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FRANKLIN BALANCE SHEET INVESTMENT FUND

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SUPPLEMENT DATED FEBRUARY 1, 1995
TO THE PROSPECTUS OF
FRANKLIN BALANCE SHEET INVESTMENT FUND

DATED MARCH 1, 1994
AS AMENDED NOVEMBER 28, 1994

The following sections of the prospectus are revised to reflect changes to the operational policies of the Fund, effective February 1, 1995:

1. EXPENSE TABLE

Revised to reflect that investments of $1,000,000 or more are not subject to a front-end sales charge but a contingent deferred sales charge of 1% will be imposed on certain redemptions within 12 months of the calendar month following such investments. See "How to Sell Shares of the Fund - Contingent Deferred Sales Charge."

2. MANAGEMENT OF THE FUND

Revised to add the definition "Franklin Templeton Group" to describe the subsidiaries of Resources.

3. HOW TO BUY SHARES OF THE FUND

(a) The following is added at the end of the first paragraph:

The Fund may impose a $10 charge for each returned item, against any shareholder account which, in connection with the purchase of Fund shares, submits a check or a draft which is returned unpaid to the Fund.

(b) Substitute the following for the sales charge table and the ensuing two paragraphs:

<TABLE>
<CAPTION>

	TOTAL SALES CHARGE		
SIZE OF TRANSACTION AT OFFERING PRICE	AS A PERCENTAGE OF OFFERING PRICE	AS A PERCENTAGE OF NET AMOUNT INVESTED	DEALER CONCESSION AS A PERCENTAGE OF OFFERING PRICE*,***
<S>	<C>	<C>	<C>
Less than $500,000....................................	1.50%	1.52%	1.50%
$500,000 but less than $1,000,000......................	1.00%	1.01%	1.00%
$1,000,000 or more.....................................	none	none	(see below)**

</TABLE>

*Financial institutions or their affiliated brokers may receive an agency ransaction fee in the percentages set forth above.

**The following commissions will be paid by Distributors, from its own resources, to securities dealers who initiate and are responsible for purchases of $1 million or more: 1.00% on sales of $1 million but less than $2 million, plus 0.80% on sales of $2 million but less than $3 million, plus 0.50% on sales of $3 million but less than $50 million, plus 0.25% on sales of $50 million but less than $100 million, plus 0.15% on sales of $100 million or more. Dealer concession breakpoints are reset every 12 months for purposes of additional purchases.

***At the discretion of Distributors, all sales charges may at times be allowed to the securities dealer. If 90% or more of the sales commission is allowed, such securities dealer may be deemed to be an underwriter as that term is defined in the Securities Act of 1933, as amended.

No front-end sales charge applies on investments of $1 million or more, but a contingent deferred sales charge of 1% is imposed on certain redemptions of investments of $1 million or more within 12 months of the calendar month following such investments ("contingency period"). See "How to Sell Shares of the Fund-Contingent Deferred Sales Charge."

The size of a transaction which determines the applicable sales charge on the purchase of Fund shares is determined by adding the amount of the shareholder's current purchase plus the cost or current value (whichever is higher) of a shareholder's existing investment in one or more of the funds in the Franklin Group of Funds(R) and the Templeton Group of Funds. Included for these aggregation purposes are (a) the mutual funds in the Franklin Group of Funds except Franklin Valuemark Funds and Franklin Government Securities Trust (the "Franklin Funds"), (b) other investment products underwritten by Distributors or its affiliates (although certain investments may not have the same schedule of sales charges and/or may not be subject to reduction) and (c) the U.S. mutual funds in the Templeton Group of Funds except

Templeton American Trust, Inc., Templeton Capital Accumulator Fund, Inc., Templeton Variable Annuity Fund, and Templeton Variable Products Series Fund (the "Templeton Funds"). (Franklin Funds and Templeton Funds are collectively referred to as the "Franklin Templeton Funds.") Sales charge reductions based upon aggregate holdings of (a), (b) and (c) above ("Franklin Templeton Investments") may be effective only after notification to Distributors that the investment qualifies for a discount. References throughout the Prospectus, for purposes of aggregating assets or describing the exchange privilege, refer to the above descriptions.

Distributors, or one of its affiliates, may make payments, out of its own resources, of up to 1% of the amount purchased to securities dealers who initiate and are responsible for purchases made at net asset value by certain designated retirement plans (excluding IRA and IRA rollovers), certain non-designated plans, certain trust company and trust departments of banks and certain retirement plans of organizations with collective retirement plan assets of $10 million or more. See definitions under "Description of Special Net Asset Value Purchases" and as set forth in the SAI.

(c) Substitute the following for the current "Purchases at Net Asset Value" subsection:

PURCHASES AT NET ASSET VALUE

Shares of the Fund may be purchased without the imposition of either a front-end sales charge ("net asset value") or a contingent deferred sales charge by (1) officers, directors, trustees and full-time employees of the Fund, any of the Franklin Templeton Funds, or of the Franklin Templeton Group, and by their spouses and family members; (2) companies exchanging shares with or selling assets pursuant to a merger, acquisition or exchange offer; (3) insurance company separate accounts for pension plan contracts; (4) accounts managed by the Franklin Templeton Group; (5) shareholders of Templeton Institutional Funds, Inc. reinvesting redemption proceeds from that fund under an employee benefit plan qualified under Section 401 of the Internal Revenue Code of 1986, as amended, in shares of the Fund; (6) certain unit investment trusts and unit holders of such trusts reinvesting their distributions from the trusts in the Fund; (7) registered securities dealers and their affiliates, for their investment account only; and (8) registered personnel and employeesof securities dealers and by their spouses and family members, in accordance with the internal policies and procedures of the employing securities dealer.

Shares of the Fund may be purchased at net asset value by persons who have redeemed, within the previous 120 days, their shares of the Fund or another of the Franklin Templeton Funds which were purchased with a front-end sales charge or assessed a contingent deferred sales charge on redemption. An investor may reinvest an amount not exceeding the redemption proceeds. While credit will be given for any contingent deferred sales charge paid on the shares redeemed, a new contingency period will begin. Shares of the Fund redeemed in connection with an exchange into another fund (see "Exchange Privilege") are not considered "redeemed" for this privilege. In order to exercise this privilege, a written order for the purchase of shares of the Fund must be received by the Fund or the Fund's Shareholder Services Agent within 120 days after the redemption. The 120 days, however, do not begin to run on redemption proceeds placed immediately after redemption in a Franklin Bank Certificate of Deposit ("CD") until the CD (including any rollover) matures. Reinvestment at net asset value may also be handled by a securities dealer or other financial institution, who may charge the shareholder a fee for this service. The redemption is a taxable transaction but reinvestment without a sales charge may affect the amount of gain or loss recognized and the tax basis of the shares reinvested. If there has been a loss on the redemption, the loss may be disallowed if a reinvestment in the same fund is made within a 30-day period. Information regarding the possible tax consequences of such a reinvestment is included in the tax section of this Prospectus and the SAI.

Dividends and capital gains received in cash by the shareholder may also be used to purchase shares of the Fund or another of the Franklin Templeton Funds at net asset value and without the imposition of a contingent deferred sales charge within 120 days of the payment date of such distribution. To exercise this privilege, a written request to reinvest the distribution must accompany the purchase order. Additional information may be obtained from Shareholder Services at 1-800/632-2301. See "Distributions in Cash" under "Distributions to Shareholders."

Shares of the Fund may be purchased at net asset value and without the imposition of a contingent deferred sales charge by investors who have, within the past 60 days, redeemed an investment in an unaffiliated mutual fund which charged the investor a contingent deferred sales charge upon redemption and which has investment objectives similar to those of the Fund.

Shares of the Fund may be purchased at net asset value and without the imposition of a contingent deferred sales charge by registered investment advisors and/or their affiliated broker-dealers, who have entered into a supplemental agreement with Distributors, on behalf of their clients who are participating in a comprehensive fee program (also known as a wrap fee program).

Shares of the Fund may be purchased at net asset value and without the imposition of a contingent deferred sales charge by anyone who has taken a distribution from an existing retirement plan already invested in the Franklin Templeton Funds (including former participants of the Franklin Templeton Profit Sharing 401(k) plan), to the extent of such distribution. In order to exercise this privilege a written order for the purchase of shares of the Fund must be received by Franklin Templeton Trust Company (the "Trust Company"), the Fund or Investor Services, within 120 days after the plan distribution. A prospectus outlining the investment objectives and policies of a fund in which the shareholder wishes to invest may be obtained by calling toll free at 1-800/DIAL BEN (1-800/342-5236).

Shares of the Fund may also be purchased at net asset value and without the imposition of a contingent deferred sales charge by any state, county, or city, or any instrumentality, department, authority or agency thereof which has determined that the Fund is a legally permissible investment and which is prohibited by applicable investment laws from paying a sales charge or commission in connection with the purchase of shares of any registered management investment company ("an eligible governmental authority"). SUCH INVESTORS SHOULD CONSULT THEIR OWN LEGAL ADVISORS TO DETERMINE WHETHER AND TO WHAT EXTENT THE SHARES OF THE FUND CONSTITUTE LEGAL INVESTMENTS FOR THEM. Municipal investors considering investment of proceeds of bond offerings into the Fund should consult with expert counsel to determine the effect, if any, of various payments made by the Fund or its investment manager on arbitrage rebate calculations. If an investment by an eligible governmental authority at net asset value is made through a securities dealer who has executed a dealer agreement with Distributors, Distributors or one of its affiliates may make a payment, out of their own resources, to such securities dealer in an amount not to exceed 0.25% of the amount invested. Contact Franklin's Institutional Sales Department for additional information.

DESCRIPTION OF SPECIAL NET ASSET VALUE PURCHASES

Shares of the Fund may also be purchased at net asset value and without the imposition of a contingent deferred sales charge by certain designated retirement plans, including profit sharing, pension, 401(k) and simplified employee pension plans ("designated plans"), subject to minimum requirements with respect to number of employees or amount of purchase, which may be established by Distributors. Currently, those criteria require that the employer establishing the plan have 200 or more employees or that the amount invested or to be invested during the subsequent 13-month period in the Fund or in any of the Franklin Templeton Investments totals at least $1,000,000. Employee benefit plans not designated above or qualified under Section 401 of the Code ("non-designated plans") may be afforded the same privilege if they meet the above requirements as well as the uniform criteria for qualified groups previously described under "Group Purchases" which enable Distributors to realize economies of scale in its sales efforts and sales related expenses.

Shares of the Fund may be purchased at net asset value and without the imposition of a contingent deferred sales charge by trust companies and bank trust departments for funds over which they exercise exclusive discretionary investment authority and which are held in a fiduciary, agency, advisory, custodial or similar capacity. Such purchases are subject to minimum requirements with respect to amount of purchase, which may be established by Distributors. Currently, those criteria require that the amount invested or to be invested during the subsequent 13-month period in this Fund or any of the Franklin Templeton Investments must total at least $1,000,000. Orders for such accounts will be accepted by mail accompanied by a check or by telephone or other means of electronic data transfer directly from the bank or trust company, with payment by federal funds received by the close of business on the next business day following such order.

