the issuer of the underlying security. The Fund recognizes a realized gain or loss when cash is received from, or paid to, the broker. Synthetic equity swaps are valued daily by the Fund and the unrealized gains or losses on the contracts (as measured by the difference between the contract amount plus or minus cash received or paid and the market value of the underlying securities) are recorded in the Statement of Operations. The margin account and any net unrealized gains or losses on open synthetic equity swaps are included in the Statement of Assets and Liabilities. The risks of entering into synthetic equity swaps include unfavorable price movements in the underlying securities or the inability of the counterparties to fulfill their obligations under the contract.

E. OPTIONS

The Fund may purchase or write options. Options are contracts entitling the holder to purchase or sell securities, currencies, or other financial instruments at a specified price or exchange rate, or, in the case of index options, to receive or pay the difference between the index value and the strike price of the index option. Options purchased are recorded as investments; options written (sold) are recorded as liabilities. Upon closing of an option which results in a cash settlement, the difference between the premium (original option value) and the settlement proceeds is realized as a gain or loss. When securities are acquired or delivered upon exercise of an option, the acquisition cost or sale proceeds are adjusted by the amount of the premium. When an option expires,

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Mutual Qualified Fund

NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. OPTIONS (CONTINUED)

the premium is realized as a gain for options written or as a loss for options purchased. The risks include the possibility there may be an illiquid options market or the inability of the counterparties to fulfill their obligations under the contract. Writing options involves, to varying degrees, elements of market risk in excess of the amount recognized in the Statement of Assets and Liabilities.

F. SECURITIES SOLD SHORT

The Fund may engage in selling securities short, which obligates the Fund to replace a borrowed security with the same security at current market value. The Fund incurs a loss if the price of the security increases between the date of the short sale and the date on which the fund replaces the borrowed security. The Fund realizes a gain if the price of the security declines between those dates. Gains are limited to the price at which the fund sold the security short, while losses are potentially unlimited in size.

The Fund is required to establish a margin account with the broker lending the security sold short. While the short sale is outstanding, the broker retains the proceeds of the short sale and the Fund must maintain a deposit with broker consisting of cash and securities having a value equal to a specified percentage of the value of the securities sold short. The Fund is obligated to pay the counterparty any dividends or interest due on securities sold short. Such dividends and interest are recorded as an expense to the Fund.

G. SECURITIES LENDING

The Fund may loan securities to certain brokers through a securities lending agent for which it receives initial cash collateral against the loaned securities in an amount equal to at least 102% of the market value of the loaned securities. Collateral is maintained over the life of the loan in an amount not less than 100% of the market value of loaned securities, as determined at the close of Fund business each day; any additional collateral required due to changes in security values is delivered to the Fund on the next business day. The collateral is invested in short-term instruments as noted in the Statement of Investments. The Fund receives interest income from the investment of cash collateral, adjusted by lender fees and broker rebates. The Fund bears the risk of loss with respect to the investment of the collateral and the securities loaned. The securities lending agent has agreed to indemnify the Fund in the case of default of any securities borrower.

H. INCOME TAXES

No provision has been made for U.S. income taxes because it is the Fund's policy to qualify as a regulated investment company under the Internal Revenue Code and to distribute to shareholders substantially all of its taxable income and net realized gains.

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Mutual Qualified Fund

NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. INCOME TAXES (CONTINUED)

Foreign securities held by the Fund may be subject to foreign taxation on dividend and interest income received. Foreign taxes, if any, are recorded based on the tax regulations and rates that exist in the foreign markets in which the Fund invests.

The Fund has reviewed the tax positions taken on federal income tax returns, for each of the three open tax years and as of June 30, 2008, and has determined that no provision for income tax is required in the Fund's financial statements.

I. SECURITY TRANSACTIONS, INVESTMENT INCOME, EXPENSES AND DISTRIBUTIONS

Security transactions are accounted for on trade date. Realized gains and losses on security transactions are determined on a specific identification basis. Interest income and estimated expenses are accrued daily. Amortization of premium and accretion of discount on debt securities are included in interest income. Dividend income and dividends declared on securities sold short, are recorded on the ex-dividend date except that certain dividends from foreign securities are recognized as soon as the Fund is notified of the ex-dividend date. Distributions to shareholders are recorded on the ex-dividend date and are determined according to income tax regulations (tax basis). Distributable earnings determined on a tax basis may differ from earnings recorded in accordance with accounting principles generally accepted in the United States of

America. These differences may be permanent or temporary. Permanent differences are reclassified among capital accounts to reflect their tax character. These reclassifications have no impact on net assets or the results of operations. Temporary differences are not reclassified, as they may reverse in subsequent periods.

Common expenses incurred by the Trust are allocated among the funds based on the ratio of net assets of each fund to the combined net assets of the Trust. Fund specific expenses are charged directly to the fund that incurred the expense.

Realized and unrealized gains and losses and net investment income, other than class specific expenses, are allocated daily to each class of shares based upon the relative proportion of net assets of each class. Differences in per share distributions, by class, are generally due to differences in class specific expenses.

J. ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

Mutual Qualified Fund

NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. REDEMPTION FEES

A short term trading redemption fee will be imposed, with some exceptions, on any fund shares that are redeemed or exchanged within seven calendar days following their purchase date. The redemption fee is 2% of the amount redeemed. Such fees are retained by the Fund and accounted for as an addition to paid-in capital.

L. GUARANTEES AND INDEMNIFICATIONS

Under the Trust's organizational documents, its officers and trustees are indemnified by the Trust against certain liabilities arising out of the performance of their duties to the Trust. Additionally, in the normal course of business, the Trust, on behalf of the Fund, enters into contracts with service providers that contain general indemnification clauses. The Trust's maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Trust that have not yet occurred. Currently, the Trust expects the risk of loss to be remote.

2. SHARES OF BENEFICIAL INTEREST

At June 30, 2008, there were an unlimited number of shares authorized (without par value). Transactions in the Fund's shares were as follows:

<TABLE>

<CAPTION>

	SIX MONTHS ENDED JUNE 30, 2008		YEAR ENDED DECEMBER 31, 2007	
	SHARES	AMOUNT	SHARES	AMOUNT
<S>	<C>	<C>	<C>	<C>
CLASS Z SHARES:				
Shares sold	4,711,846	\$ 98,254,634	11,498,413	\$ 269,849,858
Shares issued in reinvestment of distributions	--	--	16,420,954	360,016,285
Shares redeemed	(8,522,644)	(177,347,437)	(17,456,173)	(410,199,162)
Net increase (decrease)	(3,810,798)	\$ (79,092,803)	10,463,194	\$ 219,666,981
CLASS A SHARES:				
Shares sold	7,097,836	\$ 146,575,896	19,622,769	\$ 459,150,297
Shares issued in reinvestment of distributions	--	--	4,576,592	99,690,375
Shares redeemed	(9,258,504)	(191,953,968)	(10,374,895)	(242,036,170)
Net increase (decrease)	(2,160,668)	\$ (45,378,072)	13,824,466	\$ 316,804,502
CLASS B SHARES:				

Shares sold	75,495	\$ 1,523,037	180,171	\$ 4,119,296
Shares issued in reinvestment of distributions	--	--	237,389	5,061,976
Shares redeemed	(340,174)	(6,863,836)	(602,357)	(13,753,635)
Net increase (decrease)	(264,679)	\$ (5,340,799)	(184,797)	\$ (4,572,363)

</TABLE>

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Mutual Qualified Fund

NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

2. SHARES OF BENEFICIAL INTEREST (CONTINUED)

<TABLE>
<CAPTION>

	SIX MONTHS ENDED JUNE 30, 2008		YEAR ENDED DECEMBER 31, 2007	
	SHARES	AMOUNT	SHARES	AMOUNT
<S>	<C>	<C>	<C>	<C>
CLASS C SHARES:				
Shares sold	1,648,647	\$ 33,754,480	5,112,901	\$118,074,250
Shares issued in reinvestment of distributions	--	--	1,634,857	35,274,002
Shares redeemed	(2,177,531)	(44,454,181)	(2,772,446)	(64,030,850)
Net increase (decrease)	(528,884)	\$ (10,699,701)	3,975,312	\$ 89,317,402

</TABLE>

3. TRANSACTIONS WITH AFFILIATES

Franklin Resources, Inc. is the holding company for various subsidiaries that together are referred to as Franklin Templeton Investments. Certain officers and trustees of the Trust are also officers and/or directors of the following subsidiaries:

SUBSIDIARY	AFFILIATION
Franklin Mutual Advisers, LLC (Franklin Mutual)	Investment manager
Franklin Templeton Investment Management Limited (FTIML)	Investment manager
Franklin Templeton Services, LLC (FT Services)	Administrative manager
Franklin Templeton Distributors, Inc. (Distributors)	Principal underwriter
Franklin Templeton Investor Services, LLC (Investor Services)	Transfer agent

A. MANAGEMENT FEES

The Fund pays an investment management fee to Franklin Mutual based on the average daily net assets of the Fund as follows:

ANNUALIZED FEE RATE	NET ASSETS
0.600%	Up to and including \$5 billion
0.570%	Over \$5 billion, up to and including \$7 billion
0.550%	Over \$7 billion, up to and including \$10 billion
0.540%	In excess of \$10 billion

Under a subadvisory agreement, FTIML, an affiliate of Franklin Mutual, provides subadvisory services to the Fund and receives from Franklin Mutual fees based on the average daily net assets of the Fund.

Mutual Qualified Fund

NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

3. TRANSACTIONS WITH AFFILIATES (CONTINUED)

B. ADMINISTRATIVE FEES

The Fund pays its allocated share of an administrative fee to FT Services based on the Trust's aggregate average daily net assets as follows:

ANNUALIZED FEE RATE	NET ASSETS
0.150%	Up to and including \$200 million
0.135%	Over \$200 million, up to and including \$700 million
0.100%	Over \$700 million, up to and including \$1.2 billion
0.075%	In excess of \$ 1.2 billion

C. DISTRIBUTION FEES

The Fund's Board of Trustees has adopted distribution plans for each share class, with the exception of Class Z shares, pursuant to Rule 12b-1 under the 1940 Act. Under the Fund's Class A reimbursement distribution plan, the Fund reimburses Distributors for costs incurred in connection with the servicing, sale and distribution of the Fund's shares up to the maximum annual plan rate. Under the Class A reimbursement distribution plan, costs exceeding the maximum for the current plan year cannot be reimbursed in subsequent periods.

In addition, under the Fund's Class B and C compensation distribution plans, the Fund pays Distributors for costs incurred in connection with the servicing, sale and distribution of the Fund's shares up to the maximum annual plan rate for each class.

The maximum annual plan rates, based on the average daily net assets, for each class, are as follows:

Class A ..	0.35%
Class B ..	1.00%
Class C ..	1.00%

D. SALES CHARGES/UNDERWRITING AGREEMENTS

Distributors has advised the Fund of the following commission transactions related to the sales and redemptions of the Fund's shares for the period:

Sales charges retained net of commissions paid to unaffiliated broker/dealers	\$327,885
Contingent deferred sales charges retained	\$ 69,824

E. TRANSFER AGENT FEES

For the period ended June 30, 2008, the Fund paid transfer agent fees of \$2,307,495, of which \$1,591,239 was retained by Investor Services.

Mutual Qualified Fund

NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

4. EXPENSE OFFSET ARRANGEMENT

The Fund has entered into an arrangement with its custodian whereby credits realized as a result of uninvested cash balances are used to reduce a portion of the Fund's custodian expenses. During the period ended June 30, 2008, the custodian fees were reduced as noted in the Statement of Operations.

5. INCOME TAXES

For tax purposes, realized currency losses, occurring subsequent to October 31, may be deferred and treated as occurring on the first day of the following fiscal year. At December 31, 2007, the Fund deferred realized currency losses of \$544,932.

At June 30, 2008, the cost of investments and net unrealized appreciation (depreciation) for income tax purposes were as follows:

<TABLE>	
<S>	<C>
Cost of investments	\$4,505,221,448
	=====
Unrealized appreciation	\$1,491,931,123
Unrealized depreciation	(413,997,039)

Net unrealized appreciation (depreciation)	\$1,077,934,084
	=====

</TABLE>

Net investment income differs for financial statement and tax purposes primarily due to differing treatments of defaulted securities, foreign currency transactions, passive foreign investment company shares, synthetic equity swap, pass-through entity income, bond discounts and premiums, and certain dividends on securities sold short.

Net realized gains (losses) differ for financial statement and tax purposes primarily due to differing treatments of wash sales, defaulted securities, foreign currency transactions, synthetic equity swap, pass-through entity income, and bond discounts and premiums.

6. INVESTMENT TRANSACTIONS

Purchases and sales of investments (excluding short term securities and securities sold short) for the period ended June 30, 2008, aggregated \$305,054,414 and \$577,127,220, respectively.

Mutual Qualified Fund

NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

7. FORWARD EXCHANGE CONTRACTS

At June 30, 2008, the Fund had the following forward exchange contracts outstanding:

<TABLE>		<CAPTION>			
<S>	<C>	CONTRACT AMOUNT	SETTLEMENT DATE	UNREALIZED GAIN	UNREALIZED LOSS
		-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>
CONTRACTS TO BUY					
3,880,696	Swiss Franc	\$ 3,760,000	7/07/08	\$ 39,368	\$ --
4,441,160	British Pound Sterling ...	8,723,994	8/12/08	93,706	--
8,800,000	British Pound Sterling ...	17,440,293	9/10/08	--	(5,050)
19,942,890	Swedish Krona	3,300,000	9/16/08	--	(3,636)
29,359,356	Japanese Yen	278,035	9/19/08	--	(266)
1,635,680	Canadian Dollar	1,600,000	10/27/08	896	--
3,266,320	Canadian Dollar	3,200,000	10/27/08	--	(3,141)
CONTRACTS TO SELL					
2,883,497	Swiss Franc	2,889,999	7/07/08	66,932	--
105,618,590	Swiss Franc	102,052,702	7/07/08	--	(1,352,426)
40,800,000	Euro	64,317,120	7/14/08	121,614	--
61,800,000	Euro	97,087,800	7/14/08	--	(149,511)
44,000,000	Danish Krone	9,133,700	7/23/08	--	(143,922)
948,990	Singapore Dollar	700,000	7/24/08	1,623	--
31,451,950	Singapore Dollar	22,129,066	7/24/08	--	(1,016,940)
77,100,000	Euro	113,156,130	7/25/08	--	(8,083,060)
55,055,000	British Pound Sterling ...	106,956,189	8/12/08	--	(2,352,724)
163,471,240	Euro	252,829,542	8/13/08	--	(3,978,877)
58,500,000	Danish Krone	12,221,427	8/25/08	--	(91,727)
40,400,000	Euro	63,264,986	8/28/08	--	(154,575)
112,100,000	British Pound Sterling ...	219,776,100	9/10/08	--	(2,308,306)
168,262,102	Swedish Krona	27,491,963	9/16/08	--	(318,530)
6,272,114,869	Japanese Yen	64,455,880	9/19/08	5,112,166	--
61,000,000	Euro	94,931,400	9/24/08	--	(692,969)
208,070,561,630	South Korean Won	206,605,000	9/29/08	8,348,782	--
27,000,000	Euro	41,748,750	10/24/08	--	(532,302)
58,452,376	Danish Krone	12,069,386	10/27/08	--	(194,109)
1,406,440	Canadian Dollar	1,400,000	10/27/08	23,481	--
24,240,585	Canadian Dollar	23,702,537	10/27/08	--	(22,352)
41,175,000	British Pound Sterling ...	79,422,457	11/12/08	--	(1,751,630)
56,700,000	Euro	87,331,450	11/13/08	--	(1,318,219)
92,627,781	Norwegian Krone	18,105,000	11/19/08	170,360	--
646,599,580	Norwegian Krone	125,013,492	11/19/08	--	(181,459)
40,400,000	Euro	62,951,684	11/28/08	--	(163,210)
29,994,411	Euro	46,233,386	12/15/08	--	(583,421)

2,000,000,000 Japanese Yen	20,703,934	12/19/08	1,673,599	--
Unrealized gain (loss) on forward exchange contracts			15,652,527	(25,402,362)
NET UNREALIZED LOSS ON FORWARD EXCHANGE CONTRACTS				\$ (9,749,835)

</TABLE>

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Mutual Qualified Fund

NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

8. CREDIT RISK AND DEFAULTED SECURITIES

The Fund may purchase the pre-default or defaulted debt of distressed companies. Distressed companies are financially troubled and are about to be/or are already involved in financial restructuring or bankruptcy. The Fund does not accrue income on these securities, if it becomes probable that the income will not be collected. Risks associated with purchasing these securities include the possibility that the bankruptcy or other restructuring process takes longer than expected, or that distributions in restructuring are less than anticipated, either or both of which may result in unfavorable consequences to the Fund. At June 30, 2008, the aggregate value of these securities was \$17,014,956, representing 0.30% of the Fund's net assets. For information as to specific securities, see the accompanying Statement of Investments.

9. RESTRICTED SECURITIES

The Fund may invest in securities that are restricted under the Securities Act of 1933 (1933 Act) or which are subject to legal, contractual, or other agreed upon restrictions on resale. Restricted securities are often purchased in private placement transactions, and cannot be sold without prior registration unless the sale is pursuant to an exemption under the 1933 Act. Disposal of these securities may require greater effort and expense, and prompt sale at an acceptable price may be difficult. The Fund may have registration rights for restricted securities. The issuer generally incurs all registration costs.

At June 30, 2008, the Fund held investments in restricted securities, excluding 144A securities deemed to be liquid, valued in accordance with procedures approved by the Trust's Board of Trustees as reflecting fair value, as follows:

<TABLE> <CAPTION> PRINCIPAL AMOUNT/ SHARES/ WARRANTS/ CONTRACTS		ISSUER	ACQUISITION DATES	COST	VALUE
<S>	<C>		<C>	<C>	<C>
387,649	AboveNet Inc		10/02/01 - 12/12/07	\$18,071,246	\$ 19,382,450
510	AboveNet Inc., stock grant, grant price \$20.95, expiration date 9/09/13		4/17/06 - 9/08/06	--	14,204
13,684	AboveNet Inc., wts., 9/08/08		10/02/01 - 9/07/07	1,564,801	437,888
16,099	AboveNet Inc., wts., 9/08/10		10/02/01 - 9/07/07	1,681,196	463,651
7,519,799	Cerberus CG Investor I LLC		7/26/07	7,519,799	3,915,641
6,600,000	Cerberus CG Investor I LLC, 12.00%, 7/31/14		7/26/07	6,600,000	3,436,691
7,519,799	Cerberus CG Investor II LLC		7/26/07	7,519,799	3,915,641
6,600,000	Cerberus CG Investor II LLC, 12.00%, 7/31/14		7/26/07	6,600,000	3,436,691
3,759,899	Cerberus CG Investor III LLC		7/26/07 - 6/17/08	3,759,899	1,957,820
3,300,000	Cerberus CG Investor III LLC, 12.00%, 7/31/14		7/26/07	3,300,000	1,718,346
4,648,194	Cerberus FIM Investors Auto Finance LLC		11/20/06	4,648,194	1,550,623

</TABLE>

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Mutual Qualified Fund

NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

9. RESTRICTED SECURITIES (CONTINUED)

<TABLE>
<CAPTION>
PRINCIPAL
AMOUNT/
SHARES/

WARRANTS/ CONTRACTS	ISSUER	ACQUISITION DATES	COST	VALUE
<S>	<C>	<C>	<C>	<C>
13,935,097	Cerberus FIM Investors Auto Finance LLC, 12.00%, 11/22/13	11/20/06	\$13,935,097	\$ 4,648,705
387,180	Cerberus FIM Investors Commercial Finance LLC	11/20/06	387,180	129,162
1,161,542	Cerberus FIM Investors Commercial Finance LLC, 12.00%, 11/22/13	11/20/06	1,161,542	387,487
725,710	Cerberus FIM Investors Commercial Mortgage LLC	11/20/06	725,710	242,095
2,177,131	Cerberus FIM Investors Commercial Mortgage LLC, 12.00%, 11/22/13	11/20/06	2,177,131	726,284
3,549,493	Cerberus FIM Investors Insurance LLC	11/20/06	3,549,493	1,184,100
10,648,479	Cerberus FIM Investors Insurance LLC, 12.00%, 11/22/13	11/20/06	10,648,479	3,552,299
6,608,423	Cerberus FIM Investors Rescap LLC	11/20/06	6,608,422	2,204,549
19,825,266	Cerberus FIM Investors Rescap LLC, 12.00%, 11/22/13	11/20/06	19,825,267	6,613,647
48,807	(a) Dana Holding Corp., 4.00%, cvt. pfd., B	12/27/07	4,880,700	4,799,354
1,008,199	DecisionOne Corp.	3/12/99 - 7/18/00	700,978	--
1,271,738	DecisionOne Corp., 12.00%, 4/15/10	3/12/99 - 1/16/08	2,053,842	1,271,738
232,502	DecisionOne Corp., FRN, 7.25%, 5/12/09	7/09/07	232,502	232,502
553,576	DecisionOne Corp., wts., 6/08/17	7/09/07	--	--
27,946	Elephant Capital Holdings Ltd.	8/29/03 - 3/10/08	3,659,902	3,022,147
3,087,162	Esmark Inc.	11/08/04 - 11/28/07	57,180,518	53,123,884
659,105	First Chicago Bancorp	11/16/06	9,227,470	9,227,470
2,814,856	Imagine Group Holdings Ltd.	8/31/04	28,828,348	34,425,689
1,982,308	International Automotive Components Group Brazil LLC ...	4/13/06 - 4/04/08	1,189,903	8,166,908
307,801	International Automotive Components Group Japan LLC	9/26/06 - 3/27/07	2,674,397	1,789,429
8,425,843	International Automotive Components Group LLC	1/12/06 - 10/16/06	8,429,977	6,583,954
5,182,488	International Automotive Components Group NA LLC, A	3/03/07 - 10/10/07	5,173,696	3,959,939
1,560,200	International Automotive Components Group NA LLC, 9.00%, 4/01/17	3/30/07	1,583,603	1,560,200
1,444,624	Kindred Healthcare Inc.	4/28/99 - 3/29/06	13,176,151	39,470,017
	Kindred Healthcare Inc., stock grants:			
5,072	grant price \$18.15, expiration date 7/17/11	7/17/02 - 7/17/05	--	46,520
1,523	grant price \$19.87, expiration date 1/01/12	1/01/03 - 1/01/06	--	11,349
</TABLE>				

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Mutual Qualified Fund

NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

9. RESTRICTED SECURITIES (CONTINUED)

WARRANTS/ CONTRACTS	ISSUER	ACQUISITION DATES	COST	VALUE
<S>	<C>	<C>	<C>	<C>
1,514	grant price \$6.94, expiration date 1/01/13	1/01/04 - 1/03/07	\$ --	\$ 30,858
1,504	grant price \$19.87, expiration date 1/01/14	1/01/05 - 1/01/08	--	11,208
939	grant price \$21.33, expiration date 1/10/15	1/01/06 - 1/10/08	--	5,627
625	grant price \$22.08, expiration date 1/10/16	1/01/07 - 1/10/08	--	3,276
312	grant price \$19.40, expiration date 1/10/17	1/10/08	--	2,472
25,779,933	Motor Coach Industries International Inc., FRN, 15.649%, 12/01/08	5/27/04 - 5/30/08	25,779,933	17,014,756
5	Motor Coach Industries International Inc., wts., 5/27/09	3/30/07	--	--
129,974	NCB Warrant Holdings Ltd., A	12/16/05 - 3/24/08	1,368,433	1,270,490
97,300	Olympus Re Holdings Ltd.	12/19/01	9,577,983	294,186
6,556,493	Pontus I LLC, junior note, 144A, FRN, 5.231%, 7/24/09	1/22/08	6,556,493	5,625,931
5,922,557	5.685%, 7/24/09	2/25/08	5,922,557	7,110,277
5,768,100	6.475%, 7/24/09	2/12/08	5,768,100	4,960,378
2,884,094	Pontus II Trust, junior note, 144A, FRN, 6.475%, 6/25/09	2/29/08	2,884,094	2,480,227
92,938	PTV Inc., 10.00%, pfd., A	12/07/01 - 3/06/02	130,113	46,469
3,434,760	Symetra Financial	7/27/04 - 10/26/07	39,480,000	44,857,966
	TOTAL RESTRICTED SECURITIES (5.57% of Net Assets)			\$311,323,195
</TABLE>				

(a) The Fund also invests in unrestricted securities of the issuer, valued at \$3,621,827 as of June 30, 2008.

10. UNFUNDED CAPITAL COMMITMENTS

At June 30, 2008, the Fund had aggregate unfunded capital commitments to investments of \$2,650,503.

Mutual Qualified Fund

NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

11. HOLDINGS OF 5% VOTING SECURITIES OF PORTFOLIO COMPANIES

The 1940 Act defines "affiliated companies" to include investments in portfolio companies in which a fund owns 5% or more of the outstanding voting securities. Investments in "affiliated companies" for the Fund for the period ended June 30, 2008, were as shown below.

<TABLE>
<CAPTION>

NAME OF ISSUER	NUMBER OF SHARES/ WARRANTS/ PRINCIPAL AMOUNT HELD AT BEGINNING OF PERIOD	GROSS ADDITIONS	GROSS REDUCTIONS	NUMBER OF SHARES/ WARRANTS/ PRINCIPAL AMOUNT HELD AT END OF PERIOD	VALUE AT END OF PERIOD	INVESTMENT INCOME	REALIZED CAPITAL GAIN (LOSS)
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
NON-CONTROLLED AFFILIATES							
DecisionOne Corp.	1,008,199	--	--	1,008,199	\$ --	\$ --	\$ --
DecisionOne Corp., 12.00%, 4/15/10	1,246,268	25,470	--	1,271,738	1,271,738	75,158	--
DecisionOne Corp., FRN, 7.25%, 5/12/09 ...	232,502	--	--	232,502	232,502	9,793	--
DecisionOne Corp., wts., 6/08/17	553,576	--	--	553,576	--	--	--
Elephant Capital Holdings Ltd.	11,496	16,450	--	27,946	3,022,147	--	--
Esmark Inc.	3,087,162	--	--	3,087,162	53,123,884	--	--
First Chicago Bancorp	659,105	--	--	659,105	9,227,470	--	--
Imagine Group Holdings Ltd.	2,814,856	--	--	2,814,856	34,425,689	--	--
Imperial Capital Bancorp Inc.	445,796	--	--	445,796	2,554,411	71,327	--
White River Capital Inc.	549,751	--	--	549,751	8,055,914	--	--
TOTAL NON-CONTROLLED AFFILIATES (2.00% of Net Assets)					\$111,913,755	\$156,278	\$ --
					=====	=====	=====

</TABLE>

12. OTHER CONSIDERATIONS

Officers, directors or employees of the Fund's Investment Manager, may serve from time to time as members of boards of directors of companies in which the Fund invests. Such participation may result in the possession by the Investment Manager of material non-public information which, pursuant to the Fund's policies and the requirements of applicable securities laws, could prevent the Fund from trading in the securities of such companies for limited or extended periods of time.

13. REORGANIZATION TO A DELAWARE STATUTORY TRUST

On April 11, 2007, the Board and shareholders approved an Agreement and Plan of Reorganization whereby the investment company would be reorganized and its domicile changed from a Maryland corporation to a Delaware statutory trust. In connection with these changes, the Trust's name was also changed to Franklin Mutual Series Funds, formerly known as the Franklin Mutual Series Funds, Inc. The reorganization became effective on May 1, 2008.

Mutual Qualified Fund

NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

14. FAIR VALUE MEASUREMENTS

The Fund adopted Financial Accounting Standards Board (FASB) issued FASB Statement No. 157, "Fair Value Measurement" (SFAS 157), on January 1, 2008. SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The Fund has determined that the implementation of SFAS 157 did not have a material impact on the Fund's financial statements.

SFAS 157 establishes a fair value hierarchy that distinguishes between market

data obtained from independent sources (observable inputs) and the Trust's own market assumptions (unobservable inputs). These inputs are used in determining the value of the Fund's investments and are summarized in the following fair value hierarchy:

- Level 1 - quoted prices in active markets for identical securities
- Level 2 - other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speed, credit risk, etc.)
- Level 3 - significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments)

The inputs or methodology used for valuing securities are not an indication of the risk associated with investing in those securities.

The following is a summary of the inputs used as of June 30, 2008, in valuing the Fund's assets and liabilities carried at fair value:

<TABLE>
<CAPTION>

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
ASSETS:				
Investments in Securities	\$3,887,435,467	\$1,308,081,754	\$387,638,311	\$5,583,155,532
Other Financial Instruments(a) ...	--	15,652,527	--	15,652,527
LIABILITIES:				
Other Financial Instruments(a) ...	--	25,402,362	--	25,402,362

</TABLE>

(a) Other financial instruments may include net unrealized appreciation (depreciation) of futures, forward exchange contracts, swaps and unfunded loan commitments.

Mutual Qualified Fund

NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

14. FAIR VALUE MEASUREMENTS (CONTINUED)

At June 30, 2008, the reconciliation of assets in which significant unobservable inputs (Level 3) were used in determining fair value, is as follows:

<TABLE>
<CAPTION>

	INVESTMENTS IN SECURITIES -----
<S>	<C>
Beginning Balance - January 1, 2008	\$422,461,938
Net realized gain (loss)	--
Net change in unrealized appreciation (depreciation)	(66,518,401)
Net purchases (sales)	28,611,531
Transfers in and/or out of Level 3	3,083,243
Ending Balance	\$387,638,311
	=====
Net change in unrealized appreciation (depreciation) attributable to assets still held at end of period	\$(66,518,401)
	=====

</TABLE>

15. NEW ACCOUNTING PRONOUNCEMENT

In March 2008, FASB issued FASB Statement No. 161, "Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133" (SFAS 161), which expands disclosures about derivative investments and hedging activities. SFAS 161 is effective for fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. The Fund is currently evaluating the impact, if any, of applying the various provisions of SFAS 161.

Mutual Qualified Fund

SHAREHOLDER INFORMATION

The Board of Trustees (Board), including a majority of the independent trustees, in 2008, approved renewal of the Fund's investment management agreement, as well as the Fund's administrative services agreement. Prior to a meeting of all the trustees for the purpose of considering such renewals, the independent trustees held three meetings solely dedicated to the renewal process (those trustees unable to attend in person were present by telephonic conference means). Throughout the process, the independent trustees received assistance and advice from and met separately with independent counsel. The independent trustees met with and interviewed officers of the investment manager (including portfolio managers), the transfer agent and shareholder services group and the distributor. In approving the renewal of the investment management agreement and the administrative services agreement for the Fund, the Board, including a majority of independent trustees, determined that the existing investment management fee structure was fair and reasonable and that continuance of the agreements was in the best interests of the Fund and its shareholders.

In reaching their decision on the investment management agreement (as well as the administrative services agreement), the trustees took into account information furnished throughout the year at regular Board meetings, as well as information specifically requested and furnished for the renewal process, which culminated in the meetings referred to above for the specific purpose of considering such agreements. Information furnished throughout the year included, among others, reports on the Fund's investment performance, expenses, portfolio composition, portfolio brokerage execution, soft dollars, derivatives, securities lending, portfolio turnover, Rule 12b-1 plans, distribution, shareholder servicing, compliance, pricing of securities and sales and redemptions, along with related financial statements and other information about the scope and quality of services provided by the investment manager and its affiliates and enhancements to such services over the past year. In addition, the trustees received periodic reports throughout the year and during the renewal process relating to compliance with the Fund's investment policies and restrictions. During the renewal process, the independent trustees considered the investment manager's methods of operation within the Franklin Templeton group and its activities on behalf of other clients.

The information obtained by the trustees during the renewal process also included a special report prepared by Lipper, Inc. (Lipper), an independent third-party analyst, comparing the Fund's investment performance and expenses with those of other mutual funds deemed comparable to the Fund as selected by Lipper (Lipper Section 15(c) Report). The trustees reviewed the Lipper Section 15(c) Report and its usefulness in the renewal process with respect to matters such as comparative fees, expenses, expense ratios, performance and volatility. They concluded that the report continues to be a reliable resource in the performance of their duties. In addition, the trustees received and reviewed a report on the investment manager's (and its parent's) profitability (Profitability Study). Over the past year, the Board and counsel to the independent trustees continued to receive reports on management's handling of recent regulatory actions and pending legal actions against the investment manager and its affiliates. The independent trustees were satisfied with the actions taken to date by management in response to such regulatory and legal proceedings.

Mutual Qualified Fund

SHAREHOLDER INFORMATION (CONTINUED)

BOARD REVIEW OF INVESTMENT MANAGEMENT AGREEMENT (CONTINUED)

In addition to the above and other matters considered by the trustees throughout the course of the year, the following discussion relates to certain primary factors relevant to the Board's decision.

NATURE, EXTENT AND QUALITY OF SERVICES. The trustees reviewed the nature, extent and quality of the services provided by the investment manager. In this regard, they reviewed the Fund's investment approach and concluded that, in their view, it continues to differentiate the Fund from typical core investment products in the mutual fund field. The trustees cited the investment manager's ability to implement the Fund's disciplined value investment approach and its long-term relationship with the Fund as reasons that shareholders choose to invest, and remain invested, in the Fund. The trustees reviewed the Fund's portfolio management team, including its performance, staffing, skills and compensation program. With respect to portfolio manager compensation, management assured the trustees that the Fund's long-term performance is a significant component of incentive-based compensation. The trustees noted that the portfolio manager compensation program aligned the interests of the portfolio managers with that of Fund shareholders. The trustees discussed with management various other products, portfolios and entities that are advised by the investment manager and

the allocation of assets and expenses among and within them, as well as their relative fees and reasons for differences with respect thereto and any potential conflicts. During regular Board meetings and the aforementioned meetings of the independent trustees, the trustees received reports and presentations on the investment manager's best execution trading policies. The trustees considered periodic reports provided to them showing that the investment manager complied with the investment policies and restrictions of the Fund as well as other reports periodically furnished to the Board covering matters such as the compliance of portfolio managers and other management personnel with the code of ethics covering the investment management personnel, the adherence to fair value pricing procedures established by the Board and the accuracy of net asset value calculations. The Board noted the extent of the benefits provided to Fund shareholders from being part of the Franklin Templeton group, including the right to exchange investments between funds (same class) without a sales charge, the ability to reinvest Fund dividends into other funds and the right to combine holdings of other funds to obtain reduced sales charges. The trustees considered the significant recent efforts to develop, test and implement compliance procedures established in accordance with SEC requirements. They also reviewed the nature, extent and quality of the Fund's other service agreements to determine that, on an overall basis, Fund shareholders were well served. In this connection, the Board also took into account administrative and transfer agent and shareholder services provided to Fund shareholders by an affiliate of the investment manager, noting continuing expenditures by management to increase and improve the scope of such services, favorable periodic reports on shareholder services conducted by independent third parties and the firsthand experience of individual trustees who deal with the shareholder services group in their capacities as shareholders in one or more of the various Franklin Templeton funds. While such considerations directly affected the trustees' decision in renewing the Fund's administrative services and transfer agent and shareholder services agreement, the Board also considered these commitments as incidental benefits to Fund shareholders deriving from the investment management relationship.

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Mutual Qualified Fund

SHAREHOLDER INFORMATION (CONTINUED)

BOARD REVIEW OF INVESTMENT MANAGEMENT AGREEMENT (CONTINUED)

Based on their review, the trustees were satisfied with the nature and quality of the overall services provided by the investment manager and its affiliates to the Fund and its shareholders and were confident in the abilities of the management team to continue the disciplined value investment approach of the Fund and to provide quality services to the Fund and its shareholders.

INVESTMENT PERFORMANCE. The trustees reviewed and placed significant emphasis on the investment performance of the Fund over the one-, three-, five- and 10-year periods ended December 31, 2007. They considered the history of successful performance of the Fund relative to various benchmarks. As part of their review, they inquired of management regarding benchmarks, style drift and restrictions on permitted investments. Consideration was also given to performance in the context of available levels of cash during the periods. The trustees had meetings during the year, including the meetings referred to above held in connection with the renewal process, with the Fund's portfolio managers to discuss performance. In addition, particular attention in assessing performance was given to the Lipper Section 15(c) Report. That report showed the investment performance of the Fund (Class A shares) in comparison to other funds determined comparable by Lipper.

The comparable funds to the Fund, as chosen by Lipper, included all retail and institutional multi-cap core funds. The Fund had total returns in the second best performing quintile for the one-year period ended December 31, 2007, and had annualized total returns for the three- and five-year periods in the best performing quintile. The trustees noted that the Fund's total return on an annualized basis for the 10-year period ended December 31, 2007, was in the best performing quintile and exceeded 10%, as shown in the Lipper Section 15(c) Report. The Board was satisfied with such comparative performance.

The trustees also compared Fund performance to other industry benchmarks, including measures of risk-adjusted performance of a fund, as part of their evaluation of investment performance. According to the Lipper Section 15(c) Report, the Fund's risk-adjusted performance was in Lipper's best performing quintile of peer funds for the three-, five- and 10-year periods ended December 31, 2007. The trustees concluded that the Fund had continued to perform well in comparison to its various benchmarks and in the context of the Fund's objectives.

COMPARATIVE EXPENSES AND MANAGEMENT PROFITABILITY. The trustees considered the cost of the services provided and to be provided and the profits realized by the investment manager and its affiliates from their respective relationships with

the Fund. As part of the approval process, they explored with management the trends in expense ratios over the past three fiscal years. The trustees noted that the Fund's overall expense ratio has declined over such period. In considering the appropriateness of the management fee and other expenses charged the Fund, the Board took into account various factors including investment performance and matters relating to Fund operations, including, but not limited to, the quality and experience of its portfolio managers and research staff and the effective investment management fee rate charged comparable accounts

Mutual Qualified Fund

SHAREHOLDER INFORMATION (CONTINUED)

BOARD REVIEW OF INVESTMENT MANAGEMENT AGREEMENT (CONTINUED)

managed by the Fund's investment manager. The trustees noted that the effective investment management fee rates of comparable accounts managed by the investment manager were the same or higher than those charged to the Fund.

Consideration was also given to a comparative analysis in the Lipper Section 15(c) Report of the investment management fee and total expense ratios of the Fund in comparison with those of a group of other funds selected by Lipper as its appropriate Lipper expense group. Prior to making such comparison, the Board relied upon a survey showing that the scope of services covered under the Fund's investment management agreement was similar to those provided by fund managers to other mutual fund groups. In reviewing comparative costs, emphasis was given to the Fund's contractual management fee in comparison with the contractual management fee that would have been charged by other funds within its Lipper expense group assuming they were the same size as the Fund, as well as the actual total expenses of the Fund in comparison with those of its Lipper expense group. The Lipper contractual management fee analysis includes administrative charges as being part of the management fee, and total expenses, for comparative consistency, are shown by Lipper for Fund Class A shares.

The Fund's contractual management fee rate and total expenses were in each case in the middle quintile of its Lipper expense group. The Board was satisfied with such comparative expenses.

The trustees also reviewed the Profitability Study addressing profitability of Franklin Resources, Inc., from its overall U.S. fund business, as well as profitability of the investment manager to the Fund, from providing investment management and other services to the Fund. The trustees noted that this analysis is reviewed every other year by independent accountants based on agreed-upon methodologies. The trustees reviewed the basis on which such reports are prepared and the reasonableness of the cost allocation methodology utilized in the Profitability Study. The independent trustees reviewed the investment manager's method of assignment and allocation of actual expenses to the Fund, allocations for other accounts managed by the investment manager and the method of allocations in the Profitability Study.

The independent trustees met with management to discuss the Profitability Study. This included, among other things, a comparison of investment management income with investment management expenses of the Fund; comparison of underwriting revenues and expenses; the relative relationship of investment management and underwriting expenses; shareholder servicing profitability (losses); economies of scale; and the relative contribution of the Fund to the profitability of the investment manager and its parent. In discussing the Profitability Study with the Board, the investment manager stated its belief that the costs incurred in establishing the infrastructure necessary to operate the type of mutual fund operations conducted by it and its affiliates may not be fully reflected in the expenses allocated to the Fund in determining its profitability.

Mutual Qualified Fund

SHAREHOLDER INFORMATION (CONTINUED)

BOARD REVIEW OF INVESTMENT MANAGEMENT AGREEMENT (CONTINUED)

The trustees considered an additional Lipper study analyzing the profitability of the parent of the investment manager as compared to other publicly held investment managers, which also aided the trustees in considering profitability outside the context of distribution. The Board also took into account management's expenditures in improving shareholder services provided to the Funds, as well as the need to meet additional regulatory and compliance requirements resulting from the Sarbanes-Oxley Act and recent SEC and other

regulatory requirements. The trustees also considered the extent to which the investment manager may derive ancillary benefits from Fund operations, including those derived from economies of scale, discussed below, the allocation of Fund brokerage and the use of commission dollars to pay for research and other similar services. The Board noted the interest an affiliate of the investment manager has in a joint venture that financed up-front commissions paid to brokers/dealers who sold Fund Class B shares, noting that the Fund has ceased offering Class B shares and the benefits derived from the Fund as a result of this arrangement will diminish over time.

Based upon their consideration of all these factors, the trustees determined that the level of profits realized by the manager and its affiliates in providing services to the Fund was not excessive in view of the nature, quality and extent of services provided.

ECONOMIES OF SCALE. The Board considered economies of scale realized by the investment manager and its affiliates as the Fund grows larger and the extent to which they are shared with Fund shareholders, as for example, in the level of the investment management fee charged, in the quality and efficiency of services rendered and in increased capital commitments benefiting the Fund directly or indirectly. The trustees noted that, based upon the Profitability Study, as some funds increase in size, at some point economies of scale may result in the investment manager realizing a larger profit margin on investment management services provided such a fund. The trustees also noted that benefits of economies of scale will be shared with Fund shareholders due to the decline in the effective investment management fee rate as breakpoints are achieved by the Fund.

The trustees assessed the savings from the breakpoints that were instituted as part of the Fund's investment management fee in 2004 and noted that, as a result of the breakpoints, the Fund and its shareholders experienced savings. The trustees believed that the breakpoints approved in 2004 were, and continue to be, appropriate and they agreed to continue to monitor the appropriateness of the breakpoints. The trustees also considered the effects a continued increase in assets under management would have on the investment management fee of the Fund. To the extent further economies of scale may be realized by the investment manager and its affiliates, the Board believed the investment management and administrative fees provide a sharing of benefits with the Fund and its shareholders.

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Mutual Qualified Fund

SHAREHOLDER INFORMATION (CONTINUED)

PROXY VOTING POLICIES AND PROCEDURES

The Fund's investment manager has established Proxy Voting Policies and Procedures (Policies) that the Fund uses to determine how to vote proxies relating to portfolio securities. Shareholders may view the Fund's complete Policies online at franklintempleton.com. Alternatively, shareholders may request copies of the Policies free of charge by calling the Proxy Group collect at 1-954/527-7678 or by sending a written request to: Franklin Templeton Companies, LLC, 500 East Broward Boulevard, Suite 1500, Fort Lauderdale, FL 33394, Attention: Proxy Group. Copies of the Fund's proxy voting records are also made available online at franklintempleton.com and posted on the U.S. Securities and Exchange Commission's website at sec.gov and reflect the most recent 12-month period ended June 30.

QUARTERLY STATEMENT OF INVESTMENTS

The Fund files a complete statement of investments with the U.S. Securities and Exchange Commission for the first and third quarters for each fiscal year on Form N-Q. Shareholders may view the filed Form N-Q by visiting the Commission's website at sec.gov. The filed form may also be viewed and copied at the Commission's Public Reference Room in Washington, DC. Information regarding the operations of the Public Reference Room may be obtained by calling 1-800/SEC-0330.

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(FRANKLIN TEMPLETON INVESTMENTS(R) LOGO) One Franklin Parkway
San Mateo, CA 94403-1906

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SEMIANNUAL REPORT AND SHAREHOLDER LETTER
MUTUAL QUALIFIED FUND

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

DISTRIBUTOR
Franklin Templeton Distributors, Inc.
1-800/DIAL BEN(R)
franklintempleton.com

SHAREHOLDER SERVICES
1-800/632-2301 - (Class A, B & C)
1-800/448-FUND - (Class Z)

Authorized for distribution only when accompanied or preceded by a prospectus. Investors should carefully consider a fund's investment goals, risks, charges and expenses before investing. The prospectus contains this and other information; please read it carefully before investing.

To ensure the highest quality of service, telephone calls to or from our service departments may be monitored, recorded and accessed. These calls can be identified by the presence of a regular beeping tone.

475 S2008 08/08

JUNE 30, 2008

(GRAPHIC)

SEMIANNUAL REPORT AND SHAREHOLDER LETTER VALUE
MUTUAL SHARES FUND

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Franklin - Templeton - MUTUAL SERIES

Semiannual Report

Mutual Shares Fund

YOUR FUND'S GOALS AND MAIN INVESTMENTS: Mutual Shares Fund seeks capital appreciation, with income as a secondary goal, by investing primarily in equity securities of companies the Fund's managers believe are at prices below their intrinsic value. The Fund may invest up to 35% of its assets in foreign securities.

This semiannual report for Mutual Shares Fund covers the period ended June 30, 2008.

PERFORMANCE OVERVIEW

PERFORMANCE DATA REPRESENT PAST PERFORMANCE, WHICH DOES NOT GUARANTEE FUTURE RESULTS. INVESTMENT RETURN AND PRINCIPAL VALUE WILL FLUCTUATE, AND YOU MAY HAVE A GAIN OR LOSS WHEN YOU SELL YOUR SHARES. CURRENT PERFORMANCE MAY DIFFER FROM FIGURES SHOWN. PLEASE VISIT FRANKLINTEMPLETON.COM OR CALL 1-800/342-5236 FOR MOST RECENT MONTH-END PERFORMANCE.

Mutual Shares Fund - Class Z had a -14.37% cumulative total return for the six months ended June 30, 2008. The Fund underperformed its benchmark, the Standard & Poor's 500 Index (S&P 500), which had a -11.91% total return for the same period. (1) You can find the Fund's long-term performance data in the Performance

ECONOMIC AND MARKET OVERVIEW

During the first half of 2008, the U.S. economy grew marginally as energy prices rose, housing prices declined, the labor situation and consumer demand softened, and a credit crisis originally related to U.S. subprime loan losses spread globally. A weaker U.S. dollar compared with most foreign currencies contributed to increased export demand, which helped the fragile economy. Also supporting the economy were inventory buildup, expanding government spending and a boost to household finances from a \$168 billion government stimulus package. Many economists agreed, however, that the slowing U.S. economy -- which is the world's largest and accounts for roughly 25% of

(1.) Source: (C) 2008 Morningstar. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. The S&P 500 consists of 500 stocks chosen for market size, liquidity and industry group representation. Each stock's weight in the index is proportionate to its market value. The S&P 500 is one of the most widely used benchmarks of U.S. equity performance. The index is unmanaged and includes reinvested dividends. One cannot invest directly in an index, nor is an index representative of the Fund's portfolio.

THE DOLLAR VALUE, NUMBER OF SHARES OR PRINCIPAL AMOUNT, AND NAMES OF ALL PORTFOLIO HOLDINGS ARE LISTED IN THE FUND'S STATEMENT OF INVESTMENTS (SOI). THE SOI BEGINS ON PAGE 22.

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global gross domestic product -- could have a meaningfully negative impact on growth prospects around the world.(2) Nevertheless, growth remained relatively strong in developing economies, particularly in Asia where China-led demand continued to impact commodities' prices and related equities.

GEOGRAPHIC BREAKDOWN

Based on Total Net Assets as of 6/30/08

(BAR CHART)

<TABLE>	<S>	<C>
	U.S.	58.9%
	U.K.	7.9%
	Germany	4.7%
	France	4.7%
	Switzerland	2.5%
	Denmark	2.0%
	Netherlands	2.0%
	Norway	1.5%
	Belgium	1.0%
	Other	6.1%
	Short-Term Investment & Other Net Assets	8.7%

</TABLE>

In the six months under review, prices increased significantly for oil, natural gas, and most agricultural and industrial commodities, as well as for precious metals, adding to global inflationary pressures. For the 12 months ended June 30, 2008, the core U.S. Consumer Price Index (CPI), which excludes food and energy costs, rose 2.4%, which was higher than its 10-year average rate.(3) Many of the world's monetary authorities faced the choice between lowering short-term interest rates to stimulate growth and raising them to fight inflation, which Merrill Lynch estimated at 5.5% globally at the end of June, up from 3.5% at the beginning of 2008. The U.S. focused on reigniting its economy through fiscal and monetary policies, but the eurozone made controlling inflation its main goal. Accordingly, while the U.S. Federal Reserve Board (Fed) eased rates aggressively down to 2.00% from 4.25%, the European Central Bank maintained rates at 4.00%. Interest rate differentials pressured the U.S. dollar, particularly in the first quarter, but the greenback regained ground as the Fed paused and implied that its next move could be a rate hike. Indicators also signaled growth was slowing outside the U.S. For the period, however, the U.S. dollar declined versus many of the world's currencies, and the dollar's weakness contributed to higher commodities' prices, as most of these prices are set in U.S. dollars.

Many global and U.S. equity markets were volatile, and a majority of them declined over the reporting period. In this uncertain environment, U.S. Treasury prices fluctuated, and the 10-year Treasury note yield fell from 4.04% at the beginning of the period to 3.99% on June 30, 2008. Despite negative economic data and an outlook for decelerating corporate earnings and profit margins

globally, many companies' balance sheets remained relatively strong.

INVESTMENT STRATEGY

At Mutual Series, we are committed to our distinctive value approach to investing, which we believe can generate above-average risk-adjusted returns over time for our shareholders. Our major investment strategy is investing in undervalued stocks. When selecting undervalued equities, we are always attracted to fundamentally strong companies with healthy balance sheets,

(2.) Source: Global Insight.

(3.) Source: Bureau of Labor Statistics.

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high-quality assets, substantial free cash flow and shareholder-oriented management teams and whose stocks are trading at discounts to our assessment of the companies' intrinsic or business value. We also look for asset rich companies whose shares may be trading at depressed levels due to concerns over short-term earnings disappointments, litigation, management strategy or other perceived negatives. This strict value approach is not only intended to improve the likelihood of upside potential, but it is also intended to reduce the risk of substantial declines. While the vast majority of our undervalued equity investments are made in publicly traded companies globally, we may invest occasionally in privately held companies as well.

TOP 10 SECTORS/INDUSTRIES

Based on Equity Securities as of 6/30/08

<TABLE>

<CAPTION>

% OF TOTAL
NET ASSETS

<S>

<C>

Tobacco	7.8%
Insurance	7.6%
Media	6.8%
Industrial Conglomerates	4.7%
Food & Staples Retailing	4.0%
Food Products	3.9%
Commercial Banks	3.8%
Paper & Forest Products	3.5%
Beverages	3.3%
Health Care Providers & Services	2.8%

</TABLE>

We complement this more traditional investment strategy with two others. One is distressed investing, a highly specialized field that has proven quite profitable during certain periods over the years. Distressed investing is complex and can take many forms. The most common distressed investment the Fund undertakes is the purchase of financially troubled or bankrupt companies' debt at a substantial discount to face value. After the financially distressed company is reorganized, often in bankruptcy court, the old debt is typically replaced with new securities issued by the financially stronger company.

The other piece of our investment strategy is participating in arbitrage situations, another highly specialized field. When companies announce proposed mergers or takeovers, commonly referred to as "deals," the target company may trade at a discount to the bid it ultimately accepts. One form of arbitrage involves purchasing the target company's stock when it is trading below the value it would receive in a deal. In keeping with our commitment to a relatively conservative investment approach, we typically focus our arbitrage efforts on announced deals, and eschew rumored deals or other situations we consider relatively risky.

In addition, we will generally seek to hedge the Fund's currency exposure when we deem it advantageous for our shareholders.

MANAGER'S DISCUSSION

During the first half of 2008, three investments that declined in value were Orkla, a Norwegian conglomerate; Motorola, a wireless equipment company; and Fortis, a Belgian bank.

Orkla reported good core operating results in 2008's first quarter while its management continued to refocus the company by selling its remaining media assets and its eastern European food operations, which had below-average profitability. However, those positive developments were offset by a 52% decline in local currency of Renewable Energy Corp. (REC), a company in

which Orkla owns a stake of just under 40%. REC's stock price declined after it provided operating profit, capital expenditure and production start-up guidance for 2008 that failed to meet market expectations. The fall in REC shares contributed to a nearly 36% price decline in local currency for Orkla shares.

TOP 10 HOLDINGS

6/30/08

<TABLE>	
<CAPTION>	
COMPANY	% OF TOTAL
SECTOR/INDUSTRY, COUNTRY	NET ASSETS
-----	-----
<S>	<C>
Berkshire Hathaway Inc., A & B INSURANCE, U.S.	2.5%
British American Tobacco PLC, ord. & ADR TOBACCO, U.K.	2.0%
Imperial Tobacco Group PLC TOBACCO, U.K.	1.9%
Comcast Corp., A MEDIA, U.S.	1.8%
News Corp., A MEDIA, U.S.	1.6%
Constellation Energy Group ENERGY TRADERS, U.S.	1.5%
Weyerhaeuser Co. PAPER & FOREST PRODUCTS, U.S.	1.5%
White Mountains Insurance Group Ltd. INSURANCE, U.S.	1.5%
Orkla ASA INDUSTRIAL CONGLOMERATES, NORWAY	1.5%
CVS Caremark Corp. FOOD & STAPLES RETAILING, U.S.	1.5%

Motorola shares declined almost 54% in value due to continued uncertainty surrounding the future of the company's mobile phone business. In January, Motorola announced it was considering strategic alternatives for the business, including an outright sale, which the market viewed positively. However, the lack of strategic or financial buyers, combined with ongoing losses associated with poor mobile phone sales, caused analysts to lower their valuations for Motorola's mobile phone division.

Fortis shares fell more than 40% in local currency during the first half of 2008 as banks suffered globally due to the ongoing U.S. subprime mortgage crisis and deceleration of the U.S. and European economies. In addition, Fortis' stock dropped as the company unexpectedly raised capital to strengthen its balance sheet after the sale of non-core assets failed to generate expected proceeds.

In contrast to these disappointments, three of the Fund's best performing investments were Wal-Mart, an operator of discount stores and supercenters; Seadrill, a Norwegian oil and gas drilling company; and BEA Systems, an enterprise software company.

Wal-Mart is the world's largest retailer with operations in the U.S., Canada, Argentina, Brazil, Mexico, Great Britain and Japan. During the first half of 2008, as the U.S. economy continued to slow while food and energy prices continued to climb, consumers became increasingly price sensitive. Retailers that offered low prices on everyday items such as food and other consumables benefited from increased consumer focus on "value for money." Additional signs of consumer restraint were evident as many households ate out less and began to prepare more meals at home, which also benefited grocery stores. As a result of these and other trends, Wal-Mart's operations generated revenue and profit growth that exceeded management's guidance and the company's share price appreciated more than 19%. Also during the period, Wal-Mart announced that capital expenditures would be lower than initially planned, it continued to buy back stock under a \$15 billion share repurchase authorization, and management reiterated its commitment to improving the company's return on invested capital (ROIC) trends.

Seadrill shares rose almost 21% in local currency in the first half of 2008 driven by several positive developments. As oil prices reached record highs, the market remained tight for ultra-deepwater oil exploration and production vessels. The company was able to lease three of its 15 ultra-deepwater vessels

to Brazilian oil company Petrobras for an unusually long period of six years, and at day rates that approached \$600,000. These contracts exceeded analysts' expectations. In addition, Seadrill began to sell and lease back some of its fleet, solidifying its ability to pay dividends. The company started paying a dividend in the second quarter of 2008, which was earlier than investors had expected. Furthermore, we believe there is potential for future dividends to increase considering some analysts estimated that as the sale and lease-back program progresses, Seadrill could pay cumulative dividends of up to 120 Norwegian krone per share through 2012, or approximately 77% of its 155.75 krone share price on June 30, 2008. Also during the period, the company ordered several new rigs, scheduled for delivery in 2010. Investors viewed this development as a signal of management's confidence that the cycle could last longer than initially expected. Finally, some experts have suggested that Brazil's new oil discoveries in the Atlantic Ocean's Santos Basin could require up to 45 ultra-deep rigs, which is three times larger than Seadrill's current ultra-deep offshore rig fleet, already the largest such portfolio in the world.

Our investment in BEA Systems is an example of how participating in arbitrage situations or "deals" can generate returns for our shareholders. BEA, a mid-sized software company focused on middleware (computer software that connects software components or applications), was the target of Oracle's October 2007 hostile takeover bid. BEA Systems rebuffed the offer, and its share price declined in the subsequent three months. In the interim, several other software acquisitions were either announced or completed, which gave us confidence that consolidation in the software industry would continue. Mutual Series began accumulating a position in BEA Systems during November 2007 after we became increasingly convinced that a deal would eventually be reached. In January 2008, Oracle raised its offer and BEA agreed to be acquired. The acquisition closed in April, and the company's stock price rose more than 20% for the six-month period.

Finally, investors should note that we maintained our currency hedging posture of being generally hedged to the U.S. dollar for most of our non-U.S. holdings. Since the dollar was weaker compared with most foreign currencies during the first half of 2008, the Fund benefited slightly by not being fully hedged.

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Thank you for your continued participation in Mutual Shares Fund. We look forward to serving your future investment needs.

(PHOTO OF PETER A. LANGERMAN)

/s/ Peter A. Langerman
Peter A. Langerman
Co-Portfolio Manager

(PHOTO OF F. DAVID SEGAL)

/s/ F. David Segal
F. David Segal, CFA
Co-Portfolio Manager

(PHOTO OF DEBBIE A. TURNER)

/s/ Debbie A. Turner
Debbie A. Turner, CFA
Assistant Portfolio Manager

Mutual Shares Fund

THE FOREGOING INFORMATION REFLECTS OUR ANALYSIS, OPINIONS AND PORTFOLIO HOLDINGS AS OF JUNE 30, 2008, THE END OF THE REPORTING PERIOD. THE WAY WE IMPLEMENT OUR MAIN INVESTMENT STRATEGIES AND THE RESULTING PORTFOLIO HOLDINGS MAY CHANGE DEPENDING ON FACTORS SUCH AS MARKET AND ECONOMIC CONDITIONS. THESE OPINIONS MAY NOT BE RELIED UPON AS INVESTMENT ADVICE OR AN OFFER FOR A PARTICULAR SECURITY. THE INFORMATION IS NOT A COMPLETE ANALYSIS OF EVERY ASPECT OF ANY MARKET, COUNTRY, INDUSTRY, SECURITY OR THE FUND. STATEMENTS OF FACT ARE FROM SOURCES CONSIDERED RELIABLE, BUT THE INVESTMENT MANAGER MAKES NO REPRESENTATION OR WARRANTY AS TO THEIR COMPLETENESS OR ACCURACY. ALTHOUGH HISTORICAL PERFORMANCE IS NO GUARANTEE OF FUTURE RESULTS, THESE INSIGHTS MAY HELP YOU UNDERSTAND OUR INVESTMENT MANAGEMENT PHILOSOPHY.

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PETER LANGERMAN has been portfolio manager for Mutual Shares Fund since 2005. He joined Franklin Templeton Investments in 1996, serving in various capacities,

including President and Chief Executive Officer of Franklin Mutual Advisers and member of the management team of the Funds, including Mutual Shares Fund. From 2002 to 2005, he served as director of New Jersey's Division of Investment, overseeing employee pension funds. Between 1986 and 1996, Mr. Langerman was employed at Heine Securities Corporation, the Fund's former manager.

F. DAVID SEGAL has been portfolio manager for Mutual Shares Fund since 2005. He joined Franklin Templeton Investments in 2002. Previously, he was an analyst in the Structured Finance Group of MetLife for the period 1999-2002.

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

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Performance Summary as of 6/30/08

Your dividend income will vary depending on dividends or interest paid by securities in the Fund's portfolio, adjusted for operating expenses of each class. Capital gain distributions are net profits realized from the sale of portfolio securities. The performance table does not reflect any taxes that a shareholder would pay on Fund dividends, capital gain distributions, if any, or any realized gains on the sale of Fund shares. Total return reflects reinvestment of the Fund's dividends and capital gain distributions, if any, and any unrealized gains or losses.

PRICE INFORMATION

CLASS Z (SYMBOL: MUTHX)	CHANGE	6/30/08	12/31/07
Net Asset Value (NAV)	-\$3.64	\$21.69	\$25.33

CLASS A (SYMBOL: TESIX)	CHANGE	6/30/08	12/31/07
Net Asset Value (NAV)	-\$3.64	\$21.50	\$25.14

CLASS B (SYMBOL: FMUBX)	CHANGE	6/30/08	12/31/07
Net Asset Value (NAV)	-\$3.64	\$20.96	\$24.60

CLASS C (SYMBOL: TEMTX)	CHANGE	6/30/08	12/31/07
Net Asset Value (NAV)	-\$3.67	\$21.19	\$24.86

CLASS R (SYMBOL: TESRX)	CHANGE	6/30/08	12/31/07
Net Asset Value (NAV)	-\$3.65	\$21.35	\$25.00

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Performance Summary (CONTINUED)

PERFORMANCE

CUMULATIVE TOTAL RETURN EXCLUDES SALES CHARGES. AVERAGE ANNUAL TOTAL RETURN AND VALUE OF \$10,000 INVESTMENT INCLUDE MAXIMUM SALES CHARGES. CLASS Z/R: NO SALES CHARGES; CLASS A: 5.75% MAXIMUM INITIAL SALES CHARGE; CLASS B: CONTINGENT

DEFERRED SALES CHARGE (CDSC) DECLINING FROM 4% TO 1% OVER SIX YEARS, AND ELIMINATED THEREAFTER; CLASS C: 1% CDSC IN FIRST YEAR ONLY. UNTIL AUGUST 31, 2008, THE FUND MAY CHARGE A 2% FEE ON REDEMPTIONS MADE WITHIN SEVEN DAYS OF PURCHASE.

CLASS Z(1)	6-MONTH	1-YEAR	5-YEAR	10-YEAR
<S>	<C>	<C>	<C>	<C>
Cumulative Total Return(2)	-14.37%	-19.25%	+50.79%	+94.51%
Average Annual Total Return(3)	-14.37%	-19.25%	+8.56%	+6.88%
Value of \$10,000 Investment(4)	\$ 8,563	\$ 8,075	\$15,079	\$19,451
Total Annual Operating Expenses(5)	0.75%			

CLASS A(1)	6-MONTH	1-YEAR	5-YEAR	10-YEAR
<S>	<C>	<C>	<C>	<C>
Cumulative Total Return(2)	-14.48%	-19.47%	+48.34%	+87.97%
Average Annual Total Return(3)	-19.39%	-24.09%	+6.93%	+5.89%
Value of \$10,000 Investment(4)	\$ 8,061	\$ 7,591	\$13,982	\$17,717
Total Annual Operating Expenses(5)	1.07%			

CLASS B(1)	6-MONTH	1-YEAR	5-YEAR	INCEPTION (1/1/99)
<S>	<C>	<C>	<C>	<C>
Cumulative Total Return(2)	-14.80%	-20.02%	+43.48%	+89.33%
Average Annual Total Return(3)	-18.20%	-23.06%	+7.19%	+6.95%
Value of \$10,000 Investment(4)	\$ 8,180	\$ 7,694	\$14,148	\$18,933
Total Annual Operating Expenses(5)	1.75%			

CLASS C(1)	6-MONTH	1-YEAR	5-YEAR	10-YEAR
<S>	<C>	<C>	<C>	<C>
Cumulative Total Return(2)	-14.76%	-20.01%	+43.49%	+76.17%
Average Annual Total Return(3)	-15.62%	-20.77%	+7.49%	+5.83%
Value of \$10,000 Investment(4)	\$ 8,439	\$ 7,923	\$14,349	\$17,617
Total Annual Operating Expenses(5)	1.75%			

CLASS R	6-MONTH	1-YEAR	5-YEAR	INCEPTION (1/1/02)
<S>	<C>	<C>	<C>	<C>
Cumulative Total Return(2)	-14.60%	-19.65%	+47.03%	+39.15%
Average Annual Total Return(3)	-14.60%	-19.65%	+8.01%	+5.22%
Value of \$10,000 Investment(4)	\$ 8,540	\$ 8,035	\$14,703	\$13,915
Total Annual Operating Expenses(5)	1.25%			

PERFORMANCE DATA REPRESENT PAST PERFORMANCE, WHICH DOES NOT GUARANTEE FUTURE RESULTS. INVESTMENT RETURN AND PRINCIPAL VALUE WILL FLUCTUATE, AND YOU MAY HAVE A GAIN OR LOSS WHEN YOU SELL YOUR SHARES. CURRENT PERFORMANCE MAY DIFFER FROM FIGURES SHOWN. FOR MOST RECENT MONTH-END PERFORMANCE, SEE "FUNDS AND PERFORMANCE" AT FRANKLINTEMPLETON.COM OR CALL 1-800/342-5236.

Performance Summary (CONTINUED)

ENDNOTES

VALUE SECURITIES MAY NOT INCREASE IN PRICE AS ANTICIPATED OR MAY DECLINE FURTHER IN VALUE. THE FUND'S INVESTMENTS IN FOREIGN SECURITIES INVOLVE SPECIAL RISKS. FOREIGN SECURITIES RISKS INCLUDE CURRENCY FLUCTUATIONS, AND ECONOMIC AND POLITICAL UNCERTAINTIES. THE FUND MAY ALSO INVEST IN COMPANIES ENGAGED IN MERGERS, REORGANIZATIONS OR LIQUIDATIONS, WHICH INVOLVE SPECIAL RISKS AS PENDING DEALS MAY NOT BE COMPLETED ON TIME OR ON FAVORABLE TERMS, AS WELL AS LOWER-RATED BONDS, WHICH ENTAIL HIGHER CREDIT RISK. THE FUND'S PROSPECTUS ALSO INCLUDES A DESCRIPTION OF THE MAIN INVESTMENT RISKS.

CLASS Z: Shares are available to certain eligible investors as described in the prospectus.

CLASS A: Prior to 8/3/98, these shares were offered at a lower initial sales charge; thus actual total returns may differ.

CLASS B: These shares have higher annual fees and expenses than Class A shares.

CLASS C: Prior to 1/1/04, these shares were offered with an initial sales charge; thus actual total returns would have differed. These shares have higher annual fees and expenses than Class A shares.

CLASS R: Shares are available to certain eligible investors as described in the prospectus. These shares have higher annual fees and expenses than Class A shares.

- (1.) Past expense reductions by the Fund's manager increased the Fund's total returns. If the manager had not taken this action, the Fund's total returns would have been lower.
- (2.) Cumulative total return represents the change in value of an investment over the periods indicated.
- (3.) Average annual total return represents the average annual change in value of an investment over the periods indicated. Six-month return has not been annualized.
- (4.) These figures represent the value of a hypothetical \$10,000 investment in the Fund over the periods indicated.
- (5.) Figures are as stated in the Fund's prospectus current as of the date of this report.

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Your Fund's Expenses

As a Fund shareholder, you can incur two types of costs:

- Transaction costs, including sales charges (loads) on Fund purchases and redemption fees; and
- Ongoing Fund costs, including management fees, distribution and service (12b-1) fees, and other Fund expenses. All mutual funds have ongoing costs, sometimes referred to as operating expenses.

The following table shows ongoing costs of investing in the Fund and can help you understand these costs and compare them with those of other mutual funds. The table assumes a \$1,000 investment held for the six months indicated.

ACTUAL FUND EXPENSES

The first line (Actual) for each share class listed in the table provides actual account values and expenses. The "Ending Account Value" is derived from the Fund's actual return, which includes the effect of Fund expenses.

You can estimate the expenses you paid during the period by following these steps. OF COURSE, YOUR ACCOUNT VALUE AND EXPENSES WILL DIFFER FROM THOSE IN THIS ILLUSTRATION:

1. Divide your account value by \$1,000.

IF AN ACCOUNT HAD AN \$8,600 VALUE, THEN $\$8,600 / \$1,000 = 8.6$.
2. Multiply the result by the number under the heading "Expenses Paid During Period."

IF EXPENSES PAID DURING PERIOD WERE \$7.50, THEN $8.6 \times \$7.50 = \64.50 .

In this illustration, the estimated expenses paid this period are \$64.50.

HYPOTHETICAL EXAMPLE FOR COMPARISON WITH OTHER FUNDS

Information in the second line (Hypothetical) for each class in the table can help you compare ongoing costs of investing in the Fund with those of other mutual funds. This information may not be used to estimate the actual ending account balance or expenses you paid during the period. The hypothetical "Ending Account Value" is based on the actual expense ratio for each class and an assumed 5% annual rate of return before expenses, which does not represent the Fund's actual return. The figure under the heading "Expenses Paid During Period" shows the hypothetical expenses your account would have incurred under this

scenario. You can compare this figure with the 5% hypothetical examples that appear in shareholder reports of other funds.

Your Fund's Expenses (CONTINUED)

PLEASE NOTE THAT EXPENSES SHOWN IN THE TABLE ARE MEANT TO HIGHLIGHT ONGOING COSTS AND DO NOT REFLECT ANY TRANSACTION COSTS, SUCH AS SALES CHARGES OR REDEMPTION FEES. Therefore, the second line for each class is useful in comparing ongoing costs only, and will not help you compare total costs of owning different funds. In addition, if transaction costs were included, your total costs would have been higher. Please refer to the Fund prospectus for additional information on operating expenses.

<TABLE>
<CAPTION>

	BEGINNING ACCOUNT VALUE 1/1/08	ENDING ACCOUNT VALUE 6/30/08	EXPENSES PAID DURING PERIOD* 1/1/08-6/30/08
CLASS Z			
-----	-----	-----	-----
<S>	<C>	<C>	<C>
Actual	\$1,000	\$ 856.30	\$3.51
Hypothetical (5% return before expenses)	\$1,000	\$1,021.08	\$3.82
CLASS A			
Actual	\$1,000	\$ 855.20	\$4.80
Hypothetical (5% return before expenses)	\$1,000	\$1,019.69	\$5.22
CLASS B			
Actual	\$1,000	\$ 852.00	\$8.10
Hypothetical (5% return before expenses)	\$1,000	\$1,016.11	\$8.82
CLASS C			
Actual	\$1,000	\$ 852.40	\$8.01
Hypothetical (5% return before expenses)	\$1,000	\$1,016.21	\$8.72
CLASS R			
Actual	\$1,000	\$ 854.00	\$5.81
Hypothetical (5% return before expenses)	\$1,000	\$1,018.60	\$6.32

</TABLE>

* Expenses are calculated using the most recent six-month expense ratio, annualized for each class (Z: 0.76%; A: 1.04%; B: 1.76%; C: 1.74%; and R: 1.26%), multiplied by the average account value over the period, multiplied by 182/366 to reflect the one-half year period.

Mutual Shares Fund

FINANCIAL HIGHLIGHTS

<TABLE>
<CAPTION>

	SIX MONTHS ENDED JUNE 30, 2008 (UNAUDITED)	YEAR ENDED DECEMBER 31,				
		2007	2006	2005	2004	2003
<S>	<C>	<C>	<C>	<C>	<C>	<C>
CLASS Z						
PER SHARE OPERATING PERFORMANCE (for a share outstanding throughout the period)						
Net asset value, beginning of period	\$ 25.33	\$ 26.08	\$ 23.95	\$ 23.05	\$ 20.99	\$ 16.84
Income from investment operations(a):						
Net investment income(b)	0.29	0.70	0.42	0.47	0.35	0.24
Net realized and unrealized gains (losses)	(3.93)	0.17	3.90	1.92	2.52	4.23
Total from investment operations	(3.64)	0.87	4.32	2.39	2.87	4.47
Less distributions from:						
Net investment income	--	(0.75)	(0.52)	(0.29)	(0.39)	(0.32)
Net realized gains	--	(0.87)	(1.67)	(1.20)	(0.42)	--
Total distributions	--	(1.62)	(2.19)	(1.49)	(0.81)	(0.32)
Redemption fees	-- (c)	-- (c)	-- (c)	-- (c)	-- (c)	--

Net asset value, end of period	\$ 21.69	\$ 25.33	\$ 26.08	\$ 23.95	\$ 23.05	\$ 20.99
Total return(d)	(14.37)%	3.30%	18.37%	10.39%	13.89%	26.62%
RATIOS TO AVERAGE NET ASSETS (e)						
Expenses (f)	0.76% (g)	0.75% (g)	0.84% (g)	0.81% (g)	0.81% (g)	0.84
Expenses - excluding dividend expense on securities sold short	0.76% (g)	0.74% (g)	0.76% (g)	0.76% (g)	0.80% (g)	0.81%
Net investment income	2.48%	2.57%	1.63%	1.99%	1.62%	1.28%
SUPPLEMENTAL DATA						
Net assets, end of period (000's) ...	\$11,061,019	\$13,262,561	\$11,577,506	\$8,951,080	\$7,240,641	\$5,782,145
Portfolio turnover rate	15.20%	40.57%	33.40%	21.57%	33.22%	54.65%

- (a) The amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations 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) Amount rounds to less than \$0.01 per share.
- (d) Total return is not annualized for periods less than one year.
- (e) Ratios are annualized for periods less than one year.
- (f) Includes dividend expense on securities sold short which varies from period to period. See below for expense ratios that reflect only operating expenses.
- (g) Benefit of expense reduction rounds to less than 0.01%.

The accompanying notes are an integral part of these financial statements.