Shares of the Fund may be purchased at net asset value and without the imposition of a contingent deferred sales charge by trustees or other fiduciaries purchasing securities for certain retirement plans of organizations with collective retirement plan assets of $10 million or more, without regard to where such assets are currently invested.

Refer to the SAI for further information.

4. EXCHANGE PRIVILEGE

Add the following paragraph under the subsection "Additional Information Regarding Exchanges":

A contingent deferred sales charge will not be imposed on exchanges. If, however, the exchanged shares were subject to a contingent deferred sales charge in the original fund purchased, and shares are subsequently redeemed within the contingency period, a contingent deferred sales charge will be imposed. The contingency period will be tolled (or stopped) for the period such shares are exchanged into and held in a Franklin or Templeton money market fund. See also "How to Sell Shares of the Fund - Contingent Deferred Sales Charge."

5. HOW TO SELL SHARES OF THE FUND

Add the following subsection:

CONTINGENT DEFERRED SALES CHARGE

In order to recover commissions paid to securities dealers on qualified investments of $1 million or more, a contingent deferred sales charge of 1% applies to redemptions of those investments within the contingency period of 12 months of the calendar month following their purchase. The charge is 1% of the lesser of the value of the shares redeemed (exclusive of reinvested dividends and capital gain distributions) or the total cost of such shares, and is retained by Distributors. In determining if a charge applies, shares not subject to a contingent deferred sales charge are deemed to be redeemed first, in the following order: (i) shares representing amounts attributable to capital appreciation of those shares held less than 12 months; (ii) shares purchased with reinvested dividends and capital gain distributions; and (iii) other shares held longer than 12 months; and followed by any shares held less than 12 months, on a "first in, first out" basis.

The contingent deferred sales charge is waived for: exchanges; distributions to participants in Trust Company retirement plan accounts due to death, disability or attainment of age 591/2; tax-free returns of excess contributions to employee benefit plans; distributions from employee benefit plans, including those due to plan termination or plan transfer; redemptions through a Systematic Withdrawal Plan set up prior to February 1, 1995 and, for Systematic Withdrawal Plans setup thereafter, redemptions of up to 1% monthly of an account's net asset value (3% quarterly, 6% semiannually or 12% annually); and redemptions initiated by the Fund due to a shareholder's account falling below the minimum specified account size.

Requests for redemptions for a specified dollar amount will result in additional shares being redeemed to cover any applicable contingent deferred sales charge while requests for redemption of a specific number of shares will result in the applicable contingent deferred sales charge being deducted from the total dollar amount redeemed.

FRANKLIN
BALANCE SHEET
INVESTMENT FUND

PROSPECTUS MARCH 1, 1994
AS AMENDED NOVEMBER 28, 1994

[FRANKLIN LOGO]

777 Mariners Island Blvd., P.O. Box 7777
San Mateo, CA 94403-7777 1-800/DIAL BEN

Franklin Balance Sheet Investment Fund (the "Fund") is a non-diversified, open-end management investment company with the investment objective of seeking high total return. The Fund will seek capital appreciation primarily through investment in securities that the Fund's investment manager believes are undervalued in the marketplace. The Fund will also seek income when deemed consistent with its objective. The Fund currently seeks to achieve its objective by investing a portion of its total assets in the securities of closed-end management investment companies. The Fund may also invest in other types of securities which its investment manager believes represent intrinsic values not reflected in the current market price of such securities and/or present opportunities for high income.

This Prospectus is intended to set forth in a clear and concise manner information about the Fund that a prospective investor should know before investing. The Fund is designed for long-term investors and not as a trading vehicle, and is not intended to present a complete investment program. An investment in the Fund involves certain speculative considerations; see "Risk Factors/Special Considerations." There can be no assurance that the Fund will achieve its investment objective. After reading the Prospectus, it should be retained for future reference; it contains information about the purchase and sale of shares and other items which a prospective investor will find useful to have.

SHARES OF THE FUND ARE NOT DEPOSITS OR OBLIGATIONS OF, OR GUARANTEED OR ENDORSED BY, ANY BANK; FURTHER, SUCH SHARES ARE NOT FEDERALLY INSURED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION, THE FEDERAL RESERVE BOARD, OR ANY OTHER AGENCY. SHARES OF THE FUND INVOLVE INVESTMENT RISKS, INCLUDING THE POSSIBLE LOSS OF PRINCIPAL.

A Statement of Additional Information concerning the Fund, dated March 1, 1994, as may be amended from time to time, provides a further discussion of certain areas in this Prospectus and other matters which may be of interest to some investors. It has been filed with the Securities and Exchange Commission ("SEC") and is incorporated herein by reference. A copy is available without charge from the Fund or the Fund's principal underwriter, Franklin/Templeton Distributors, Inc. ("Distributors"), at the address or telephone number listed above.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

This Prospectus is not an offering of the securities herein described in any state in which the offering is unauthorized. No sales representative, dealer or other

person is authorized to give any information or make any representations other than those contained in this Prospectus. Further information may be obtained from the underwriter.

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EXPENSE TABLE

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The purpose of this table is to assist an investor in understanding the various costs and expenses that a shareholder will bear directly or indirectly in connection with an investment in the Fund. These figures are based on the aggregate operating expenses of the Fund (including fees set by contract) for the fiscal year ended October 31, 1993.

SHAREHOLDER TRANSACTION EXPENSES

<TABLE>

<S>	<C>
Maximum Sales Charge Imposed on Purchases (as a percentage of offering price)	1.50%
Maximum Sales Charge Imposed on Reinvested Dividends	NONE
Deferred Sales Charge	NONE
Redemption Fees	NONE
Exchange Fee (per transaction)	$5.00*

</TABLE>

<TABLE>

<S>		<C>
ANNUALIZED FUND OPERATING EXPENSES (as a percentage of average net assets)		
Management Fees		0.63%**
12b-1 Fees		0.50%***
Other Expenses:		
Registration Fees	0.27%	
Professional fees	0.15%	
Other	0.35%	
Total Other Expenses		0.77%
Total Fund Operating Expenses		1.90%**

</TABLE>

*$5.00 fee only imposed on Timing Accounts as described under "Exchange Privilege." All other exchanges are without charge.

**Represents the amount that would have been payable to the investment manager, absent a fee reduction by the investment manager. The investment manager, however, limits its management fees and assumes responsibility for making payments to offset operating expenses otherwise payable by the Fund. With this reduction, the Fund paid no management fees nor any of its operating expenses for the fiscal year ended Oct. 31, 1993. This arrangement may be terminated by the investment manager at any time.

***Consistent with National Association of Securities Dealers, Inc.'s rules, it is possible that the combination of front-end sales charges and Rule 12b-1 fees could cause long-term shareholders to pay more than the economic equivalent of the maximum front-end sales charges permitted under those same rules. Given the Fund's maximum initial sales charge and the rate of the Fund's Rule 12b-1 fee, however, it is estimated that this would take a substantial number of years.

Investors should be aware that the above table is not intended to reflect in precise detail the fees and expenses associated with an individual's own investment in the Fund. Rather, the table has been provided only to assist investors in gaining a more complete understanding of fees, charges, and expenses. For a more detailed discussion of these matters, investors should refer to the appropriate sections of this Prospectus.

EXAMPLE

As required by regulations of the SEC, the following example illustrates the expenses, including the initial sales charge, that apply to a $1,000 investment in the Fund over various time periods assuming (1) a 5% annual rate of return and (2) redemption at the end of each time period. As noted in the preceding table, the Fund charges no redemption fees:

1 YEAR	3 YEARS	5 YEARS	10 YEARS
$34	$72	$114	$229

THIS EXAMPLE IS BASED ON THE AGGREGATE ANNUAL OPERATING EXPENSES, INCLUDING FEES SET BY CONTRACT, SHOWN ABOVE AND SHOULD NOT BE CONSIDERED A REPRESENTATION OF PAST OR FUTURE EXPENSES, WHICH MAY BE MORE OR LESS THAN THOSE SHOWN. The operating expenses are borne by the Fund and only indirectly by shareholders as a result of their investment in the Fund. In addition, federal regulations require the example to assume an annual return of 5%, but the Fund's actual return may be more or less than 5%.

FINANCIAL HIGHLIGHTS

Set forth below is a table containing the financial highlights for a share of the Fund from the effective date of its registration statement, as indicated below, through the fiscal years ended October 31, 1993. The information for each of the four fiscal years in the period ended October 31, 1993 has been audited by Coopers & Lybrand, independent auditors, whose audit report thereon appears in the financial statements in the Fund's Statement of Additional Information. A copy of the Statement of Additional Information, containing such audit report and further information regarding performance, as well as the Annual Report to Shareholders, may be obtained as noted on the front cover of this Prospectus.

	YEAR ENDED OCTOBER 31,			APRIL 2, 1990++
	1993	1992	1991	TO OCTOBER 31, 1990
PER SHARE OPERATING PERFORMANCE*				
Net asset value at beginning of period	$17.37	$15.54	$11.48	$15.00
Net investment income	.39	.53	.52	.29
Net realized and unrealized gains (losses) on securities	6.26	1.83	4.10	(3.63)
Total from investment operations	6.65	2.36	4.62	(3.34)
Less distributions:				
Dividends from net investment income	(.43)	(.53)	(.56)	(.18)
Distributions from capital gains	(.62)	--	--	--
Total distributions	(1.05)	(.53)	(.56)	(.18)

Net asset value at end of period	$22.97	$17.37	$15.54	$11.48
	======	======	======	======
TOTAL RETURN**	39.84%	15.51%	40.96%	(22.36)%
RATIOS/SUPPLEMENTAL DATA:				
Net assets at end of period (in 000's)	$22,317	$5,149	$3,572	$1,405
Ratio of expenses to average net assets++	--%	--%	--%	--%
Ratio of expenses to average net assets (excluding waiver and reimbursements by manager) (Note 6)	1.85%	2.60%	3.16%	3.54%+
Ratio of net income to average net assets	1.89%	3.16%	3.79%	2.31%+
Portfolio turnover rate	31.36%	30.86%	31.94%	5.34%

</TABLE>

*Selected data for a share of capital stock outstanding throughout the period.

**Total return measures the change in value of an investment over the periods indicated, it does not include the maximum 1.5% initial sales charge and assumes reinvestment of dividends and capital gains distributions at net asset value.

++Effective date of registration.

+Annualized.

++During the periods indicated, Franklin Advisers, Inc., the investment manager, did not impose management fees and reimbursed other expenses of the Fund.

SUMMARY
- --

Franklin Balance Sheet Investment Fund (the "Fund") is a non-diversified, open-end management investment company organized as a Massachusetts business trust on September 11, 1989, and has registered with the SEC under the Investment Company Act of 1940 (the "1940 Act"). The investment objective of the Fund is to seek high total return, of which capital appreciation and income are components. This investment objective is a fundamental policy of the Fund and may not be changed without shareholder approval. Capital appreciation will be sought primarily through investment in securities that the Fund's investment manager believes are undervalued in the marketplace. Accordingly, the focus on

balance sheet items will be an important element in the manager's investment analysis. Income will also be sought when consistent with the Fund's objective. As with any other investment, there is no assurance that the Fund's objective will be achieved.

The Fund may invest in equity and debt securities which, in the opinion of the Fund's investment manager, represent intrinsic values not reflected in the current market price of such securities and/or present opportunities for high income. Shares of the Fund may be purchased (minimum initial investment of $2,500 and $100 thereafter or for investments by retirement plans, $1,000 and $100, respectively) at the current public offering price, which is equal to the net asset value per share plus a sales charge based upon a variable percentage (ranging from 1.5% to 0%) of the offering price depending upon the amount invested. (See "How to Buy Shares of the Fund" and "Valuation of Fund Shares.")

INVESTMENT OBJECTIVE AND POLICIES OF THE FUND
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The Fund may invest an unlimited amount of its total assets in the securities of any companies which, in the opinion of the Fund's investment manager, represent an opportunity for (i) significant capital appreciation due to intrinsic values not reflected in the current market price of such securities and/or (ii) high income. The securities of such companies, which include common and preferred stocks and secured or unsecured bonds, commercial paper or notes, will typically be purchased at prices below the book value of the company; however, the investment manager also will take into account a variety of other factors in order to determine whether to purchase, and once purchased, whether to hold or sell such securities. In addition to book value, the investment manager may consider the following factors among others: valuable franchises or other intangibles; ownership of valuable trademarks or trade names; control of distribution networks or of market share for particular products; ownership of real estate the value of which is understated; underutilized liquidity and other factors that would identify the issuer as a potential takeover target or turnaround candidate.

The Fund generally favors common stocks, although it has no limit on the percentage of its assets which may be invested in preferred stock and debt obligations of such issuers. The percentage of the Fund's assets invested for capital appreciation or high income or both will vary at any time in accordance with the investment manager's appraisal of what securities will best meet the Fund's objective of high total return.

The Fund may invest a portion of its total assets in the securities of registered closed-end management investment companies ("closed-end funds"), which are traded on a national securities exchange or in the over-the-counter markets and which the investment manager believes are undervalued in the marketplace. Consistent with its objective of capital appreciation, the Fund may also purchase securities issued by unit investment trusts ("UITs"), when in the manager's view such securities are trading at a discount from net asset value. The Fund's investment in the securities of closed-end funds and UITs will be subject to certain restrictions and conditions imposed by the 1940 Act. (See "1940 Act Provisions" in the Statement of Additional Information.) The Fund may, consistent with its investment objective, invest in any securities of any closed-end fund without regard to whether the investment objectives and policies of such closed-end fund are similar to or consistent with those of the Fund.

Franklin Advisers, Inc. (the "Manager" or "Advisers") will consider the following, among other factors, in evaluating closed-end funds: (i) the historical mar-

ket discounts, (ii) portfolio characteristics, (iii) repurchase, tender offer, and dividend reinvestment programs, (iv) provisions for converting into an open-end fund, and (v) quality of management.

The securities of closed-end funds in which the Fund invests are traded on a national securities exchange or in the over-the-counter markets. The Fund invests in the securities of closed-end funds which, at the time of investment by the Fund, are either trading at a discount to net asset value or which, in the opinion of the Manager, present an opportunity for capital appreciation or high income irrespective of whether such securities are trading at a discount or at a premium to net asset value. There can be no assurance that the market value of the securities of the closed-end funds in which the Fund invests will increase, particularly with respect to securities trading at a premium to net asset value. For further information regarding the conditions under which the securities of a closed-end fund may trade at a discount to net asset value, see "Characteristics of the Closed-End Funds in Which the Fund Will Invest" in the Statement of Additional Information.

In anticipation of and during temporary defensive periods or when investments of the type in which the Fund intends to invest are not available at prices that the Manager believes are attractive, the Fund may invest up to 100% of its total assets in: (1) securities of the U.S. government and certain of its agencies and instrumentalities, which mature in one year or less from the date of purchase, including U.S. Treasury bills, notes and bonds, and securities of the Government National Mortgage Association, the Federal Housing Administration and other agency or instrumentality issues or guarantees which are supported by the full faith and credit of the United States; (2) obligations issued or guaranteed by other U.S. government agencies or instrumentalities, some of which are supported by the right of the issuer to borrow from the U.S. government (e.g., obligations of the Federal Home Loan Banks) and some of which are backed by the credit of the issuer itself (e.g., obligations of the Student Loan Marketing Association); (3) bank obligations, including negotiable or non-negotiable certificates of deposit (subject to the 10% aggregate limit on the Fund's investment in illiquid securities), letters of credit and bankers' acceptances, or instruments secured by such obligations, issued by banks and savings institutions which are subject to regulation by the U.S. government, its agencies or instrumentalities and which have assets of over one billion dollars, unless such obligations are guaranteed by a parent bank which has total assets in excess of five billion dollars; (4) commercial paper considered by the Manager to be of high quality, which must be rated within the two highest grades by Standard & Poor's Corporation ("S&P") or Moody's Investors Service ("Moody's") or, if not rated, issued by a company having an outstanding debt issue rated at least AA by S&P or Aa by Moody's; and (5) corporate obligations including, but not limited to, corporate notes, bonds and debentures considered by the Manager to be high grade or which are rated within the two highest rating categories by S&P and Moody's. (See "Appendix" in this Prospectus for a discussion of ratings.)

OPTIONS STRATEGIES

When seeking high current income to achieve its investment objective of high total return, the Fund may write covered call options on any of the securities it actually owns which are listed for trading on a national securities exchange, and it may also purchase listed call and put options for portfolio hedging purposes.

Call options are short-term contracts (generally having a duration of nine months or less) which give the purchaser of the option the right to buy,

and obligate the writer to sell, the underlying security at the exercise price at any time during the option period, regardless of the market price of the underlying security. The purchaser of an option pays a cash premium, which typically reflects, among other things, the relationship of the exercise price to the market price and the volatility of the underlying security, the remaining term of the option, supply and demand factors, and interest rates.

Call options written by the Fund give the holder the right to buy the underlying security from the Fund at a stated exercise price upon exercising the option at any time prior to its expiration. A call option written by the Fund is "covered" if the Fund owns or has an absolute right (such as by conversion) to the underlying security covered by the call. A call option is also covered if the Fund holds a call on the same security and in the same principal amount as the call written and the exercise price of the call held (a) is equal to or less than the exercise price of the call written or (b) is greater than the exercise price of the call written if the difference is maintained by the Fund in cash, government securities or other high grade debt obligations in a segregated account with its custodian.

When the Fund writes or sells covered call options, it will receive a cash premium which can be used in whatever way is believed by the Manager to be most beneficial to the Fund. The risks associated with covered option writing are that in the event of a price rise on the underlying security which would likely trigger the exercise of the call option, the Fund will not participate in the increase in price beyond the exercise price. It will generally be the Fund's policy, in order to avoid the exercise of a call option written by it, to cancel its obligation under the call option by entering into a "closing purchase transaction," if available, unless it is determined to be in the Fund's interest to deliver the underlying securities from its portfolio. A closing purchase transaction consists of the Fund purchasing an option having the same terms as the option written by the Fund, and has the effect of cancelling the Fund's position as a writer of such an option. The premium which the Fund will pay in executing a closing purchase transaction may be higher or lower than the premium it received when writing the option, depending in large part upon the relative price of the underlying security at the time of each transaction.

One risk involved in both the purchase and sale of options is that the Fund may not be able to effect a closing purchase transaction at a time when it wishes to do so or at an advantageous price. There is no assurance that a liquid market will exist for a given contract or option at any particular time. To mitigate this risk, the Fund will ordinarily purchase and write options only if a secondary market for the option exists on a national securities exchange or in the over-the-counter market. Another risk is that during the option period, if the Fund has written a covered call option, it will have given up the opportunity to profit from a price increase in the underlying securities above the exercise price in return for the premium on the option (although, of course, the premium can be used to offset any losses or add to the Fund's income) but, as long as its obligation as a writer of such an option continues, the Fund will have retained the risk of loss should the price of the underlying security decline. In addition, the Fund has no control over the time when it may be required to fulfill its obligation as a writer of the option; once the Fund has received an exercise notice, it cannot effect a closing transaction in order to terminate its obligation under the option and must deliver the underlying securities at the exercise price. The aggregate premiums paid on all such options which are held at any time will not exceed 20% of the Fund's total net assets.

The Fund may also purchase put options on common stock that it owns or may acquire through the conversion or exchange of other securities to protect against a decline in the market value of the underlying security or to protect the unrealized gain in an appreciated security in its portfolio without actually selling the security. A put option gives the holder the right to sell the underlying security at the option exercise price at any time during the option period. The Fund may pay for a put either separately or by paying a higher price for securities which are purchased subject to a put, thus increasing the cost of the securities and reducing the yield otherwise available from the same securities.

In the case of put options, any gain realized by the Fund will be reduced by the amount of the premium and transaction costs it paid and may be offset by a decline in the value of its portfolio securities. If the value of the underlying stock exceeds the exercise price (or never declines below the exercise price), the Fund may suffer a loss equal to the amount of the premium it paid plus transaction costs. The Fund may also close out its option positions before they expire by entering into a closing purchase transaction as discussed above and subject to the same risks.

To the extent that the Fund does invest in options, it may be limited by the requirements of the Internal Revenue Code of 1986, as amended (the "Code"), for qualification as a regulated investment company. Such investments will be subject to special tax rules that may affect the amount, character and timing of income earned by the Fund and distributed to shareholders. For more information, see the "Additional Information Regarding Taxation" section of the Statement of Additional Information.

OTHER CONSIDERATIONS

While the Fund intends to operate as a non-diversified, open-end management investment company for purposes of the 1940 Act, it intends to qualify as a regulated investment company under the Code. As a non-diversified investment company under the 1940 Act, the Fund may invest more than 5% and up to 25% of its assets in the securities of any one issuer at the time of purchase. However, for purposes of the Code, as of the last day of any fiscal quarter, the Fund may not have more than 25% of its total assets invested in any one issuer, and, with respect to 50% of its total assets, the Fund may not have more than 5% of its total assets invested in any one issuer, nor may it own more than 10% of the outstanding voting securities of any one issuer. These limitations do not apply to investments in securities issued or guaranteed by the U.S. government or its agencies or instrumentalities or to securities of investment companies that qualify as regulated investment companies under the Code.

The Fund is subject to a number of other investment restrictions which may only be changed by the affirmative vote of a majority of the Fund's outstanding shares. Further information on investment restrictions is included in the Statement of Additional Information.