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Mutual Shares Fund

FINANCIAL HIGHLIGHTS (CONTINUED)

CLASS A	SIX MONTHS ENDED JUNE 30, 2008 (UNAUDITED)	YEAR ENDED DECEMBER 31,				
		2007	2006	2005	2004	2003
PER SHARE OPERATING PERFORMANCE (for a share outstanding throughout the period)						
Net asset value, beginning of period	\$ 25.14	\$ 25.90	\$ 23.82	\$ 22.94	\$ 20.90	\$ 16.78
Income from investment operations (a):						
Net investment income (b)	0.26	0.61	0.32	0.39	0.27	0.17
Net realized and unrealized gains (losses)	(3.90)	0.17	3.88	1.91	2.51	4.21
Total from investment operations	(3.64)	0.78	4.20	2.30	2.78	4.38
Less distributions from:						
Net investment income	--	(0.67)	(0.45)	(0.22)	(0.32)	(0.26)
Net realized gains	--	(0.87)	(1.67)	(1.20)	(0.42)	--
Total distributions	--	(1.54)	(2.12)	(1.42)	(0.74)	(0.26)
Redemption fees	-- (c)	-- (c)	-- (c)	-- (c)	-- (c)	--
Net asset value, end of period	\$ 21.50	\$ 25.14	\$ 25.90	\$ 23.82	\$ 22.94	\$ 20.90
Total return(d)	(14.48)%	2.97%	17.98%	9.98%	13.50%	26.18%
RATIOS TO AVERAGE NET ASSETS (e)						
Expenses (f)	1.04% (g)	1.07% (g)	1.18% (g)	1.16% (g)	1.16% (g)	1.19%
Expenses - excluding dividend expense on securities sold short	1.04% (g)	1.06% (g)	1.10% (g)	1.11% (g)	1.15% (g)	1.16%
Net investment income	2.20%	2.25%	1.29%	1.64%	1.27%	0.93%
SUPPLEMENTAL DATA						
Net assets, end of period (000's) ...	\$7,039,734	\$8,469,264	\$6,761,779	\$4,211,238	\$2,940,029	\$2,257,336
Portfolio turnover rate	15.20%	40.57%	33.40%	21.57%	33.22%	54.65%

- (a) The amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations 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) Amount rounds to less than \$0.01 per share.
- (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 expense on securities sold short which varies from period to period. See below for expense ratios that reflect only operating expenses.
- (g) Benefit of expense reduction rounds to less than 0.01%.

The accompanying notes are an integral part of these financial statements.

Mutual Shares Fund

FINANCIAL HIGHLIGHTS (CONTINUED)

<TABLE>
<CAPTION>

CLASS B	SIX MONTHS	YEAR ENDED DECEMBER 31,				
	ENDED JUNE 30, 2008 (UNAUDITED)	2007	2006	2005	2004	2003
<S>	<C>	<C>	<C>	<C>	<C>	<C>
PER SHARE OPERATING PERFORMANCE (for a share outstanding throughout the period)						
Net asset value, beginning of period	\$ 24.60	\$ 25.35	\$ 23.35	\$ 22.50	\$ 20.54	\$ 16.53
Income from investment operations(a):						
Net investment income(b)	0.17	0.41	0.16	0.23	0.13	0.04
Net realized and unrealized gains (losses)	(3.81)	0.18	3.78	1.88	2.44	4.14
Total from investment operations	(3.64)	0.59	3.94	2.11	2.57	4.18
Less distributions from:						
Net investment income	--	(0.47)	(0.27)	(0.06)	(0.19)	(0.17)
Net realized gains	--	(0.87)	(1.67)	(1.20)	(0.42)	--
Total distributions	--	(1.34)	(1.94)	(1.26)	(0.61)	(0.17)
Redemption fees	-- (c)	-- (c)	-- (c)	-- (c)	-- (c)	--
Net asset value, end of period	\$ 20.96	\$ 24.60	\$ 25.35	\$ 23.35	\$ 22.50	\$ 20.54
Total return(d)	(14.80)%	2.25%	17.21%	9.31%	12.70%	25.41%
RATIOS TO AVERAGE NET ASSETS (e)						
Expenses(f)	1.76% (g)	1.75% (g)	1.84% (g)	1.81% (g)	1.81% (g)	1.84%
Expenses - excluding dividend expense on securities sold short	1.76% (g)	1.74% (g)	1.76% (g)	1.76% (g)	1.80% (g)	1.81%
Net investment income	1.48%	1.57%	0.63%	0.99%	0.62%	0.28%
SUPPLEMENTAL DATA						
Net assets, end of period (000's) ...	\$447,159	\$586,289	\$659,186	\$612,007	\$588,401	\$444,671
Portfolio turnover rate	15.20%	40.57%	33.40%	21.57%	33.22%	54.65%

</TABLE>

- (a) The amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations 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) Amount rounds to less than \$0.01 per share.
- (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 expense on securities sold short which varies from period to period. See below for expense ratios that reflect only operating expenses.
- (g) Benefit of expense reduction rounds to less than 0.01%.

The accompanying notes are an integral part of these financial statements.

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Mutual Shares Fund

FINANCIAL HIGHLIGHTS (CONTINUED)

<TABLE>
<CAPTION>

CLASS C	SIX MONTHS ENDED JUNE 30, 2008 (UNAUDITED)	YEAR ENDED DECEMBER 31,				
		2007	2006	2005	2004	2003
<S>	<C>	<C>	<C>	<C>	<C>	<C>
PER SHARE OPERATING PERFORMANCE (for a share outstanding throughout the period)						
Net asset value, beginning of period	\$ 24.86	\$ 25.63	\$ 23.48	\$ 22.76	\$ 20.75	\$ 16.68
Income from investment operations(a):						
Net investment income(b)	0.17	0.42	0.16	0.23	0.13	0.05
Net realized and unrealized gains (losses)	(3.84)	0.17	3.82	1.89	2.49	4.17
Total from investment operations	(3.67)	0.59	3.98	2.12	2.62	4.22
Less distributions from:						
Net investment income	--	(0.49)	(0.16)	(0.20)	(0.19)	(0.15)
Net realized gains	--	(0.87)	(1.67)	(1.20)	(0.42)	--
Total distributions	--	(1.36)	(1.83)	(1.40)	(0.61)	(0.15)
Redemption fees	--(c)	--(c)	--(c)	--(c)	--(c)	--
Net asset value, end of period	\$ 21.19	\$ 24.86	\$ 25.63	\$ 23.48	\$ 22.76	\$ 20.75
Total return(d)	(14.76)%	2.30%	17.18%	9.27%	12.77%	25.37%
RATIOS TO AVERAGE NET ASSETS(e)						
Expenses(f)	1.74%(g)	1.75%(g)	1.84%(g)	1.81%(g)	1.81%(g)	1.84%
Expenses - excluding dividend expense on securities sold short	1.74%(g)	1.74%(g)	1.76%(g)	1.76%(g)	1.80%(g)	1.81%
Net investment income	1.50%	1.57%	0.63%	0.99%	0.62%	0.28%
SUPPLEMENTAL DATA						
Net assets, end of period (000's) ...	\$2,063,041	\$2,617,083	\$2,387,517	\$1,834,009	\$1,551,111	\$1,272,590
Portfolio turnover rate	15.20%	40.57%	33.40%	21.57%	33.22%	54.65%

</TABLE>

- (a) The amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations 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) Amount rounds to less than \$0.01 per share.
- (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 expense on securities sold short which varies from period to period. See below for expense ratios that reflect only operating expenses.
- (g)Benefit of expense reduction rounds to less than 0.01%.

The accompanying notes are an integral part of these financial statements.

Mutual Shares Fund

FINANCIAL HIGHLIGHTS (CONTINUED)

CLASS R	SIX MONTHS ENDED JUNE 30, 2008 (UNAUDITED)	YEAR ENDED DECEMBER 31,				
		2007	2006	2005	2004	2003
<S>	<C>	<C>	<C>	<C>	<C>	<C>
PER SHARE OPERATING PERFORMANCE (for a share outstanding throughout the period)						
Net asset value, beginning of period	\$ 25.00	\$ 25.77	\$ 23.72	\$ 22.85	\$ 20.83	\$ 16.75
Income from investment operations(a):						
Net investment income(b)	0.23	0.55	0.28	0.35	0.24	0.13
Net realized and unrealized gains (losses)	(3.88)	0.18	3.86	1.91	2.50	4.21
Total from investment operations	(3.65)	0.73	4.14	2.26	2.74	4.34
Less distributions from:						
Net investment income	--	(0.63)	(0.42)	(0.19)	(0.30)	(0.26)
Net realized gains	--	(0.87)	(1.67)	(1.20)	(0.42)	--
Total distributions	--	(1.50)	(2.09)	(1.39)	(0.72)	(0.26)
Redemption fees	-- (c)	-- (c)	-- (c)	-- (c)	-- (c)	--
Net asset value, end of period	\$ 21.35	\$ 25.00	\$ 25.77	\$ 23.72	\$ 22.85	\$ 20.83
Total return(d)	(14.60)%	2.77%	17.73%	9.88%	13.32%	26.02%
RATIOS TO AVERAGE NET ASSETS(e)						
Expenses(f)	1.26% (g)	1.25% (g)	1.34% (g)	1.31% (g)	1.31% (g)	1.34%
Expenses - excluding dividend expense on securities sold short	1.26% (g)	1.24% (g)	1.26% (g)	1.26% (g)	1.30% (g)	1.31%
Net investment income	1.98%	2.07%	1.13%	1.49%	1.12%	0.78%
SUPPLEMENTAL DATA						
Net assets, end of period (000's) ...	\$270,918	\$297,777	\$188,646	\$109,305	\$74,763	\$46,933
Portfolio turnover rate	15.20%	40.57%	33.40%	21.57%	33.22%	54.65%

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- (b) Based on average daily shares outstanding.
- (c) Amount rounds to less than \$0.01 per share.
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- (e) Ratios are annualized for periods less than one year.
- (f) Includes dividend expense on securities sold short which varies from period to period. See below for expense ratios that reflect only operating expenses.
- (g) Benefit of expense reduction rounds to less than 0.01%.

The accompanying notes are an integral part of these financial statements.

Mutual Shares Fund

STATEMENT OF INVESTMENTS, JUNE 30, 2008 (UNAUDITED)

<TABLE>
<CAPTION>

		COUNTRY	SHARES/WARRANTS/ CONTRACTS/RIGHTS	VALUE
<S>	<C>	<C>	<C>	<C>
	COMMON STOCKS AND OTHER EQUITY INTERESTS 87.5%			
	AEROSPACE & DEFENSE 0.1%			
(a)	GenCorp Inc.	United States	2,073,770	\$ 14,848,193
	AIR FREIGHT & LOGISTICS 1.3%			
	Deutsche Post AG	Germany	7,318,811	190,495,030
	TNT NV	Netherlands	2,200,935	75,272,667
				265,767,697
	AIRLINES 0.3%			
(a)	ACE Aviation Holdings Inc., A	Canada	2,376,693	37,385,135
(a, b)	ACE Aviation Holdings Inc., A, 144A	Canada	121,088	1,904,702
(a)	Northwest Airlines Corp.	United States	2,929,482	19,510,350
(a, c)	Northwest Airlines Corp., Contingent Distribution	United States	111,348,000	695,925
				59,496,112
	AUTO COMPONENTS 0.6%			
(a, c, d)	Collins & Aikman Products Co., Contingent Distribution	United States	3,845,959	--
(a)	Dana Holding Corp.	United States	1,648,715	8,820,625
(a, c)	Dana Holding Corp., Contingent Distribution	United States	45,477,000	3,297,082
(a)	Goodyear Tire & Rubber Co.	United States	4,294,179	76,565,212
(a)	Lear Corp.	United States	2,563,001	36,343,354
				125,026,273
	AUTOMOBILES 1.6%			
	Daimler AG	Germany	1,413,460	87,244,861
(e)	General Motors Corp.	United States	9,001,734	103,519,941
	Harley-Davidson Inc.	United States	2,228,830	80,817,376
(a, f, g, h)	International Automotive Components Group Brazil LLC	Brazil	6,069,096	25,004,061
(a, f, g, h)	International Automotive Components Group Japan LLC	Japan	1,104,272	6,419,787
(a, f, g, h)	International Automotive Components Group LLC	Luxembourg	25,796,752	20,157,582
(a, f, g, h)	International Automotive Components Group NA LLC, A	United States	19,434,979	14,850,267
				338,013,875
	BEVERAGES 3.3%			
	Anheuser-Busch Cos. Inc.	United States	2,019,420	125,446,370
	Brown-Forman Corp., A	United States	125,460	9,537,469
	Brown-Forman Corp., B	United States	606,036	45,798,140
	Carlsberg AS, B	Denmark	984,186	95,068,852
	Coca-Cola Enterprises Inc.	United States	8,021,543	138,772,694
(a)	Dr. Pepper Snapple Group Inc.	United States	3,051,059	64,011,218
	Pernod Ricard SA	France	2,062,832	211,940,835
				690,575,578
	BUILDING PRODUCTS 0.4%			
	Armstrong World Industries Inc.	United States	410,714	12,001,063
(a, c)	Armstrong World Industries Inc., Contingent Distribution ..	United States	5,498,000	27,490
(a)	Owens Corning Inc.	United States	3,320,705	75,546,039
				87,574,592
	CAPITAL MARKETS 0.2%			
	Legg Mason Inc.	United States	762,241	33,210,840

</TABLE>

Mutual Shares Fund

STATEMENT OF INVESTMENTS, JUNE 30, 2008 (UNAUDITED) (CONTINUED)

<TABLE>
<CAPTION>

		COUNTRY	SHARES/WARRANTS/ CONTRACTS/RIGHTS	VALUE
<S>	<C>	<C>	<C>	<C>
	COMMON STOCKS AND OTHER EQUITY INTERESTS (CONTINUED)			
	CHEMICALS 0.9%			
(a, c, d)	Dow Corning Corp., Contingent Distribution	United States	621,830,547	\$ 4,570,535
	Huntsman Corp.	United States	2,666,550	30,398,670
	Koninklijke DSM NV	Netherlands	1,543,609	90,830,283

Linde AG	Germany	487,364	68,529,122
			194,328,610
COMMERCIAL BANKS 3.8%			
Banco Popolare SpA	Italy	4,088,405	72,616,159
Danske Bank AS	Denmark	5,051,544	146,121,686
(a, g, h) Elephant Capital Holdings Ltd.	Japan	64,834	7,011,321
(a, h) Guaranty Bancorp	United States	5,731,834	20,634,602
Intesa Sanpaolo SpA	Italy	15,273,862	87,242,188
Mitsubishi UFJ Financial Group Inc.	Japan	5,473,223	48,512,248
(a, g) NCB Warrant Holdings Ltd., A	Japan	301,530	2,947,447
Societe Generale, A	France	1,183,312	103,018,714
Swedbank AB, A	Sweden	2,629,481	50,853,191
U.S. Bancorp	United States	9,427,939	262,945,219
			801,902,775
COMMERCIAL SERVICES & SUPPLIES 0.0%(i)			
(a) Comdisco Holding Co. Inc.	United States	2,088	19,940
(a, c) Comdisco Holding Co. Inc., Contingent Distribution	United States	95,431,240	--
			19,940
COMMUNICATIONS EQUIPMENT 1.0%			
Motorola Inc.	United States	19,122,930	140,362,306
Telefonaktiebolaget LM Ericsson, B	Sweden	7,247,347	75,554,606
Telefonaktiebolaget LM Ericsson, B, ADR	Sweden	327,200	3,402,880
			219,319,792
COMPUTERS & PERIPHERALS 2.2%			
(a, g, h) DecisionOne Corp.	United States	1,879,100	--
(a, g, h) DecisionOne Corp., wts., 6/08/17	United States	1,031,766	--
(a) Dell Inc.	United States	13,795,240	301,839,851
Diebold Inc.	United States	2,195,220	78,105,928
(a) Lexmark International Inc., A	United States	2,487,110	83,144,087
			463,089,866
CONSUMER FINANCE 1.7%			
American Express Co.	United States	1,967,350	74,110,075
(a, g) Cerberus CG Investor I LLC	United States	56,116,385	29,220,408
(a, g) Cerberus CG Investor II LLC	United States	56,116,385	29,220,408
(a, g) Cerberus CG Investor III LLC	United States	28,058,192	14,610,204
(a, g) Cerberus FIM Investors Auto Finance LLC	United States	15,536,148	5,182,811
(a, g) Cerberus FIM Investors Commercial Finance LLC	United States	1,294,114	431,712
(a, g) Cerberus FIM Investors Commercial Mortgage LLC	United States	2,425,617	809,178
(a, g) Cerberus FIM Investors Insurance LLC	United States	11,863,844	3,957,741
(a, g) Cerberus FIM Investors Rescap LLC	United States	22,088,027	7,368,497
(a) SLM Corp.	United States	9,622,710	186,199,439
			351,110,473

</TABLE>

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Mutual Shares Fund

STATEMENT OF INVESTMENTS, JUNE 30, 2008 (UNAUDITED) (CONTINUED)

<TABLE> <CAPTION>		COUNTRY	SHARES/WARRANTS/ CONTRACTS/RIGHTS	VALUE
<S>	<C>	<C>	<C>	<C>
COMMON STOCKS AND OTHER EQUITY INTERESTS (CONTINUED)				
CONTAINERS & PACKAGING 0.2%				
	Temple-Inland Inc.	United States	4,336,720	\$ 48,874,834
DIVERSIFIED CONSUMER SERVICES 0.5%				
	H&R Block Inc.	United States	3,299,888	70,617,603
	Hillenbrand Inc.	United States	1,462,406	31,295,489
				101,913,092
DIVERSIFIED FINANCIAL SERVICES 2.0%				
	CIT Group Inc.	United States	5,601,000	38,142,810
	Fortis	Belgium	13,066,900	209,249,190
(a)	Fortis VVPR Strip	Belgium	5,226,760	82,300

(a, g, h)	GLCP Harrah's Investment LP	United States	22,185,100	14,642,166
	JPMorgan Chase & Co.	United States	2,557,760	87,756,746
(a, c)	Marconi Corp., Contingent Distribution	United Kingdom	77,739,439	--
	Nymex Holdings Inc.	United States	660,200	55,773,696

				405,646,908

DIVERSIFIED TELECOMMUNICATION SERVICES 1.7%				
(a, f, g, h)	AboveNet Inc.	United States	810,649	40,532,450
(a, f, g, h)	AboveNet Inc., stock grant, grant price \$20.95, expiration date 9/09/13	United States	1,065	29,660
(a, f, g, h)	AboveNet Inc., wts., 9/08/08	United States	29,283	937,056
(a, f, g, h)	AboveNet Inc., wts., 9/08/10	United States	34,449	992,131
(a, c, d)	Global Crossing Holdings Ltd., Contingent Distribution	United States	105,649,309	--
	Koninklijke (Royal) KPN NV	Netherlands	6,052,416	103,878,468
	Telefonica SA	Spain	4,251,926	113,013,000
	Verizon Communications Inc.	United States	2,738,292	96,935,537

				356,318,302

ELECTRIC UTILITIES 1.5%				
	E.ON AG	Germany	684,019	137,960,150
	Exelon Corp.	United States	1,512,420	136,057,303
	Iberdrola SA, Br.	Spain	3,080,970	41,284,525

				315,301,978

ELECTRONIC EQUIPMENT & INSTRUMENTS 0.9%				
	Tyco Electronics Ltd.	United States	5,025,352	180,008,109

ENERGY EQUIPMENT & SERVICES 1.3%				
(a)	Exterran Holding Inc.	United States	2,500	178,725
(a)	Pride International Inc.	United States	1,850,030	87,487,919
	Seadrill Ltd.	Bermuda	3,877,050	118,592,744
(a)	Transocean Inc.	United States	476,287	72,581,376

				278,840,764

FOOD & STAPLES RETAILING 4.0%				
	Carrefour SA	France	2,710,739	153,489,140
	CVS Caremark Corp.	United States	7,717,476	305,380,525
	Kroger Co.	United States	6,755,491	195,031,025
	Wal-Mart Stores Inc.	United States	3,241,580	182,176,796

				836,077,486

</TABLE>

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Mutual Shares Fund

STATEMENT OF INVESTMENTS, JUNE 30, 2008 (UNAUDITED) (CONTINUED)

<TABLE>

<CAPTION>

	COUNTRY	SHARES/WARRANTS/ CONTRACTS/RIGHTS	VALUE
<S>	<C>	<C>	<C>
COMMON STOCKS AND OTHER EQUITY INTERESTS (CONTINUED)			
FOOD PRODUCTS 3.9%			
	United Kingdom	12,897,968	\$ 162,527,065
	United States	1,299,300	78,958,461
	France	1,342,702	94,294,152
	United States	6,304,684	179,368,260
	Switzerland	6,531,700	295,157,388
HEALTH CARE EQUIPMENT & SUPPLIES 1.1%			
	United States	4,006,372	191,865,155
	United States	1,462,406	39,455,714
HEALTH CARE PROVIDERS & SERVICES 2.8%			
(a)	United States	4,806,000	158,501,880
(a, g, h)	United States	2,860,528	78,155,346
(a, g, h)	United States	9,997	91,692
	United States	2,999	22,348
	United States	2,986	60,861

grant price \$19.87, expiration date 1/01/14	United States	2,973	22,155
grant price \$21.33, expiration date 1/10/15	United States	1,857	11,127
grant price \$22.08, expiration date 1/10/16	United States	1,238	6,490
grant price \$19.40, expiration date 1/10/17	United States	619	4,904
(a) MDS Inc.	Canada	3,411,468	55,400,622
(a) PharMerica Inc.	United States	1,047,022	23,652,227
Quest Diagnostics Inc.	United States	2,635,400	127,737,838
(a, h) Tenet Healthcare Corp.	United States	25,881,411	143,900,645
			587,568,135

HOTELS, RESTAURANTS & LEISURE 0.2%			
(a) Trump Entertainment Resorts Inc.	United States	1,823,378	3,482,652
Wyndham Worldwide Corp.	United States	1,845,958	33,061,108
			36,543,760

HOUSEHOLD DURABLES 0.1%			
(e, h) Beazer Homes USA Inc.	United States	2,147,880	11,963,692

INDEPENDENT POWER PRODUCERS & ENERGY TRADERS 1.5%			
Constellation Energy Group	United States	3,894,844	319,766,692

INDUSTRIAL CONGLOMERATES 4.7%			
Keppel Corp. Ltd.	Singapore	16,278,934	133,299,515
Koninklijke Philips Electronics NV	Netherlands	4,479,993	152,441,203
(f) Orkla ASA	Norway	24,350,543	312,762,778
Siemens AG	Germany	2,072,525	228,829,467
Tyco International Ltd.	United States	3,657,657	146,452,586
			973,785,549

INSURANCE 7.6%			
(a) Alleghany Corp.	United States	355,624	118,084,949
Allianz SE	Germany	635,950	111,962,834

</TABLE>

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Mutual Shares Fund

STATEMENT OF INVESTMENTS, JUNE 30, 2008 (UNAUDITED) (CONTINUED)

<TABLE>

<CAPTION>

	COUNTRY	SHARES/WARRANTS/ CONTRACTS/RIGHTS	VALUE
<S>	<C>	<C>	<C>

<C>			
COMMON STOCKS AND OTHER EQUITY INTERESTS (CONTINUED)			
INSURANCE (CONTINUED)			
American International Group Inc.	United States	4,332,200	\$ 114,630,012
(a) a Berkshire Hathaway Inc., A	United States	1,590	191,992,500
(a) a Berkshire Hathaway Inc., B	United States	84,150	337,609,800
(a) Consec Inc.	United States	4,553,790	45,173,597
Hartford Financial Services Group Inc.	United States	649,800	41,957,586
Old Republic International Corp.	United States	6,101,302	72,239,416
(a, g) Olympus Re Holdings Ltd.	United States	202,380	611,896
Prudential Financial Inc.	United States	1,403,550	83,848,077
The Travelers Cos. Inc.	United States	1,385,982	60,151,619
(h) White Mountains Insurance Group Ltd.	United States	729,457	312,937,053
Zurich Financial Services AG	Switzerland	352,340	90,197,660
			1,581,396,999

IT SERVICES 1.1%			
(a) Alliance Data Systems Corp.	United States	2,116,320	119,677,896
Electronic Data Systems Corp.	United States	4,799,190	118,252,042
			237,929,938

LEISURE EQUIPMENT & PRODUCTS 1.5%			
Eastman Kodak Co.	United States	7,790,800	112,421,244
Mattel Inc.	United States	11,761,430	201,355,682
			313,776,926

MACHINERY 0.3%			
AB SKF, B	Sweden	1,274,725	19,997,263
(h) Federal Signal Corp.	United States	3,360,800	40,329,600
(a, g) Motor Coach Industries International Inc., wts., 5/27/09	United States	12	--

MARINE 0.9%			
A.P. Moller - Maersk AS	Denmark	15,130	185,283,561
MEDIA 6.8%			
(a) Adelphia Recovery Trust	United States	99,967,609	4,998,380
(a, c) Adelphia Recovery Trust, Arahova Contingent Value Vehicle, Contingent Distribution	United States	12,005,115	5,162,200
(a) Cablevision Systems Corp., A	United States	2,617,495	59,155,387
(a, c) Century Communications Corp., Contingent Distribution	United States	33,138,000	--
Comcast Corp., A	United States	19,942,140	374,114,546
(a) Liberty Media Corp-Entertainment, Series A	United States	1,384,070	33,536,016
(a) Liberty Media Holding Corp.-Capital, A	United States	671,690	9,672,336
News Corp., A	United States	22,460,462	337,805,349
(a) Time Warner Cable Inc., A	United States	2,237,969	59,261,419
Time Warner Inc.	United States	15,148,228	224,193,774
(a, d, h) TVMAX Holdings Inc.	United States	257,217	--
(a) Viacom Inc., B	United States	4,181,431	127,700,903
Virgin Media Inc.	United Kingdom	9,133,425	124,305,914
WPP Group PLC	United Kingdom	6,745,291	65,075,002
			1,424,981,226

</TABLE>

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Mutual Shares Fund

STATEMENT OF INVESTMENTS, JUNE 30, 2008 (UNAUDITED) (CONTINUED)

<TABLE>

<CAPTION>

	COUNTRY	SHARES/WARRANTS/ CONTRACTS/RIGHTS	VALUE
<S>	<C>	<C>	<C>
COMMON STOCKS AND OTHER EQUITY INTERESTS (CONTINUED)			
METALS & MINING 1.3%			
Alcoa Inc.	United States	3,577,590	\$ 127,433,756
(a, g, h) Esmark Inc.	United States	8,341,744	143,544,731
			270,978,487
MULTI-UTILITIES 1.6%			
Energy East Corp.	United States	3,837,320	94,858,550
NorthWestern Corp.	United States	723,649	18,395,158
(a, c) NorthWestern Corp., Contingent Distribution	United States	21,699,220	1,592,568
RWE AG	Germany	1,302,182	163,930,748
Suez SA	France	940,833	64,057,280
			342,834,304
OIL, GAS & CONSUMABLE FUELS 2.3%			
(a, d) Apco Oil Corp.	United States	9,200	--
BP PLC	United Kingdom	9,485,110	110,215,072
BP PLC, ADR	United Kingdom	46,400	3,228,048
Royal Dutch Shell PLC, A	United Kingdom	5,993,596	246,649,497
Total SA, B	France	1,523,752	130,042,060
			490,134,677
PAPER & FOREST PRODUCTS 3.5%			
(a) Domtar Corp.	United States	16,037,820	87,406,119
International Paper Co.	United States	9,480,806	220,902,780
MeadWestvaco Corp.	United States	4,116,457	98,136,335
Mondi Ltd.	United Kingdom	236,911	1,469,056
Weyerhaeuser Co.	United States	6,165,330	315,294,976
			723,209,266
PHARMACEUTICALS 2.5%			
Bristol-Myers Squibb Co.	United States	3,834,520	78,722,696
Novartis AG	Switzerland	2,427,900	133,694,934
Pfizer Inc.	United States	11,568,920	202,109,032
Sanofi-Aventis	France	110,330	7,371,178
(a) Valeant Pharmaceuticals International	United States	3,520,835	60,241,487
(a) Watson Pharmaceuticals Inc.	United States	1,745,308	47,420,018
			529,559,345

REAL ESTATE 1.6%				
(a, h)	Alexander's Inc.	United States	326,675	101,465,255
(d)	Canary Wharf Group PLC	United Kingdom	14,262,931	110,801,385
	Link REIT	Hong Kong	18,210,494	41,478,518
(e)	The St. Joe Co.	United States	1,100,535	37,770,361
	Ventas Inc.	United States	1,072,765	45,667,606
				337,183,125
REAL ESTATE MANAGEMENT & DEVELOPMENT 0.1%				
(a)	Forestar Real Estate Group	United States	1,470,466	28,012,377

</TABLE>

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Mutual Shares Fund

STATEMENT OF INVESTMENTS, JUNE 30, 2008 (UNAUDITED) (CONTINUED)

<TABLE>
<CAPTION>

		COUNTRY	SHARES/WARRANTS/ CONTRACTS/RIGHTS	VALUE
<S>	<C>	<C>	<C>	<C>
COMMON STOCKS AND OTHER EQUITY INTERESTS (CONTINUED)				
SEMICONDUCTORS & SEMICONDUCTOR EQUIPMENT 1.2%				
(a)	LSI Corp.	United States	24,355,334	\$ 149,541,751
	Maxim Integrated Products Inc.	United States	4,725,800	99,950,670
				249,492,421
SOFTWARE 1.7%				
	Microsoft Corp.	United States	10,837,929	298,151,427
(a)	NAVTEQ Corp.	United States	831,960	64,060,920
				362,212,347
SPECIALTY RETAIL 1.0%				
	The Home Depot Inc.	United States	8,465,150	198,253,813
THRIFTS & MORTGAGE FINANCE 0.4%				
	Fannie Mae	United States	1,208,000	23,568,080
(a)	Guaranty Financial Group Inc.	United States	1,365,873	7,334,738
(a, d)	Guaranty Financial Group Inc., rts., 7/21/08	United States	1,365,873	159,488
	Washington Mutual Inc.	United States	8,709,357	42,176,501
				73,238,807
TOBACCO 7.8%				
	Altria Group Inc.	United States	5,137,730	105,631,729
	British American Tobacco PLC	United Kingdom	12,181,486	422,030,385
	British American Tobacco PLC, ADR	United Kingdom	70,550	4,885,587
	Imperial Tobacco Group PLC	United Kingdom	10,399,933	387,657,505
	Japan Tobacco Inc.	Japan	30,953	132,074,686
	KT&G Corp.	South Korea	2,102,036	180,777,105
	Philip Morris International Inc.	United States	3,627,198	179,147,309
	Reynolds American Inc.	United States	4,794,760	223,771,448
				1,635,975,754
TRANSPORTATION INFRASTRUCTURE 0.0%(i)				
(a)	Groupe Eurotunnel SA, wts., 12/30/11	France	2,855,237	1,168,923
WIRELESS TELECOMMUNICATION SERVICES 0.5%				
	Sprint Nextel Corp.	United States	10,590,390	100,608,705
				18,285,077,976
TOTAL COMMON STOCKS AND OTHER EQUITY INTERESTS (COST \$18,130,542,310)				
PREFERRED STOCKS 0.2%				
AUTO COMPONENTS 0.1%				
(g)	Dana Holding Corp., 4.00%, cvt. pfd., B	United States	163,322	16,059,991
DIVERSIFIED TELECOMMUNICATION SERVICES 0.0%(i)				
(g)	PTV Inc., 10.00%, pfd., A	United Kingdom	199,566	99,783
THRIFTS & MORTGAGE FINANCE 0.1%				
(a)	Fannie Mae, 8.75%, cvt. pfd.	United States	828,300	31,723,890
				47,883,664

OPTIONS PURCHASED (COST \$35,176,504) 0.1%
 PUT OPTIONS 0.1%

(a) S&P 500 Index, exercise price \$1,175.00, expiration date 12/20/08, contracts	United States	5,368	22,814,000
--	---------------	-------	------------

</TABLE>

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Mutual Shares Fund

STATEMENT OF INVESTMENTS, JUNE 30, 2008 (UNAUDITED) (CONTINUED)

<TABLE>

<CAPTION>

	COUNTRY	PRINCIPAL AMOUNT (j)	VALUE
<S>	<C>	<C>	<C>
CORPORATE BONDS & NOTES 3.3%			
(b) ACE Aviation Holdings Inc., cvt., 144A, 4.25%, 6/01/35	Canada	5,190,000 CAD	\$ 4,984,760
(g) Cerberus CG Investor I LLC, 12.00%, 7/31/14	United States	49,252,400	25,646,257
(g) Cerberus CG Investor II LLC, 12.00%, 7/31/14	United States	49,252,400	25,646,257
(g) Cerberus CG Investor III LLC, 12.00%, 7/31/14	United States	24,626,200	12,823,128
(g) Cerberus FIM Investors Auto Finance LLC, 12.00%, 11/22/13 ..	United States	46,576,742	15,537,856
(g) Cerberus FIM Investors Commercial Finance LLC, 12.00%, 11/22/13	United States	3,882,344	1,295,138
(g) Cerberus FIM Investors Commercial Mortgage LLC, 12.00%, 11/22/13	United States	7,276,853	2,427,536
(g) Cerberus FIM Investors Insurance LLC, 12.00%, 11/22/13	United States	35,591,534	11,873,225
(g) Cerberus FIM Investors Rescap LLC, 12.00%, 11/22/13	United States	66,264,075	22,105,489
(g, h) DecisionOne Corp., 12.00%, 4/15/10	United States	2,370,288	2,370,288
(k) FRN, 7.25%, 5/12/09	United States	433,342	433,342
Groupe Eurotunnel SA, cvt., sub. bond,			
NRS I, T1, 3.00%, 7/28/08	France	53,400 EUR	208,723
NRS I, T1, 3.00%, 7/28/08	France	43,989 GBP	234,876
NRS I, T2, 3.00%, 7/28/09	France	53,400 EUR	204,518
NRS I, T2, 3.00%, 7/28/09	France	43,989 GBP	230,494
NRS I, T3, 3.00%, 7/28/10	France	18,944,500 EUR	71,064,489
NRS I, T3, 3.00%, 7/28/10	France	11,239,769 GBP	57,774,562
NRS II, 6.00%, 7/28/10	France	22,049,100 EUR	48,245,905
NRS II, 6.00%, 7/28/10	France	13,336,237 GBP	36,803,186
(f, g, h) International Automotive Components Group NA LLC, 9.00%, 4/01/17	United States	5,851,000	5,851,000
(g, k) Pontus I LLC, junior note, 144A, FRN, 5.231%, 7/24/09	United States	26,382,624	22,638,143
5.685%, 7/24/09	United States	23,831,572	28,610,801
6.475%, 7/24/09	United States	23,210,194	19,960,008
(g, k) Pontus II Trust, junior note, 144A, FRN, 6.475%, 6/25/09 ...	United States	11,605,097	9,980,004
(k) Realty Corp., FRN, (l) 4.721%, 4/10/13	United States	12,485,429	10,518,974
Delayed Draw Term B Loan, 5.71%, 10/10/13	United States	2,870,094	2,449,829
Initial Term Loan B, 5.475%, 10/10/13	United States	15,837,148	13,518,130
Synthetic Letter of Credit, 2.30%, 10/10/13	United States	4,273,045	3,647,347
(g, k) Revel Entertainment Group LLC, FRN, first lien loan, 6.98%, 11/30/08	United States	52,000,000	50,700,000
second lien loan, 9.98%, 11/30/08	United States	52,000,000	51,220,000
Solutia Inc., Bridge Loan, 15.50%, 2/28/09	United States	111,342,000	109,532,693
Trump Entertainment Resorts Inc., 8.50%, 5/20/15	United States	36,590,212	22,960,358
(d, h, m) TVMAX Holdings Inc., PIK, 11.50%, 9/30/08	United States	786,621	550,635
14.00%, 9/30/08	United States	1,712,673	1,198,871
TOTAL CORPORATE BONDS & NOTES (COST \$823,473,794)			693,246,822

</TABLE>

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Mutual Shares Fund

STATEMENT OF INVESTMENTS, JUNE 30, 2008 (UNAUDITED) (CONTINUED)

<TABLE>

<CAPTION>

	COUNTRY	PRINCIPAL AMOUNT (j) / SHARES	VALUE
--	---------	----------------------------------	-------

<S>	<C>	<C>	<C>	<C>
CORPORATE BONDS & NOTES IN REORGANIZATION 0.4%				
(g, k, n)	Motor Coach Industries International Inc., FRN, 15.649%, 12/01/08	United States	67,439,009	\$ 44,509,746
(d, n)	Safety Kleen Services, senior sub. note, 9.25%, 6/01/08	United States	85,000	425
(f, n)	Wimar OPCO LLC/Finance Corp., senior sub. note, 9.625%, 12/15/14	United States	76,355,000	36,650,400
TOTAL CORPORATE BONDS & NOTES IN REORGANIZATION (COST \$117,841,142)				81,160,571
COMPANIES IN LIQUIDATION 0.0%				
(d)	Peregrine Investments Holdings Ltd., 6.70%, 1/15/98	Hong Kong	95,000,000 JPY	--
	6.70%, 6/30/00	Hong Kong	250,000,000 JPY	--
	zero cpn., 1/22/98	Hong Kong	500,000	--
(d)	PIV Investment Finance (Cayman) Ltd.	Hong Kong	22,710,000	--
TOTAL COMPANIES IN LIQUIDATION (COST \$--)				--
TOTAL INVESTMENTS BEFORE SHORT TERM INVESTMENTS (COST \$19,165,060,342)				19,130,183,033
SHORT TERM INVESTMENTS 9.2%				
U.S. GOVERNMENT AND AGENCY SECURITIES 8.4%				
(o)	FHLB, 7/01/08	United States	215,200,000	215,200,000
(p)	7/03/08 - 6/19/09	United States	1,546,125,000	1,535,931,446
TOTAL U.S. GOVERNMENT AND AGENCY SECURITIES (COST \$1,750,578,990)				1,751,131,446
TOTAL INVESTMENTS BEFORE MONEY MARKET FUND (COST \$20,915,639,332)				20,881,314,479
(q)	INVESTMENTS FROM CASH COLLATERAL RECEIVED FOR LOANED SECURITIES 0.8%			
	MONEY MARKET FUND (COST \$156,514,872) 0.8%			
(r)	Bank of New York Institutional Cash Reserve Fund, 2.53%	United States	156,514,872	156,514,872
TOTAL INVESTMENTS (COST \$21,072,154,204) 100.7%				21,037,829,351
SECURITIES SOLD SHORT (0.2)%				(33,462,450)
NET UNREALIZED LOSS ON FORWARD EXCHANGE CONTRACTS (0.3)% ...				(73,311,321)
OTHER ASSETS, LESS LIABILITIES (0.2)%				(49,184,328)
NET ASSETS 100.0%				\$20,881,871,252

</TABLE>

Mutual Shares Fund

STATEMENT OF INVESTMENTS, JUNE 30, 2008 (UNAUDITED) (CONTINUED)

<S>	<C>	<C>	<C>
	COUNTRY	SHARES	VALUE
(s)	SECURITIES SOLD SHORT (PROCEEDS \$42,713,079) DIVERSIFIED FINANCIAL SERVICES 0.2%		
	CME Group Inc.	United States	87,326
			\$33,462,450

</TABLE>

CURRENCY ABBREVIATIONS

CAD - Canadian Dollar
EUR - Euro
GBP - British Pound Sterling
JPY - Japanese Yen

SELECTED PORTFOLIO ABBREVIATIONS

ADR - American Depository Receipt
FHLB - Federal Home Loan Bank
FRN - Floating Rate Note
PIK - Payment-In-Kind
REIT - Real Estate Investment Trust

- (a) Non-income producing for the twelve months ended June 30, 2008.
- (b) Security was purchased pursuant to Rule 144A under the Securities Act of 1933 and may be sold in transactions exempt from registration only to qualified institutional buyers or in a public offering registered under the Securities Act of 1933. These securities have been deemed liquid under guidelines approved by the Trust's Board of Trustees. At June 30, 2008, the aggregate value of these securities was \$6,889,462, representing 0.03% of net assets.
- (c) Contingent distributions represent the right to receive additional distributions, if any, during the reorganization of the underlying company. Shares represent total underlying principal of debt securities.
- (d) Security has been deemed illiquid because it may not be able to be sold within seven days. At June 30, 2008, the aggregate value of these securities was \$117,281,339, representing 0.56% of net assets.
- (e) A portion or all of the security is on loan as of June 30, 2008. See Note 1(g).
- (f) See Note 13 regarding other considerations.
- (g) See Note 9 regarding restricted securities.
- (h) See Note 12 regarding holdings of 5% voting securities.
- (i) Rounds to less than 0.1% of net assets.
- (j) The principal amount is stated in U.S. dollars unless otherwise indicated.
- (k) The coupon rate shown represents the rate at period end.
- (l) See Note 10 regarding unfunded loan commitments.
- (m) Income may be received in additional securities and/or cash.
- (n) See Note 8 regarding defaulted securities.
- (o) The security is traded on a discount basis with no stated coupon rate.
- (p) Security or a portion of the security has been segregated as collateral for securities sold short. At June 30, 2008, the value of the securities and or cash pledged amounted to \$49,784,550.
- (q) See Note 1(g) regarding securities on loan.
- (r) The rate shown is the annualized seven-day yield at period end.
- (s) See Note 1(f) regarding securities sold short.