SOME OF THE FUND'S OTHER INVESTMENT POLICIES

For the purpose of earning additional income, the Fund may also engage to a limited extent in the following investment practices each of which may involve certain special risks. The Statement of Additional Information contains more detailed information about these practices, including limitations designed to reduce these risks.

Lending of Portfolio Securities. With approval of the Board of Trustees and subject to the following conditions, the Fund may lend its portfolio securities to qualified securities dealers or other institutional investors, provided that such loans do not exceed 25% of the value of the Fund's total assets at the time

of the most recent loan, and further provided that the borrower deposits and maintains 102% cash collateral for the benefit of the Fund. The lending of securities is a common practice in the securities industry. The Fund will engage in security loan arrangements with the primary objective of increasing the Fund's income either through investing the cash collateral in short-term, interest bearing obligations or by receiving a loan premium from the borrower. Under the securities loan agreement, the Fund will continue to be entitled to all dividends or interest on any loaned securities. As with any extension of credit, there are risks of delay in recovery and loss of rights in the collateral should the borrower of the security fail financially.

Repurchase Agreements. The Fund may engage in repurchase transactions, in which the Fund purchases a U.S. government security subject to resale to a bank or dealer at an agreed-upon price and date. The transaction requires the collateralization of the seller's obligation by the transfer of securities with an initial market value, including accrued interest, equal to at least 102% of the dollar amount invested by the Fund in each agreement, with the value of the underlying security marked to market daily to maintain coverage of at least

100%. A default by the seller might cause the Fund to experience a loss or delay in the liquidation of the collateral securing the repurchase agreement. The Fund might also incur disposition costs in liquidating the collateral. However, the Fund intends to enter into repurchase agreements only with government securities dealers recognized by the Federal Reserve Board or with member banks of the Federal Reserve System. Under the 1940 Act, a repurchase agreement is deemed to be the loan of money by the Fund to the seller, collateralized by the underlying security. The U.S. government security subject to resale (the collateral) will be held pursuant to a written agreement and the Fund's custodian will take title to, or actual delivery of, the security.

Borrowing. As a matter of fundamental policy, the Fund does not borrow money or mortgage or pledge any of its assets, except that it may borrow up to 15% of its total assets (including the amount borrowed) from banks in order to meet redemption requests that might otherwise require the untimely disposition of portfolio securities or for other temporary or emergency purposes and may pledge its assets in connection therewith. The Fund will not purchase any securities while any such borrowings exceed 5% of its total assets.

Short-Selling. The Fund may make short sales, which are transactions in which the Fund sells a security it does not own in anticipation of a decline in the market value of that security. To complete such a transaction, the Fund must borrow the security to make delivery to the buyer. The Fund then is obligated to replace the security borrowed by purchasing it at the market price at the time of replacement. The price at such time may be more or less than the price at which the security was sold by the Fund. Until the security is replaced, the Fund is required to pay to the lender any dividends or interest which accrue during the period of the loan. To borrow the security, the Fund also may be required to pay a premium, which would increase the cost of the security sold. The proceeds of the short sale will be retained by the broker, to the extent necessary to meet margin requirements, until the short position is closed out.

The Fund will incur a loss as a result of the short sale 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 will realize a gain if the security declines in price between those dates. The amount of any gain will be decreased, and the amount of any loss increased, by the amount of any premium, dividends or in-

terest the Fund may be required to pay in connection with a short sale.

No securities will be sold short if, after effect is given to any such short sale, the total market value of all securities sold short would exceed 25% of the value of the Fund's net assets. In addition, short sales of the securities of any single issuer, which must be listed on a national exchange, may not exceed 5% of the Fund's net assets or 5% of any class of such issuer's securities.

The Fund will place in a segregated account with its custodian bank an amount of cash or U.S. government securities equal to the difference between (a) the market value of the securities sold short at the time they were sold short and (b) any cash or U.S. government securities required to be deposited as collateral with the broker in connection with the short sale (not including the proceeds from the short sale). This segregated account will be marked to market daily, provided that at no time will the amount deposited in it plus the amount deposited with the broker as collateral be less than the market value of the securities at the time they were sold short.

In addition to the short sales discussed above, the Fund also may make short sales "against the box," i.e., when a security identical to one owned by the Fund is borrowed and sold short. The Fund at no time will have more than 15% of the value of its net assets in deposits on short sales against the box.

Any of the Fund's fundamental policies may be changed only by the affirmative vote of a majority of the Fund's outstanding shares.

HOW SHAREHOLDERS PARTICIPATE IN THE RESULTS OF THE FUND'S ACTIVITIES

The assets of the Fund are invested in portfolio securities. If the securities owned by the Fund increase in value, the value of the shares of the Fund which the shareholder owns will increase. If the securities owned by the Fund decrease in value, the value of the shareholder's shares will also decline. In this way, shareholders participate in any change in the value of the securities owned by the Fund.

In addition to the factors which affect the value of individual securities, as described in the preceding sections, a shareholder may anticipate that the value of Fund shares will fluctuate with movements in the broader equity and bond markets, as well. To the extent the Fund's investments consist of debt securities, changes in interest rates will affect the value of the Fund's portfolio and thus its share price. Increased rates of interest which frequently accompany higher inflation and/or a growing economy are likely to have a negative effect on the value of Fund shares. To the extent the Fund's investments consist of common stocks, a decline in the market, expressed for example by a drop in the Dow Jones Industrials or the Standard & Poor's 500 average or any other equity based index, may also be reflected in declines in the Fund's share price. History reflects both increases and decreases in the prevailing rate of interest and in the valuation of the market, and these may reoccur unpredictably in the future.

RISK FACTORS/SPECIAL CONSIDERATIONS

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SUMMARY

An investment in shares of the Fund involves certain speculative considerations. An investment in shares of the Fund may involve a higher degree of risk than an investment in shares of more traditional open-end, diversified investment companies because the Fund may invest up to 100% of its assets in the securities of issuers (including closed-end funds) with less than three years continuous operation. The securities of certain closed-end funds in which the Fund will invest may lack a liquid secondary market; for further information see "Char-

acteristics of the Closed-End Funds in Which the Fund Will Invest" in the Statement of Additional Information. The Fund also may invest up to 25% of its assets in (i) securities of an issuer in default with respect to such securities and/or (ii) high yielding, fixed-income securities with limited market liquidity. Such securities, which are commonly referred to as "junk bonds" in the popular media, are subject to the risk that the issuer will be unable to pay interest or repay principal and are sensitive to fluctuations in interest rates as well as individual corporate developments. Further information is included under "Additional Risk Factors/Special Considerations Relating to Fixed-Income Securities" below.

As a non-diversified investment company, for purposes of the 1940 Act, the Fund may concentrate its investments in the securities of a smaller number of issuers than if it were a diversified company under the 1940 Act. An investment in the Fund therefore will entail greater risk than an investment in a diversified investment company because a higher percentage of investments among fewer issuers may result in greater fluctuation in the total market value of the Fund's portfolio, and economic, political or regulatory developments may have a greater impact on the value of the Fund's portfolio than would be the case if the portfolio were diversified among more issuers. However, the Fund intends to comply with the diversification and other requirements applicable to regulated investment companies under the Code. (See "Other Considerations.") All securities in which the Fund may invest are inherently subject to market risk, and the market value of the Fund's investments will fluctuate.

The Fund, by investing in securities of closed-end funds, indirectly pays a portion of the operating expenses, management expenses and brokerage costs of such companies. Thus, shareholders will indirectly pay higher total management and operating expenses and other costs than they would otherwise incur if they directly owned the securities of such closed-end funds. The Fund's shareholders will also incur some duplicative costs such as advisory, administrative and brokerage fees. The Fund's investment strategy may result (i) in duplicative holdings, if two or more of the closed-end funds in whose securities the Fund invests own the same portfolio security and/or (ii) in situations whereby one closed-end fund in whose securities the Fund invests buys a portfolio security that another closed-end fund in whose securities the Fund invests is selling. However, the Fund offers the opportunity for a professionally managed portfolio of the securities of different closed-end funds and/or other companies that the investment manager believes are undervalued in the marketplace.

ADDITIONAL RISK FACTORS/SPECIAL CONSIDERATIONS RELATING TO FIXED-INCOME SECURITIES

The Fund also may invest up to 25% of its total assets (as measured at the time of such investment) in other securities, including fixed-income and convertible securities of an issuer in default with respect to such securities, that the Manager believes represent intrinsic values not reflected in the current market prices of such securities. These securities may be non-rated debt and/or debt rated D, the lowest rating category by S&P and Moody's. Debt rated D is in default, and payment of interest and/or repayment of principal is in arrears.

Such debt obligations are rated below investment grade and are regarded as extremely speculative investments with respect to capacity to pay interest and repay principal in accordance with the terms of the obligation. Such securities are also generally considered to be subject to greater risk than securities with higher ratings with regard to a general deterioration of prevailing economic conditions. Further information concerning the ratings of debt obligations, including the rating categories of S&P and

Moody's, is provided in the Appendix to this Prospectus. Of course, there can be no assurance that the Fund will achieve its goal of total return with respect to such investments because any perceived intrinsic values may never be reflected in the market price for such securities. The market values of fixed-income and convertible securities of an issuer in default with respect to such securities tend to reflect the particular economic circumstances of the issuer to a greater extent than securities of other issuers and, therefore, the risks associated with acquiring such securities may be greater than would be the case with other securities. Moreover, the risks and special considerations described in this section with respect to high yielding, fixed-income securities are also applicable to the fixed-income and convertible securities of an issuer in default. The Fund did not purchase any such securities during the fiscal year ended October 31, 1993.

The Fund also may, consistent with its investment objective, invest its assets in fixed-income and convertible securities offering high current income (subject to the 25% of total assets limitation previously noted under this heading). Such high yielding, fixed-income securities will ordinarily be in the lower rating categories of recognized rating agencies or will be non-rated. The market values of such securities tend to reflect individual corporate developments to a greater extent than do higher rated securities, which react primarily to fluctuations in the general level of interest rates, and tend to be more sensitive to economic conditions and generally have more volatile prices than higher rated securities. Companies that issue high yielding, fixed-income securities are often highly leveraged and may not have available to them more traditional methods of financing. In addition, the relative youth and accelerated growth of the high yielding, fixed-income securities market during favorable economic conditions without weathering a major economic recession, the potential for legislative proposals to limit the use of certain high yielding securities and the potential that the credit ratings of high yielding securities may not change on a timely basis to reflect subsequent developments present special risks with respect to the Fund's investment in such securities. Therefore, the risk associated with acquiring the securities of such issuers generally is greater than is the case with higher rated securities. The Fund may retain a security which subsequent to the Fund's investment in such security has its rating lowered if, under the circumstances, the Manager determines such continued investment is consistent with the Fund's investment objective.

High yielding, fixed-income securities frequently have call or buy-back features which would permit an issuer to call or repurchase the security from the Fund. In addition, the Fund may have difficulty disposing of such high yielding securities because there may be a thin trading market for such securities. There is no established retail secondary market for many of these securities, and the Fund anticipates that such securities could be sold only to a limited number of dealers or institutional investors. The lack of a liquid secondary market may also have an adverse impact on market price and may make it more difficult for the Fund to obtain accurate market quotations for purposes of valuing the Fund's portfolio. The Fund may also acquire high yielding, fixed-income securities during an initial underwriting or which are sold without registration under the federal securities laws. Such securities involve special considerations and risks.

Factors having an adverse effect on the market value of high yielding securities, to the extent the Fund has invested in such securities, will adversely impact the Fund's net asset value. In addition to the factors noted above, such factors include: (i) potential adverse publicity; (ii) heightened sensitivity to general economic conditions; and (iii) likely ad-

verse impact of an economic recession or downturn. The Fund may also incur additional expenses to the extent it is required to seek recovery upon a default in the payment of principal or interest on its portfolio holdings. (The Statement of Additional Information contains further information relating to fixed-income securities.)

MANAGEMENT OF THE FUND

The Board of Trustees has the primary responsibility for the overall management of the Fund and for electing the officers of the Fund who are responsible for administering its day-to-day operations.

Franklin Advisers, Inc., serves as the Fund's investment manager. Advisers is a wholly-owned subsidiary of Franklin Resources, Inc. ("Resources"), a publicly owned holding company, the principal shareholders of which are Charles B. Johnson, Rupert H. Johnson, Jr. and R. Martin Wiskemann, who own approximately 20%, 16% and 10%, respectively, of Resources' outstanding shares. Through its subsidiaries, Resources is engaged in various aspects of the financial services industry. Advisers acts as investment manager to 33 U.S. registered investment companies (111 separate series) with aggregate assets of over $75 billion.

Pursuant to the management agreement, the Manager supervises and implements the Fund's investment activities and provides certain administrative services and facilities which are necessary to conduct the Fund's business.

For fiscal year ended October 31, 1993, Advisers did not impose any management fees and, in addition, assumed responsibility for making payments to offset operating expenses otherwise payable by the Fund. Without this action, the Fund would have paid management fees of .63% of its average daily net assets and total operating expenses, including management fees, of 1.85% of its average daily net assets. This action by Advisers to limit its management fees and assume responsibility for payment of expenses related to the operations of the Fund may be terminated by Advisers at any time.

Among the responsibilities of the Manager under the management agreement is the selection of brokers and dealers through whom transactions in the Fund's portfolio securities will be effected. The Manager tries to obtain the best execution on all such transactions. If it is felt that more than one broker is able to provide the best execution, the Manager will consider the furnishing of quotations and of other market services, research, statistical and other data for the Manager and its affiliates, as well as the sale of shares of the Fund, as factors in selecting a broker. Further information is included under "The Fund's Policies Regarding Brokers Used on Portfolio Transactions" in the Statement of Additional Information.

Shareholder accounting and many of the clerical functions for the Fund are performed by Franklin/Templeton Investor Services, Inc. ("Investor Services" or "Shareholder Services Agent"), in its capacity as transfer agent and dividend-paying agent. Investor Services is a wholly-owned subsidiary of Resources.

DISTRIBUTIONS TO SHAREHOLDERS

There are two types of distributions which the Fund may make to its shareholders:

1. Income dividends. The Fund receives income in the form of dividends, interest and other income derived from its investments. This income, less the expenses incurred in the Fund's operations, is its net investment income from which income dividends may be distributed. Thus, the amount of dividends paid per share may vary with each distribution.

2. Capital gain distributions. The Fund may derive capital gains or losses in connection with sales or other dispositions of its portfolio securities. Distri-

butions by the Fund derived from net short-term and net long-term capital gains (after taking into account any net capital loss carryovers) may generally be made once a year in December to reflect any net short-term and net long-term capital gains realized by the Fund as of October 31 of the current fiscal year and any undistributed net capital gains from the prior fiscal year. The Fund may make more than one distribution derived from net short-term and net long-term capital gain in any year or adjust the timing of these distributions for operational or other reasons.

DISTRIBUTION DATE

Although subject to change by the Fund's Board of Trustees, without prior notice to or approval by shareholders, the Fund's current policy is to declare income dividends quarterly, payable in March, June, September and December, for shareholders of record on the 14th day of the month or prior business day, payable on or about the last business day of that month.

The amount of income dividend payments by the Fund is dependent upon the amount of net income received by the Fund from its portfolio holdings, is not guaranteed, and is subject to the discretion of the Fund's Board of Trustees. Fund shares are quoted ex-dividend on the first business day following the record date. THE FUND DOES NOT PAY "INTEREST" OR GUARANTEE ANY FIXED RATE OF RETURN ON AN INVESTMENT IN ITS SHARES.

In order to be entitled to a dividend, an investor must have acquired Fund shares prior to the close of business on the record date. An investor considering purchasing Fund shares shortly before the record date of a distribution should be aware that because the value of the Fund's shares is based directly on the amount of its net assets, rather than on the principle of supply and demand, any distribution of income or capital gain will result in a decrease in the value of the Fund's shares equal to the amount of the distribution. While a dividend or capital gain distribution received shortly after purchasing shares represents, in effect, a return of a portion of the shareholder's investment, it may be taxable as dividend income or capital gain.

DIVIDEND REINVESTMENT

Unless requested otherwise, in writing or on the Shareholder Application, income dividends and capital gain distributions, if any, will be automatically reinvested in the shareholder's account in the form of additional shares, valued at the closing net asset value (without sales charge) on the dividend reinvestment date. Shareholders have the right to change their election with respect to the receipt of distributions by notifying the Fund, but any such change will be effective only as to distributions for which the record date is seven or more business days after the Fund has been notified. See the Statement of Additional Information for more information.

Many of the Fund's shareholders receive their distributions in the form of additional shares. This is a convenient way to accumulate additional shares and maintain or increase the shareholder's earnings base. Of course, any shares so acquired remain at market risk.

DISTRIBUTIONS IN CASH

A shareholder may elect to receive income dividends, or both income dividends and capital gain distributions, in cash. By completing the "Special Payment Instructions for Distributions" section of the Shareholder Application included with this Prospectus, a shareholder may direct the selected distributions to another fund in the Franklin Group of Funds(R) or the Templeton Group, to another person, or directly to a checking account. If the bank at which the account is maintained is a member of the Automated Clearing House, the payments may be made automatically by electronic funds trans-

fer. If this last option is requested, the shareholder should allow at least 15 days for initial processing. Dividends which may be paid in the interim period will be sent to the address of record. Additional information regarding automated fund transfers may be obtained from Franklin's Shareholder Services Department. Dividend and capital gain distributions are eligible for investment in another fund in the Franklin Group of Funds or the Templeton Group at net asset value.

TAXATION OF THE FUND AND ITS SHAREHOLDERS

The following discussion reflects some of the tax considerations that affect mutual funds and their shareholders. Additional information on tax matters relating to the Fund and its shareholders is included in the section entitled "Additional Information Regarding Taxation" in the Statement of Additional Information.

The Fund has elected to be treated as a regulated investment company under Subchapter M of the Code. By distributing all of its income and meeting certain other requirements relating to the sources of its income and diversification of its assets, the Fund will not be liable for federal income or excise taxes.

For federal income tax purposes, any income dividends which the shareholder receives from the Fund, as well as any distributions derived from the excess of net short-term capital gain over net long-term capital loss, are treated as ordinary income whether the shareholder has elected to receive them in cash or in additional shares.

For corporate shareholders, 60.38% of the income dividends paid by the Fund for the fiscal year ended October 31, 1993, qualified for the corporate dividends-received deduction, subject to certain holding period and debt financing restrictions imposed under the Code on the corporation claiming the deduction. These restrictions are discussed in the Statement of Additional Information.

Distributions derived from the excess of net long-term capital gain over net short-term capital loss are treated as long-term capital gain regardless of the length of time the shareholder has owned Fund shares and regardless of whether such distributions are received in cash or in additional shares.

Pursuant to the Code, certain distributions which are declared in October, November or December but which, for operational reasons, may not be paid to the shareholder until the following January, will be treated for tax purposes as if received by the shareholder on December 31 of the calendar year in which they are declared.

Redemptions and exchanges of Fund shares are taxable events on which a shareholder may realize a gain or loss. Any loss incurred on sale or exchange of the Fund's shares, held for six months or less, will be treated as a long-term capital loss to the extent of capital gain dividends received with respect to such shares. All or a portion of the sales charge incurred in purchasing shares of the Fund will not be included in the federal tax basis of such shares sold or exchanged within ninety (90) days of their purchase (for purposes of determining gain or loss with respect to such shares) if the sales proceeds are reinvested in the Fund or in another fund in the Franklin/Templeton Group and a sales charge which would otherwise apply to the reinvestment is reduced or eliminated. Any portion of such sales charge excluded from the tax basis of the shares sold will be added to the tax basis of the shares acquired in the reinvestment. Shareholders should consult with their tax advisors concerning the tax rules applicable to the redemption or exchange of Fund shares.

The Fund will inform shareholders of the source of their dividends and distributions at the time they

are paid and will promptly, after the close of each calendar year, advise them of the tax status for federal income tax purposes of such dividends and distributions.

Shareholders who are not U.S. persons for purposes of federal income taxation should consult with their financial or tax advisors regarding the applicability of U.S. withholding or other taxes to distributions received by them from the Fund and the application of foreign tax laws to these distributions.

Shareholders should also consult their tax advisors with respect to the applicability of any state and local intangible property or income taxes to their shares of the Fund and distributions and redemption proceeds received from the Fund.

HOW TO BUY SHARES OF THE FUND

Shares of the Fund are continuously offered through securities dealers which execute an agreement with Distributors, the principal underwriter of the Fund's shares. The use of the term "securities dealer" shall include other financial institutions which, pursuant to an agreement with Distributors (directly or through affiliates), handle customer orders and accounts with the Fund. Such reference however is for convenience only and does not indicate a legal conclusion of capacity. The minimum initial investment is $2,500 and subsequent investments must be $100 or more. These minimums may be waived when the shares are purchased through plans established at Franklin. For investments by retirement plans, the investments are $1,000 and $100, respectively. The Fund and Distributors reserve the right to refuse any order for the purchase of shares.

PURCHASE PRICE OF FUND SHARES

Shares of the Fund are offered at the public offering price, which is the net asset value per share plus a sales charge, next computed (1) after the shareholder's securities dealer receives the order which is promptly transmitted to the Fund, or (2) after receipt of an order by mail from the shareholder directly in proper form (which generally means a completed Shareholder Application accompanied by a negotiable check). The sales charge is a variable percentage of the offering price depending upon the amount of the sale. On orders for 100,000 shares or more, the offering price will be calculated to four decimal places. On orders for less than 100,000 shares, the offering price will be calculated to two decimal places using standard rounding criteria. A description of the method of calculating net asset value per share is included under the caption "Valuation of Fund Shares."