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Mutual Shares Fund

FINANCIAL STATEMENTS

STATEMENT OF ASSETS AND LIABILITIES

June 30, 2008 (unaudited)

<TABLE>

<S>	<C>
Assets:	
Investments in securities:	
Cost - Unaffiliated issuers	\$20,057,235,148
Cost - Non-controlled affiliated issuers (Note 12)	1,014,919,056

Total cost of investments	\$21,072,154,204
	=====
Value - Unaffiliated issuers	\$20,043,698,233
Value - Non-controlled affiliated issuers (Note 12) ...	994,131,118

Total value of investments (includes securities loaned in the amount of \$149,372,250)	21,037,829,351
Cash	670,826
Cash on deposit with brokers for securities sold short ...	43,093,979
Foreign currency, at value (cost \$47,458,815)	47,411,251
Receivables:	
Investment securities sold	33,882,739
Capital shares sold	25,948,132
Dividends and interest	93,253,851
Unrealized gain on forward exchange contracts (Note 7) ...	21,528,384
Unrealized gain on unfunded loan commitments (Note 10) ...	2,207,803

Other assets	3,587,018
Total assets	21,309,413,334
Liabilities:	
Payables:	
Investment securities purchased	69,562,572
Capital shares redeemed	41,349,211
Affiliates	20,658,692
Securities sold short, at value (proceeds \$42,713,079) ...	33,462,450
Payable upon return of securities loaned	156,514,872
Unrealized loss on forward exchange contracts (Note 7) ...	94,839,705
Accrued expenses and other liabilities	11,154,580
Total liabilities	427,542,082
Net assets, at value	\$20,881,871,252
Net assets consist of:	
Paid-in capital	\$20,162,114,090
Undistributed net investment income	271,103,378
Net unrealized appreciation (depreciation)	(96,045,162)
Accumulated net realized gain (loss)	544,698,946
Net assets, at value	\$20,881,871,252

</TABLE>

The accompanying notes are an integral part of these financial statements.

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Mutual Shares Fund

FINANCIAL STATEMENTS (CONTINUED)

STATEMENT OF ASSETS AND LIABILITIES (CONTINUED)

June 30, 2008 (unaudited)

<TABLE>	<C>
<S>	
CLASS Z:	
Net assets, at value	\$11,061,019,232
Shares outstanding	509,872,185
Net asset value and maximum offering price per share(a) ..	\$ 21.69
CLASS A:	
Net assets, at value	\$ 7,039,734,056
Shares outstanding	327,409,466
Net asset value per share(a)	\$ 21.50
Maximum offering price per share (net asset value per share / 94.25%)	\$ 22.81
CLASS B:	
Net assets, at value	\$ 447,158,800
Shares outstanding	21,334,929
Net asset value and maximum offering price per share(a) ..	\$ 20.96
CLASS C:	
Net assets, at value	\$ 2,063,041,441
Shares outstanding	97,367,254
Net asset value and maximum offering price per share(a) ..	\$ 21.19
CLASS R:	
Net assets, at value	\$ 270,917,723
Shares outstanding	12,686,433
Net asset value and maximum offering price per share(a) ..	\$ 21.35

</TABLE>

(a) Redemption price is equal to net asset value less contingent deferred sales

charges, if applicable, and redemption fees retained by the Fund.

The accompanying notes are an integral part of these financial statements.

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Mutual Shares Fund

FINANCIAL STATEMENTS (CONTINUED)

STATEMENT OF OPERATIONS

for the six months ended June 30, 2008 (unaudited)

<TABLE>

<S>	<C>
Investment income:	
Dividends: (net of foreign taxes of \$21,211,688)	
Unaffiliated issuers	\$ 289,812,511
Non-controlled affiliated issuers (Note 12)	3,321,124
Interest:	
Unaffiliated issuers	73,067,605
Non-controlled affiliated issuers (Note 12)	577,415
Income from securities loaned	4,265,143
Total investment income	371,043,798
Expenses:	
Management fees (Note 3a)	63,572,445
Administrative fees (Note 3b)	8,697,570
Distribution fees: (Note 3c)	
Class A	10,907,512
Class B	2,548,147
Class C	11,356,256
Class R	710,519
Transfer agent fees (Note 3e)	9,931,807
Custodian fees (Note 4)	1,306,186
Reports to shareholders	689,045
Registration and filing fees	329,613
Professional fees	1,484,880
Trustees' fees and expenses	273,784
Dividends on securities sold short	900,935
Other	217,290
Total expenses	112,925,989
Expense reductions (Note 4)	(130,967)
Net expenses	112,795,022
Net investment income	258,248,776
Realized and unrealized gains (losses):	
Net realized gain (loss) from:	
Investments	624,079,707
Written options	4,386,661
Foreign currency transactions	(306,605,423)
Securities sold short	16,604,971
Net realized gain (loss)	338,465,916
Net change in unrealized appreciation (depreciation) on:	
Investments	(4,165,803,462)
Translation of assets and liabilities denominated in foreign currencies	(20,311,544)
Net change in unrealized appreciation (depreciation)	(4,186,115,006)
Net realized and unrealized gain (loss)	(3,847,649,090)
Net increase (decrease) in net assets resulting from operations	\$ (3,589,400,314)

</TABLE>

The accompanying notes are an integral part of these financial statements.

Mutual Shares Fund

STATEMENTS OF CHANGES IN NET ASSETS

<TABLE>

<CAPTION>

	SIX MONTHS ENDED JUNE 30, 2008 (UNAUDITED)	YEAR ENDED DECEMBER 31, 2007
<S>	<C>	<C>
Increase (decrease) in net assets:		
Operations:		
Net investment income	\$ 258,248,776	\$ 573,855,980
Net realized gain (loss) from investments, written options, securities sold short, synthetic equity swaps, and foreign currency transactions ...	338,465,916	1,077,773,351
Net change in unrealized appreciation (depreciation) on investments and translation of assets and liabilities denominated in foreign currencies	(4,186,115,006)	(1,054,000,083)
Net increase (decrease) in net assets resulting from operations	(3,589,400,314)	597,629,248
Distributions to shareholders from:		
Net investment income:		
Class Z	--	(371,465,429)
Class A	--	(212,840,426)
Class B	--	(10,736,304)
Class C	--	(48,872,902)
Class R	--	(7,033,626)
Net realized gains:		
Class Z	--	(430,826,291)
Class A	--	(277,318,724)
Class B	--	(19,938,898)
Class C	--	(87,332,680)
Class R	--	(9,674,981)
Total distributions to shareholders	--	(1,476,040,261)
Capital share transactions: (Note 2)		
Class Z	(322,872,122)	2,129,113,775
Class A	(218,998,527)	2,027,885,005
Class B	(56,953,238)	(59,185,727)
Class C	(181,212,040)	316,218,501
Class R	18,300,117	122,655,907
Total capital share transactions ...	(761,735,810)	4,536,687,461
Redemption fees	33,890	62,755
Net increase (decrease) in net assets	(4,351,102,234)	3,658,339,203
Net assets:		
Beginning of period	25,232,973,486	21,574,634,283
End of period	\$ 20,881,871,252	\$25,232,973,486
Undistributed net investment income included in net assets:		
End of period	\$ 271,103,378	\$ 12,854,602

</TABLE>

The accompanying notes are an integral part of these financial statements.

Mutual Shares Fund

NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Franklin Mutual Series Funds (Trust) is registered under the Investment Company

Act of 1940, as amended, (1940 Act) as an open-end investment company, consisting of six separate funds. The Mutual Shares Fund (Fund) included in this report is diversified. The financial statements of the remaining funds in the Trust are presented separately. The Fund offers five classes of shares: Class Z, Class A, Class B, Class C, and Class R. Each class of shares differs by its initial sales load, contingent deferred sales charges, distribution fees, voting rights on matters affecting a single class and its exchange privilege.

The following summarizes the Fund's significant accounting policies.

A. SECURITY VALUATION

Securities listed on a securities exchange or on the NASDAQ National Market System are valued at the last quoted sale price or the official closing price of the day, respectively. Over-the-counter securities and listed securities for which there is no reported sale are valued within the range of the most recent quoted bid and ask prices. Securities that trade in multiple markets or on multiple exchanges are valued according to the broadest and most representative market. Investments in open-end mutual funds are valued at the closing net asset value.

Corporate debt securities and government securities generally trade in the over-the-counter market rather than on a securities exchange. The Trust may utilize independent pricing services, quotations from bond dealers, and information with respect to bond and note transactions, to assist in determining a current market value for each security. The Trust's pricing services may use valuation models or matrix pricing which considers information with respect to comparable bond and note transactions, quotations from bond dealers, or by reference to other securities that are considered comparable in such characteristics as rating, interest rate and maturity date, option adjusted spread models, prepayment projections, interest rate spreads and yield curves, to determine current value.

Foreign securities are valued as of the close of trading on the foreign stock exchange on which the security is primarily traded, or the NYSE, whichever is earlier. 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. The value is then converted into its U.S. dollar equivalent at the foreign exchange rate in effect at the close of the NYSE on the day that the value of the foreign security is determined.

The Trust has procedures to determine the fair value of individual securities and other assets for which market prices are not readily available or which may not be reliably priced. Methods for valuing these securities may include: fundamental analysis, 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. Due to the inherent uncertainty of valuations of such securities, the fair values may differ significantly from the values that would have been used had a ready market for such investments existed. Occasionally, events occur between the time at which trading in a security is completed and the close of the NYSE that might call into question the availability (including the reliability) of the value of a portfolio security held by the Fund. The investment

Mutual Shares Fund

NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. SECURITY VALUATION (CONTINUED)

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 Depository 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. If such an event occurs, the securities may be valued using fair value procedures, which may include the use of independent pricing services. All security valuation procedures are approved by the Trust's Board of Trustees.

B. FOREIGN CURRENCY TRANSLATION

Portfolio securities and other assets and liabilities denominated in foreign currencies are translated into U.S. dollars based on the exchange rate of such currencies against U.S. dollars on the date of valuation. Purchases and sales of securities, income and expense items denominated in foreign currencies are translated into U.S. dollars at the exchange rate in effect on the transaction date. Occasionally, events 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 Trust's Board of Trustees.

The Fund does not separately report the effect of changes in foreign exchange rates from changes in market prices on securities held. Such changes are included in net realized and unrealized gain or loss from investments on the Statement of Operations.

Realized foreign exchange gains or losses arise from sales of foreign currencies, currency gains or losses realized between the trade and settlement dates on securities transactions and the difference between the recorded amounts of dividends, interest, and foreign withholding taxes and the U.S. dollar equivalent of the amounts actually received or paid. Net unrealized foreign exchange gains and losses arise from changes in foreign exchange rates on foreign denominated assets and liabilities other than investments in securities held at the end of the reporting period.

C. FOREIGN CURRENCY CONTRACTS

When the Fund purchases or sells foreign securities it may enter into foreign exchange contracts to minimize foreign exchange risk from the trade date to the settlement date of the transactions. A foreign exchange contract is an agreement between two parties to exchange different currencies at an agreed upon exchange rate at a future date. Realized and unrealized gains and losses on these contracts are included in the Statement of Operations.

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Mutual Shares Fund

NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. FOREIGN CURRENCY CONTRACTS (CONTINUED)

The Fund may also enter into forward exchange contracts to hedge against fluctuations in foreign exchange rates. These contracts are valued daily by the Fund and the unrealized gains or losses on the contracts, as measured by the difference between the contractual forward foreign exchange rates and the forward rates at the reporting date, are included in the Statement of Assets and Liabilities. Realized and unrealized gains and losses on these contracts are included in the Statement of Operations.

The risks of these contracts include movement in the values of the foreign currencies relative to the U.S. dollar and the possible inability of the counterparties to fulfill their obligations under the contracts, which may be in excess of the amount reflected in the Statement of Assets and Liabilities.

D. SYNTHETIC EQUITY SWAPS

The Fund may engage in synthetic equity swaps. Synthetic equity swaps are contracts entered into between a broker and the Fund under which the parties agree to make payments to each other so as to replicate the economic consequences that would apply had a purchase or short sale of the underlying security taken place. Upon entering into synthetic equity swaps, the Fund is required to pledge to the broker an amount of cash and/or other assets equal to a certain percentage of the contract amount (margin account). Periodically, payments are made to recognize changes in value of the contract resulting from interest on the notional value of the contract, market value changes in the underlying security, and/or dividends paid by the issuer of the underlying security. The Fund recognizes a realized gain or loss when cash is received from, or paid to, the broker. Synthetic equity swaps are valued daily by the Fund and the unrealized gains or losses on the contracts (as measured by the difference between the contract amount plus or minus cash received or paid and the market value of the underlying securities) are recorded in the Statement of Operations. The margin account and any net unrealized gains or losses on open synthetic equity swaps are included in the Statement of Assets and Liabilities. The risks of entering into synthetic equity swaps include unfavorable price movements in the underlying securities or the inability of the counterparties to fulfill their obligations under the contract.

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Mutual Shares Fund

NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. OPTIONS

The Fund may purchase or write options. Options are contracts entitling the holder to purchase or sell securities, currencies, or other financial instruments at a specified price or exchange rate, or, in the case of index options, to receive or pay the difference between the index value and the strike price of the index option. Options purchased are recorded as investments; options written (sold) are recorded as liabilities. Upon closing of an option which results in a cash settlement, the difference between the premium (original option value) and the settlement proceeds is realized as a gain or loss. When securities are acquired or delivered upon exercise of an option, the acquisition cost or sale proceeds are adjusted by the amount of the premium. When an option expires, the premium is realized as a gain for options written or as a loss for options purchased. The risks include the possibility there may be an illiquid options market or the inability of the counterparties to fulfill their obligations under the contract. Writing options involves, to varying degrees, elements of market risk in excess of the amount recognized in the Statement of Assets and Liabilities.

F. SECURITIES SOLD SHORT

The Fund is engaged in selling securities short, which obligates the Fund to replace a borrowed security with the same security at current market value. The Fund incurs a loss if the price of the security increases between the date of the short sale and the date on which the Fund replaces the borrowed security. The Fund realizes a gain if the price of the security declines between those dates. Gains are limited to the price at which the fund sold the security short, while losses are potentially unlimited in size.

The Fund is required to establish a margin account with the broker lending the security sold short. While the short sale is outstanding, the broker retains the proceeds of the short sale and the Fund must maintain a deposit with broker consisting of cash and securities having a value equal to a specified percentage of the value of the securities sold short. The Fund is obligated to pay the counterparty any dividends or interest due on securities sold short. Such dividends and interest are recorded as an expense to the Fund.

G. SECURITIES LENDING

The Fund may loan securities to certain brokers through a securities lending agent for which it receives initial cash collateral against the loaned securities in an amount equal to at least 102% of the market value of the loaned securities. Collateral is maintained over the life of the loan in an amount not less than 100% of the market value of loaned securities, as determined at the close of fund business each day; any additional collateral required due to changes in security values is delivered to the Fund on the next business day. The collateral is invested in short-term instruments as noted in the Statement of Investments. The Fund receives interest income from the investment of cash collateral, adjusted by lender fees and broker rebates. The Fund bears the risk of loss with respect to the investment of the collateral and the securities loaned. The securities lending agent has agreed to indemnify the Fund in the case of default of any securities borrower.

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Mutual Shares Fund

NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. INCOME TAXES

No provision has been made for U.S. income taxes because it is the Fund's policy to qualify as a regulated investment company under the Internal Revenue Code and to distribute to shareholders substantially all of its taxable income and net realized gains.

Foreign securities held by the Fund may be subject to foreign taxation on dividend and interest income received. Foreign taxes, if any, are recorded based on the tax regulations and rates that exist in the foreign markets in which the Fund invests.

The Fund has reviewed the tax positions taken on federal income tax returns, for each of the three open tax years and as of June 30, 2008, and has determined that no provision for income tax is required in the Fund's financial statements.

I. SECURITY TRANSACTIONS, INVESTMENT INCOME, EXPENSES AND DISTRIBUTIONS

Security transactions are accounted for on trade date. Realized gains and losses on security transactions are determined on a specific identification basis. Interest income and estimated expenses are accrued daily. Amortization of

premium and accretion of discount on debt securities are included in interest income. Dividend income and dividends declared on securities sold short are recorded on the ex-dividend date except that certain dividends from foreign securities are recognized as soon as the Fund is notified of the ex-dividend date. Distributions to shareholders are recorded on the ex-dividend date and are determined according to income tax regulations (tax basis). Distributable earnings determined on a tax basis may differ from earnings recorded in accordance with accounting principles generally accepted in the United States of America. These differences may be permanent or temporary. Permanent differences are reclassified among capital accounts to reflect their tax character. These reclassifications have no impact on net assets or the results of operations. Temporary differences are not reclassified, as they may reverse in subsequent periods.

Common expenses incurred by the Trust are allocated among the funds based on the ratio of net assets of each fund to the combined net assets of the Trust. Fund specific expenses are charged directly to the fund that incurred the expense.

Realized and unrealized gains and losses and net investment income, other than class specific expenses, are allocated daily to each class of shares based upon the relative proportion of net assets of each class. Differences in per share distributions, by class, are generally due to differences in class specific expenses.

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Mutual Shares Fund

NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

K. REDEMPTION FEES

A short term trading redemption fee will be imposed, with some exceptions, on any fund shares that are redeemed or exchanged within seven calendar days following their purchase date. The redemption fee is 2% of the amount redeemed. Such fees are retained by the Fund and accounted for as an addition to paid-in capital.

L. GUARANTEES AND INDEMNIFICATIONS

Under the Trust's organizational documents, its officers and trustees are indemnified by the Trust against certain liabilities arising out of the performance of their duties to the Trust. Additionally, in the normal course of business, the Trust, on behalf of the Fund, enters into contracts with service providers that contain general indemnification clauses. The Trust's maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Trust that have not yet occurred. Currently, the Trust expects the risk of loss to be remote.

2. SHARES OF BENEFICIAL INTEREST

At June 30, 2008, there were an unlimited number of shares authorized (without par value). Transactions in the Fund's shares were as follows:

<TABLE>
<CAPTION>

	SIX MONTHS ENDED JUNE 30, 2008		YEAR ENDED DECEMBER 31, 2007	
	SHARES	AMOUNT	SHARES	AMOUNT
<S>	<C>	<C>	<C>	<C>
CLASS Z SHARES:				
Shares sold	10,110,236	\$ 237,697,879	72,422,280	\$1,980,323,230
Shares issued in reinvestment of distributions	--	--	29,171,280	744,740,385
Shares redeemed	(23,796,053)	(560,570,001)	(21,942,690)	(595,949,840)
Net increase (decrease)	(13,685,817)	\$ (322,872,122)	79,650,870	\$2,129,113,775

</TABLE>

Mutual Shares Fund

NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

2. SHARES OF BENEFICIAL INTEREST (CONTINUED)

<TABLE>

<CAPTION>

	SIX MONTHS ENDED JUNE 30, 2008		YEAR ENDED DECEMBER 31, 2007	
	SHARES	AMOUNT	SHARES	AMOUNT
<S>	<C>	<C>	<C>	<C>
CLASS A SHARES:				
Shares sold	31,052,570	\$ 724,492,816	105,204,071	\$ 2,849,290,589
Shares issued in reinvestment of distributions	--	--	17,844,203	452,010,160
Shares redeemed	(40,492,746)	(943,491,343)	(47,245,938)	(1,273,415,744)
Net increase (decrease)	(9,440,176)	\$ (218,998,527)	75,802,336	\$ 2,027,885,005
CLASS B SHARES:				
Shares sold	166,945	\$ 3,830,516	605,798	\$ 16,017,441
Shares issued in reinvestment of distributions	--	--	1,151,048	28,532,034
Shares redeemed	(2,669,677)	(60,783,754)	(3,923,216)	(103,735,202)
Net increase (decrease)	(2,502,732)	\$ (56,953,238)	(2,166,370)	\$ (59,185,727)
CLASS C SHARES:				
Shares sold	4,935,376	\$ 113,911,981	20,396,970	\$ 544,643,345
Shares issued in reinvestment of distributions	--	--	4,871,395	122,037,887
Shares redeemed	(12,830,053)	(295,124,021)	(13,168,608)	(350,462,731)
Net increase (decrease)	(7,894,677)	\$ (181,212,040)	12,099,757	\$ 316,218,501
CLASS R SHARES:				
Shares sold	2,338,114	\$ 54,596,265	6,274,351	\$ 169,055,165
Shares issued in reinvestment of distributions	--	--	658,955	16,589,087
Shares redeemed	(1,563,574)	(36,296,148)	(2,341,149)	(62,988,345)
Net increase (decrease)	774,540	\$ 18,300,117	4,592,157	\$ 122,655,907

</TABLE>

3. TRANSACTIONS WITH AFFILIATES

Franklin Resources, Inc. is the holding company for various subsidiaries that together are referred to as Franklin Templeton Investments. Certain officers and trustees of the Trust are also officers and/or directors of the following subsidiaries:

<TABLE>

<CAPTION>

SUBSIDIARY

AFFILIATION

<S>

<C>

Franklin Mutual Advisers, LLC (Franklin Mutual)

Investment manager

Franklin Templeton Services, LLC (FT Services)

Administrative manager

Franklin Templeton Distributors, Inc. (Distributors)

Principal underwriter

Franklin Templeton Investor Services, LLC (Investor Services)

Transfer agent

</TABLE>

Mutual Shares Fund

NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

3. TRANSACTIONS WITH AFFILIATES (CONTINUED)

A. MANAGEMENT FEES

The Fund pay an investment management fee to Franklin Mutual based on the

average daily net assets of the Fund as follows:

ANNUALIZED FEE RATE	NET ASSETS
0.600%	Up to and including \$5 billion
0.570%	Over \$5 billion, up to and including \$10 billion
0.550%	Over \$10 billion, up to and including \$15 billion
0.530%	Over \$15 billion, up to and including \$20 billion
0.510%	Over \$20 billion, up to and including \$25 billion
0.490%	Over \$25 billion, up to and including \$30 billion
0.480%	Over \$30 billion, up to and including \$35 billion
0.470%	In excess of \$35 billion

B. ADMINISTRATIVE FEES

The Fund pays its allocated share of an administrative fee to FT Services based on the Trust's aggregate average daily net assets as follows:

ANNUALIZED FEE RATE	NET ASSETS
0.150%	Up to and including \$200 million
0.135%	Over \$200 million, up to and including \$700 million
0.100%	Over \$700 million, up to and including \$1.2 billion
0.075%	In excess of \$1.2 billion

C. DISTRIBUTION FEES

The Fund's Board of Trustees has adopted distribution plans for each share class, with the exception of Class Z shares, pursuant to Rule 12b-1 under the 1940 Act. Under the Fund's Class A reimbursement distribution plan, the Fund reimburses Distributors for costs incurred in connection with the servicing, sale and distribution of the Fund's shares up to the maximum annual plan rate. Under the Class A reimbursement distribution plan, costs exceeding the maximum for the current plan year cannot be reimbursed in subsequent periods.

In addition, under the Fund's Class B, C, and R compensation distribution plans, the Fund pays Distributors for costs incurred in connection with the servicing, sale and distribution of the Fund's shares up to the maximum annual plan rate for each class.

The maximum annual plan rates, based on the average daily net assets, for each class, are as follows:

Class	Rate
Class A	0.35%
Class B	1.00%
Class C	1.00%
Class R	0.50%

Mutual Shares Fund

NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

3. TRANSACTIONS WITH AFFILIATES (CONTINUED)

D. SALES CHARGES/UNDERWRITING AGREEMENTS

Distributors has advised the Fund of the following commission transactions related to the sales and redemptions of the Fund's shares for the period:

Description	Amount
Sales charges retained net of commissions paid to unaffiliated broker/dealers	\$2,254,463
Contingent deferred sales charges retained	\$ 400,197

E. TRANSFER AGENT FEES

For the period ended June 30, 2008, the Fund paid transfer agent fees of

\$9,931,807, of which \$5,950,306 was retained by Investor Services.

4. EXPENSE OFFSET ARRANGEMENT

The Fund has entered into an arrangement with its custodian whereby credits realized as a result of uninvested cash balances are used to reduce a portion of the Fund's custodian expenses. During the period ended June 30, 2008, the custodian fees were reduced as noted in the Statement of Operations.

5. INCOME TAXES

For tax purposes, realized currency losses, occurring subsequent to October 31, may be deferred and treated as occurring on the first day of the following fiscal year. At December 31, 2007, the Fund deferred realized currency losses of \$1,174,236.

At June 30, 2008, the cost of investments and net unrealized appreciation (depreciation) for income tax purposes were as follows:

<TABLE>	
<S>	<C>
Cost of investments	\$21,100,179,407
	=====
Unrealized appreciation	\$ 3,470,871,984
Unrealized depreciation	(3,533,222,040)

Net unrealized appreciation (depreciation)	\$ (62,350,056)
	=====

</TABLE>

Net investment income differs for financial statement and tax purposes primarily due to differing treatments of defaulted securities, foreign currency transactions, passive foreign investment companies, pass-through entity income, bond discounts and premiums, synthetic equity swaps, and certain dividends on securities sold short.

Net realized gains (losses) differ for financial statement and tax purposes primarily due to differing treatments of wash sales, defaulted securities, foreign currency transactions, pass-through entity income, bond discounts and premiums, synthetic equity swaps, and certain dividends on securities sold short.

Mutual Shares Fund

NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

6. INVESTMENT TRANSACTIONS

Purchases and sales of investments (excluding short term securities and securities sold short) for the period ended June 30, 2008, aggregated \$3,235,729,612 and \$3,553,561,870, respectively.

Transactions in options written during the period ended June 30, 2008, were as follows:

<TABLE>		
<CAPTION>		
	NUMBER OF CONTRACTS	PREMIUMS RECEIVED
	-----	-----
<S>	<C>	<C>
Options outstanding at December 31, 2007	221,263	\$ 5,478,661
Options written	--	--
Options expired	(215,500)	(1,570,287)
Options exercised	--	--
Options closed	(5,763)	(3,908,374)
	-----	-----
Options outstanding at June 30, 2008	--	\$ --
	=====	=====

</TABLE>

7. FORWARD EXCHANGE CONTRACTS

At June 30, 2008, the Fund had the following forward exchange contracts outstanding:

<TABLE>			
<CAPTION>			
	CONTRACT AMOUNT	SETTLEMENT DATE	UNREALIZED GAIN
			UNREALIZED LOSS

<S>	<C>	<C>	<C>	<C>	<C>
CONTRACTS TO BUY					
7,678,824	Swiss Franc	\$ 7,440,000	7/07/08	\$ 77,899	\$ --
12,266,344	British Pound Sterling ..	24,305,188	9/10/08	--	(2,155)
92,597,302	Swedish Krona	15,340,000	9/16/08	--	(34,572)
3,003,567,592	Japanese Yen	28,668,017	9/19/08	--	(250,534)
3,005,562	CanadianDollar	2,940,000	10/27/08	1,646	--
14,292,430	CanadianDollar	14,010,000	10/27/08	--	(21,579)
CONTRACTS TO SELL					
333,819,501	Swiss Franc	322,735,008	7/07/08	--	(4,088,594)
134,400,000	Euro	211,868,160	7/14/08	400,610	--
202,100,000	Euro	317,499,100	7/14/08	--	(488,934)
448,000,000	Danish Krone	92,997,670	7/23/08	--	(1,465,387)
2,982,540	Singapore Dollar	2,200,000	7/24/08	5,100	--
93,423,622	Singapore Dollar	65,732,954	7/24/08	--	(3,019,021)
405,156,504	Euro	594,900,556	7/25/08	--	(42,205,106)
208,355,000	British Pound Sterling ..	404,947,294	8/12/08	--	(8,731,004)
403,605,364	Euro	624,467,562	8/13/08	--	(9,584,370)
69,200,000	Danish Krone	14,456,799	8/25/08	--	(108,504)
79,200,000	Euro	124,024,428	8/28/08	--	(303,028)
351,000,000	British Pound Sterling ..	688,104,478	9/10/08	--	(7,271,317)
14,255,008	Swedish Krona	2,356,881	9/16/08	668	--
865,491,718	Swedish Krona	141,410,679	9/16/08	--	(1,638,474)
8,997,160,968	Japanese Yen	93,074,604	9/19/08	7,947,823	--
305,000,000	Euro	474,657,420	9/24/08	--	(3,464,425)

</TABLE>

Mutual Shares Fund

NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

7. FORWARD EXCHANGE CONTRACTS (CONTINUED)

<TABLE>

<CAPTION>

<S>	<C>	CONTRACT AMOUNT	SETTLEMENT DATE	UNREALIZED GAIN	UNREALIZED LOSS
<C>	<C>	<C>	<C>	<C>	<C>
CONTRACTS TO SELL (CONTINUED)					
113,164,046,135	South Korean Won	\$112,270,000	9/29/08	\$ 4,443,714	\$ --
1,115,169,808	Norwegian Krone	218,067,264	10/10/08	1,301,096	--
24,000,000	Euro	37,110,000	10/14/08	--	(473,157)
614,749,212	Danish Krone	126,930,739	10/23/08	--	(2,045,609)
6,128,060	Canadian Dollar	6,100,000	10/27/08	102,309	--
87,702,998	Canadian Dollar	85,756,329	10/27/08	--	(80,868)
109,380,000	British Pound Sterling ..	210,983,082	11/12/08	--	(4,653,147)
162,766,039	Euro	250,436,034	11/13/08	--	(4,046,426)
290,779,357	Norwegian Krone	56,865,000	11/19/08	564,148	--
62,458,016	Norwegian Krone	12,078,518	11/19/08	--	(14,636)
79,200,000	Euro	123,410,232	11/28/08	--	(319,956)
27,191,519	Euro	41,913,007	12/15/08	--	(528,902)
7,986,825,097	Japanese Yen	82,679,349	12/19/08	6,683,371	--
Unrealized gain(loss) on forward exchange contracts				21,528,384	(94,839,705)
NET UNREALIZED LOSS ON FORWARD EXCHANGE CONTRACTS					\$ (73,311,321)

</TABLE>

8. CREDIT RISK AND DEFAULTED SECURITIES

The Fund may purchase the pre-default or defaulted debt of distressed companies. Distressed companies are financially troubled and are about to be/or are already involved in financial restructuring or bankruptcy. The Fund does not accrue income on these securities, if it becomes probable that the income will not be collected. Risks associated with purchasing these securities include the possibility that the bankruptcy or other restructuring process takes longer than expected, or that distributions in restructuring are less than anticipated, either or both of which may result in unfavorable consequences to the Fund. At June 30, 2008, the aggregate value of these securities was \$81,160,571, representing 0.39% of the Fund's net assets. For information as to specific securities, see the accompanying Statement of Investments.

9. RESTRICTED SECURITIES

The Fund may invest in securities that are restricted under the Securities Act of 1933 (1933 Act) or which are subject to legal, contractual, or other agreed upon restrictions on resale. Restricted securities are often purchased in

private placement transactions, and cannot be sold without prior registration unless the sale is pursuant to an exemption under the 1933 Act. Disposal of these securities may require greater effort and expense, and prompt sale at an acceptable price may be difficult. The Fund may have registration rights for restricted securities. The issuer generally incurs all registration costs.