Set forth below is a table of total sales charges or underwriting commissions and dealer concessions:

SIZE OF TRANSACTION AT OFFERING PRICE	TOTAL SALES CHARGE AS A PERCENTAGE OF OFFERING PRICE	TOTAL SALES CHARGE AS A PERCENTAGE OF NET AMOUNT INVESTED	DEALER CONCESSION AS A PERCENTAGE OF OFFERING PRICE*
Less than $500,000	1.50%	1.52%	1.50%
$500,000 but less than $1,000,000	1.00%	1.01%	1.00%
$1,000,000 but under $5,000,000	0.50%	0.50%	0.50%
$5,000,000 and over	None	None	None

*Financial institutions or their affiliated brokers may receive an agency transaction fee in the percentages set forth above.

All of all such sales charges are paid to the securities dealer, if any, involved in the trade who may therefore be deemed an "underwriter" under the Securities Act of 1933, as amended.

The size of a transaction which determines the applicable sales charge on the purchase of Fund shares is determined by adding the amount of the shareholder's current purchase plus the cost or current value (whichever is higher) of a shareholder's existing investment in one or more of many of the funds in the Franklin Group of Funds and in the Templeton Group of Funds. Included for these purposes are (a) the open-end investment companies in the Franklin Group (except Franklin Valuemark II and Franklin Government Securities Trust) (the "Franklin Group of Funds"), (b) other investment products underwritten by Distributors or its affiliates (although certain investments may not have the same schedule of sales charges and/or may not be subject to reduction) (the products in subparagraphs (a) and (b) are referred to as the "Franklin Group"), and (c) the open-end U.S. registered investment companies in the Templeton Group of Funds except Templeton American Trust, Inc., Templeton Capital Accumulator Fund, Inc., Templeton Variable Annuity Fund, and Templeton Variable Products Series Fund (the "Templeton Group"). Sales charge reductions based upon purchases in more than one of the funds in the Franklin Group or the Templeton Group (the "Franklin/Templeton Group") may be effective only after notification to Distributors that the investment qualifies for a discount.

Distributors or its affiliates, at their expense, may also provide additional compensation to dealers in connection with sales of shares of the Fund and other funds in the Franklin Group of Funds or the Templeton Group. Compensation may include financial assistance to dealers in connection with conferences, sales or training programs for their employees, seminars for the public, advertising, sales campaigns and/or shareholder services and programs regarding one or more of the Franklin Group of Funds or the Templeton Group and other dealer-sponsored programs or events. In some instances, this compensation may be made available only to certain dealers whose representatives have sold or are expected to sell significant amounts of such shares. Compensation may include payment for travel expenses, including lodging, incurred in connection with trips taken by invited registered representatives and members of their families to locations within or outside of the United States for meetings or seminars of a business nature. Dealers may not use sales of the Fund's shares to qualify for this compensation to the extent such may be prohibited by the laws of any state or any self-regulatory agency, such as the National Association of Securities Dealers, Inc. None of the aforementioned additional compensation is paid for by the Fund or its shareholders.

Distribution Plan. The Fund has adopted a Plan pursuant to Rule 12b-1 under the 1940 Act (the "Plan"), whereby it reimburses Distributors or others in an amount equal to 0.25% per annum of the average daily net assets of the Fund for expenses incurred by such parties for the promotion and distribution of the shares of the Fund, including but not limited to, the printing of prospectuses, statements of additional information and reports used for sales purposes, expenses (including personnel of Distributors) of preparation of sales literature and related expenses, advertisements and other distribution-related expenses, including a prorated portion of Distributors' overhead expenses attributable to the distribution of Fund shares. Such payments are made monthly. In addition, pursuant to the Plan, the Fund may pay Distributors or others a service fee to reimburse such parties for personal services provided to shareholders of the Fund and/or the maintenance of shareholder accounts. The total amount of service fees paid by the Fund shall not exceed 0.25% per year

of the average daily net assets of the Fund. Such payments are made pursuant to distribution and/or service agreements entered into between such service providers and Distributors or the Fund directly. The maximum amount which the Fund may pay on a yearly basis for the promotion and distribution of shares, including service fees, is 0.50% per year of the average daily net assets of the Fund. Payments in excess of reimbursable expenses under the Plan in any year must be refunded. Further, expenses of Distributors other than for service fees in excess of 0.25% per year of the Fund's average net assets that otherwise qualify for payment may not be carried forward into successive annual periods.

The Plan also covers payments by certain parties to the extent such payments are deemed to be for the financing of any activity primarily intended to result in the sale of shares issued by the Fund within the context of rule 12b-1. The payments under the Plan are included in the maximum operating expenses which may be borne by the Fund.

Certain officers and trustees of the Fund are also affiliated with Distributors. A detailed description is included in the Statement of Additional Information.

QUANTITY DISCOUNTS IN SALES CHARGES

Shares may be purchased under a variety of plans which provide for a reduced sales charge. To be certain to obtain the reduction of the sales charge, the investor or the dealer should notify Distributors at the time of each purchase of shares which qualifies for the reduction. In determining whether a purchase qualifies for any of the discounts, investments in any of the Franklin/Templeton Group, other than Franklin Valuemark II, may be combined with those of the investor's spouse and children under the age of 21. In addition, the aggregate investments of a trustee or other fiduciary account (for an account under exclusive investment authority) may be considered in determining whether a reduced sales charge is available, even though there may be a number of beneficiaries of the account.

In addition, an investment in the Fund may qualify for a reduction in the sales charge under the following programs:

1. Rights of Accumulation. The cost or current value (whichever is higher) of existing investments in the Franklin/Templeton Group may be combined with the amount of the current purchase in determining the sales charge to be paid.

2. Letter of Intent. An investor may immediately qualify for a reduced sales charge on a purchase of shares of the Fund by completing the Letter of Intent section of the Shareholder Application (the "Letter of Intent" or "Letter"). By completing the Letter, the investor expresses an intention to invest during the next 13 months a specified amount which if made at one time would qualify for a reduced sales charge. At any time within 90 days after the first investment which the investor wants to qualify for the reduced sales charge, a signed Shareholder Application, with the Letter of Intent section completed, may be filed with the Fund. After the Letter of Intent is filed, each additional investment made will be entitled to the sales charge applicable to the level of investment indicated on the Letter of Intent as described above. Sales charge reductions based upon purchases in more than one company in the Franklin/Templeton Group will be effective only after notification to Distributors that the investment qualifies for a discount. The shareholder's holdings in the Franklin/Templeton Group acquired more than 90 days before the Letter of Intent is filed will be counted towards completion of the Letter of Intent but will not be entitled to a retroactive downward adjustment of the sales charge. Any redemptions made by the shareholder during the 13-month period will be subtracted from the amount of the purchases for purposes of determining whether the

terms of the Letter of Intent have been completed. If the Letter of Intent is not completed within the 13-month period, there will be an upward adjustment of the sales charge as specified below, depending upon the amount actually purchased (less redemptions) during the period.

AN INVESTOR ACKNOWLEDGES AND AGREES TO THE FOLLOWING PROVISIONS BY COMPLETING THE LETTER OF INTENT SECTION OF THE SHAREHOLDER APPLICATION: Five percent (5%) of the amount of the total intended purchase will be reserved in shares of the Fund, registered in the investor's name, to assure that the full applicable sales charge will be paid if the intended purchase is not completed. The reserved shares will be included in the total shares owned as reflected on periodic statements; income and capital gain distributions on the reserved shares will be paid as directed by the investor. The reserved shares will not be available for disposal by the investor until the Letter of Intent has been completed, or the higher sales charge paid. If the total purchases, less redemptions, equal the amount specified under the Letter, the reserved shares will be deposited to an account in the name of the investor or delivered to the investor or the investor's order. If the total purchases, less redemptions, exceed the amount specified under the Letter and is an amount which would qualify for a further quantity discount, a retroactive price adjustment will be made by Distributors and the dealer through whom purchases were made pursuant to the Letter of Intent (to reflect such further quantity discount) on purchases made within 90 days before and on those made after filing the Letter. The resulting difference in offering price will be applied to the purchase of additional shares at the offering price applicable to a single purchase or the dollar amount of the total purchases. If the total purchases, less redemptions, are less than the amount specified under the Letter, the investor will remit to Distributors an amount equal to the difference in the dollar amount of sales charge actually paid and the amount of sales charge which would have applied to the aggregate purchases if the total of such purchases had been made at a single time. Upon such remittance, the reserved shares held for the investor's account will be deposited to an account in the name of the investor or delivered to the investor or to the investor's order. If within 20 days after written request such difference in sales charge is not paid, the redemption of an appropriate number of reserved shares to realize such difference will be made. In the event of a total redemption of the account prior to fulfillment of the Letter of Intent, the additional sales charge due will be deducted from the proceeds of the redemption and the balance will be forwarded to the investor. By completing the Letter of Intent section of the Shareholder Application, an investor grants to Distributors a security interest in the reserved shares and irrevocably appoints Distributors as attorney-in-fact with full power of substitution to surrender for redemption any or all shares for the purpose of paying any additional sales charge due. Purchases under the Letter of Intent will conform with the requirements of Rule 22d-1 under the 1940 Act. The investor or the investor's securities dealer must inform Investor Services or Distributors that this Letter is in effect each time a purchase is made.

Additional terms concerning the offering of the Fund's shares are included in the Statement of Additional Information.

GROUP PURCHASES

An individual who is a member of a qualified group may also purchase shares of the Fund at the reduced sales charge applicable to the group as a whole. The sales charge is based upon the aggregate dollar value of shares previously purchased and still

owned by the group, plus the amount of the current purchase. For example, if members of the group had previously invested and still held $400,000 of Fund shares and now were investing $150,000, the sales charge would be 1.00%. Information concerning the current sales charge applicable to a group may be obtained by contacting Distributors.

A "qualified group" is one which (i) has been in existence for more than six months, (ii) has a purpose other than acquiring Fund shares at a discount and (iii) satisfies uniform criteria which enable Distributors to realize economies of scale in its costs of distributing shares. A qualified group must have more than 10 members, must be available to arrange for group meetings between representatives of the Fund or Distributors and the members, must agree to include sales and other materials related to the Fund in its publications and mailings to members at reduced or no cost to Distributors, and must seek to arrange for payroll deduction or other bulk transmission of investments to the Fund.

If an investor selects a payroll deduction plan, subsequent investments will be automatic and will continue until such time as the investor notifies the Fund and the investor's employer to discontinue further investments. Due to the varying procedures used to prepare, process and forward the payroll deduction information to the Fund, there may be a delay between the time of the payroll deduction and the time the money reaches the Fund. The investment in the Fund will be made at the offering price per share determined on the day that both the check and payroll deduction data are received in required form by the Fund.