Mutual Shares Fund

NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

9. RESTRICTED SECURITIES (CONTINUED)

At June 30, 2008, the Fund held investments in restricted securities, excluding 144A securities deemed to be liquid, valued in accordance with procedures approved by the Trust's Board of Trustees as reflecting fair value, as follows:

PRINCIPAL AMOUNT/ SHARES/WARRANTS/ CONTRACTS	ISSUER	ACQUISITION DATES	COST	VALUE
<S>	<C>	<C>	<C>	<C>
810,649	AboveNet Inc.	10/02/01 - 12/12/07	\$ 40,690,364	\$ 40,532,450
1,065	AboveNet Inc., stock grant, grant price \$20.95, expiration date 9/09/13	4/17/06 - 9/08/06	--	29,660
29,283	AboveNet Inc., wts., 9/08/08	10/02/01 - 9/07/07	3,354,118	937,056
34,449	AboveNet Inc., wts., 9/08/10	10/02/01 - 9/07/07	3,603,181	992,131
56,116,385	Cerberus CG Investor I LLC	7/26/07 - 6/17/08	56,116,385	29,220,408
49,252,400	Cerberus CG Investor I LLC, 12.00%, 7/31/14	7/26/07	49,252,400	25,646,257
56,116,385	Cerberus CG Investor II LLC	7/26/07 - 6/17/08	56,116,385	29,220,408
49,252,400	Cerberus CG Investor II LLC, 12.00%, 7/31/14	7/26/07	49,252,400	25,646,257
28,058,192	Cerberus CG Investor III LLC	7/26/07 - 6/17/08	28,058,192	14,610,204
24,626,200	Cerberus CG Investor III LLC, 12.00%, 7/31/14	7/26/07	24,626,200	12,823,128
15,536,148	Cerberus FIM Investors Auto Finance LLC	11/20/06	15,536,148	5,182,811
46,576,742	Cerberus FIM Investors Auto Finance LLC, 12.00%, 11/22/13	11/20/06	46,576,742	15,537,856
1,294,114	Cerberus FIM Investors Commercial Finance LLC	11/20/06	1,294,114	431,712
3,882,344	Cerberus FIM Investors Commercial Finance LLC, 12.00%, 11/22/13	11/20/06	3,882,344	1,295,138
2,425,617	Cerberus FIM Investors Commercial Mortgage LLC	11/20/06	2,425,617	809,178
7,276,853	Cerberus FIM Investors Commercial Mortgage LLC, 12.00%, 11/22/13	11/20/06	7,276,853	2,427,536
11,863,844	Cerberus FIM Investors Insurance LLC	11/20/06	11,863,844	3,957,741
35,591,534	Cerberus FIM Investors Insurance LLC, 12.00%, 11/22/13	11/20/06	35,591,534	11,873,225
22,088,027	Cerberus FIM Investors Rescap LLC	11/20/06	22,088,027	7,368,497
66,264,075	Cerberus FIM Investors Rescap LLC, 12.00%, 11/22/13	11/20/06	66,264,075	22,105,489
163,322	(a) Dana Holding Corp., 4.00%, cvt. pfd., B	12/27/07	16,332,200	16,059,991
1,879,100	DecisionOne Corp.	3/12/99 - 7/18/00	1,313,384	--
2,370,288	DecisionOne Corp., 12.00%, 4/15/10	3/12/99 - 4/15/08	3,837,436	2,370,288
433,342	DecisionOne Corp., FRN, 7.25%, 5/12/09	7/09/07	433,342	433,342
1,031,766	DecisionOne Corp., wts., 6/08/17	7/09/07	--	--
64,834	Elephant Capital Holdings Ltd.	8/29/03 - 3/10/08	8,490,900	7,011,321
8,341,744	Esmark Inc.	11/08/04 - 11/28/07	154,505,847	143,544,731
22,185,100	GLCP Harrah's Investment LP	1/15/08	22,185,100	14,642,166

Mutual Shares Fund

NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

9. RESTRICTED SECURITIES (CONTINUED)

PRINCIPAL AMOUNT/ SHARES/WARRANTS/ CONTRACTS	ISSUER	ACQUISITION DATES	COST	VALUE
<S>	<C>	<C>	<C>	<C>
6,069,096	International Automotive Components Group Brazil LLC	4/13/06 - 8/21/06	\$ 3,643,041	\$ 25,004,061
1,104,272	International Automotive Components Group Japan			

25,796,752	LLC	9/26/06 - 3/27/07	9,594,514	6,419,787
19,434,979	International Automotive Components Group LLC	1/12/06 - 10/16/06	25,806,833	20,157,582
	International Automotive Components Group NA LLC, A	3/30/07 - 10/10/07	19,402,009	14,850,267
5,851,000	International Automotive Components Group NA LLC, 9.00%, 4/01/17	3/30/07	5,938,765	5,851,000
2,860,528	Kindred Healthcare Inc.	4/28/99 - 3/29/06	26,248,306	78,155,346
	Kindred Healthcare Inc., stock grants:			
9,997	grant price \$18.15, expiration date 7/17/11	7/17/02 - 7/17/05	--	91,692
2,999	grant price \$19.87, expiration date 1/01/12	1/01/03 - 1/01/06	--	22,348
2,986	grant price \$6.94, expiration date 1/01/13	1/01/04 - 1/03/07	--	60,861
2,973	grant price \$19.87, expiration date 1/01/14	1/01/05 - 1/01/08	--	22,155
1,857	grant price \$21.33, expiration date 1/10/15	1/06/06 - 1/10/08	--	11,127
1,238	grant price \$22.08, expiration date 1/10/16	1/09/07 - 1/10/08	--	6,490
619	grant price \$19.40, expiration date 1/10/17	1/10/08	--	4,904
67,439,009	Motor Coach Industries International Inc., FRN, 15.649%, 12/01/08	5/27/04 - 5/30/08	67,439,009	44,509,746
12	Motor Coach Industries International Inc., wts., 5/27/09	3/30/07	--	--
301,530	NCB Warrant Holdings Ltd., A	12/16/05 - 3/10/08	3,174,787	2,947,447
202,380	Olympus Re Holdings Ltd.	12/19/01	19,921,811	611,896
	Pontus I LLC, junior note, 144A, FRN, 5.231%, 7/24/09	1/22/08	26,382,624	22,638,143
26,382,624				
23,831,572	5.685%, 7/24/09	2/25/08	23,831,572	28,610,801
23,210,194	6.475%, 7/24/09	2/12/08	23,210,194	19,960,008
11,605,097	6.475%, 6/25/09	2/29/08	11,605,097	9,980,004
199,566	PTV Inc., 10.00%, pfd., A	12/07/01 - 3/06/02	279,392	99,783
	Revel Entertainment Group LLC, FRN, first lien loan, 6.98%, 11/30/08	12/20/07	52,000,000	50,700,000
52,000,000				
52,000,000	second lien loan, 9.98%, 11/30/08	12/20/07	52,000,000	51,220,000
	TOTAL RESTRICTED SECURITIES (3.91% of Net Assets)			\$816,644,429

</TABLE>

(a) The Fund also invests in unrestricted securities of the issuer, valued at \$12,117,707 as of June 30, 2008.

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Mutual Shares Fund

NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

10. UNFUNDED LOAN COMMITMENTS

The Fund may enter into certain credit agreements, all or a portion of which may be unfunded. The Fund is obligated to fund these loan commitments at the borrowers' discretion. Funded portions of credit agreements are presented on the Statement of Investments.

At June 30, 2008, unfunded commitments were as follows:

	UNFUNDED COMMITMENT

<S>	<C>
BORROWER	
Realogy Corp., FRN, 4.721%, 4/10/13 ...	\$27,965,118

Unfunded loan commitments and funded portions of credit agreements are marked to market daily and any unrealized gain or loss is included in the Statement of Assets and Liabilities and Statement of Operations.

11. UNFUNDED CAPITAL COMMITMENTS

At June 30, 2008, the Fund had aggregate unfunded capital commitments to investments of \$19,779,338.

12. HOLDINGS OF 5% VOTING SECURITIES OF PORTFOLIO COMPANIES

The 1940 Act defines "affiliated companies" to include investments in portfolio companies in which a fund owns 5% or more of the outstanding voting securities. Investments in "affiliated companies" for the Fund for the period ended June 30, 2008, were as shown below.

	NUMBER OF	NUMBER OF
--	-----------	-----------

NAME OF ISSUER	SHARES/ WARRANTS/ CONTRACTS/ PRINCIPAL AMOUNT HELD AT BEGINNING OF PERIOD	GROSS ADDITIONS	GROSS REDUCTIONS	SHARES/ WARRANTS/ CONTRACTS/ PRINCIPAL AMOUNT HELD AT END OF PERIOD	VALUE AT END OF PERIOD	INVESTMENT INCOME	REALIZED CAPITAL GAIN (LOSS)
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
NON-CONTROLLED AFFILIATES							
AboveNet Inc.	810,649	--	--	810,649	\$ 40,532,450	\$ --	\$--
AboveNet Inc., stock grant, grant price \$20.95, expiration date 9/09/13	1,065	--	--	1,065	29,660	--	--
AboveNet Inc., wts., 9/08/08	29,283	--	--	29,283	937,056	--	--
AboveNet Inc., wts., 9/08/10	34,449	--	--	34,449	992,131	--	--
Alexander's Inc.	326,675	--	--	326,675	101,465,255	--	--
Beazer Homes USA Inc.	2,147,880	--	--	2,147,880	11,963,692	--	--
Community Health Systems Inc. ...	4,806,000	--	--	4,806,000	-- (a)	--	--
DecisionOne Corp.	1,879,100	--	--	1,879,100	--	--	--
DecisionOne Corp., 12.00%, 4/15/10	2,322,817	47,471	--	2,370,288	2,370,288	140,081	--
DecisionOne Corp., FRN, 7.25%, 5/12/09	433,342	--	--	433,342	433,342	18,252	--

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Mutual Shares Fund

NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

12. HOLDINGS OF 5% VOTING SECURITIES OF PORTFOLIO COMPANIES (CONTINUED)

NAME OF ISSUER	NUMBER OF SHARES/ WARRANTS/ CONTRACTS/ PRINCIPAL AMOUNT HELD AT BEGINNING OF PERIOD	GROSS ADDITIONS	GROSS REDUCTIONS	NUMBER OF SHARES/ WARRANTS/ CONTRACTS/ PRINCIPAL AMOUNT HELD AT END OF PERIOD	VALUE AT END OF PERIOD	INVESTMENT INCOME	REALIZED CAPITAL GAIN (LOSS)
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
DecisionOne Corp., wts., 6/08/17	1,031,766	--	--	1,031,766	\$ --	\$ --	\$--
Elephant Capital Holdings Ltd. ..	26,671	38,163	--	64,834	7,011,321	--	--
Esmark Inc.	8,341,744	--	--	8,341,744	143,544,731	--	--
Federal Signal Corp.	3,360,800	--	--	3,360,800	40,329,600	403,296	--
GLCP Harrah's Investment LP	--	22,185,100	--	22,185,100	14,642,166	--	--
(b) Guaranty Bancorp	5,731,834	--	--	5,731,834	20,634,602	--	--
International Automotive Components Group Brazil LLC ..	6,069,096	--	--	6,069,096	25,004,061	--	--
International Automotive Components Group Japan LLC ...	1,104,272	--	--	1,104,272	6,419,787	--	--
International Automotive Components Group LLC	25,796,752	--	--	25,796,752	20,157,582	--	--
International Automotive Components Group NA LLC	19,434,979	--	--	19,434,979	14,850,267	--	--
International Automotive Components Group NA LLC, 9.00%, 4/01/17	5,851,000	--	--	5,851,000	5,851,000	263,295	--
Kindred Healthcare Inc.	2,860,528	--	--	2,860,528	78,155,346	--	--
Kindred Healthcare Inc., stock grants:							
grant price \$18.15, expiration date 7/17/11	9,997	--	--	9,997	91,692	--	--
grant price \$19.87, expiration date 1/01/12	2,999	--	--	2,999	22,348	--	--
grant price \$6.94, expiration date 1/01/13	2,986	--	--	2,986	60,861	--	--
grant price \$19.87, expiration date 1/01/14	2,230	743	--	2,973	22,155	--	--
grant price \$21.33, expiration date 1/10/15	1,238	619	--	1,857	11,127	--	--
grant price \$22.08, expiration date 1/10/16	619	619	--	1,238	6,490	--	--
grant price \$19.40, expiration							

date 1/10/17	--	619	--	619	4,904	--	--
Tenet Healthcare Corp.	25,881,411	--	--	25,881,411	143,900,645	--	--
TVMAX Holdings Inc.	257,217	--	--	257,217	--	--	--
TVMAX Holdings Inc., PIK, 11.50%, 9/30/08	632,919	163,630	9,928	786,621	550,635	40,716	--
TVMAX Holdings Inc., PIK, 14.00%, 9/30/08	1,595,750	116,923	--	1,712,673	1,198,871	115,071	--
White Mountains Insurance Group Ltd.	729,457	--	--	729,457	312,937,053	2,917,828	--
TOTAL NON-CONTROLLED AFFILIATES (4.76% of Net Assets)					\$994,131,118	\$3,898,539	\$--
					=====	=====	=====

</TABLE>

- (a) As of June 30, 2008, no longer an affiliate.
- (b) Name change effective May 12, 2008.

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Mutual Shares Fund

NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

13. OTHER CONSIDERATIONS

Officers, directors or employees of the Fund's Investment Manager, may serve from time to time as members of bondholders' steering committees, official creditors' committees, or boards of directors of companies in which the Fund invests. Such participation may result in the possession by the Investment Manager of material non-public information which, pursuant to the Fund's policies and the requirements of applicable securities laws, could prevent the Fund from trading in the securities of such companies for limited or extended periods of time.

14. REORGANIZATION TO A DELAWARE STATUTORY TRUST

On April 11, 2007, the Board and shareholders approved an Agreement and Plan of Reorganization whereby the investment company would be reorganized and its domicile changed from a Maryland corporation to a Delaware statutory trust. In connection with these changes, the Trust's name was also changed to Franklin Mutual Series Funds, formerly known as the Franklin Mutual Series Funds, Inc. The reorganization became effective on May 1, 2008.

15. FAIR VALUE MEASUREMENTS

The Fund adopted Financial Accounting Standards Board (FASB) issued FASB Statement No. 157, "Fair Value Measurement" (SFAS 157), on January 1, 2008. SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The Fund has determined that the implementation of SFAS 157 did not have a material impact on the Fund's financial statements.

SFAS 157 establishes a fair value hierarchy that distinguishes between market data obtained from independent sources (observable inputs) and the Trust's own market assumptions (unobservable inputs). These inputs are used in determining the value of the Fund's investments and are summarized in the following fair value hierarchy:

- Level 1 - quoted prices in active markets for identical securities
- Level 2 - other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speed, credit risk, etc.)
- Level 3 - significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments)

The inputs or methodology used for valuing securities are not an indication of the risk associated with investing in those securities.

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Mutual Shares Fund

NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

15. FAIR VALUE MEASUREMENTS (CONTINUED)

The following is a summary of the inputs used as of June 30, 2008, in valuing

the Fund's assets and liabilities carried at fair value:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
ASSETS:				
Investments in Securities	\$17,777,300,315	\$2,326,703,050	\$933,825,986	\$21,037,829,351
Other Financial Instruments(a)	--	23,736,187	--	23,736,187
LIABILITIES:				
Securities Sold Short	33,462,450	--	--	33,462,450
Other Financial Instruments(a)	--	94,839,705	--	94,839,705

</TABLE>

(a) Other financial instruments may include net unrealized appreciation (depreciation) of futures, forward exchange contracts, swaps, and unfunded loan commitments.

At June 30, 2008, the reconciliation of assets in which significant unobservable inputs (Level 3) were used in determining the Fund's fair value, is as follows:

	INVESTMENTS IN SECURITIES

<S>	<C>
Beginning Balance - January 1, 2008	\$1,008,166,894
Net realized gain (loss)	3,308
Net change in unrealized appreciation (depreciation) ..	(215,660,793)
Net purchases (sales)	136,522,447
Transfers in and/or out of Level 3	4,794,130
Ending Balance	\$ 933,825,986
	=====
Net change in unrealized appreciation (depreciation) attributable to assets still held at end of period	\$ (215,660,793)
	=====

</TABLE>

16. NEW ACCOUNTING PRONOUNCEMENT

In March 2008, FASB issued FASB Statement No. 161, "Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133" (SFAS 161), which expands disclosures about derivative investments and hedging activities. SFAS 161 is effective for fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. The Fund is currently evaluating the impact, if any, of applying the various provisions of SFAS 161.

Mutual Shares Fund

SHAREHOLDER INFORMATION

BOARD REVIEW OF INVESTMENT MANAGEMENT AGREEMENT

The Board of Trustees (Board), including a majority of the independent trustees, in 2008, approved renewal of the Fund's investment management agreement, as well as the Fund's administrative services agreement. Prior to a meeting of all the trustees for the purpose of considering such renewals, the independent trustees held three meetings solely dedicated to the renewal process (those trustees unable to attend in person were present by telephonic conference means). Throughout the process, the independent trustees received assistance and advice from and met separately with independent counsel. The independent trustees met with and interviewed officers of the investment manager (including portfolio managers), the transfer agent and shareholder services group and the distributor. In approving the renewal of the investment management agreement and the administrative services agreement for the Fund, the Board, including a majority of independent trustees, determined that the existing investment management fee structure was fair and reasonable and that continuance of the agreements was in the best interests of the Fund and its shareholders.

In reaching their decision on the investment management agreement (as well as the administrative services agreement), the trustees took into account information furnished throughout the year at regular Board meetings, as well as information specifically requested and furnished for the renewal process, which culminated in the meetings referred to above for the specific purpose of considering such agreements. Information furnished throughout the year included, among others, reports on the Fund's investment performance, expenses, portfolio

composition, portfolio brokerage execution, soft dollars, derivatives, securities lending, portfolio turnover, Rule 12b-1 plans, distribution, shareholder servicing, compliance, pricing of securities and sales and redemptions, along with related financial statements and other information about the scope and quality of services provided by the investment manager and its affiliates and enhancements to such services over the past year. In addition, the trustees received periodic reports throughout the year and during the renewal process relating to compliance with the Fund's investment policies and restrictions. During the renewal process, the independent trustees considered the investment manager's methods of operation within the Franklin Templeton group and its activities on behalf of other clients.

The information obtained by the trustees during the renewal process also included a special report prepared by Lipper, Inc. (Lipper), an independent third-party analyst, comparing the Fund's investment performance and expenses with those of other mutual funds deemed comparable to the Fund as selected by Lipper (Lipper Section 15(c) Report). The trustees reviewed the Lipper Section 15(c) Report and its usefulness in the renewal process with respect to matters such as comparative fees, expenses, expense ratios, performance and volatility. They concluded that the report continues to be a reliable resource in the performance of their duties. In addition, the trustees received and reviewed a report on the investment manager's (and its parent's) profitability (Profitability Study). Over the past year, the Board and counsel to the independent trustees continued to receive reports on management's handling of recent regulatory actions and pending legal actions against the investment manager and its affiliates. The independent trustees were satisfied with the actions taken to date by management in response to such regulatory and legal proceedings.

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Mutual Shares Fund

SHAREHOLDER INFORMATION (CONTINUED)

BOARD REVIEW OF INVESTMENT MANAGEMENT AGREEMENT (CONTINUED)

In addition to the above and other matters considered by the trustees throughout the course of the year, the following discussion relates to certain primary factors relevant to the Board's decision.

NATURE, EXTENT AND QUALITY OF SERVICES. The trustees reviewed the nature, extent and quality of the services provided by the investment manager. In this regard, they reviewed the Fund's investment approach and concluded that, in their view, it continues to differentiate the Fund from typical core investment products in the mutual fund field. The trustees cited the investment manager's ability to implement the Fund's disciplined value investment approach and its long-term relationship with the Fund as reasons that shareholders choose to invest, and remain invested, in the Fund. The trustees reviewed the Fund's portfolio management team, including its performance, staffing, skills and compensation program. With respect to portfolio manager compensation, management assured the trustees that the Fund's long-term performance is a significant component of incentive-based compensation. The trustees noted that the portfolio manager compensation program aligned the interests of the portfolio managers with that of Fund shareholders. The trustees discussed with management various other products, portfolios and entities that are advised by the investment manager and the allocation of assets and expenses among and within them, as well as their relative fees and reasons for differences with respect thereto and any potential conflicts. During regular Board meetings and the aforementioned meetings of the independent trustees, the trustees received reports and presentations on the investment manager's best execution trading policies. The trustees considered periodic reports provided to them showing that the investment manager complied with the investment policies and restrictions of the Fund as well as other reports periodically furnished to the Board covering matters such as the compliance of portfolio managers and other management personnel with the code of ethics covering the investment management personnel, the adherence to fair value pricing procedures established by the Board and the accuracy of net asset value calculations. The Board noted the extent of the benefits provided to Fund shareholders from being part of the Franklin Templeton group, including the right to exchange investments between funds (same class) without a sales charge, the ability to reinvest Fund dividends into other funds and the right to combine holdings of other funds to obtain reduced sales charges. The trustees considered the significant recent efforts to develop, test and implement compliance procedures established in accordance with SEC requirements. They also reviewed the nature, extent and quality of the Fund's other service agreements to determine that, on an overall basis, Fund shareholders were well served. In this connection, the Board also took into account administrative and transfer agent and shareholder services provided to Fund shareholders by an affiliate of the investment manager, noting continuing expenditures by management to increase and improve the scope of such services, favorable periodic reports on shareholder services conducted by independent third parties and the firsthand experience of individual trustees who deal with the shareholder services group in their

capacities as shareholders in one or more of the various Franklin Templeton funds. While such considerations directly affected the trustees' decision in renewing the Fund's administrative services and transfer agent and shareholder services agreement, the Board also considered these commitments as incidental benefits to Fund shareholders deriving from the investment management relationship.

Mutual Shares Fund

SHAREHOLDER INFORMATION (CONTINUED)

BOARD REVIEW OF INVESTMENT MANAGEMENT AGREEMENT (CONTINUED)

Based on their review, the trustees were satisfied with the nature and quality of the overall services provided by the investment manager and its affiliates to the Fund and its shareholders and were confident in the abilities of the management team to continue the disciplined value investment approach of the Fund and to provide quality services to the Fund and its shareholders.

INVESTMENT PERFORMANCE. The trustees reviewed and placed significant emphasis on the investment performance of the Fund over the one-, three-, five- and 10-year periods ended December 31, 2007. They considered the history of successful performance of the Fund relative to various benchmarks. As part of their review, they inquired of management regarding benchmarks, style drift and restrictions on permitted investments. Consideration was also given to performance in the context of available levels of cash during the periods. The trustees had meetings during the year, including the meetings referred to above held in connection with the renewal process, with the Fund's portfolio managers to discuss performance. In addition, particular attention in assessing performance was given to the Lipper Section 15(c) Report. That report showed the investment performance of the Fund (Class A shares) in comparison to other funds determined comparable by Lipper.

The comparable funds to the Fund, as chosen by Lipper, included all retail and institutional multi-cap value funds. The Fund had total returns in the second best performing quintile for the one-year period ended December 31, 2007, and had annualized total returns for the three- and five-year periods in the best and middle performing quintiles, respectively. The trustees noted that the Fund's total return on an annualized basis for the 10-year period ended December 31, 2007, was in the second best performing quintile and exceeded 8%, as shown in the Lipper Section 15(c) Report. The Board was satisfied with such comparative performance.

The trustees also compared Fund performance to other industry benchmarks, including measures of risk-adjusted performance of a fund, as part of their evaluation of investment performance. According to the Lipper Section 15(c) Report, the Fund's risk-adjusted performance was in Lipper's best performing quintile of peer funds for the three-, five- and 10-year periods ended December 31, 2007. The trustees concluded that the Fund had continued to perform well in comparison to its various benchmarks and in the context of the Fund's objectives.

COMPARATIVE EXPENSES AND MANAGEMENT PROFITABILITY. The trustees considered the cost of the services provided and to be provided and the profits realized by the investment manager and its affiliates from their respective relationships with the Fund. As part of the approval process, they explored with management the trends in expense ratios over the past three fiscal years. The trustees noted that the Fund's overall expense ratio has declined over such period. In considering the appropriateness of the management fee and other expenses charged the Fund, the Board took into account various factors including investment performance and matters relating to Fund operations, including, but not limited to, the quality and experience of its portfolio managers and research staff and the effective investment management fee rate charged comparable accounts

Mutual Shares Fund

SHAREHOLDER INFORMATION (CONTINUED)

BOARD REVIEW OF INVESTMENT MANAGEMENT AGREEMENT (CONTINUED)

managed by the Fund's investment manager. The trustees noted that the effective investment management fee rates of comparable accounts managed by the investment manager were the same or higher than those charged to the Fund.

Consideration was also given to a comparative analysis in the Lipper Section 15(c) Report of the investment management fee and total expense ratios of the

Fund in comparison with those of a group of other funds selected by Lipper as its appropriate Lipper expense group. Prior to making such comparison, the Board relied upon a survey showing that the scope of services covered under the Fund's investment management agreement was similar to those provided by fund managers to other mutual fund groups. In reviewing comparative costs, emphasis was given to the Fund's contractual management fee in comparison with the contractual management fee that would have been charged by other funds within its Lipper expense group assuming they were the same size as the Fund, as well as the actual total expenses of the Fund in comparison with those of its Lipper expense group. The Lipper contractual management fee analysis includes administrative charges as being part of the management fee, and total expenses, for comparative consistency, are shown by Lipper for Fund Class A shares.

The Fund's contractual management fee rate was in the middle quintile of its Lipper expense group and its total expenses were in the second least expensive quintile of such group. The Board was satisfied with such comparative expenses.

The trustees also reviewed the Profitability Study addressing profitability of Franklin Resources, Inc., from its overall U.S. fund business, as well as profitability of the investment manager to the Fund, from providing investment management and other services to the Fund. The trustees noted that this analysis is reviewed every other year by independent accountants based on agreed-upon methodologies. The trustees reviewed the basis on which such reports are prepared and the reasonableness of the cost allocation methodology utilized in the Profitability Study. The independent trustees reviewed the investment manager's method of assignment and allocation of actual expenses to the Fund, allocations for other accounts managed by the investment manager and the method of allocations in the Profitability Study.

The independent trustees met with management to discuss the Profitability Study. This included, among other things, a comparison of investment management income with investment management expenses of the Fund; comparison of underwriting revenues and expenses; the relative relationship of investment management and underwriting expenses; shareholder servicing profitability (losses); economies of scale; and the relative contribution of the Fund to the profitability of the investment manager and its parent. In discussing the Profitability Study with the Board, the investment manager stated its belief that the costs incurred in establishing the infrastructure necessary to operate the type of mutual fund operations conducted by it and its affiliates may not be fully reflected in the expenses allocated to the Fund in determining its profitability.

Mutual Shares Fund

SHAREHOLDER INFORMATION (CONTINUED)

BOARD REVIEW OF INVESTMENT MANAGEMENT AGREEMENT (CONTINUED)

The trustees considered an additional Lipper study analyzing the profitability of the parent of the investment manager as compared to other publicly held investment managers, which also aided the trustees in considering profitability outside the context of distribution. The Board also took into account management's expenditures in improving shareholder services provided to the Funds, as well as the need to meet additional regulatory and compliance requirements resulting from the Sarbanes-Oxley Act and recent SEC and other regulatory requirements. The trustees also considered the extent to which the investment manager may derive ancillary benefits from Fund operations, including those derived from economies of scale, discussed below, the allocation of Fund brokerage and the use of commission dollars to pay for research and other similar services. The Board noted the interest an affiliate of the investment manager has in a joint venture that financed up-front commissions paid to brokers/dealers who sold Fund Class B shares, noting that the Fund has ceased offering Class B shares and the benefits derived from the Fund as a result of this arrangement will diminish over time.

Based upon their consideration of all these factors, the trustees determined that the level of profits realized by the manager and its affiliates in providing services to the Fund was not excessive in view of the nature, quality and extent of services provided.

ECONOMIES OF SCALE. The Board considered economies of scale realized by the investment manager and its affiliates as the Fund grows larger and the extent to which they are shared with Fund shareholders, as for example, in the level of the investment management fee charged, in the quality and efficiency of services rendered and in increased capital commitments benefiting the Fund directly or indirectly. The trustees noted that, based upon the Profitability Study, as some funds increase in size, at some point economies of scale may result in the investment manager realizing a larger profit margin on investment management services provided such a fund. The trustees also noted that benefits of economies of scale will be shared with Fund shareholders due to the decline in the effective investment management fee rate as breakpoints are achieved by the

Fund.

The trustees noted that breakpoints have been instituted as part of the Fund's investment management fee in 2004, with additional breakpoints being added at the \$25 billion asset level in July 2007, and at the \$30 billion and \$35 billion asset levels in January 2008. The trustees assessed the savings to shareholders resulting from such breakpoints and believed they were, and continue to be, appropriate and they agreed to continue to monitor the appropriateness of the breakpoints. The trustees also considered the effects a continued increase in assets under management would have on the investment management fee of the Fund. To the extent further economies of scale may be realized by the investment manager and its affiliates, the Board believed the investment management and administrative fees provide a sharing of benefits with the Fund and its shareholders.

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Mutual Shares Fund

SHAREHOLDER INFORMATION (CONTINUED)

PROXY VOTING POLICIES AND PROCEDURES

The Fund's investment manager has established Proxy Voting Policies and Procedures (Policies) that the Fund uses to determine how to vote proxies relating to portfolio securities. Shareholders may view the Fund's complete Policies online at franklintempleton.com. Alternatively, shareholders may request copies of the Policies free of charge by calling the Proxy Group collect at 1-954/527-7678 or by sending a written request to: Franklin Templeton Companies, LLC, 500 East Broward Boulevard, Suite 1500, Fort Lauderdale, FL 33394, Attention: Proxy Group. Copies of the Fund's proxy voting records are also made available online at franklintempleton.com and posted on the U.S. Securities and Exchange Commission's website at sec.gov and reflect the most recent 12-month period ended June 30.

QUARTERLY STATEMENT OF INVESTMENTS

The Fund files a complete statement of investments with the U.S. Securities and Exchange Commission for the first and third quarters for each fiscal year on Form N-Q. Shareholders may view the filed Form N-Q by visiting the Commission's website at sec.gov. The filed form may also be viewed and copied at the Commission's Public Reference Room in Washington, DC. Information regarding the operations of the Public Reference Room may be obtained by calling 1-800/SEC-0330.

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(FRANKLIN TEMPLETON INVESTMENTS (R) LOGO) One Franklin Parkway
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SEMIANNUAL REPORT AND SHAREHOLDER LETTER
MUTUAL SHARES FUND

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

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Authorized for distribution only when accompanied or preceded by a prospectus. Investors should carefully consider a fund's investment goals, risks, charges and expenses before investing. The prospectus contains this and other information; please read it carefully before investing.

To ensure the highest quality of service, telephone calls to or from our service departments may be monitored, recorded and accessed. These calls can be identified by the presence of a regular beeping tone.

474 S2008 08/08

JUNE 30, 2008

(GRAPHIC)

SEMIANNUAL REPORT AND SHAREHOLDER LETTER

SECTOR

MUTUAL
FINANCIAL SERVICES FUND

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Franklin - Templeton - MUTUAL SERIES

Semiannual Report

Mutual Financial Services Fund

YOUR FUND'S GOALS AND MAIN INVESTMENTS: Mutual Financial Services Fund seeks capital appreciation, with income as a secondary goal, by investing 80% of its net assets in securities of financial services companies that the manager believes are available at market prices less than their intrinsic value. The Fund concentrates its investments in securities of issuers such as banks, savings and loan organizations, credit card companies, brokerage firms, finance companies, subprime lending institutions, investment advisors, investment companies and insurance companies.

PERFORMANCE DATA REPRESENT PAST PERFORMANCE, WHICH DOES NOT GUARANTEE FUTURE RESULTS.

INVESTMENT RETURN AND PRINCIPAL VALUE WILL FLUCTUATE, AND YOU MAY HAVE A GAIN OR LOSS WHEN YOU SELL YOUR SHARES. CURRENT PERFORMANCE MAY DIFFER FROM FIGURES SHOWN.

PLEASE VISIT FRANKLINTEMPLETON.COM OR CALL 1-800/342-5236 FOR MOST RECENT MONTH-END PERFORMANCE.

This semiannual report for Mutual Financial Services Fund covers the period ended June 30, 2008.

PERFORMANCE OVERVIEW

Mutual Financial Services Fund had a -22.16% cumulative total return for the six months ended June 30, 2008. The Fund - Class Z underperformed its broad benchmark, the Standard & Poor's 500 (S&P 500) Index, which had a -11.19% total return for the same period, but performed better than its narrow benchmark, the S&P 500 Financials Index, which had a -29.73% total return.(1) You can find the Fund's long-term performance data in the Performance Summary beginning on page 9.

ECONOMIC AND MARKET OVERVIEW

During the first half of 2008, the U.S. economy grew marginally as energy prices rose, housing prices declined, the labor situation and consumer demand softened, and a credit crisis originally related to U.S. subprime loan losses spread globally. Some economists speculated whether the U.S. would enter a recession while others believed one was already under way. Many agreed,

(1.) Source: (C) 2008 Morningstar. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. The S&P 500 Index consists of 500 stocks chosen for market size, liquidity and industry group representation. Each stock's weight in the index is proportionate to its market value. The S&P 500 Index is one of the most widely used benchmarks of U.S. equity performance. The

S&P 500 Financials Index is market value weighted and includes all the financial stocks in the S&P 500 Index. The indexes are unmanaged and include reinvested dividends. One cannot invest directly in an index, nor is an index representative of the Fund's portfolio.

THE DOLLAR VALUE, NUMBER OF SHARES OR PRINCIPAL AMOUNT, AND NAMES OF ALL PORTFOLIO HOLDINGS ARE LISTED IN THE FUND'S STATEMENT OF INVESTMENTS (SOI). THE SOI BEGINS ON PAGE 18.

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however, that the slowing U.S. economy -- which is the world's largest and accounts for roughly 25% of global gross domestic product -- could have a meaningfully negative impact on growth prospects around the world.(2) Nevertheless, growth remained relatively strong in developing economies, particularly in Asia where China-led demand continued to impact commodities' prices and related equities.

In the six months under review, prices increased significantly for oil, natural gas, and most agricultural and industrial commodities, as well as for precious metals, adding to global inflationary pressures. Many of the world's monetary authorities faced the choice between lowering short-term interest rates to stimulate growth and raising them to fight inflation, which Merrill Lynch estimated at 5.5% globally at the end of June, up from 3.5% at the beginning of 2008. The U.S. focused on reigniting its economy through fiscal and monetary policies, but the eurozone made controlling inflation its main goal. Accordingly, while the U.S. Federal Reserve Board (Fed) eased rates aggressively down to 2.00% from 4.25%, the European Central Bank maintained rates at 4.00%. Overall, rising inflation led more than three-quarters of the world's central banks to raise rates as of the end of June, according to Merrill Lynch's estimate. Interest rate differentials pressured the U.S. dollar, particularly in the first quarter, but the greenback regained ground as the Fed paused and implied that its next move could be a rate hike. Indicators also signaled growth was slowing outside the U.S. For the period, however, the U.S. dollar declined versus many of the world's currencies, and the dollar's weakness contributed to higher commodities' prices, as most of these prices are set in U.S. dollars.

Against this challenging economic backdrop, many global equity markets were volatile, and a majority of them declined over the six-month period. Despite negative economic data and an outlook for decelerating corporate earnings and profit margins globally, many companies' balance sheets remained relatively strong. Many financial institutions were hurt by their subprime loan exposure, but abundant global liquidity sources such as sovereign wealth funds offered some relief with quick recapitalizations during the period.

INVESTMENT STRATEGY

We strive to provide investors with superior risk-adjusted returns over time through our distinctive, value investment style, which includes investments in undervalued common stocks, distressed debt and risk arbitrage. Rigorous fundamental analysis drives our investment process. We attempt to determine each investment's intrinsic value as well as the price at which we would be

(2.) Source: Global Insight.

GEOGRAPHIC BREAKDOWN

Based on Total Net Assets as of 6/30/08

(BAR CHART)

<TABLE>	<S>	<C>
U.S.	26.3%	
Germany	10.5%	
Sweden	6.4%	
France	5.0%	
U.K.	4.9%	
Belgium	4.5%	
Norway	4.3%	
Switzerland	4.0%	
Italy	3.6%	
Japan	2.8%	
Greece	2.3%	
Denmark	2.3%	
Other	9.0%	
Short-Term Investments & Other Net Assets	14.1%	

WHAT IS RETURN ON EQUITY?

Return on equity is an amount, expressed as a percentage, earned on a company's common stock investment for a given period. It is calculated by dividing common stock equity (net worth) over the average of the accounting period into net income for the period after preferred stock dividends but before common stock dividends. Return on equity tells common shareholders how effectually their money is being employed. Comparing percentages for current and prior periods also reveals trends, and comparison with industry composites reveals how well a company is holding its own against its competitors.

willing to commit shareholder funds. While valuation remains our key consideration, we utilize numerous fundamental factors such as return on equity, financial leverage and long-term earnings power. We also consider factors such as management quality and competitive position. As always, our approach to successful investing is as much about assessing risk and containing losses as it is about achieving profits.

In addition, we will generally seek to hedge the Fund's currency exposure when we deem it advantageous for our shareholders.

MANAGER'S DISCUSSION

In a very difficult period for global financial stocks, the Fund held some investments that did well for our investors. These included Interhyp, a German mortgage distributor; Hudson City Bancorp, a traditional U.S. thrift and prime mortgage lender; and Australian life insurer Tower Australia.

Interhyp stock advanced 35% in local currency as it was acquired by ING, a Dutch financial services conglomerate. As participants in the initial public offering in 2005, we found significant value in Interhyp's unique business model, acting as a direct distributor of attractively priced mortgages to German consumers. Throughout our investment period, Interhyp's use of proprietary technology to distribute mortgages enabled it to rapidly increase market share in an otherwise stagnant German lending market. Interhyp's expanding market share helped the company experience substantial revenue growth and impressive earnings due in part to the company's controlled cost structure. Ultimately, ING saw the value embedded in Interhyp and offered to purchase the company on May 19. We expect the acquisition to be completed in the second half of this year.

Hudson City Bancorp, which rose more than 12% in value during the first half of 2008, originates and purchases prime mortgage loans to retain on its own books. According to our analysis, the company boasts extraordinary efficiency and stable funding sources. This enabled Hudson City to benefit from sharply declining short-term interest rates over the reporting period. The company also has minimal credit issues, with a loss ratio of 0.01%. As a result, Hudson City's shares grew in value despite the current U.S. credit crisis. We reduced the Fund's investment as the position reached our assessment of fair value.

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The Fund's Tower Australia shares appreciated more than 3% in local currency. Tower, which we considered less sensitive to fluctuations in capital markets, continued to benefit from the inclusion of life insurance in Australia's tax-advantaged retirement saving scheme. Tower has adhered to offering risk protection for death and disability, and some premium relief in case of unemployment, areas that have experienced steady growth in Australia. Believing Tower's pricing assumptions would be tested if unemployment rises in Australia, we were inclined to take some profits in the Fund's position as its stock price reached our assessment of fair value.

The Fund had several detractors over the period, notably Belgian bank Fortis; German securities exchange platform provider Deutsche Boerse; and Bolsas Y Mercados Espanoles (BME), a leading European stock exchange operator whose holdings include Spain's four stock exchanges (Madrid, Barcelona, Bilbao and Valencia).

Fortis shares fell more than 40% in local currency during the first half of 2008 as banks suffered globally due to the ongoing U.S. subprime mortgage crisis and deceleration of the U.S. and European economies. In addition, Fortis' stock dropped as the company unexpectedly raised capital to strengthen its balance sheet after the sale of non-core assets failed to generate expected proceeds.

Shares of Frankfurt-based Deutsche Boerse fell on investor concerns about declining equity and derivatives trade volumes on the exchanges it operates. Despite overall growth in revenues and earnings, the company subsequently confirmed the drop in equity volumes and decelerating derivatives trading growth rates. Thus, Deutsche Boerse shares lost almost 46% in local currency for the six months under review.