PURCHASES AT NET ASSET VALUE

Shares of the Fund may be purchased at net asset value (without sales charge) by employee benefit plans qualified under Section 401 of the Code, including salary reduction plans qualified under Section 401(k) of the Code, subject to minimum requirements with respect to number of employees or amount of purchase, which may be established by Distributors. Currently those criteria require that the employer establishing the plan have 500 or more employees or that the amount invested or to be invested during the subsequent 13-month period in the Fund or another company or companies in the Franklin/Templeton Group totals at least $1,000,000. Employee benefit plans not qualified under Section 401 of the Code may be afforded the same privilege if they meet the above requirements as well as the uniform criteria for qualified groups, previously described under Group Purchases, which enable Distributors to realize economies of scale in its sales efforts and sales related expenses. If investments by employee benefit plans at net asset value are made through a dealer who has executed a dealer agreement with Distributors, Distributors or one of its affiliates may make a payment, out of their own resources, to such dealer in an amount not to exceed 1.00% of the amount invested.

Shares of the Fund may be purchased at net asset value by trust companies and bank trust departments for funds over which they exercise exclusive discretionary investment authority and which are held in a fiduciary, agency, advisory, custodial or similar capacity. Such purchases are subject to minimum requirements with respect to amount of purchase, which may be established by Distributors. Currently, those criteria require that the amount invested or to be invested during the subsequent 13-month period in this Fund or any other company in the Franklin/Templeton Group must total at least $1,000,000. Orders for such accounts will be accepted by mail accompanied by a check, or by telephone or other means of electronic data transfer directly from the bank or trust company, with payment by federal funds received by the close of business on the next business day following such

order. If an investment by a trust company or bank trust department at net asset value is made through a dealer who has executed a dealer agreement with Distributors, Distributors or one of its affiliates may make payment, out of their own resources, to such dealer in an amount not to exceed 0.25% of the amount invested. Contact Franklin's Institutional Sales Department for additional information.

Shares of the Fund may be purchased at net asset value by persons who have redeemed, within the previous 120 days, their shares of the Fund or another fund in the Franklin Group of Funds(R) or the Templeton Group which were purchased with a sales charge. An investor may reinvest an amount not exceeding the redemption proceeds. Shares of the Fund redeemed in connection with an exchange into another fund (see "Exchange Privilege") are not considered "redeemed" for this privilege. In order to exercise this privilege, a written order for the purchase of shares of the Fund must be received by the Fund or the Fund's Shareholder Services Agent within 120 days after the redemption. The 120 days, however, do not begin to run on redemption proceeds placed immediately after redemption in a Franklin Bank Certificate of Deposit ("CD") until the CD (including any rollover) matures. Reinvestment at net asset value may also be handled by a securities dealer or other financial institution, who may charge the shareholder a fee for this service. The use of the term "securities dealer" shall include other financial institutions which, pursuant to an agreement with

Distributors (directly or through affiliates), handle customer orders and accounts with the Fund. Such reference however is for convenience only and does not indicate a legal conclusion of capacity. The redemption is a taxable transaction but a reinvestment without a sales charge may affect the amount of gain or loss recognized and the tax basis of the shares reinvested. If there has been a loss on the redemption, the loss may be disallowed if a reinvestment is made within a 30-day period. Information regarding the possible tax consequences of such a reinvestment is included in the tax section of this Prospectus and the Statement of Additional Information.

Shares of the Fund may be purchased at net asset value by investors who have, within the past 60 days, redeemed an investment in a registered management investment company which charges a contingent deferred sales charge and which has investment objectives similar to those of the Fund.

Shares of the Fund may also be purchased at net asset value by (1) officers, trustees or directors and full-time employees of the Fund or any fund in the Franklin Group of Funds or the Templeton Group, the Manager and Distributors and affiliates of such companies, if they have been such for at least 90 days, and by their spouses and family members, (2) former participants in the Franklin/Templeton Profit Sharing/401(k) plan, who elect to make a direct rollover of all, or a portion of, their eligible distribution account balance from such plan, (3) registered securities dealers and their affiliates, for their investment account only, and (4) registered personnel and employees of securities dealers and by their spouses and family members in accordance with the internal policies and procedures of the employing securities dealer. Such sales are made upon the written assurance of the purchaser that the purchase is made for investment purposes and that the securities will not be transferred or resold except through redemption or repurchase by or on behalf of the Fund. Employees of securities dealers must obtain a special application from their employers or from Franklin's Sales Department in order to qualify.

Shares of the Fund may be purchased at net asset value by anyone who has taken a distribution from an existing retirement plan already invested in the Franklin Group of Funds, or the Templeton

Group (including former participants of the Franklin/Templeton Profit Sharing 401(k) plan). In order to exercise this privilege a written order for the purchase of shares of the Fund must be received by Franklin Templeton Trust Company ("FTTC"), the Fund or Investor Services, within 120 days after the plan distribution. A prospectus outlining the investment objectives and policies of a fund in which the shareholder wishes to invest may be obtained by calling toll free at 1-800/DIAL BEN (1-800/342-5236).

Shares of the Fund may also be purchased at net asset value by any state, county, or city, or any instrumentality, department, authority or agency thereof which has determined that the Fund is a legally permissible investment and which is prohibited by applicable investment laws from paying a sales charge or commission in connection with the purchase of shares of any registered management investment company ("an eligible governmental authority"). SUCH INVESTORS SHOULD CONSULT THEIR OWN LEGAL ADVISORS TO DETERMINE WHETHER AND TO WHAT EXTENT THE SHARES OF THE FUND CONSTITUTE LEGAL INVESTMENTS FOR THEM. Municipal investors considering investment of proceeds of bond offerings into the Fund should consult with expert counsel to determine the effect, if any, of various payments made by the Fund or its investment manager on arbitrage rebate calculations. If an investment by an eligible governmental authority at net asset value is made through a dealer who has executed a dealer agreement with Distributors, Distributors or one of its affiliates may make a payment, out of their own resources, to such dealer in an amount not to exceed 0.25% of the amount invested. Contact Franklin's Institutional Sales Department for additional information.

GENERAL

Securities laws of states in which the Fund's shares are offered for sale may differ from the interpretations of federal law, and banks and financial institutions selling Fund shares may be required to register as dealers pursuant to state law.

PURCHASING SHARES OF THE FUND IN CONNECTION WITH RETIREMENT PLANS INVOLVING TAX-DEFERRED INVESTMENTS

Shares of the Fund may be used for retirement programs providing for tax-deferred investments for both individuals and businesses. The Fund may be used as an investment vehicle for an already existing retirement plan, or FTTC may provide the plan documents and trustee or custodian services. A plan document must be adopted in order for a plan to be in existence.

FTTC, an affiliate of Distributors, can serve as custodian or trustee for various types of retirement plans. Brochures for each of the plans sponsored by Franklin contain important information regarding eligibility, contribution limits and IRS requirements.

Please note that the separate applications other than the one contained in this Prospectus must be used to establish an FTTC retirement account. To obtain a retirement plan brochure or application, call toll free 1-800/DIAL BEN (1-800/342-5236).

The Franklin IRA is an individual retirement account in which the contributions, annually limited to the lesser of $2,000 or 100% of an individual's earned compensation, accumulate on a tax-deferred basis until withdrawn. Under the current tax law, individuals who (or whose spouses) are covered by a company retirement plan (termed "active participants") may be restricted in the amount they may claim as an IRA deduction on their re-

turns. The IRA deduction is gradually reduced to the extent that a taxpayer's adjusted gross income exceeds certain specified limits.

Two IRAs, with a combined limit of $2,250 or 100% of earned compensation, may be established by a married couple in which only one spouse is a wage earner. The $2,250 may be split between the two IRAs, so long as no more than $2,000 is contributed to either one for a given tax year.

A Franklin Rollover IRA account is designed to maintain the tax-deferred status of a qualifying distribution from an employer-sponsored retirement plan, such as a 401(k) plan or qualified pension plan. Additionally, if the eligible distribution is directly transferred to a rollover IRA account, the distribution will be exempt from 20% mandatory federal withholding, a new withholding law enacted in 1993.

The Franklin Simplified Employee Pension Plan (SEP-IRA) and Salary Reduction Simplified Employee Pension Plan (SAR-SEP) are for use by small businesses (generally 25 or fewer employees) to provide a retirement plan for their employees and, at the same time, provide for a tax-deduction to the employer. SEP-IRA contributions are made to an employee's IRA, at the discretion of the employer, up to the lesser of $30,000 or 15% of compensation* per employee. The SAR-SEP allows employees to contribute a portion of their salary to an IRA on a pre-tax basis through salary deferrals. The maximum annual salary deferral limit for a SAR-SEP is the lesser of 15% of compensation (adjusted for deferrals) or $9,240 (1994 limit; indexed for inflation).

The Franklin 403(b) Retirement Plan is a salary deferral plan for employees of certain non-profit and educational institutions [ss.501(c)(3) organizations and public schools]. The 403(b) Plan allows participants to determine the annual amount of salary they wish to defer. The maximum annual salary deferral amount is generally the lesser of 25% of compensation (adjusted for deferrals) or $9,500.

The Franklin Business Retirement Plans provide employers with additional retirement plan options and may be used individually, in combination, or with custom designed features. The Profit Sharing Plan allows an employer to make contributions, at its discretion, of up to the lesser of $30,000 or 15% of compensation* per employee each year. The Money Purchase Pension Plan allows the employer to contribute up to the lesser of $30,000 or 25% of compensation* per employee; however, contributions are required annually at the rate (percentage) elected by the employer at the outset of the plan. In order to achieve a combined contribution rate of 25% while maintaining a certain degree of flexibility, employers may establish both a Profit Sharing Plan and a Money Purchase Pension Plan (with a fixed contribution rate of 10%).

FTTC can add optional provisions to the Profit Sharing and Money Purchase Pension Plans described above and provide a Defined Benefit, Target Benefit, and 401(k) Plans on a custom designed basis. Business Retirement Plans, whether standard or custom designed, may require an annual report (Form 5500) to be filed with the IRS.

Redemptions from any Franklin retirement plan accounts require the completion of specific distribution forms to comply with IRS regulations. Please see "How to Sell Shares of the Fund."

Individuals and employers should consult with a competent tax or financial advisor before choosing a retirement plan.

*The limit on compensation for determining SEP and qualified plan contributions is reduced from $235,840 in 1993 to $150,000 in 1994. The new $150,000 limit will be adjusted for inflation, but only in $10,000 increments.