In a similar vein, BME detracted from Fund performance in the first half of 2008

as its shares declined nearly 44% in local currency. Investor fears about steep declines in equity volumes for BME's Madrid Stock Exchange and related businesses hurt BME's share price, and the valuation multiple afforded to BME was compressed.

Finally, investors should note that we maintained our currency hedging posture of being generally hedged to the U.S. dollar for most of our non-U.S. holdings. Since the dollar was weaker compared with most foreign currencies during the first half of 2008, the Fund benefited slightly by being less than fully hedged.

PORTFOLIO BREAKDOWN

Based on Total Net Assets as of 6/30/08

(BAR CHART)

<TABLE>	
<S>	<C>
Commercial Banks	22.7%
Insurance	19.4%
Diversified Financial Services	14.9%
Real Estate	8.1%
Thrifths & Mortgage Finance	7.4%
Capital Markets	6.3%
Commercial Services & Supplies	2.9%
Consumer Finance	1.5%
Corporate Bonds	1.3%
Real Estate Management & Development	1.0%
Multiline Retail	0.4%
Short-Term Investments & Other Net Assets	14.1%

</TABLE>

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TOP 10 HOLDINGS
6/30/08

<TABLE>	
<CAPTION>	
COMPANY SECTOR/INDUSTRY, COUNTRY	% OF TOTAL NET ASSETS
-----	-----
<S>	<C>
Fortis	3.5%
Diversified Financial Services, Belgium	
Oslo Bors Holding ASA	3.4%
Diversified Financial Services, Norway	
BNP Paribas SA	3.0%
Commercial Banks, France	
Deutsche Boerse AG	2.8%
Diversified Financial Services, Germany	
Interhyp AG	2.7%
Thrifths & Mortgage Finance, Germany	
Tullett Prebon PLC	2.5%
Capital Markets, U.K.	
White Mountains Insurance Group Ltd.	2.5%
Insurance, U.S.	
Intrum Justitia AB	2.4%
Commercial Services & Supplies, Sweden	
Danske Bank AS	2.2%
Commercial Banks, Denmark	
Banque Cantonale Vaudoise	2.2%
Commercial Banks, Switzerland	

</TABLE>

Thank you for your continued participation in Mutual Financial Services Fund. We look forward to serving your future investment needs.

(PHOTO OF CHARLES M. LAHR)

/s/ Charles M. Lahr
Charles M. Lahr, CFA
Portfolio Manager

Mutual Financial Services Fund

THE FOREGOING INFORMATION REFLECTS OUR ANALYSIS, OPINIONS AND PORTFOLIO HOLDINGS AS OF JUNE 30, 2008, THE END OF THE REPORTING PERIOD. THE WAY WE IMPLEMENT OUR MAIN INVESTMENT STRATEGIES AND THE RESULTING PORTFOLIO HOLDINGS MAY CHANGE DEPENDING ON FACTORS SUCH AS MARKET AND ECONOMIC CONDITIONS. THESE OPINIONS MAY NOT BE RELIED UPON AS INVESTMENT ADVICE OR AN OFFER FOR A PARTICULAR SECURITY.

THE INFORMATION IS NOT A COMPLETE ANALYSIS OF EVERY ASPECT OF ANY MARKET, COUNTRY, INDUSTRY, SECURITY OR THE FUND. STATEMENTS OF FACT ARE FROM SOURCES CONSIDERED RELIABLE, BUT THE INVESTMENT MANAGER MAKES NO REPRESENTATION OR WARRANTY AS TO THEIR COMPLETENESS OR ACCURACY. ALTHOUGH HISTORICAL PERFORMANCE IS NO GUARANTEE OF FUTURE RESULTS, THESE INSIGHTS MAY HELP YOU UNDERSTAND OUR INVESTMENT MANAGEMENT PHILOSOPHY.

CHARLES LAHR has been a portfolio manager for Mutual Financial Services Fund since 2004. He is also portfolio manager for Mutual Discovery Fund. He joined Franklin Templeton Investments in 2003. Previously, he was a senior analyst for the State of Wisconsin Investment Board and also worked for U.S. Bancorp and the Principal Financial Group.

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Performance Summary as of 6/30/08

Your dividend income will vary depending on dividends or interest paid by securities in the Fund's portfolio, adjusted for operating expenses of each class. Capital gain distributions are net profits realized from the sale of portfolio securities. The performance table does not reflect any taxes that a shareholder would pay on Fund dividends, capital gain distributions, if any, or any realized gains on the sale of Fund shares. Total return reflects reinvestment of the Fund's dividends and capital gain distributions, if any, and any unrealized gains or losses.

PRICE INFORMATION

CLASS Z (SYMBOL: TEFAX)	CHANGE	6/30/08	12/31/07
<S>	<C>	<C>	<C>
Net Asset Value (NAV)	-\$4.14	\$14.54	\$18.68

CLASS A (SYMBOL: TFSIX)	CHANGE	6/30/08	12/31/07
<S>	<C>	<C>	<C>
Net Asset Value (NAV)	-\$4.16	\$14.54	\$18.70

CLASS B (SYMBOL: TBFSX)	CHANGE	6/30/08	12/31/07
<S>	<C>	<C>	<C>
Net Asset Value (NAV)	-\$4.11	\$14.15	\$18.26

CLASS C (SYMBOL: TMFSX)	CHANGE	6/30/08	12/31/07
<S>	<C>	<C>	<C>
Net Asset Value (NAV)	-\$4.18	\$14.41	\$18.59

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Performance Summary (CONTINUED)

PERFORMANCE (1)

CUMULATIVE TOTAL RETURN EXCLUDES SALES CHARGES. AVERAGE ANNUAL TOTAL RETURN AND VALUE OF \$10,000 INVESTMENT INCLUDE MAXIMUM SALES CHARGES. CLASS Z: NO SALES CHARGES; CLASS A: 5.75% MAXIMUM INITIAL SALES CHARGE; CLASS B: CONTINGENT DEFERRED SALES CHARGE (CDSC) DECLINING FROM 4% TO 1% OVER SIX YEARS, AND ELIMINATED THEREAFTER; CLASS C: 1% CDSC IN FIRST YEAR ONLY. UNTIL AUGUST 31, 2008, THE FUND MAY CHARGE A 2% FEE ON REDEMPTIONS MADE WITHIN SEVEN DAYS OF PURCHASE.

CLASS Z	6-MONTH	1-YEAR	5-YEAR	10-YEAR
<S>	<C>	<C>	<C>	<C>
Cumulative Total Return(2)	-22.16%	-32.78%	+32.02%	+108.46%

Average Annual Total Return(3)	-22.16%		-32.78%	+5.71%	+7.62%
Value of \$10,000 Investment(4)	\$ 7,784		\$ 6,722	\$13,202	\$ 20,846
Total Annual Operating Expenses(5)		1.11%			

CLASS A	6-MONTH		1-YEAR	5-YEAR	10-YEAR
<S>	<C>	<C>	<C>	<C>	<C>
Cumulative Total Return(2)	-22.25%		-32.98%	+29.95%	+101.76%
Average Annual Total Return(3)	-26.71%		-36.83%	+4.14%	+6.64%
Value of \$10,000 Investment(4)	\$ 7,329		\$ 6,317	\$12,250	\$ 19,018
Total Annual Operating Expenses(5)		1.40%			

CLASS B	6-MONTH		1-YEAR	5-YEAR	INCEPTION (1/1/99)
<S>	<C>	<C>	<C>	<C>	<C>
Cumulative Total Return(2)	-22.51%		-33.47%	+25.67%	+108.55%
Average Annual Total Return(3)	-25.61%		-35.96%	+4.40%	+8.05%
Value of \$10,000 Investment(4)	\$ 7,439		\$ 6,404	\$12,403	\$ 20,855
Total Annual Operating Expenses(5)		2.11%			

CLASS C	6-MONTH		1-YEAR	5-YEAR	10-YEAR
<S>	<C>	<C>	<C>	<C>	<C>
Cumulative Total Return(2)	-22.49%		-33.44%	+25.64%	+88.88%
Average Annual Total Return(3)	-23.26%		-34.06%	+4.67%	+6.57%
Value of \$10,000 Investment(4)	\$ 7,673		\$ 6,722	\$12,564	\$18,888
Total Annual Operating Expenses(5)		2.11%			

PERFORMANCE DATA REPRESENT PAST PERFORMANCE, WHICH DOES NOT GUARANTEE FUTURE RESULTS. INVESTMENT RETURN AND PRINCIPAL VALUE WILL FLUCTUATE, AND YOU MAY HAVE A GAIN OR LOSS WHEN YOU SELL YOUR SHARES. CURRENT PERFORMANCE MAY DIFFER FROM FIGURES SHOWN. FOR MOST RECENT MONTH-END PERFORMANCE, SEE "FUNDS AND PERFORMANCE" AT FRANKLINTEMPLETON.COM OR CALL 1-800/342-5236.

Performance Summary (CONTINUED)

ENDNOTES

VALUE SECURITIES MAY NOT INCREASE IN PRICE AS ANTICIPATED OR MAY DECLINE FURTHER IN VALUE. INVESTING IN A SINGLE-SECTOR FUND INVOLVES SPECIAL RISKS, INCLUDING GREATER SENSITIVITY TO ECONOMIC, POLITICAL OR REGULATORY DEVELOPMENTS IMPACTING THE SECTOR. IN ADDITION, THE FUND INVESTS IN FOREIGN SECURITIES WHOSE RISKS INCLUDE CURRENCY FLUCTUATIONS, AND ECONOMIC AND POLITICAL UNCERTAINTIES. THE FUND'S INVESTMENTS IN SMALLER-COMPANY STOCKS CARRY AN INCREASED RISK OF PRICE FLUCTUATION, PARTICULARLY OVER THE SHORT TERM. THE FUND MAY ALSO INVEST IN COMPANIES ENGAGED IN MERGERS, REORGANIZATIONS OR LIQUIDATIONS, WHICH INVOLVE SPECIAL RISKS, AS PENDING DEALS MAY NOT BE COMPLETED ON TIME OR ON FAVORABLE TERMS, AS WELL AS LOWER-RATED BONDS, WHICH ENTAIL HIGHER CREDIT RISK. THE FUND'S PROSPECTUS ALSO INCLUDES A DESCRIPTION OF THE MAIN INVESTMENT RISKS.

CLASS Z: Shares are available to certain eligible investors as described in the prospectus.

CLASS A: Prior to 8/3/98, these shares were offered at a lower initial sales charge; thus actual total returns may differ.

CLASS B: These shares have higher annual fees and expenses than Class A shares.

CLASS C: Prior to 1/1/04, these shares were offered with an initial sales charge; thus actual total returns would have differed. These shares have higher annual fees and expenses than Class A shares.

1. Past expense reductions by the Fund's manager increased the Fund's total returns. If the manager had not taken this action, the Fund's total returns would have been lower.

2. Cumulative total return represents the change in value of an investment over the periods indicated.

3. Average annual total return represents the average annual change in value of an investment over the periods indicated. Six-month return has not been annualized.

4. These figures represent the value of a hypothetical \$10,000 investment in the Fund over the periods indicated.

5. Figures are as stated in the Fund's prospectus current as of the date of this report.

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Your Fund's Expenses

As a Fund shareholder, you can incur two types of costs:

- Transaction costs, including sales charges (loads) on Fund purchases and redemption fees; and
- Ongoing Fund costs, including management fees, distribution and service (12b-1) fees, and other Fund expenses. All mutual funds have ongoing costs, sometimes referred to as operating expenses.

The following table shows ongoing costs of investing in the Fund and can help you understand these costs and compare them with those of other mutual funds. The table assumes a \$1,000 investment held for the six months indicated.

ACTUAL FUND EXPENSES

The first line (Actual) for each share class listed in the table provides actual account values and expenses. The "Ending Account Value" is derived from the Fund's actual return, which includes the effect of Fund expenses.

You can estimate the expenses you paid during the period by following these steps. OF COURSE, YOUR ACCOUNT VALUE AND EXPENSES WILL DIFFER FROM THOSE IN THIS ILLUSTRATION:

1. Divide your account value by \$1,000.
IF AN ACCOUNT HAD AN \$8,600 VALUE, THEN $\$8,600 / \$1,000 = 8.6$.
2. Multiply the result by the number under the heading "Expenses Paid During Period."
IF EXPENSES PAID DURING PERIOD WERE \$7.50, THEN $8.6 \times \$7.50 = \64.50 .

In this illustration, the estimated expenses paid this period are \$64.50.

HYPOTHETICAL EXAMPLE FOR COMPARISON WITH OTHER FUNDS

Information in the second line (Hypothetical) for each class in the table can help you compare ongoing costs of investing in the Fund with those of other mutual funds. This information may not be used to estimate the actual ending account balance or expenses you paid during the period. The hypothetical "Ending Account Value" is based on the actual expense ratio for each class and an assumed 5% annual rate of return before expenses, which does not represent the Fund's actual return. The figure under the heading "Expenses Paid During Period" shows the hypothetical expenses your account would have incurred under this scenario. You can compare this figure with the 5% hypothetical examples that appear in shareholder reports of other funds.

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Your Fund's Expenses (CONTINUED)

PLEASE NOTE THAT EXPENSES SHOWN IN THE TABLE ARE MEANT TO HIGHLIGHT ONGOING COSTS AND DO NOT REFLECT ANY TRANSACTION COSTS, SUCH AS SALES CHARGES OR REDEMPTION FEES. Therefore, the second line for each class is useful in comparing ongoing costs only, and will not help you compare total costs of owning different funds. In addition, if transaction costs were included, your total costs would have been higher. Please refer to the Fund prospectus for additional information on operating expenses.

<TABLE>
<CAPTION>

BEGINNING ACCOUNT VALUE 1/1/08	ENDING ACCOUNT VALUE 6/30/08	EXPENSES PAID DURING PERIOD* 1/1/08-6/30/08
-----	-----	-----

<S>	<C>	<C>	<C>
CLASS Z			
Actual	\$1,000	\$ 778.40	\$ 5.08
Hypothetical (5% return before expenses)	\$1,000	\$1,019.14	\$ 5.77
CLASS A			
Actual	\$1,000	\$ 777.50	\$ 6.41
Hypothetical (5% return before expenses)	\$1,000	\$1,017.65	\$ 7.27
CLASS B			
Actual	\$1,000	\$ 774.90	\$ 9.49
Hypothetical (5% return before expenses)	\$1,000	\$1,014.17	\$10.77
CLASS C			
Actual	\$1,000	\$ 775.10	\$ 9.49
Hypothetical (5% return before expenses)	\$1,000	\$1,014.17	\$10.77

</TABLE>

* Expenses are calculated using the most recent six-month expense ratio, annualized for each class (Z: 1.15%; A: 1.45%; B: 2.15%; and C: 2.15%), multiplied by the average account value over the period, multiplied by 182/366 to reflect the one-half year period.

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Mutual Financial Services Fund

FINANCIAL HIGHLIGHTS

<TABLE>	<CAPTION>					
	SIX MONTHS ENDED JUNE 30, 2008 (UNAUDITED)	YEAR ENDED DECEMBER 31,				
CLASS Z		2007	2006	2005	2004	2003
<S>	<C>	<C>	<C>	<C>	<C>	<C>
PER SHARE OPERATING PERFORMANCE (for a share outstanding throughout the period)						
Net asset value, beginning of period	\$ 18.68	\$ 22.59	\$ 21.59	\$ 20.45	\$ 20.06	\$ 15.92
Income from investment operations(a):						
Net investment income(b)	0.37	0.51	0.40	0.44	0.34	0.23
Net realized and unrealized gains (losses)	(4.51)	(2.41)	3.76	2.40	2.70	4.58
Total from investment operations	(4.14)	(1.90)	4.16	2.84	3.04	4.81
Less distributions from:						
Net investment income	--	(0.61)	(0.57)	(0.49)	(0.32)	(0.24)
Net realized gains	--	(1.40)	(2.59)	(1.21)	(2.33)	(0.43)
Total distributions	--	(2.01)	(3.16)	(1.70)	(2.65)	(0.67)
Redemption fees	--(c)	--(c)	--(c)	--(c)	--(c)	--
Net asset value, end of period	\$ 14.54	\$ 18.68	\$ 22.59	\$ 21.59	\$ 20.45	\$ 20.06
Total return(d)	(22.16)%	(8.71)%	19.73%	14.14%	15.62%	30.23%
RATIOS TO AVERAGE NET ASSETS(e)						
Expenses(f)	1.15%(g)	1.11%(g)	1.08%(g)	1.12%(g)	1.10%(g)	1.13%
Expenses - excluding dividend expense on securities sold short	1.14%(g)	1.11%(g)	1.08%(g)	1.11%(g)	1.09%(g)	1.11%
Net investment income	4.57%	2.25%	1.71%	2.10%	1.65%	1.28%
SUPPLEMENTAL DATA						
Net assets, end of period (000's)	\$130,860	\$164,890	\$213,874	\$174,864	\$166,175	\$151,918
Portfolio turnover rate	11.26%	49.87%	62.65%	31.71%	38.40%	25.78%

</TABLE>

(a) The amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations 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) Amount rounds to less than \$0.01 per share.

(d) Total return is not annualized for periods less than one year.

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

(f) Includes dividend expenses on securities sold short which varies from period to period. See below for expense ratios that reflect only operating expenses.

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

The accompanying notes are an integral part of these financial statements.

Mutual Financial Services Fund

FINANCIAL HIGHLIGHTS (CONTINUED)

CLASS A	SIX MONTHS ENDED	YEAR ENDED DECEMBER 31,				
	JUNE 30, 2008 (UNAUDITED)	2007	2006	2005	2004	2003
<S>	<C>	<C>	<C>	<C>	<C>	<C>
PER SHARE OPERATING PERFORMANCE (for a share outstanding throughout the period)						
Net asset value, beginning of period	\$ 18.70	\$ 22.60	\$ 21.61	\$ 20.47	\$ 20.08	\$ 15.95
Income from investment operations(a):						
Net investment income(b)	0.35	0.44	0.33	0.37	0.27	0.16
Net realized and unrealized gains (losses)	(4.51)	(2.40)	3.76	2.41	2.70	4.58
Total from investment operations	(4.16)	(1.96)	4.09	2.78	2.97	4.74
Less distributions from:						
Net investment income	--	(0.54)	(0.51)	(0.43)	(0.25)	(0.18)
Net realized gains	--	(1.40)	(2.59)	(1.21)	(2.33)	(0.43)
Total distributions	--	(1.94)	(3.10)	(1.64)	(2.58)	(0.61)
Redemption fees	-- (c)	-- (c)	-- (c)	-- (c)	-- (c)	--
Net asset value, end of period	\$ 14.54	\$ 18.70	\$ 22.60	\$ 21.61	\$ 20.47	\$ 20.08
Total return(d)	(22.25)%	(8.99)%	19.35%	13.82%	15.17%	29.79%
RATIOS TO AVERAGE NET ASSETS(e)						
Expenses(f)	1.45% (g)	1.40% (g)	1.39% (g)	1.42% (g)	1.44% (g)	1.48%
Expenses - excluding dividend expense on securities sold short	1.44% (g)	1.40% (g)	1.39% (g)	1.41% (g)	1.43% (g)	1.46%
Net investment income	4.27%	1.96%	1.40%	1.80%	1.31%	0.93%
SUPPLEMENTAL DATA						
Net assets, end of period (000's)	\$366,468	\$441,180	\$557,768	\$359,058	\$296,778	\$264,411
Portfolio turnover rate	11.26%	49.87%	62.65%	31.71%	38.40%	25.78%

(a) The amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations 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) Amount rounds to less than \$0.01 per share.

(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 expense on securities sold short which varies from period to period. See below for expense ratios that reflect only operating expenses.

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

The accompanying notes are an integral part of these financial statements.

Mutual Financial Services Fund

FINANCIAL HIGHLIGHTS (CONTINUED)

<TABLE>

<CAPTION>

CLASS B	SIX MONTHS ENDED	YEAR ENDED DECEMBER 31,				
	JUNE 30, 2008 (UNAUDITED)	2007	2006	2005	2004	2003
<S>	<C>	<C>	<C>	<C>	<C>	<C>
PER SHARE OPERATING PERFORMANCE (for a share outstanding throughout the period)						
Net asset value, beginning of period	\$ 18.26	\$ 22.08	\$ 21.17	\$ 20.09	\$ 19.76	\$ 15.73
Income from investment operations(a):						
Net investment income(b)	0.27	0.27	0.16	0.23	0.14	0.05
Net realized and unrealized gains (losses)	(4.38)	(2.33)	3.68	2.34	2.64	4.49
Total from investment operations	(4.11)	(2.06)	3.84	2.57	2.78	4.54
Less distributions from:						
Net investment income	--	(0.36)	(0.34)	(0.28)	(0.12)	(0.08)
Net realized gains	--	(1.40)	(2.59)	(1.21)	(2.33)	(0.43)
Total distributions	--	(1.76)	(2.93)	(1.49)	(2.45)	(0.51)
Redemption fees	--(c)	--(c)	--(c)	--(c)	--(c)	--
Net asset value, end of period	\$ 14.15	\$ 18.26	\$ 22.08	\$ 21.17	\$ 20.09	\$ 19.76
Total return(d)	(22.51)%	(9.58)%	18.51%	13.03%	14.51%	28.88%
RATIOS TO AVERAGE NET ASSETS(e)						
Expenses(f)	2.15%(g)	2.11%(g)	2.08%(g)	2.12%(g)	2.10%(g)	2.12%
Expenses - excluding dividend expense on securities sold short	2.14%(g)	2.11%(g)	2.08%(g)	2.11%(g)	2.09%(g)	2.10%
Net investment income	3.57%	1.25%	0.71%	1.10%	0.65%	0.29%
SUPPLEMENTAL DATA						
Net assets, end of period (000's)	\$20,143	\$30,756	\$46,085	\$42,526	\$42,614	\$34,219
Portfolio turnover rate	11.26%	49.87%	62.65%	31.71%	38.40%	25.78%

- (a) The amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations 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) Amount rounds to less than \$0.01 per share.
- (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 expense on securities sold short which varies from period to period. See below for expense ratios that reflect only operating expenses.
- (g) Benefit of expense reduction rounds to less than 0.01%.

The accompanying notes are an integral part of these financial statements.

Mutual Financial Services Fund

FINANCIAL HIGHLIGHTS (CONTINUED)

<TABLE>
<CAPTION>

CLASS C	SIX MONTHS ENDED	YEAR ENDED DECEMBER 31,				
	JUNE 30, 2008 (UNAUDITED)	2007	2006	2005	2004	2003
<S>	<C>	<C>	<C>	<C>	<C>	<C>
PER SHARE OPERATING PERFORMANCE (for a share outstanding throughout the period)						
Net asset value, beginning of period	\$ 18.59	\$ 22.46	\$ 21.51	\$ 20.39	\$ 20.02	\$ 15.92
Income from investment operations(a):						
Net investment income(b)	0.29	0.28	0.16	0.23	0.13	0.05
Net realized and unrealized gains						

(losses)	(4.47)	(2.37)	3.73	2.38	2.68	4.55
Total from investment operations	(4.18)	(2.09)	3.89	2.61	2.81	4.60
Less distributions from:						
Net investment income	--	(0.38)	(0.35)	(0.28)	(0.11)	(0.07)
Net realized gains	--	(1.40)	(2.59)	(1.21)	(2.33)	(0.43)
Total distributions	--	(1.78)	(2.94)	(1.49)	(2.44)	(0.50)
Redemption fees	-- (c)	--				
Net asset value, end of period	\$ 14.41	\$ 18.59	\$ 22.46	\$ 21.51	\$ 20.39	\$ 20.02
Total return(d)	(22.49)%	(9.60)%	18.52%	13.06%	14.46%	28.87%
RATIOS TO AVERAGE NET ASSETS(e)						
Expenses(f)	2.15%(g)	2.11%(g)	2.08%(g)	2.12%(g)	2.10%(g)	2.13%
Expenses - excluding dividend expense on securities sold short	2.14%(g)	2.11%(g)	2.08%(g)	2.11%(g)	2.09%(g)	2.11%
Net investment income	3.57%	1.25%	0.71%	1.10%	0.65%	0.28%
SUPPLEMENTAL DATA						
Net assets, end of period (000's)	\$149,466	\$183,684	\$225,305	\$169,000	\$155,698	\$141,233
Portfolio turnover rate	11.26%	49.87%	62.65%	31.71%	38.40%	25.78%

(a) The amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations 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) Amount rounds to less than \$0.01 per share.

(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 expense on securities sold short which varies from period to period. See below for expense ratios that reflect only operating expenses.

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

The accompanying notes are an integral part of these financial statements.

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Mutual Financial Services Fund

STATEMENT OF INVESTMENTS, JUNE 30, 2008 (UNAUDITED)

<TABLE>
<CAPTION>

	COUNTRY	SHARES	VALUE
<S>	<C>	<C>	<C>
COMMON STOCKS AND OTHER EQUITY INTERESTS 84.4%			
CAPITAL MARKETS 6.3%			
D. Carnegie & Co. AB	Sweden	931,850	\$ 12,452,718
Gottex Fund Management Holdings Ltd.	Switzerland	68,816	1,987,344
Legg Mason Inc.	United States	71,542	3,117,085
Marfin Investment Group Holdings SA	Greece	994,503	7,861,041
Tullett Prebon PLC	United Kingdom	1,941,744	16,634,291
			42,052,479
COMMERCIAL BANKS 22.0%			
(a, b) Alliance Bank & Trust Co.	United States	226,100	1,480,955
(a, b, c) Atlantic Banc Holdings Inc.	United States	350,000	3,500,000
Banco Popolare SpA	Italy	574,768	10,208,735
Bank of Cyprus Public Co. Ltd.	Cyprus	392,644	4,785,311
Banque Cantonale Vaudoise	Switzerland	44,100	14,635,242
BNP Paribas SA	France	220,650	19,991,439
(a) Cape Bancorp Inc.	United States	32,393	316,156
Danske Bank AS	Denmark	517,029	14,955,655
(a, c) Elephant Capital Holdings Ltd.	Japan	5,268	569,717
(a, c) First Chicago Bancorp	United States	496,868	6,956,152
(a) Guaranty Bancorp	United States	1,333,807	4,801,705
Hypo Real Estate Holding AG	Germany	179,726	5,028,849
Intesa Sanpaolo SpA	Italy	1,442,346	8,238,481

	Intesa Sanpaolo SpA, di Risparmio	Italy	147,000	762,103
	Mitsubishi UFJ Financial Group Inc.	Japan	612,602	5,429,836
(a, c)	NCB Warrant Holdings Ltd., A	Japan	25,741	251,620
	PacWest Bancorp	United States	403,331	6,001,565
	Royal Bank of Scotland Group PLC	United Kingdom	208,824	894,464
	Societe Generale, A	France	149,485	13,014,110
(a)	Southern National Bancorp of Virginia Inc.	United States	290,840	2,354,350
	Sumitomo Mitsui Financial Group Inc.	Japan	741	5,576,781
	Svenska Handelsbanken AB, A	Sweden	278,531	6,635,103
	Swedbank AB, A	Sweden	219,136	4,238,009
	U.S. Bancorp	United States	209,068	5,830,907

				146,457,245

	COMMERCIAL SERVICES & SUPPLIES 2.9%			
(a)	Comdisco Holding Co. Inc.	United States	103	984
(a, d)	Comdisco Holding Co. Inc., Contingent Distribution	United States	4,645,036	--
	Intrum Justitia AB	Sweden	894,680	16,300,259
(a, e)	Protection One Inc.	United States	370,533	3,112,477

				19,413,720

	CONSUMER FINANCE 1.6%			
	American Express Co.	United States	400	15,068
(a, c)	Cerberus CG Investor I LLC	United States	1,139,363	593,279
(a, c)	Cerberus CG Investor II LLC	United States	1,139,363	593,279
(a, c)	Cerberus CG Investor III LLC	United States	569,682	296,640
(a, c)	Cerberus FIM Investors Auto Finance LLC	United States	1,255,339	418,777
(a, c)	Cerberus FIM Investors Commercial Finance LLC	United States	104,566	34,883
(a, c)	Cerberus FIM Investors Commercial Mortgage LLC	United States	195,993	65,383
(a, c)	Cerberus FIM Investors Insurance LLC	United States	958,613	319,790
(a, c)	Cerberus FIM Investors Rescap LLC	United States	1,784,739	595,383

</TABLE>

Mutual Financial Services Fund

STATEMENT OF INVESTMENTS, JUNE 30, 2008 (UNAUDITED) (CONTINUED)

<TABLE>

<CAPTION>

	COUNTRY	SHARES	VALUE
<S>	<C>	<C>	<C>
	COMMON STOCKS AND OTHER EQUITY INTERESTS (CONTINUED)		
	CONSUMER FINANCE 1.6%		
(a)	SLM Corp.	United States	248,550 \$ 4,809,443
(a)	White River Capital Inc.	United States	172,799 2,532,153

			10,274,078

	DIVERSIFIED BANKS 0.7%		
(a, c)	The Bankshares Inc.	United States	456,903 4,569,030

	DIVERSIFIED FINANCIAL SERVICES 14.8%		
(a)	Banca Italease	Italy	144,761 1,384,740
	Bolsas Y Mercados Espanoles	Spain	200,687 7,473,442
	Deutsche Boerse AG	Germany	164,902 18,614,645
	Fortis	Belgium	1,473,439 23,595,184
(a)	Fortis VVPR Strip	Belgium	439,970 6,928
	Guinness Peat Group PLC	United Kingdom	6,083,077 6,343,700
	Hellenic Exchanges SA Holding	Greece	615,070 7,747,914
	KBC Ancora	Belgium	76,330 6,670,502
	Osaka Securities Exchange Co. Ltd.	Japan	1,023 4,307,267
	Oslo Bors VPS Holding ASA	Norway	911,000 22,722,220

			98,866,542

	INSURANCE 19.3%		
	Allianz SE	Germany	25,912 4,561,964
	American International Group Inc.	United States	67,200 1,778,112
	AmTrust Financial Services Inc.	United States	840,831 10,594,470
(a)	Argo Group International Holdings Ltd.	United States	190,910 6,406,940
	Assicurazioni Generali SpA	Italy	87,487 3,357,139
(a)	Berkshire Hathaway Inc., A	United States	37 4,467,750
(a)	Berkshire Hathaway Inc., B	United States	216 866,592
	Brit Insurance Holdings PLC	United Kingdom	351,614 1,229,383
(a)	CNinsure Inc., ADR	China	316,070 4,636,747
(a)	Conseco Inc.	United States	149,880 1,486,810
	Hartford Financial Services Group Inc.	United States	113,740 7,344,192

(a, c) Imagine Group Holdings Ltd.	Bermuda	551,589	6,745,933
Lancashire Holdings Ltd.	United Kingdom	1,281,708	7,813,658
Maiden Holdings Ltd.	United States	150,000	960,000
(f) Maiden Holdings Ltd., 144A	United States	1,500,000	9,600,000
(a, c) Olympus Re Holdings Ltd.	United States	7,480	22,616
(a, b) Protector Forsikring ASA	Norway	4,360,410	5,908,879
Prudential Financial Inc.	United States	46,220	2,761,183
(c) Symetra Financial	United States	1,020,510	13,327,860
The Travelers Cos. Inc.	United States	81,913	3,555,024
Tower Australia Group Ltd.	Australia	2,736,404	7,577,249
White Mountains Insurance Group Ltd.	United States	38,048	16,322,592
Zurich Financial Services AG	Switzerland	29,526	7,558,540

			128,883,633

MULTILINE RETAIL 0.4%			
Jelmoli Holding AG	Switzerland	1,039	2,690,313

</TABLE>

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Mutual Financial Services Fund

STATEMENT OF INVESTMENTS, JUNE 30, 2008 (UNAUDITED) (CONTINUED)

<TABLE>
<CAPTION>

	COUNTRY	SHARES	VALUE
	-----	-----	-----
<S>	<C>	<C>	<C>
COMMON STOCKS AND OTHER EQUITY INTERESTS (CONTINUED)			
REAL ESTATE 8.1%			
Annaly Capital Management Inc.	United States	303,570	\$ 4,708,371
(a) Conwert Immobilien Invest SE	Austria	593,121	10,198,498
DIC Asset AG	Germany	175,343	4,428,565
(a) Dolphin Capital Investors Ltd.	Virgin Islands (British)	5,486,000	10,820,190
Eurocastle Investment Ltd.	Guernsey Islands	633,467	6,104,438
(a) Francono Rhein-Main AG	Germany	1,377,430	4,099,224
Franconofurt AG	Germany	60,885	372,932
NR Nordic and Russia Properties Ltd.	Sweden	3,246,158	3,169,068
(a) Patrizia Immobilien AG	Germany	376,679	1,844,599
Redwood Trust Inc.	United States	157,856	3,597,538
(c) Star Asia Finance Ltd., 144A	Japan	968,500	2,518,100
Vivacon AG	Germany	201,987	1,924,195

			53,785,718

REAL ESTATE INVESTMENT TRUST (REIT) 0.4%			
Champion REIT	Hong Kong	6,152,000	2,848,276

REAL ESTATE MANAGEMENT & DEVELOPMENT 0.5%			
IVG Holding AG	Germany	176,536	3,483,009

THRIFTS & MORTGAGE FINANCE 7.4%			
Aareal Bank AG	Germany	297,429	7,287,242
Abington Bancorp Inc.	United States	576,850	5,260,872
(e) BankUnited Financial Corp., A	United States	372,090	357,207
First Clover Leaf Financial Corp.	United States	11,253	93,287
(f) Hatteras Financial Corp., 144A	United States	240,000	5,697,600
(g) Hudson City Bancorp Inc.	United States	254,000	4,236,720
Interhyp AG	Germany	176,782	17,675,920
(a) Oritani Financial Corp.	United States	184,430	2,950,880
Viewpoint Financial Group	United States	66,972	985,828
Washington Mutual Inc.	United States	72,306	660,690
Westfield Financial Inc.	United States	474,380	4,293,139

			49,499,385

TOTAL COMMON STOCKS AND OTHER EQUITY INTERESTS (COST \$679,992,520)			
			562,823,428

PREFERRED STOCK (COST \$604,938) 0.1%			
DIVERSIFIED FINANCIAL SERVICES 0.1%			
(a) United Fiduciary, LLC, pfd.	United States	604,938	604,938

</TABLE>

<TABLE>
<CAPTION>

PRINCIPAL AMOUNT

<S>	<C>	<C>	<C>	<C>
	CORPORATE BONDS & NOTES 1.3%			
(c)	Cerberus CG Investor I LLC, 12.00%, 7/31/14	United States	\$ 1,000,000	520,711
(c)	Cerberus CG Investor II LLC, 12.00%, 7/31/14	United States	1,000,000	520,711
(c)	Cerberus CG Investor III LLC, 12.00%, 7/31/14	United States	500,000	260,355
(c)	Cerberus FIM Investors Auto Finance LLC, 12.00%, 11/22/13 ..	United States	3,763,457	1,255,478
(c)	Cerberus FIM Investors Commercial Finance LLC, 12.00%, 11/22/13	United States	313,698	104,649
(c)	Cerberus FIM Investors Commercial Mortgage LLC, 12.00%, 11/22/13	United States	587,978	196,148

</TABLE>

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Mutual Financial Services Fund

STATEMENT OF INVESTMENTS, JUNE 30, 2008 (UNAUDITED) (CONTINUED)

<TABLE>				
<CAPTION>		COUNTRY	PRINCIPAL AMOUNT	VALUE
<S>		<C>	<C>	<C>
	CORPORATE BONDS & NOTES (CONTINUED)			
(c)	Cerberus FIM Investors Insurance LLC, 12.00%, 11/22/13	United States	\$ 2,875,838	\$ 959,371
(c)	Cerberus FIM Investors Rescap LLC, 12.00%, 11/22/13	United States	5,354,217	1,786,150
(c, h)	Pontus I LLC, junior note, 144A, FRN, 5.231%, 7/24/09	United States	983,856	844,217
	5.685%, 7/24/09	United States	888,673	1,066,889
	6.475%, 7/24/09	United States	865,518	744,317
(c, h)	Pontus II Trust, junior note, 144A, FRN, 6.475%, 6/25/09 ..	United States	432,803	372,196
	TOTAL CORPORATE BONDS & NOTES (COST \$18,566,039)			8,631,192
	COMPANIES IN LIQUIDATION 0.0%			
(a, c)	Augsburg Re AG	Switzerland	10,745	--
(c)	Augsburg Re AG, zero cpn., 8/31/08	Switzerland	123,572	--
	TOTAL COMPANIES IN LIQUIDATION (COST \$134,317)			
	TOTAL INVESTMENTS BEFORE SHORT TERM INVESTMENTS (COST \$699,297,814)			572,059,558
	SHORT TERM INVESTMENTS 13.9%			
	U.S. GOVERNMENT AND AGENCY SECURITIES 13.4%			
(i)	FHLB, 7/01/08	United States	46,200,000	46,200,000
	7/02/08	United States	10,000,000	9,999,410
	7/03/08 - 4/09/09	United States	33,520,000	33,292,885
	TOTAL U.S. GOVERNMENT AND AGENCY SECURITIES (COST \$89,519,725)			89,492,295
	TOTAL INVESTMENTS BEFORE MONEY MARKET FUND (COST \$788,817,539)			661,551,853

</TABLE>

<TABLE>				
<CAPTION>			SHARES	
<S>		<C>	<C>	<C>
(j)	INVESTMENTS FROM CASH COLLATERAL RECEIVED FOR LOANED SECURITIES 0.5%			
	MONEY MARKET FUND (COST \$3,398,191) 0.5%			
(k)	Bank of New York Institutional Cash Reserve Fund, 2.53%	United States	3,398,191	3,398,191
	TOTAL INVESTMENTS (COST \$792,215,730) 99.7%			664,950,044
	OPTIONS WRITTEN 0.0%(L)			(76,200)
	NET UNREALIZED LOSS ON FORWARD EXCHANGE CONTRACTS (0.6)%			(3,691,327)
	OTHER ASSETS, LESS LIABILITIES 0.9%			5,755,363
	NET ASSETS 100.0%			\$666,937,880

</TABLE>

STATEMENT OF INVESTMENTS, JUNE 30, 2008 (UNAUDITED) (CONTINUED)

<TABLE>
<CAPTION>

	COUNTRY	CONTRACTS	VALUE
<S>	<C>	<C>	<C>
(m) OPTIONS WRITTEN (PREMIUMS RECEIVED \$219,688) THRIFTS & MORTGAGE FINANCE 0.0% Hudson City Bancorp Inc., July 17.50 Calls, 7/19/08	United States	2,540	\$ 76,200

</TABLE>

SELECTED PORTFOLIO ABBREVIATIONS
 ADR - American Depository Receipt
 FHLE - Federal Home Loan Bank
 FRN - Floating Rate Note
 REIT - Real Estate Investment Trust

- (a) Non-income producing for the twelve months ended June 30, 2008.
- (b) See Note 10 regarding holdings of 5% voting securities.
- (c) See Note 8 regarding restricted securities.
- (d) Contingent distributions represent the right to receive additional distributions, if any, during the reorganization of the underlying company. Shares represent total underlying principal of debt securities.
- (e) A portion or all of the security is on loan as of June 30, 2008. See Note 1(g).
- (f) Security was purchased pursuant to Rule 144A under the Securities Act of 1933 and may be sold in transactions exempt from registration only to qualified institutional buyers or in a public offering registered under the Securities Act of 1933. These securities have been deemed liquid under guidelines approved by the Trust's Board of Trustees. At June 30, 2008, the aggregate value of these securities was \$15,297,600, representing 2.29% of net assets.
- (g) A portion or all of the security is held in connection with written option contracts open at period end.
- (h) The coupon rate shown represents the rate at period end.
- (i) The security is traded on a discount basis with no stated coupon rate.
- (j) See Note 1(g) regarding securities on loan.
- (k) The rate shown is the annualized seven-day yield at period end.
- (l) Rounds to less than 0.1% of net assets.
- (m) See Note 1(e) regarding written options.

The accompanying notes are an integral part of these financial statements.

FINANCIAL STATEMENTS

STATEMENT OF ASSETS AND LIABILITIES
 June 30, 2008 (unaudited)

<TABLE>
<S>

	<C>
Assets:	
Investments in securities:	
Cost - Unaffiliated issuers	\$ 776,503,197
Cost - Non-controlled affiliated issuers (Note 10)	15,712,533

Total cost of investments	\$ 792,215,730
	=====
Value - Unaffiliated issuers	\$ 654,060,210
Value - Non-controlled affiliated issuers (Note 10)	10,889,834

Total value of investments (includes securities loaned in the amount of \$2,658,938)	664,950,044

Cash	214,338
Foreign currency, at value (cost \$3,783,168)	3,767,344
Receivables:	
Investment securities sold	4,164,542
Capital shares sold	1,959,160
Dividends and interest	5,022,525
Unrealized gain on forward exchange contracts (Note 7)	1,226,930
Other assets	214,199

Total assets	681,519,082

Liabilities:	
Payables:	
Investment securities purchased	2,324,175
Capital shares redeemed	2,432,205
Affiliates	1,229,488
Options written, at value (premiums received \$219,688)	76,200
Payable upon return of securities loaned	3,398,191
Unrealized loss on forward exchange contracts (Note 7)	4,918,256
Accrued expenses and other liabilities	202,687

Total liabilities	14,581,202

Net assets, at value	\$ 666,937,880

Net assets consist of:	
Paid-in capital	\$ 804,202,622
Undistributed net investment income	14,032,000
Net unrealized appreciation (depreciation)	(130,762,497)
Accumulated net realized gain (loss)	(20,534,245)

Net assets, at value	\$ 666,937,880
	=====

</TABLE>

The accompanying notes are an integral part of these financial statements.

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Mutual Financial Services Fund

FINANCIAL STATEMENTS (CONTINUED)

STATEMENT OF ASSETS AND LIABILITIES (CONTINUED)

June 30, 2008 (unaudited)

<TABLE>

<S>	<C>
CLASS Z:	
Net assets, at value	\$130,860,287

Shares outstanding	8,998,663

Net asset value and maximum offering price per share(a)	\$ 14.54

CLASS A:	
Net assets, at value	\$366,468,337

Shares outstanding	25,201,832

Net asset value per share(a)	\$ 14.54

Maximum offering price per share (net asset value per share / 94.25%)	\$ 15.43

CLASS B:	
Net assets, at value	\$ 20,143,221

Shares outstanding	1,423,554

Net asset value and maximum offering price per share(a)	\$ 14.15

CLASS C:	
Net assets, at value	\$149,466,035

Shares outstanding	10,373,119

Net asset value and maximum offering price per share(a)	\$ 14.41

</TABLE>

(a) Redemption price is equal to net asset value less contingent deferred

sales, if applicable, and redemption fees retained by the fund.

The accompanying notes are an integral part of these financial statements.

Mutual Financial Services Fund

FINANCIAL STATEMENTS (CONTINUED)

STATEMENT OF OPERATIONS

for the six months ended June 30, 2008 (unaudited)

<TABLE>

<S>	<C>
Investment income:	
Dividends (net of foreign taxes of \$2,053,604)	\$ 18,901,913
Interest	1,914,894
Income from securities loaned	288,008

Total investment income	21,104,815

Expenses:	
Management fees (Note 3a)	2,956,632
Administrative fees (Note 3b)	280,947
Distribution fees: (Note 3c)	
Class A	600,910
Class B	124,274
Class C	825,381
Transfer agent fees (Note 3e)	672,394
Custodian fees (Note 4)	98,576
Reports to shareholders	63,637
Registration and filing fees	44,403
Professional fees	53,715
Trustees' fees and expenses	7,150
Dividends on securities sold short	49,803
Other	14,148

Total expenses	5,791,970
Expense reductions (Note 4)	(3,015)

Net expenses	5,788,955

Net Investment Income	15,315,860

Realized and unrealized gains (losses):	
Net realized gain (loss) from:	
Investments:	
Unaffiliated issuers	8,226,326
Non-controlled affiliated issuers (Note 10)	(2,565,160)
Written options	34,696
Foreign currency transactions	(28,660,345)

Net realized gain (loss)	(22,964,483)

Net change in unrealized appreciation (depreciation) on:	
Investments	(181,665,542)
Translation of assets and liabilities denominated in foreign currencies	1,339,215

Net change in unrealized appreciation (depreciation)	(180,326,327)

Net realized and unrealized gain (loss)	(203,290,810)

Net increase (decrease) in net assets resulting from operations	\$ (187,974,950)

</TABLE>

The accompanying notes are an integral part of these financial statements.

Mutual Financial Services Fund

FINANCIAL STATEMENTS (CONTINUED)

STATEMENTS OF CHANGES IN NET ASSETS

<TABLE>
<CAPTION>

	SIX MONTHS ENDED JUNE 30, 2008 (UNAUDITED)	YEAR ENDED DECEMBER 31, 2007
<S>	<C>	<C>
Increase (decrease) in net assets:		
Operations:		
Net investment income	\$ 15,315,860	\$ 19,077,293
Net realized gain (loss) from investments, written options, synthetic equity swaps, and foreign currency transactions	(22,964,483)	48,246,026
Net change in unrealized appreciation (depreciation) on investments and translation of assets and liabilities denominated in foreign currencies	(180,326,327)	(158,541,852)
Net increase (decrease) in net assets resulting from operations	(187,974,950)	(91,218,533)
Distributions to shareholders from:		
Net investment income:		
Class Z	--	(5,237,527)
Class A	--	(12,467,378)
Class B	--	(613,237)
Class C	--	(3,628,332)
Net realized gains:		
Class Z	--	(12,010,868)
Class A	--	(32,373,433)
Class B	--	(2,369,277)
Class C	--	(13,398,613)
Total distributions to shareholders	--	(82,098,665)
Capital share transactions: (Note 2)		
Class Z	2,965,355	(14,311,619)
Class A	27,288,797	(23,031,413)
Class B	(4,167,910)	(8,804,710)
Class C	8,312,159	(3,068,654)
Total capital share transactions	34,398,401	(49,216,396)
Redemption fees	5,351	10,203
Net increase (decrease) in net assets	(153,571,198)	(222,523,391)
Net assets:		
Beginning of period	820,509,078	1,043,032,469
End of period	\$ 666,937,880	\$ 820,509,078
Undistributed net investment income (distributions in excess of net investment income) included in net assets:		
End of period	\$ 14,032,000	\$ (1,283,860)

</TABLE>

The accompanying notes are an integral part of these financial statements.

Mutual Financial Services Fund

NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Franklin Mutual Series Funds (Trust) is registered under the Investment Company Act of 1940, as amended, (1940 Act) as an open-end investment company, consisting of six separate funds. The Mutual Financial Services Fund (Fund) included in this report is diversified. The financial statements of the remaining funds in the Trust are presented separately. The Fund offers four classes of shares: Class Z, Class A, Class B, and Class C. Each class of shares differs by its initial sales load, contingent deferred sales charges, distribution fees, voting rights on matters affecting a single class and its exchange privilege.

The following summarizes the Fund's significant accounting policies.

A. SECURITY VALUATION

Securities listed on a securities exchange or on the NASDAQ National Market System are valued at the last quoted sale price or the official closing price of the day, respectively. Over-the-counter securities and listed securities for which there is no reported sale are valued within the range of the most recent quoted bid and ask prices. Securities that trade in multiple markets or on multiple exchanges are valued according to the broadest and most representative market. Investments in open-end mutual funds are valued at the closing net asset value.

Corporate debt securities and government securities generally trade in the over-the-counter market rather than on a securities exchange. The Trust may utilize independent pricing services, quotations from bond dealers, and information with respect to bond and note transactions, to assist in determining a current market value for each security. The Trust's pricing services may use valuation models or matrix pricing which considers information with respect to comparable bond and note transactions, quotations from bond dealers, or by reference to other securities that are considered comparable in such characteristics as rating, interest rate and maturity date, option adjusted spread models, prepayment projections, interest rate spreads and yield curves, to determine current value.

Foreign securities are valued as of the close of trading on the foreign stock exchange on which the security is primarily traded, or the NYSE, whichever is earlier. 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. The value is then converted into its U.S. dollar equivalent at the foreign exchange rate in effect at the close of the NYSE on the day that the value of the foreign security is determined.

The Trust has procedures to determine the fair value of individual securities and other assets for which market prices are not readily available or which may not be reliably priced. Methods for valuing these securities may include: fundamental analysis, 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. Due to the inherent uncertainty of valuations of such securities, the fair values may differ significantly from the values that would have been used had a ready market for such investments existed. Occasionally, events occur between the time at which trading in a security is completed and the close of the NYSE that might call into question the availability (including the reliability) of the value of a portfolio security held by the Fund.

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Mutual Financial Services Fund

NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. SECURITY VALUATION (CONTINUED)

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 Depository 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. If such an event occurs, the securities may be valued using fair value procedures, which may include the use of independent pricing services. All security valuation procedures are approved by the Trust's Board of Trustees.

B. FOREIGN CURRENCY TRANSLATION

Portfolio securities and other assets and liabilities denominated in foreign currencies are translated into U.S. dollars based on the exchange rate of such currencies against U.S. dollars on the date of valuation. Purchases and sales of securities, income and expense items denominated in foreign currencies are translated into U.S. dollars at the exchange rate in effect on the transaction date. Occasionally, events 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 Trust's Board of Trustees.

The Fund does not separately report the effect of changes in foreign exchange rates from changes in market prices on securities held. Such changes are included in net realized and unrealized gain or loss from investments on the Statement of Operations.

Realized foreign exchange gains or losses arise from sales of foreign

currencies, currency gains or losses realized between the trade and settlement dates on securities transactions and the difference between the recorded amounts of dividends, interest, and foreign withholding taxes and the U.S. dollar equivalent of the amounts actually received or paid. Net unrealized foreign exchange gains and losses arise from changes in foreign exchange rates on foreign denominated assets and liabilities other than investments in securities held at the end of the reporting period.

C. FOREIGN CURRENCY CONTRACTS

When the Fund purchases or sells foreign securities it may enter into foreign exchange contracts to minimize foreign exchange risk from the trade date to the settlement date of the transactions. A foreign exchange contract is an agreement between two parties to exchange different currencies at an agreed upon exchange rate at a future date. Realized and unrealized gains and losses on these contracts are included in the Statement of Operations.

The Fund may also enter into forward exchange contracts to hedge against fluctuations in foreign exchange rates. These contracts are valued daily by the Fund and the unrealized gains or losses on the contracts, as measured by the difference between the contractual forward foreign exchange rates and the forward rates at the reporting date, are included in the Statement of Assets and Liabilities. Realized and unrealized gains and losses on these contracts are included in the Statement of Operations.

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Mutual Financial Services Fund

NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. FOREIGN CURRENCY CONTRACTS (CONTINUED)

The risks of these contracts include movement in the values of the foreign currencies relative to the U.S. dollar and the possible inability of the counterparties to fulfill their obligations under the contracts, which may be in excess of the amount reflected in the Statement of Assets and Liabilities.

D. SYNTHETIC EQUITY SWAPS

The Fund may engage in synthetic equity swaps. Synthetic equity swaps are contracts entered into between a broker and the Fund under which the parties agree to make payments to each other so as to replicate the economic consequences that would apply had a purchase or short sale of the underlying security taken place. Upon entering into synthetic equity swaps, the Fund is required to pledge to the broker an amount of cash and/or other assets equal to a certain percentage of the contract amount (margin account). Periodically, payments are made to recognize changes in value of the contract resulting from interest on the notional value of the contract, market value changes in the underlying security, and/or dividends paid by the issuer of the underlying security. The Fund recognizes a realized gain or loss when cash is received from, or paid to, the broker. Synthetic equity swaps are valued daily by the Fund and the unrealized gains or losses on the contracts (as measured by the difference between the contract amount plus or minus cash received or paid and the market value of the underlying securities) are recorded in the Statement of Operations. The margin account and any net unrealized gains or losses on open synthetic equity swaps are included in the Statement of Assets and Liabilities. The risks of entering into synthetic equity swaps include unfavorable price movements in the underlying securities or the inability of the counterparties to fulfill their obligations under the contract.

E. OPTIONS

The Fund may purchase or write options. Options are contracts entitling the holder to purchase or sell securities, currencies, or other financial instruments at a specified price or exchange rate, or, in the case of index options, to receive or pay the difference between the index value and the strike price of the index option. Options purchased are recorded as investments; options written (sold) are recorded as liabilities. Upon closing of an option which results in a cash settlement, the difference between the premium (original option value) and the settlement proceeds is realized as a gain or loss. When securities are acquired or delivered upon exercise of an option, the acquisition cost or sale proceeds are adjusted by the amount of the premium. When an option expires, the premium is realized as a gain for options written or as a loss for options purchased. The risks include the possibility there may be an illiquid options market or the inability of the counterparties to fulfill their obligations under the contract. Writing options involves, to varying degrees, elements of market risk in excess of the amount recognized in the Statement of Assets and Liabilities.

Mutual Financial Services Fund

NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. SECURITIES SOLD SHORT

The Fund may engage in selling securities short, which obligates the Fund to replace a borrowed security with the same security at current market value. The Fund incurs a loss if the price of the security increases between the date of the short sale and the date on which the Fund replaces the borrowed security. The Fund realizes a gain if the price of the security declines between those dates. Gains are limited to the price at which the Fund sold the security short, while losses are potentially unlimited in size.

The Fund is required to establish a margin account with the broker lending the security sold short. While the short sale is outstanding, the broker retains the proceeds of the short sale and the Fund must maintain a deposit with broker consisting of cash and securities having a value equal to a specified percentage of the value of the securities sold short. The Fund is obligated to pay the counterparty any dividends or interest due on securities sold short. Such dividends and interest are recorded as an expense to the Fund.

G. SECURITIES LENDING

The Fund may loan securities to certain brokers through a securities lending agent for which it receives initial cash collateral against the loaned securities in an amount equal to at least 102% of the market value of the loaned securities. Collateral is maintained over the life of the loan in an amount not less than 100% of the market value of loaned securities, as determined at the close of fund business each day; any additional collateral required due to changes in security values is delivered to the Fund on the next business day. The collateral is invested in short-term instruments as noted in the Statement of Investments. The Fund receives interest income from the investment of cash collateral, adjusted by lender fees and broker rebates. The Fund bears the risk of loss with respect to the investment of the collateral and the securities loaned. The securities lending agent has agreed to indemnify the Fund in the case of default of any securities borrower.

H. INCOME TAXES

No provision has been made for U.S. income taxes because it is the Fund's policy to qualify as a regulated investment company under the Internal Revenue Code and to distribute to shareholders substantially all of its taxable income and net realized gains.

Foreign securities held by the Fund may be subject to foreign taxation on dividend and interest income received. Foreign taxes, if any, are recorded based on the tax regulations and rates that exist in the foreign markets in which the Fund invests.

The Fund has reviewed the tax positions taken on federal income tax returns, for each of the three open tax years and as of June 30, 2008, and has determined that no provision for income tax is required in the Fund's financial statements.

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Mutual Financial Services Fund

NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. SECURITY TRANSACTIONS, INVESTMENT INCOME, EXPENSES AND DISTRIBUTIONS

Security transactions are accounted for on trade date. Realized gains and losses on security transactions are determined on a specific identification basis. Interest income and estimated expenses are accrued daily. Amortization of premium and accretion of discount on debt securities are included in interest income. Dividend income and dividends declared on securities sold short are recorded on the ex-dividend date except that certain dividends from foreign securities are recognized as soon as the Fund is notified of the ex-dividend date. Distributions to shareholders are recorded on the ex-dividend date and are determined according to income tax regulations (tax basis). Distributable earnings determined on a tax basis may differ from earnings recorded in accordance with accounting principles generally accepted in the United States of America. These differences may be permanent or temporary. Permanent differences

are reclassified among capital accounts to reflect their tax character. These reclassifications have no impact on net assets or the results of operations. Temporary differences are not reclassified, as they may reverse in subsequent periods.

Common expenses incurred by the Trust are allocated among the funds based on the ratio of net assets of each fund to the combined net assets of the Trust. Fund specific expenses are charged directly to the fund that incurred the expense.

Realized and unrealized gains and losses and net investment income, other than class specific expenses, are allocated daily to each class of shares based upon the relative proportion of net assets of each class. Differences in per share distributions, by class, are generally due to differences in class specific expenses.

J. ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

K. REDEMPTION FEES

A short term trading redemption fee will be imposed, with some exceptions, on any Fund shares that are redeemed or exchanged within seven calendar days following their purchase date. The redemption fee is 2% of the amount redeemed. Such fees are retained by the Fund and accounted for as an addition to paid-in capital.

Mutual Financial Services Fund

NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1. GUARANTEES AND INDEMNIFICATIONS

Under the Trust's organizational documents, its officers and trustees are indemnified by the Trust against certain liabilities arising out of the performance of their duties to the Trust. Additionally, in the normal course of business, the Trust, on behalf of the Fund, enters into contracts with service providers that contain general indemnification clauses. The Trust's maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Trust that have not yet occurred. Currently, the Trust expects the risk of loss to be remote.

2. SHARES OF BENEFICIAL INTEREST

At June 30, 2008, there were an unlimited number of shares authorized (without par value). Transactions in the Fund's shares were as follows:

<TABLE>
<CAPTION>

	SIX MONTHS ENDED JUNE 30, 2008		YEAR ENDED DECEMBER 31, 2007	
	SHARES	AMOUNT	SHARES	AMOUNT
<S>	<C>	<C>	<C>	<C>
CLASS Z SHARES:				
Shares sold.....	1,035,660	\$ 17,328,087	1,142,965	\$ 25,747,515
Shares issued in reinvestment of distributions	--	--	798,044	15,799,592
Shares redeemed.....	(865,484)	(14,362,732)	(2,578,954)	(55,858,726)
Net increase (decrease).....	170,176	\$2,965,355	(637,945)	\$ (14,311,619)
CLASS A SHARES:				
Shares sold.....	6,926,145	\$115,421,114	8,273,263	\$ 185,555,532
Shares issued in reinvestment of distributions	--	--	2,082,149	41,350,983
Shares redeemed.....	(5,315,394)	(88,132,317)	(11,440,654)	(249,937,928)
Net increase (decrease).....	1,610,751	\$ 27,288,797	(1,085,242)	\$ (23,031,413)
CLASS B SHARES:				
Shares sold.....	77,692	\$ 1,300,041	91,173	\$ 1,940,538
Shares issued in reinvestment of				

distributions	--	--	141,355	2,759,025
Shares redeemed.....	(338,068)	(5,467,951)	(636,193)	(13,504,273)
Net increase (decrease).....	(260,376)	\$ (4,167,910)	(403,665)	\$ (8,804,710)
CLASS C SHARES:				
Shares sold.....	2,059,014	\$ 34,009,706	2,125,234	\$ 47,085,730
Shares issued in reinvestment of distributions	--	--	769,413	15,205,291
Shares redeemed.....	(1,564,106)	(25,697,547)	(3,045,901)	(65,359,675)
Net increase (decrease).....	494,908	\$ 8,312,159	(151,254)	\$ (3,068,654)

</TABLE>

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Mutual Financial Services Fund

NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

3. TRANSACTIONS WITH AFFILIATES

Franklin Resources, Inc. is the holding company for various subsidiaries that together are referred to as Franklin Templeton Investments. Certain officers and trustees of the Trust are also officers and/or directors of the following subsidiaries:

SUBSIDIARY	AFFILIATION
Franklin Mutual Advisers, LLC (Franklin Mutual)	Investment manager
Franklin Templeton Services, LLC (FT Services)	Administrative manager
Franklin Templeton Distributors, Inc. (Distributors)	Principal underwriter
Franklin Templeton Investor Services, LLC (Investor Services)	Transfer agent

A. MANAGEMENT FEES

The Fund pays an investment management fee to Franklin Mutual based on the average daily net assets of the Fund as follows:

ANNUALIZED FEE RATE	NET ASSETS
0.800%	Up to and including \$1 billion
0.770%	Over \$1 billion, up to and including \$2 billion
0.750%	Over \$2 billion, up to and including \$5 billion
0.730%	In excess of \$5 billion

B. ADMINISTRATIVE FEES

The Fund pays its allocated share of an administrative fee to FT Services based on the Trust's aggregate average daily net assets as follows:

ANNUALIZED FEE RATE	NET ASSETS
0.150%	Up to and including \$200 million
0.135%	Over \$200 million, up to and including \$700 million
0.100%	Over \$700 million, up to and including \$1.2 billion
0.075%	In excess of \$1.2 billion

C. DISTRIBUTION FEES

The Fund's Board of Trustees has adopted distribution plans for each share class, with the exception of Class Z shares, pursuant to Rule 12b-1 under the 1940 Act. Under the Fund's Class A reimbursement distribution plan, the Fund reimburses Distributors for costs incurred in connection with the servicing, sale and distribution of the Fund's shares up to the maximum annual plan rate. Under the Class A reimbursement distribution plan, costs exceeding the maximum for the current plan year cannot be reimbursed in subsequent periods.

In addition, under the Fund's Class B and C compensation distribution plans, the Fund pays Distributors for costs incurred in connection with the servicing, sale and distribution of the Fund's shares up to the maximum annual plan rate for each class.

Mutual Financial Services Fund

NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

3. TRANSACTIONS WITH AFFILIATES (CONTINUED)

The maximum annual plan rates, based on the average daily net assets, for each class, are as follows:

<TABLE>	
<S>	<C>
Class A	0.35%
Class B	1.00%
Class C	1.00%
</TABLE>	

D. SALES CHARGES/UNDERWRITING AGREEMENTS

Distributors has advised the Fund of the following commission transactions related to the sales and redemptions of the Fund's shares for the period:

<TABLE>	
<S>	<C>
Sales charges retained net of commissions paid to unaffiliated broker/dealers	\$220,337
Contingent deferred sales charges retained	\$ 31,572
</TABLE>	

E. TRANSFER AGENT FEES

For the period ended June 30, 2008, the Fund paid transfer agent fees of \$672,394, of which \$389,827 was retained by Investor Services.

4. EXPENSE OFFSET ARRANGEMENT

The Fund has entered into an arrangement with its custodian whereby credits realized as a result of uninvested cash balances are used to reduce a portion of the Fund's custodian expenses. During the period ended June 30, 2008, the custodian fees were reduced as noted in the Statement of Operations.

5. INCOME TAXES

For tax purposes, realized currency losses, occurring subsequent to October 31, may be deferred and treated as occurring on the first day of the following fiscal year. At December 31, 2007, the Fund deferred realized currency losses of \$42,256.

At June 30, 2008, the cost of investments and net unrealized appreciation (depreciation), for income tax purposes were as follows:

<TABLE>	
<S>	<C>
Cost of investments	\$ 795,212,006

Unrealized appreciation	\$ 54,814,318
Unrealized depreciation	(185,076,280)

Net unrealized appreciation (depreciation)	\$ (130,261,962)
	=====
</TABLE>	

Net investment income (loss) differs for financial statement and tax purposes primarily due to different treatments of foreign currency transactions, passive foreign investment company shares, pass-through entity income, bond discounts and premiums, and synthetic equity swaps.

Mutual Financial Services Fund

NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

5. INCOME TAXES (CONTINUED)

Net realized gains (losses) differ for financial statement and tax purposes primarily due to differing treatments of wash sales, foreign currency transactions, passive foreign investment company shares, pass-through entity income, bond discounts and premiums, and synthetic equity swaps.

6. INVESTMENT TRANSACTIONS

Purchases and sales of investments (excluding short term securities and security sold short) for the period ended June 30, 2008, aggregated \$78,861,704 and \$111,374,577, respectively.

Transactions in options written during the period ended June 30, 2008, were as follows:

	NUMBER OF CONTRACTS	PREMIUMS RECEIVED
	-----	-----
<S>	<C>	<C>
Options outstanding at December 31, 2007	304	\$ 34,696
Options written	2,540	219,688
Options expired	(304)	(34,696)
Options exercised	--	--
Options closed	--	--
	-----	-----
Options outstanding at June 30, 2008	2,540	\$219,688
	=====	=====

7. FORWARD EXCHANGE CONTRACTS

At June 30, 2008, the Fund had the following forward exchange contracts outstanding:

		CONTRACT AMOUNT	SETTLEMENT DATE	UNREALIZED GAIN	UNREALIZED LOSS
		-----	-----	-----	-----
<S>		<C>	<C>	<C>	<C>
CONTRACTS TO BUY					
2,745,386	Swiss Franc	\$ 2,660,000	7/07/08	\$ 27,851	\$ --
480,000	British Pound Sterling ...	951,072	9/10/08	--	(59)
12,868,740	Danish Krone	2,700,000	10/23/08	51	--
10,149,108	Euro	888,686	12/15/08	--	(9,626)
CONTRACTS TO SELL					
23,695,926	Swiss Franc	22,917,133	7/07/08	--	(282,195)
23,166,829	Euro	36,444,768	7/14/08	27,423	(33,790)
17,380,000	Euro	25,570,157	7/25/08	--	(1,759,767)
31,630,754	Euro	48,867,819	8/13/08	--	(823,147)
18,896,480	British Pound Sterling ...	36,980,412	9/10/08	--	(455,927)
213,782,951	Swedish Krona	34,929,510	9/16/08	--	(404,704)
7,291,423	Australian Dollar	6,759,149	9/17/08	--	(153,852)
1,436,594,377	Japanese Yen	14,739,857	9/19/08	1,147,496	--
25,000,000	Euro	38,906,160	9/24/08	--	(284,155)
6,000,000	Euro	9,277,500	10/14/08	--	(118,289)
73,529,024	Danish Krone	15,166,878	10/23/08	--	(259,746)
29,291,380	Euro	45,643,254	11/13/08	--	(153,416)

Mutual Financial Services Fund

NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

7. FORWARD EXCHANGE CONTRACTS (CONTINUED)

		CONTRACT AMOUNT	SETTLEMENT DATE	UNREALIZED GAIN	UNREALIZED LOSS
		-----	-----	-----	-----
<S>		<C>	<C>	<C>	<C>
CONTRACTS TO SELL (CONTINUED)					
120,964,475	Norwegian Krone	\$23,392,859	11/19/08	\$ --	\$ (28,346)
7,569,477	New Zealand Dollar	5,639,260	12/10/08	24,109	--
7,775,284	Euro	11,984,823	12/15/08	--	(151,237)

Unrealized gain (loss) on forward exchange contracts	1,226,930	(4,918,256)
NET UNREALIZED LOSS ON FORWARD EXCHANGE CONTRACTS		\$ (3,691,326)

</TABLE>

8. RESTRICTED SECURITIES

The Fund may invest in securities that are restricted under the Securities Act of 1933 (1933 Act) or which are subject to legal, contractual, or other agreed upon restrictions on resale. Restricted securities are often purchased in private placement transactions, and cannot be sold without prior registration unless the sale is pursuant to an exemption under the 1933 Act. Disposal of these securities may require greater effort and expense, and prompt sale at an acceptable price may be difficult. The Fund may have registration rights for restricted securities. The issuer generally incurs all registration costs.

At June 30, 2008, the Fund held investments in restricted securities, excluding 144A securities deemed to be liquid, valued in accordance with procedures approved by the Trust's Board of Trustees as reflecting fair value, as follows:

PRINCIPAL AMOUNT/ SHARES	ISSUER	ACQUISITION DATES	COST	VALUE
<S>	<C>	<C>	<C>	<C>
350,000	Atlantic Banc Holdings Inc.	2/01/07	\$3,500,000	\$3,500,000
10,745	Augsburg Re AG	5/25/06	10,745	--
123,572	Augsburg Re AG, zero cpn., 8/31/08	5/25/06	123,572	--
1,139,363	Cerberus CG Investor I LLC	6/17/08	1,139,363	593,279
1,000,000	Cerberus CG Investor I LLC, 12.00%, 7/31/14	7/26/07	1,000,000	520,711
1,139,363	Cerberus CG Investor II LLC	6/17/08	1,139,363	593,279
1,000,000	Cerberus CG Investor II LLC, 12.00%, 7/31/14	7/26/07	1,000,000	520,711
569,682	Cerberus CG Investor III LLC	6/17/08	569,682	296,640
500,000	Cerberus CG Investor III LLC, 12.00%, 7/31/14	7/26/07	500,000	260,355
1,255,339	Cerberus FIM Investors Auto Finance LLC	11/20/06	1,255,339	418,777
3,763,457	Cerberus FIM investors Auto Finance LLC, 12.00%, 11/22/13	11/21/06	3,763,457	1,255,478
104,566	Cerberus FIM Investors Commercial Finance LLC	11/20/06	104,566	34,883
313,698	Cerberus FIM Investors Commercial Finance LLC, 12.00%, 11/22/13	11/20/06	313,698	104,649

</TABLE>

Mutual Financial Services Fund

NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

8. RESTRICTED SECURITIES (CONTINUED)

PRINCIPAL AMOUNT/ SHARES	ISSUER	ACQUISITION DATES	COST	VALUE
<S>	<C>	<C>	<C>	<C>
195,993	Cerberus FIM Investors Commercial Mortgage LLC	11/20/06	\$ 195,993	\$ 65,383
587,978	Cerberus FIM Investors Commercial Mortgage LLC, 12.00%, 11/22/13	11/20/06	587,978	196,148
958,613	Cerberus FIM investors Insurance LLC	11/20/06	958,613	319,790
2,875,838	Cerberus FIM investors Insurance LLC, 12.00%, 11/22/13	11/20/06	2,875,838	959,371
1,784,739	Cerberus FIM investors Rescap LLC	11/20/06	1,784,739	595,383
5,354,217	Cerberus FIM investors Rescap LLC, 12.00%, 11/22/13	11/20/06	5,354,217	1,786,150
5,268	Elephant Capital Holdings Ltd.	8/29/03 - 3/10/08	689,942	569,717
496,868	First Chicago Bancorp	11/16/06	6,956,152	6,956,152
551,589	Imagine Group Holdings Ltd.	8/31/04	5,649,099	6,745,933
25,741	NCB Warrant Holdings Ltd., A	12/16/05 - 3/10/08	271,013	251,620
7,480	Olympus Re Holdings Ltd.	12/19/01	736,314	22,616

888,673	Pontus I LLC, junior note, 144A, FRN, 5.685%, 7/24/09	2/25/08	888,673	1,066,889
983,856	5.231%, 7/24/09	1/22/08	983,856	844,218
865,518	6.475%, 7/24/09	2/12/08	865,518	744,317
432,803	Pontus II Trust, junior note, 144A, FRN, 6.475%, 6/25/09	2/29/08	432,803	372,196
968,500	Star Asia Finance Ltd., 144A	2/22/07 - 5/18/07	9,836,925	2,518,100
1,020,510	Symetra Financial	7/27/04	11,730,000	13,327,860
456,903	The Bankshares Inc.	3/22/07	4,569,030	4,569,030
TOTAL RESTRICTED SECURITIES (7.50% of Net Assets)				\$50,009,635

</TABLE>

9. UNFUNDED CAPITAL COMMITMENTS

At June 30, 2008, the Fund had aggregate unfunded capital commitments to investments of \$401,591.

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Mutual Financial Services Fund

NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

10. HOLDINGS OF 5% VOTING SECURITIES OF PORTFOLIO COMPANIES

The 1940 Act defines "affiliated companies" to include investments in portfolio companies in which a fund owns 5% or more of the outstanding voting securities. Investments in "affiliated companies" for the Fund for the period ended June 30, 2008, were as shown below.

<TABLE>

<CAPTION>

NAME OF ISSUER	NUMBER OF SHARES HELD AT BEGINNING OF PERIOD	GROSS ADDITIONS	GROSS REDUCTIONS	NUMBER OF SHARES HELD AT END OF PERIOD	VALUE AT END OF PERIOD	INVESTMENT INCOME	REALIZED CAPITAL GAIN (LOSS)
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
NON-CONTROLLED AFFILIATES							
Alliance Bank & Trust Co ..	226,100	--	--	226,100	\$ 1,480,955	\$--	\$ --
Atlantic Banc Holdings	350,000	--	--	350,000	3,500,000	--	--
Franconofurt AG	499,260	--	438,375	60,885	-- (a)	--	(2,565,160)
Protector Forsikring ASA ..	4,360,410	--	--	4,360,410	5,908,879	--	--
TOTAL NON-CONTROLLED AFFILIATES (1.63% of Net Assets)					\$10,889,834	\$--	\$(2,565,160)

</TABLE>

(a) As of June 30, 2008, no longer an affiliate.

11. REORGANIZATION TO A DELAWARE STATEMENT TRUST

On April 11, 2007, the Board and shareholders approved an Agreement and Plan of Reorganization whereby the investment company would be reorganized and its domicile changed from a Maryland corporation to a Delaware statutory trust. In connection with these changes, the Trust's name was also changed to Franklin Mutual Series Funds, formerly known as the Franklin Mutual Series Funds, Inc. The reorganization became effective on May 1, 2008.

12. FAIR VALUE MEASUREMENTS

The Fund adopted Financial Accounting Standards Board (FASB) issued FASB Statement No. 157, "Fair Value Measurement" (SFAS 157), on January 1, 2008. SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The Fund has determined that the implementation of SFAS 157 did not have a material impact on the Fund's financial statements.

SFAS 157 establishes a fair value hierarchy that distinguishes between market data obtained from independent sources (observable inputs) and the Trust's own market assumptions (unobservable inputs). These inputs are used in determining the value of the Fund's investments and are summarized in the following fair value hierarchy:

- Level 1 - quoted prices in active markets for identical securities
- Level 2 - other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speed, credit risk, etc.)
- Level 3 - significant unobservable inputs (including the Fund's own

Mutual Financial Services Fund

NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

12. FAIR VALUE MEASUREMENTS (CONTINUED)

The inputs or methodology used for valuing securities are not an indication of the risk associated with investing in those securities.

The following is a summary of the inputs used as of June 30, 2008, in valuing the Fund's assets and liabilities carried at fair value:

<TABLE>
<CAPTION>

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
ASSETS:				
Investments in Securities	\$518,912,833	\$92,890,486	\$53,146,725	\$664,950,044
Other Financial Instruments(a) ...	--	1,226,930	--	1,226,930
LIABILITIES:				
Options Written	76,200	--	--	76,200
Other Financial Instruments(a) ...	--	4,918,256	--	4,918,256

</TABLE>

(a) Other financial instruments may include net unrealized appreciation (depreciation) of futures, forward exchange contracts, swaps and unfunded loan commitments.

At June 30, 2008, the reconciliation of assets in which significant unobservable inputs (Level 3) were used in determining fair value, is as follows:

<TABLE>
<CAPTION>

	INVESTMENTS IN SECURITIES

<S>	<C>
Beginning Balance - January 1, 2008	\$ 65,170,199
Net realized gain (loss)	--
Net change in unrealized appreciation (depreciation) ..	(17,019,719)
Net purchases (sales)	4,996,245
Transfers in and/or out of Level 3	--
Ending Balance	\$ 53,146,725
	=====
Net change in unrealized appreciation (depreciation) attributable to assets still held at end of period	\$(17,019,719)
	=====

</TABLE>

13. NEW ACCOUNTING PRONOUNCEMENT

In March 2008, FASB issued FASB Statement No. 161, "Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133" (SFAS 161), which expands disclosures about derivative investments and hedging activities. SFAS 161 is effective for fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. The Fund is currently evaluating the impact, if any, of applying the various provisions of SFAS 161.

Mutual Financial Services Fund

SHAREHOLDER INFORMATION

BOARD REVIEW OF INVESTMENT MANAGEMENT AGREEMENT

The Board of Trustees (Board), including a majority of the independent trustees, in 2008, approved renewal of the Fund's investment management agreement, as well as the Fund's administrative services agreement. Prior to a meeting of all the trustees for the purpose of considering such renewals, the independent trustees

held three meetings solely dedicated to the renewal process (those trustees unable to attend in person were present by telephonic conference means). Throughout the process, the independent trustees received assistance and advice from and met separately with independent counsel. The independent trustees met with and interviewed officers of the investment manager (including portfolio managers), the transfer agent and shareholder services group and the distributor. In approving the renewal of the investment management agreement and the administrative services agreement for the Fund, the Board, including a majority of independent trustees, determined that the existing investment management fee structure was fair and reasonable and that continuance of the agreements was in the best interests of the Fund and its shareholders.

In reaching their decision on the investment management agreement (as well as the administrative services agreement), the trustees took into account information furnished throughout the year at regular Board meetings, as well as information specifically requested and furnished for the renewal process, which culminated in the meetings referred to above for the specific purpose of considering such agreements. Information furnished throughout the year included, among others, reports on the Fund's investment performance, expenses, portfolio composition, portfolio brokerage execution, soft dollars, derivatives, securities lending, portfolio turnover, Rule 12b-1 plans, distribution, shareholder servicing, compliance, pricing of securities and sales and redemptions, along with related financial statements and other information about the scope and quality of services provided by the investment manager and its affiliates and enhancements to such services over the past year. In addition, the trustees received periodic reports throughout the year and during the renewal process relating to compliance with the Fund's investment policies and restrictions. During the renewal process, the independent trustees considered the investment manager's methods of operation within the Franklin Templeton group and its activities on behalf of other clients.

The information obtained by the trustees during the renewal process also included a special report prepared by Lipper, Inc. (Lipper), an independent third-party analyst, comparing the Fund's investment performance and expenses with those of other mutual funds deemed comparable to the Fund as selected by Lipper (Lipper Section 15(c) Report). The trustees reviewed the Lipper Section 15(c) Report and its usefulness in the renewal process with respect to matters such as comparative fees, expenses, expense ratios, performance and volatility. They concluded that the report continues to be a reliable resource in the performance of their duties. In addition, the trustees received and reviewed a report on the investment manager's (and its parent's) profitability (Profitability Study). Over the past year, the Board and counsel to the independent trustees continued to receive reports on management's handling of recent regulatory actions and pending legal actions against the investment manager and its affiliates. The independent trustees were satisfied with the actions taken to date by management in response to such regulatory and legal proceedings.

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Mutual Financial Services Fund

SHAREHOLDER INFORMATION (CONTINUED)

BOARD REVIEW OF INVESTMENT MANAGEMENT AGREEMENT (CONTINUED)

In addition to the above and other matters considered by the trustees throughout the course of the year, the following discussion relates to certain primary factors relevant to the Board's decision.

NATURE, EXTENT AND QUALITY OF SERVICES. The trustees reviewed the nature, extent and quality of the services provided by the investment manager. In this regard, they reviewed the Fund's investment approach and concluded that, in their view, it continues to differentiate the Fund from typical core investment products in the mutual fund field. The trustees cited the investment manager's ability to implement the Fund's disciplined value investment approach and its long-term relationship with the Fund as reasons that shareholders choose to invest, and remain invested, in the Fund. The trustees reviewed the Fund's portfolio management team, including its performance, staffing, skills and compensation program. With respect to portfolio manager compensation, management assured the trustees that the Fund's long-term performance is a significant component of incentive-based compensation. The trustees noted that the portfolio manager compensation program aligned the interests of the portfolio managers with that of Fund shareholders. The trustees discussed with management various other products, portfolios and entities that are advised by the investment manager and the allocation of assets and expenses among and within them, as well as their relative fees and reasons for differences with respect thereto and any potential conflicts. During regular Board meetings and the aforementioned meetings of the independent trustees, the trustees received reports and presentations on the investment manager's best execution trading policies. The trustees considered periodic reports provided to them showing that the investment manager complied with the investment policies and restrictions of the Fund as well as other reports periodically furnished to the Board covering matters such as the

compliance of portfolio managers and other management personnel with the code of ethics covering the investment management personnel, the adherence to fair value pricing procedures established by the Board and the accuracy of net asset value calculations. The Board noted the extent of the benefits provided to Fund shareholders from being part of the Franklin Templeton group, including the right to exchange investments between funds (same class) without a sales charge, the ability to reinvest Fund dividends into other funds and the right to combine holdings of other funds to obtain reduced sales charges. The trustees considered the significant recent efforts to develop, test and implement compliance procedures established in accordance with SEC requirements. They also reviewed the nature, extent and quality of the Fund's other service agreements to determine that, on an overall basis, Fund shareholders were well served. In this connection, the Board also took into account administrative and transfer agent and shareholder services provided to Fund shareholders by an affiliate of the investment manager, noting continuing expenditures by management to increase and improve the scope of such services, favorable periodic reports on shareholder services conducted by independent third parties and the firsthand experience of individual trustees who deal with the shareholder services group in their capacities as shareholders in one or more of the various Franklin Templeton funds. While such considerations directly affected the trustees' decision in renewing the Fund's administrative services and transfer agent and shareholder services agreement, the Board also considered these commitments as incidental benefits to Fund shareholders deriving from the investment management relationship.

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Mutual Financial Services Fund

SHAREHOLDER INFORMATION (CONTINUED)

BOARD REVIEW OF INVESTMENT MANAGEMENT AGREEMENT (CONTINUED)

Based on their review, the trustees were satisfied with the nature and quality of the overall services provided by the investment manager and its affiliates to the Fund and its shareholders and were confident in the abilities of the management team to continue the disciplined value investment approach of the Fund and to provide quality services to the Fund and its shareholders.

INVESTMENT PERFORMANCE. The trustees reviewed and placed significant emphasis on the investment performance of the Fund over the one-, three-, five- and 10-year periods ended December 31, 2007. They considered the history of successful performance of the Fund relative to various benchmarks. As part of their review, they inquired of management regarding benchmarks, style drift and restrictions on permitted investments. Consideration was also given to performance in the context of available levels of cash during the periods. The trustees had meetings during the year, including the meetings referred to above held in connection with the renewal process, with the Fund's portfolio managers to discuss performance. In addition, particular attention in assessing performance was given to the Lipper Section 15(c) Report. That report showed the investment performance of the Fund (Class A shares) in comparison to other funds determined comparable by Lipper.

The comparable funds to the Fund, as chosen by Lipper, included all retail and institutional financial services funds. The Fund had total returns in the second best performing quintile for the one-year period ended December 31, 2007, and had annualized total returns for the three- and five-year periods in the best and second best performing quintiles, respectively. The trustees noted that the Fund's total return on an annualized basis for the 10-year period ended December 31, 2007, was in the best performing quintile and exceeded 11%, as shown in the Lipper Section 15(c) Report. The Board was satisfied with such comparative performance.

The trustees also compared Fund performance to other industry benchmarks, including measures of risk-adjusted performance of a fund, as part of their evaluation of investment performance. According to the Lipper Section 15(c) Report, the Fund's risk-adjusted performance was in Lipper's best performing quintile of peer funds for the three-, five- and 10-year periods ended December 31, 2007. The trustees concluded that the Fund had continued to perform well in comparison to its various benchmarks and in the context of the Fund's objectives.

COMPARATIVE EXPENSES AND MANAGEMENT PROFITABILITY. The trustees considered the cost of the services provided and to be provided and the profits realized by the investment manager and its affiliates from their respective relationships with the Fund. As part of the approval process, they explored with management the trends in expense ratios over the past three fiscal years. The trustees noted that the Fund's overall expense ratio has declined over such period. In considering the appropriateness of the management fee and other expenses charged the Fund, the Board took into account various factors including investment performance and matters relating to Fund operations, including, but not limited to, the quality and experience of its portfolio managers and research staff and

Mutual Financial Services Fund

SHAREHOLDER INFORMATION (CONTINUED)

BOARD REVIEW OF INVESTMENT MANAGEMENT AGREEMENT (CONTINUED)

managed by the Fund's investment manager. The trustees noted that the effective investment management fee rates of comparable accounts managed by the investment manager were the same or higher than those charged to the Fund.

Consideration was also given to a comparative analysis in the Lipper Section 15(c) Report of the investment management fee and total expense ratios of the Fund in comparison with those of a group of other funds selected by Lipper as its appropriate Lipper expense group. Prior to making such comparison, the Board relied upon a survey showing that the scope of services covered under the Fund's investment management agreement was similar to those provided by fund managers to other mutual fund groups. In reviewing comparative costs, emphasis was given to the Fund's contractual management fee in comparison with the contractual management fee that would have been charged by other funds within its Lipper expense group assuming they were the same size as the Fund, as well as the actual total expenses of the Fund in comparison with those of its Lipper expense group. The Lipper contractual management fee analysis includes administrative charges as being part of the management fee, and total expenses, for comparative consistency, are shown by Lipper for Fund Class A shares.

The Fund's contractual management fee rate and total expenses were in each case in the second most expensive quintile of its Lipper expense group. The Board believed such expenses to be acceptable in view of the Fund's performance and other factors such as the quality and experience of its portfolio managers and research staff and noted that the Fund's contractual management fee rate and total expense ratio were within 12 and 6 basis points, respectively, of its Lipper expense group median.

The trustees also reviewed the Profitability Study addressing profitability of Franklin Resources, Inc., from its overall U.S. fund business, as well as profitability of the investment manager to the Fund, from providing investment management and other services to the Fund. The trustees noted that this analysis is reviewed every other year by independent accountants based on agreed-upon methodologies. The trustees reviewed the basis on which such reports are prepared and the reasonableness of the cost allocation methodology utilized in the Profitability Study. The independent trustees reviewed the investment manager's method of assignment and allocation of actual expenses to the Fund, allocations for other accounts managed by the investment manager and the method of allocations in the Profitability Study.

The independent trustees met with management to discuss the Profitability Study. This included, among other things, a comparison of investment management income with investment management expenses of the Fund; comparison of underwriting revenues and expenses; the relative relationship of investment management and underwriting expenses; shareholder servicing profitability (losses); economies of scale; and the relative contribution of the Fund to the profitability of the investment manager and its parent. In discussing the Profitability Study with the Board, the investment manager stated its belief that the costs incurred in establishing the infrastructure necessary to operate the type of mutual fund operations conducted by it and its affiliates may not be fully reflected in the expenses allocated to the Fund in determining its profitability.

Mutual Financial Services Fund

SHAREHOLDER INFORMATION (CONTINUED)

BOARD REVIEW OF INVESTMENT MANAGEMENT AGREEMENT (CONTINUED)

The trustees considered an additional Lipper study analyzing the profitability of the parent of the investment manager as compared to other publicly held investment managers, which also aided the trustees in considering profitability outside the context of distribution. The Board also took into account management's expenditures in improving shareholder services provided to the Funds, as well as the need to meet additional regulatory and compliance requirements resulting from the Sarbanes-Oxley Act and recent SEC and other regulatory requirements. The trustees also considered the extent to which the investment manager may derive ancillary benefits from Fund operations, including those derived from economies of scale, discussed below, the allocation of Fund brokerage and the use of commission dollars to pay for research and other

similar services. The Board noted the interest an affiliate of the investment manager has in a joint venture that financed up-front commissions paid to brokers/dealers who sold Fund Class B shares, noting that the Fund has ceased offering Class B shares and the benefits derived from the Fund as a result of this arrangement will diminish over time.

Based upon their consideration of all these factors, the trustees determined that the level of profits realized by the manager and its affiliates in providing services to the Fund was not excessive in view of the nature, quality and extent of services provided.

ECONOMIES OF SCALE. The Board considered economies of scale realized by the investment manager and its affiliates as the Fund grows larger and the extent to which they are shared with Fund shareholders, as for example, in the level of the investment management fee charged, in the quality and efficiency of services rendered and in increased capital commitments benefiting the Fund directly or indirectly. The trustees noted that, based upon the Profitability Study, as some funds increase in size, at some point economies of scale may result in the investment manager realizing a larger profit margin on investment management services provided such a fund. The trustees also noted that benefits of economies of scale will be shared with Fund shareholders due to the decline in the effective investment management fee rate as breakpoints are achieved by the Fund.

The trustees assessed the savings from the breakpoints that were instituted as part of the Fund's investment management fee in 2004 and noted that, as a result of the breakpoints, the Fund and its shareholders experienced savings. The trustees believed that the breakpoints approved in 2004 were, and continue to be, appropriate and they agreed to continue to monitor the appropriateness of the breakpoints. The trustees also considered the effects a continued increase in assets under management would have on the investment management fee of the Fund. To the extent further economies of scale may be realized by the investment manager and its affiliates, the Board believed the investment management and administrative fees provide a sharing of benefits with the Fund and its shareholders.

Mutual Financial Services Fund

SHAREHOLDER INFORMATION (CONTINUED)

PROXY VOTING POLICIES AND PROCEDURES

The Fund's investment manager has established Proxy Voting Policies and Procedures (Policies) that the Fund uses to determine how to vote proxies relating to portfolio securities. Shareholders may view the Fund's complete Policies online at franklintempleton.com. Alternatively, shareholders may request copies of the Policies free of charge by calling the Proxy Group collect at 1-954/527-7678 or by sending a written request to: Franklin Templeton Companies, LLC, 500 East Broward Boulevard, Suite 1500, Fort Lauderdale, FL 33394, Attention: Proxy Group. Copies of the Fund's proxy voting records are also made available online at franklintempleton.com and posted on the U.S. Securities and Exchange Commission's website at sec.gov and reflect the most recent 12-month period ended June 30.

QUARTERLY STATEMENT OF INVESTMENTS

The Fund files a complete statement of investments with the U.S. Securities and Exchange Commission for the first and third quarters for each fiscal year on Form N-Q. Shareholders may view the filed Form N-Q by visiting the Commission's website at sec.gov. The filed form may also be viewed and copied at the Commission's Public Reference Room in Washington, DC. Information regarding the operations of the Public Reference Room may be obtained by calling 1-800/SEC-0330.

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WANT TO RECEIVE THIS DOCUMENT FASTER VIA EMAIL?

Eligible shareholders can sign up for eDelivery at franklintempleton.com. See inside for details.

SEMIANNUAL REPORT AND SHAREHOLDER LETTER
MUTUAL FINANCIAL SERVICES FUND

INVESTMENT MANAGER

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

DISTRIBUTOR

Franklin Templeton Distributors, Inc.
1-800/DIAL BEN(R)
franklintempleton.com

SHAREHOLDER SERVICES

1-800/632-2301 - (Class A, B & C)
1-800/448-FUND - (Class Z)

Authorized for distribution only when accompanied or preceded by a prospectus. Investors should carefully consider a fund's investment goals, risks, charges and expenses before investing. The prospectus contains this and other information; please read it carefully before investing.

To ensure the highest quality of service, telephone calls to or from our service departments may be monitored, recorded and accessed. These calls can be identified by the presence of a regular beeping tone.

479 S2008 08/08

Item 2. Code of Ethics.

(a) The Registrant has adopted a code of ethics that applies to its principal executive officers and principal financial and accounting officer.

(c) N/A

(d) N/A

(f) Pursuant to Item 12(a)(1), the Registrant is attaching as an exhibit a copy of its code of ethics that applies to its principal executive officers and principal financial and accounting officer.

Item 3. Audit Committee Financial Expert.

(a)(1) The registrant has an audit committee financial expert serving on its audit committee.

(2) The audit committee financial expert is Ann Torre Bates, and she is "independent" as defined under the relevant Securities and Exchange Commission Rules and Releases.

Item 4. Principal Accountant Fees and Services. N/A

Item 5. Audit Committee of Listed Registrants. N/A

Item 6. Schedule of Investments. N/A

Item 7. Disclosure of Proxy Voting Policies and Procedures for Closed-End Management Investment Companies. N/A

Item 8. Portfolio Managers of Closed-End Management Investment Companies. N/A

Item 9. Purchases of Equity Securities by Closed-End Management Investment Company and Affiliated Purchasers. N/A

Item 10. Submission of Matters to a Vote of Security Holders.

There have been no changes to the procedures by which shareholders may recommend

nominees to the Registrant's board of trustees that would require disclosure herein.

Item 11. Controls and Procedures.

(a) Evaluation of Disclosure Controls and Procedures. The Registrant maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Registrant's filings under the Securities Exchange Act of 1934 and the Investment Company Act of 1940 is recorded, processed, summarized and reported within the periods specified in the rules and forms of the Securities and Exchange Commission. Such information is accumulated and communicated to the Registrant's management, including its principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. The Registrant's management, including the principal executive officer and the principal financial officer, recognizes that any set of controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

Within 90 days prior to the filing date of this Shareholder Report on Form N-CSR, the Registrant had carried out an evaluation, under the supervision and with the participation of the Registrant's management, including the Registrant's principal executive officer and the Registrant's principal financial officer, of the effectiveness of the design and operation of the Registrant's disclosure controls and procedures. Based on such evaluation, the Registrant's principal executive officer and principal financial officer concluded that the Registrant's disclosure controls and procedures are effective.

(b) Changes in Internal Controls. There have been no significant changes in the Registrant's internal controls or in other factors that could significantly affect the internal controls subsequent to the date of their evaluation in connection with the preparation of this Shareholder Report on Form N-CSR.

Item 12. Exhibits.

(a) (1) Code of Ethics

(a) (2) Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 of Galen G. Vetter, Chief Executive Officer - Finance and Administration, and Laura F. Fergerson, Chief Financial Officer and Chief Accounting Officer

(b) Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 of Galen G. Vetter, Chief Executive Officer - Finance and Administration, and Laura F. Fergerson, Chief Financial Officer and Chief Accounting Officer

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FRANKLIN MUTUAL SERIES FUNDS

By /s/GALEN G. VETTER

Galen G. Vetter
Chief Executive Officer -
Finance and Administration
Date August 27, 2008

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By /s/GALEN G. VETTER

Galen G. Vetter
Chief Executive Officer -
Finance and Administration
Date August 27, 2008

By /s/LAURA F. FERGERSON

Laura F. Fergerson

Chief Financial Officer and
Chief Accounting Officer
Date August 27, 2008

CODE OF ETHICS FOR PRINCIPAL EXECUTIVES & SENIOR FINANCIAL OFFICERS

PROCEDURES Revised March 06, 2008

FRANKLIN TEMPLETON FUNDS
CODE OF ETHICS FOR PRINCIPAL EXECUTIVE AND
SENIOR FINANCIAL OFFICERS

I. Covered Officers and Purpose of the Code

This code of ethics (the "Code") applies to the Principal Executive Officers, Principal Financial Officer and Principal Accounting Officer (the "Covered Officers," each of whom is set forth in Exhibit A) of each investment company advised by a Franklin Resources subsidiary and that is registered with the United States Securities & Exchange Commission ("SEC") (collectively, "FT Funds") for the purpose of promoting:

- o Honest and ethical conduct, including the ethical resolution of actual or apparent conflicts of interest between personal and professional relationships;
- o Full, fair, accurate, timely and understandable disclosure in reports and documents that a registrant files with, or submits to, the SEC and in other public communications made by or on behalf of the FT Funds;
- o Compliance with applicable laws and governmental rules and regulations;
- o The prompt internal reporting of violations of the Code to an appropriate person or persons identified in the Code; and
- o Accountability for adherence to the Code.

Each Covered Officer will be expected to adhere to a high standard of business ethics and must be sensitive to situations that may give rise to actual as well as apparent conflicts of interest.

II. Other Policies and Procedures

This Code shall be the sole code of ethics adopted by the Funds for purposes of Section 406 of the Sarbanes-Oxley Act and the rules and forms applicable to registered investment companies thereunder.

Franklin Resources, Inc. has separately adopted the CODE OF ETHICS AND BUSINESS CONDUCT ("Business Conduct"), which is applicable to all officers, directors and employees of Franklin Resources, Inc., including Covered Officers. It summarizes the values, principles and business practices that guide the employee's business conduct and also provides a set of basic principles to guide officers, directors and employees regarding the minimum ethical requirements expected of them. It supplements the values, principles and business conduct identified in the Code and other existing employee policies.

Additionally, the Franklin Templeton Funds have separately adopted the CODE OF ETHICS AND POLICY STATEMENT ON INSIDER TRADING governing personal securities trading and other related matters. The Code for Insider Trading provides for separate requirements that apply to the Covered Officers and others, and therefore is not part of this Code.

Insofar as other policies or procedures of Franklin Resources, Inc., the Funds, the Funds' adviser, principal underwriter, or other service providers govern or purport to govern the behavior or activities of the Covered Officers who are subject to this Code, they are superceded by this Code to the extent that they overlap or conflict with the provisions of this Code. Please review these other documents or consult with the Legal Department if have questions regarding the applicability of these policies to you.

III. Covered Officers Should Handle Ethically Actual and Apparent Conflicts of Interest

OVERVIEW. A "conflict of interest" occurs when a Covered Officer's private interest interferes with the interests of, or his or her service to, the FT Funds. For example, a conflict of interest would arise if a Covered Officer, or a member of his family, receives improper personal benefits as a result of opposition with the FT Funds.

Certain conflicts of interest arise out of the relationships between Covered Officers and the FT Funds and already are subject to conflict of interest provisions in the Investment Company Act of 1940 ("Investment Company Act") and the Investment Advisers Act of 1940 ("Investment Advisers Act"). For example, Covered Officers may not individually engage in certain transactions (such as the purchase or sale of securities or other property) with the FT Funds because of their status as "affiliated persons" of the FT Funds. The FT Funds' and the investment advisers' compliance programs and procedures are designed to prevent, or identify and correct, violations of these provisions. This Code does not, and is not intended to, repeat or replace these programs and procedures, and such conflicts fall outside of the parameters of this Code.

Although typically not presenting an opportunity for improper personal benefit, conflicts arise from, or as a result of, the contractual relationship

between the FT Funds, the investment advisers and the fund administrator of which the Covered Officers are also officers or employees. As a result, this Code recognizes that the Covered Officers will, in the normal course of their duties (whether formally for the FT Funds, for the adviser, the administrator, or for all three), be involved in establishing policies and implementing decisions that will have different effects on the adviser, administrator and the FT Funds. The participation of the Covered Officers in such activities is inherent in the contractual relationship between the FT Funds, the adviser, and the administrator and is consistent with the performance by the Covered Officers of their duties as officers of the FT Funds. Thus, if performed in conformity with the provisions of the Investment Company Act and the Investment Advisers Act, such activities will be deemed to have been handled ethically. In addition, it is recognized by the FT Funds' Boards of Directors ("Boards") that the Covered Officers may also be officers or employees of one or more other investment companies covered by this or other codes.

Other conflicts of interest are covered by the Code, even if such conflicts of interest are not subject to provisions in the Investment Company Act and the Investment Advisers Act. The following list provides examples of conflicts of interest under the Code, but Covered Officers should keep in mind that these examples are not exhaustive. The overarching principle is that the personal interest of a Covered Officer should not be placed improperly before the interest of the FT Funds.

Each Covered Officer must:

- o Not use his or her personal influence or personal relationships improperly to influence investment decisions or financial reporting by the FT Funds whereby the Covered Officer would benefit personally to the detriment of the FT Funds;
- o Not cause the FT Funds to take action, or fail to take action, for the individual personal benefit of the Covered Officer rather than the benefit the FT Funds;
- o Not retaliate against any other Covered Officer or any employee of the FT Funds or their affiliated persons for reports of potential violations that are made in good faith;
- o Report at least annually the following affiliations or other relationships: / 1
 - o all directorships for public companies and all companies that are required to file reports with the SEC;
 - o any direct or indirect business relationship with any independent directors of the FT Funds;
 - o any direct or indirect business relationship with any independent public accounting firm (which are not related to the routine issues related to the firm's service as the Covered Persons accountant); and
 - o any direct or indirect interest in any transaction with any FT Fund that will benefit the officer (not including benefits derived from

the advisory, sub-advisory, distribution or service agreements with affiliates of Franklin Resources).

These reports will be reviewed by the Legal Department for compliance with the Code.

There are some conflict of interest situations that should always be approved in writing by Franklin Resources General Counsel or Deputy General Counsel, if material. Examples of these include/2:

- o Service as a director on the board of any public or private Company;
- o The receipt of any gifts in excess of \$100 from any person, from any corporation or association
- o The receipt of any entertainment from any Company with which the FT Funds has current or prospective business dealings unless such entertainment is business related, reasonable in cost, appropriate as to time and place, and not so frequent as to raise any question of impropriety. Notwithstanding the foregoing, the Covered Officers must obtain prior approval from the Franklin Resources General Counsel for any entertainment with a value in excess of \$1000.
- o Any ownership interest in, or any consulting or employment relationship with, any of the FT Fund's service providers, other than an investment adviser, principal underwriter, administrator or any affiliated person thereof;
- o A direct or indirect financial interest in commissions, transaction charges or spreads paid by the FT Funds for effecting portfolio transactions or for selling or redeeming shares other than an interest arising from the Covered Officer's employment, such as compensation or equity ownership.

Franklin Resources General Counsel or Deputy General Counsel will provide a report to the FT Funds Audit Committee of any approvals granted at the next regularly scheduled meeting.

IV. Disclosure and Compliance

- o Each Covered Officer should familiarize himself with the disclosure requirements generally applicable to the FT Funds;
- o Each Covered Officer should not knowingly misrepresent, or cause others to misrepresent, facts about the FT Funds to others, whether within or outside the FT Funds, including to the FT Funds' directors and auditors, and to governmental regulators and self-regulatory organizations;
- o Each Covered Officer should, to the extent appropriate within his or her area of responsibility, consult with other officers and employees of the FT Funds, the FT Fund's adviser and the administrator with the goal of

promoting full, fair, accurate, timely and understandable disclosure in the reports and documents the FT Funds file with, or submit to, the SEC and in other public communications made by the FT Funds; and

- o It is the responsibility of each Covered Officer to promote compliance with the standards and restrictions imposed by applicable laws, rules and regulations.

V. Reporting and Accountability

Each Covered Officer must:

- o Upon becoming a covered officer affirm in writing to the Board that he or she has received, read, and understands the Code (see Exhibit B);
- o Annually thereafter affirm to the Board that he has complied with the requirements of the Code; and
- o Notify Franklin Resources' General Counsel or Deputy General Counsel promptly if he or she knows of any violation of this Code. Failure to do so is itself a violation of this Code.

Franklin Resources' General Counsel and Deputy General Counsel are responsible for applying this Code to specific situations in which questions are presented under it and have the authority to interpret this Code in any particular situation.^{/3} However, the Independent Directors of the respective FT Funds will consider any approvals or waivers^{/4} sought by any Chief Executive Officers of the Funds.

The FT Funds will follow these procedures in investigating and enforcing this Code:

- o Franklin Resources General Counsel or Deputy General Counsel will take all appropriate action to investigate any potential violations reported to the Legal Department;
- o If, after such investigation, the General Counsel or Deputy General Counsel believes that no violation has occurred, The General Counsel is not required to take any further action;
- o Any matter that the General Counsel or Deputy General Counsel believes is a violation will be reported to the Independent Directors of the appropriate FT Fund;
- o If the Independent Directors concur that a violation has occurred, it will inform and make a recommendation to the Board of the appropriate FT Fund or Funds, which will consider appropriate action, which may include review of, and appropriate modifications to, applicable policies and procedures; notification to appropriate personnel of the investment adviser or its board; or a recommendation to dismiss the Covered Officer;

- o The Independent Directors will be responsible for granting waivers, as appropriate; and
- o Any changes to or waivers of this Code will, to the extent required, be disclosed as provided by SEC rules./5

VI. Other Policies and Procedures

This Code shall be the sole code of ethics adopted by the FT Funds for purposes of Section 406 of the Sarbanes-Oxley Act and the rules and forms applicable to registered investment companies thereunder. Insofar as other policies or procedures of the FT Funds, the FT Funds' advisers, principal underwriter, or other service providers govern or purport to govern the behavior or activities of the Covered Officers who are subject to this Code, they are superseded by this Code to the extent that they overlap or conflict with the provisions of this Code. The FT Code of Ethics and Policy Statement On Insider Trading, adopted by the FT Funds, FT investment advisers and FT Fund's principal underwriter pursuant to Rule 17j-1 under the Investment Company Act, the Code of Ethics and Business Conduct and more detailed policies and procedures set forth in FT's Employee Handbook are separate requirements applying to the Covered Officers and others, and are not part of this Code.

VII. Amendments

Any amendments to this Code, other than amendments to Exhibit A, must be approved or ratified by a majority vote of the FT Funds' Board including a majority of independent directors.

VIII. Confidentiality

All reports and records prepared or maintained pursuant to this Code will be considered confidential and shall be maintained and protected accordingly. Except as otherwise required by law or this Code, such matters shall not be disclosed to anyone other than the FT Funds' Board and their counsel.

IX. Internal Use

The Code is intended solely for the internal use by the FT Funds and does not constitute an admission, by or on behalf of any FT Funds, as to any fact, circumstance, or legal conclusion.

X. Disclosure on Form N-CSR

Item 2 of Form N-CSR requires a registered management investment company to disclose annually whether, as of the end of the period covered by the report, it has adopted a code of ethics that applies to the registrant's principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, regardless of whether these officers are employed by the registrant or a third party. If the registrant has not adopted such a code of ethics, it must explain why it has not done so.

The registrant must also: (1) file with the SEC a copy of the code as an exhibit to its annual report; (2) post the text of the code on its Internet website and disclose, in its most recent report on Form N-CSR, its Internet address and the fact that it has posted the code on its Internet website; or (3) undertake in its most recent report on Form N-CSR to provide to any person without charge, upon request, a copy of the code and explain the manner in which such request may be made. Disclosure is also required of amendments to, or waivers (including implicit waivers) from, a provision of the code in the registrant's annual report on Form N-CSR or on its website. If the registrant intends to satisfy the requirement to disclose amendments and waivers by posting such information on its website, it will be required to disclose its Internet address and this intention.

The Legal Department shall be responsible for ensuring that:

- o a copy of the Code is filed with the SEC as an exhibit to each Fund's annual report; and
- o any amendments to, or waivers (including implicit waivers) from, a provision of the Code is disclosed in the registrant's annual report on Form N-CSR.

In the event that the foregoing disclosure is omitted or is determined to be incorrect, the Legal Department shall promptly file such information with the SEC as an amendment to Form N-CSR.

In such an event, the Fund Chief Compliance Officer shall review the Code and propose such changes to the Code as are necessary or appropriate to prevent reoccurrences.

EXHIBIT A

Persons Covered by the Franklin Templeton Funds
Code of Ethics
March 2008

FRANKLIN GROUP OF FUNDS

Edward B. Jamieson	President and Chief Executive Officer - Investment Management
Charles B. Johnson	President and Chief Executive Officer - Investment Management
Rupert H. Johnson, Jr.	President and Chief Executive Officer - Investment Management
William J. Lippman	President and Chief Executive Officer - Investment Management
Christopher Molumphy	President and Chief Executive Officer - Investment Management
Galen G. Vetter	Senior Vice President and Chief Executive Officer -

Jimmy D. Gambill Finance and Administration
Vice President
Laura Ferguson Chief Financial Officer and Chief Accounting Officer

FRANKLIN MUTUAL SERIES FUNDS

Peter Langerman Chief Executive Officer-Investment Management
Galen G. Vetter Senior Vice President and Chief Executive Officer -
Finance and Administration
Jimmy D. Gambill Vice President
Laura Ferguson Chief Financial Officer and Chief Accounting Officer

TEMPLETON GROUP OF FUNDS

Mark Mobius President and Chief Executive Officer - Investment
Management
Christopher J. Molumphy President and Chief Executive Officer - Investment
Management
Gary P. Motyl President and Chief Executive Officer - Investment
Management
Donald F. Reed President and Chief Executive Officer - Investment
Management
Galen G. Vetter Senior Vice President and Chief Executive Officer -
Finance and Administration
Jimmy D. Gambill Vice President
Laura Ferguson Chief Financial Officer and Chief Accounting Officer

EXHIBIT B

ACKNOWLEDGMENT FORM

DECEMBER

FRANKLIN TEMPLETON FUNDS CODE OF ETHICS
FOR PRINCIPAL EXECUTIVE AND SENIOR FINANCIAL OFFICERS

INSTRUCTIONS:

1. Complete all sections of this form.
2. Print the completed form, sign, and date.
3. Submit completed form to FT's General Counsel c/o Maria Abbott within 10 days of becoming a Covered Officer and by January 30th of each subsequent year.

INTER-OFFICE MAIL: Maria Abbott, Manager, Code of Ethics, Global Compliance
SM-920/2

TELEPHONE: (650) 312-5698 Fax: (650) 312-5646
E-MAIL: Abbott, Maria (internal address);
mabbott@frk.com (external address)

COVERED OFFICER'S
NAME:

TITLE:

DEPARTMENT:

LOCATION:

CERTIFICATION FOR
YEAR ENDING:

TO: Franklin Resources General Counsel, Legal Department

I hereby acknowledge receipt of a copy of Franklin Templeton Fund's code of ethics for Principal Executive Officers and Senior Financial Officers (the "Code") that I have read and understand. I will comply fully with all provisions of the Code to the extent they apply to me during the period of my employment. I further understand and acknowledge that any violation of the Code may subject me to disciplinary action, including termination of employment.

Signature

Date signed

1. Reporting of these affiliations or other relationships shall be made by completing the annual Directors and Officers Questionnaire and returning the questionnaire to Franklin Resources Inc, General Counsel or Deputy General Counsel.

2. Any activity or relationship that would present a conflict for a Covered Officer may also present a conflict for the Covered Officer if a member of the Covered Officer's immediate family engages in such an activity or has such a relationship. The Cover Person should also obtain written approval by FT's General Counsel in such situations.

3. Franklin Resources General Counsel and Deputy General Counsel are authorized

to consult, as appropriate, with members of the Audit Committee, counsel to the FT Funds and counsel to the Independent Directors, and are encouraged to do so.

4. Item 2 of Form N-CSR defines "waiver" as "the approval by the registrant of a material departure from a provision of the code of ethics" and "implicit waiver," which must also be disclosed, as "the registrant's failure to take action within a reasonable period of time regarding a material departure from a provision of the code of ethics that has been made known to an executive officer" of the registrant. See Part X.

5. See Part X.

I, Galen G. Vetter, certify that:

1. I have reviewed this report on Form N-CSR of FRANKLIN MUTUAL SERIES FUNDS;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, changes in net assets, and cash flows (if the financial statements are required to include a statement of cash flows) of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940) and internal control over financial reporting (as defined in Rule 30a-3(d) under the Investment Company Act of 1940) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of a date within 90 days prior to the filing date of this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the second fiscal quarter of the period covered by this report that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed to the registrant's auditors and the audit committee of the registrant's board of

directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

8/27/2008

S\GALEN G. VETTER

Galen G. Vetter
Chief Executive Officer - Finance and Administration

I, Laura F. Fergerson, certify that:

1. I have reviewed this report on Form N-CSR of FRANKLIN MUTUAL SERIES FUNDS;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, changes in net assets, and cash flows (if the financial statements are required to include a statement of cash flows) of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940) and internal control over financial reporting (as defined in Rule 30a-3(d) under the Investment Company Act of 1940) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting

and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of a date within 90 days prior to the filing date of this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the second fiscal quarter of the period covered by this report that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

8/27/2008

S\LAURA F. FERGERSON

Laura F. Fergerson
Chief Financial Officer and Chief Accounting Officer

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002

I, Galen G. Vetter, Chief Executive Officer of the FRANKLIN MUTUAL SERIES FUNDS (the "Registrant"), certify, pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. The periodic report on Form N-CSR of the Registrant for the period ended 6/30/2008 (the "Form N-CSR") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Form N-CSR fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Dated: 8/27/2008

S\GALEN G. VETTER

Galen G. Vetter
Chief Executive Officer -
Finance and Administration

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002

I, Laura F. Ferguson, Chief Financial Officer of the FRANKLIN MUTUAL SERIES FUNDS (the "Registrant"), certify, pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. The periodic report on Form N-CSR of the Registrant for the period ended 6/30/2008 (the "Form N-CSR") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Form N-CSR fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Dated: 8/27/2008

S\LAURA F. FERGERSON

Laura F. Fergerson
Chief Financial Officer and
Chief Accounting Officer