OTHER PROGRAMS AND PRIVILEGES AVAILABLE TO FUND SHAREHOLDERS

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CERTAIN OF THE PROGRAMS AND PRIVILEGES DESCRIBED IN THIS SECTION MAY NOT BE AVAILABLE DIRECTLY FROM THE FUND TO SHAREHOLDERS WHOSE SHARES ARE HELD, OF RECORD, BY A FINANCIAL INSTITUTION OR IN A "STREET NAME" ACCOUNT, OR NETWORKED ACCOUNT THROUGH THE NATIONAL SECURITIES CLEARING CORPORATION ("NSCC") (SEE THE SECTION CAPTIONED "ACCOUNT REGISTRATIONS" IN THIS PROSPECTUS).

SHARE CERTIFICATES

Shares for an initial investment, as well as subsequent investments, including the reinvestment of dividends and capital gain distributions, are generally credited to an account in the name of an investor on the books of the Fund, without the issuance of a share certificate. Maintaining shares in uncertificated form (also known as "plan balance") minimizes the risk of loss or theft of a share certificate. A lost, stolen or destroyed certificate cannot be replaced without obtaining a sufficient indemnity bond. The cost of such a bond, which is generally borne by the shareholder, can be 2% or more of the value of the lost, stolen or destroyed certificate. A certificate will be issued if requested in writing by the shareholder or by the broker.

CONFIRMATIONS

A confirmation statement will be sent to each shareholder quarterly to reflect the dividends reinvested during that period and after each other transaction which affects the shareholder's account. This statement will also show the total number of shares owned by the shareholder, including the number of shares in "plan balance" for the account of the shareholder.

AUTOMATIC INVESTMENT PLAN

Under the Automatic Investment Plan, a shareholder may be able to arrange to make additional purchases of shares automatically on a monthly basis by electronic funds transfer from a checking account, if the bank which maintains the account is a member of the Automated Clearing House, or by preauthorized checks drawn on the shareholder's bank account. A shareholder may, of course, terminate the program at any time. The Shareholder Application included with this Prospectus contains the requirements applicable to this program. In addition, shareholders may obtain more information concerning this program from their securities dealers or from Distributors.

The market value of the Fund's shares is subject to fluctuation. Before undertaking any plan for systematic investment, the investor should keep in mind that such a program does not assure a profit or protect against a loss.

SYSTEMATIC WITHDRAWAL PLAN

A shareholder may establish a Systematic Withdrawal Plan and receive regular periodic payments from the account, provided that the net asset value of the shares held by the shareholder is at least $5,000. There are no service charges for establishing or maintaining a Systematic Withdrawal Plan. The minimum amount which the shareholder may withdraw is $50 per withdrawal transaction although this is merely the minimum amount allowed under the plan and should not be mistaken for a recommended amount. The plan may be established on a monthly, quarterly, semiannual or annual basis. If the shareholder establishes a plan, any capital gain distributions and income dividends paid by the Fund will be reinvested for the shareholder's account in additional shares at net asset value. Payments are then made from the liquidation of shares at net asset value on the day of the transaction (which is generally the first business day of the month in which the payment is scheduled) with payment generally received by the shareholder three to five days after the date of liquidation. By completing the "Special Payment Instructions for Distributions" section of the Shareholder Application included with this Prospectus, a shareholder may direct the selected withdrawals to another fund in the Franklin Group of Funds or the Templeton Group, to another person, or directly to a checking account. If the bank at which the account is maintained is a member of the Automated Clearing House, the payments may be made automatically by electronic funds transfer. If this last option is requested, the shareholder should allow at least 15 days for initial processing. Withdrawals which may be paid in the interim will be sent to the address of record.

Liquidation of shares may reduce or possibly exhaust the shares in the shareholder's account, to the extent withdrawals exceed shares earned through dividends and distributions, particularly in the event of a market decline. If the withdrawal amount exceeds the total plan balance, the account will be closed and the remaining balance sent to the shareholder. A subsequent deposit of shares will not result in a payment under the plan retroactive to the distribution date. As with other redemptions, a liquidation to make a withdrawal payment is a sale for federal income tax purposes. The entire Systematic Withdrawal Plan payment cannot be considered as actual yield or income since part of such a Systematic Withdrawal Plan payment may be a return of the shareholder's investment. The maintenance of a Systematic Withdrawal Plan concurrently with purchases of additional shares of the Fund would be disadvantageous because of the sales charge on the additional purchases. The shareholder should ordinarily not make additional investments of less than $5,000 or three times the annual withdrawals under the plan during the time such a plan is in effect. A Systematic Withdrawal Plan may be terminated on written notice by the shareholder or the Fund, and it will terminate automatically if all shares are liquidated or withdrawn from the account, or upon the Fund's receipt of notification of the death or incapacity of the shareholder. Shareholders may change the amount (but not below the specified minimums) and schedule of withdrawal payments or suspend one such payment by giving written notice to Investor Services at least seven business days prior to the end of the month preceding a scheduled payment. Share certificates may not be issued while a Systematic Withdrawal Plan is in effect.

INSTITUTIONAL ACCOUNTS

There may be additional methods of purchasing, redeeming or exchanging shares of the Fund available to institutional accounts. For further information, contact Franklin's Institutional Services Department at 1/800-321-8563.

EXCHANGE PRIVILEGE

The Franklin Group of Funds(R) and the Templeton Group consist of a number of investment companies with various investment objectives or policies. The shares of most of these investment companies are offered to the public with a sales charge. If a shareholder's investment objective or outlook for the securities markets changes, the Fund shares may be exchanged for shares of other mutual funds in the Franklin Group of Funds or the Templeton Group (as defined under "How to Buy Shares of a Fund") which are eligible for sale in the shareholder's state of residence and in conformity with such fund's stated eligibility requirements and investment minimums. Investors should review the prospectus of the fund they wish to exchange from and the fund they wish to exchange into for all specific requirements or limitations on exercising the exchange privilege, for example, minimum holding periods or applicable sales charges

Exchanges may be made in any of the following ways:

EXCHANGES BY MAIL

Send written instructions signed by all account owners and accompanied by any outstanding share certificates properly endorsed. The transaction will be effective upon receipt of the written instructions together with any outstanding share certificates.

EXCHANGES BY TELEPHONE

SHAREHOLDERS, OR THEIR INVESTMENT REPRESENTATIVE OF RECORD, IF ANY, MAY EXCHANGE SHARES OF THE FUND BY TELEPHONE BY CALLING INVESTORS SERVICES AT 1-800/632-2301 OR THE AUTOMATED FRANKLIN TELEFACTS(R) SYSTEM (DAY OR NIGHT) AT 1-800/247-1753. IF THE SHAREHOLDER DOES NOT WISH THIS PRIVILEGE EXTENDED TO A PARTICULAR ACCOUNT, THE FUND OR INVESTOR SERVICES SHOULD BE NOTIFIED.

The Telephone Exchange Privilege allows a shareholder to effect exchanges from the Fund into an identically registered account in one of the other available funds in the Franklin Group of Funds or the Templeton Group. The Telephone Exchange Privilege is available only for uncertificated shares or those which have previously been deposited in the shareholder's account. The Fund and Investor Services will employ reasonable procedures to confirm that instructions communicated by telephone are genuine. Please refer to "Telephone Transactions - Verification Procedures."

During periods of drastic economic or market changes, it is possible that the Telephone Exchange Privilege may be difficult to implement and the TeleFACTS option may not be available. In this event, shareholders should follow the other exchange procedures discussed in this section, including the procedures for processing exchanges through securities dealers.

EXCHANGES THROUGH SECURITIES DEALERS

As is the case with all purchases and redemptions of the Fund's shares, Investor Services will accept exchange orders by telephone or by other means of electronic transmission from securities dealers who execute a dealer or similar agreement with Distributors. See also "Exchanges By Telephone" above. Such a dealer-ordered exchange will be effective only for uncertificated shares on deposit in the shareholder's account or for which certificates have previously been deposited. A securities dealer may charge a fee for handling an exchange.

MISCELLANEOUS INFORMATION

Exchanges are made on the basis of the net asset values of the funds involved, except as set forth below. Exchanges of shares of the Fund which were purchased without a sales charge will be charged a sales charge in accordance with the terms of the prospectus of the fund being purchased, unless the investment on which no sales charge was paid was transferred in from a fund on which the investor paid a sales charge. Exchanges of shares of the Fund which were purchased with a lower sales charge to a fund which has a higher sales charge will be charged the difference, unless the shares were held in the Fund for at least twelve months prior to executing the exchange (six months with respect to shares purchased prior to September 30, 1994, by persons who were shareholders of the Fund as of July 30, 1994). When an investor requests the exchange of the total value of the Fund account, declared but unpaid income dividends will be transferred to the fund being exchanged into and will be invested at net asset value. Capital gain distributions will be invested at net asset value. Because the exchange is considered a redemption and purchase of shares, the shareholder may realize a gain or loss for federal income tax purposes. Backup withholding and information reporting may also apply. Information regarding the

possible tax consequences of such an exchange is included in the tax section in this Prospectus and in the Statement of Additional Information.

There are differences among the many funds in the Franklin Group of Funds and the Templeton Group. Before making an exchange, a shareholder should obtain and review a current prospectus of the fund into which the shareholder wishes to transfer.

If a substantial portion of a Fund's shareholders should, within a short period, elect to redeem their shares of the Fund pursuant to the exchange privilege, the Fund might have to liquidate portfolio securities it might otherwise hold and incur the additional costs related to such transactions. On the other hand, increased use of the exchange privilege may result in periodic large inflows of money. If this should occur, it is the general policy of the Fund to initially invest this money in short-term, interest-bearing tax-exempt instruments, unless it is felt that attractive investment opportunities consistent with that Fund's investment objectives exist immediately. Subsequently, this money will be withdrawn from such short-term tax-exempt instruments and invested in portfolio securities in as orderly a manner as is possible when attractive investment opportunities arise.

The Exchange Privilege may be modified or discontinued by the Fund at any time upon 60 days' written notice to shareholders.

TIMING ACCOUNTS

Accounts which are administered by allocation or market timing services to purchase or redeem shares based on predetermined market indicators ("Timing Accounts") will be charged a $5.00 administrative service fee per each such exchange. All other exchanges are without charge.

RESTRICTIONS ON EXCHANGES

In accordance with the terms of their respective prospectuses, certain funds do not accept or may place differing limitations than those below on exchanges by Timing Accounts.

The Fund reserves the right to temporarily or permanently terminate the exchange privilege or reject any specific purchase order for any Timing Account or any person whose transactions seem to follow a timing pattern who: (i) make an exchange request out of the Fund within two weeks of an earlier exchange request out of the Fund, or (ii) make more than two exchanges out of the Fund per calendar quarter, or (iii) exchange shares equal in value to at least $5 million, or more than 1% of the Fund's net assets. Accounts under common ownership or control, including accounts administered so as to redeem or purchase shares based upon certain predetermined market indicators, will be aggregated for purposes of the exchange limits.

The Fund reserves the right to refuse the purchase side of exchange requests by any Timing Account, person, or group if, in the Manager's judgment, the Fund would be unable to invest effectively in accordance with its investment objectives and policies, or would otherwise potentially be adversely affected. A shareholder's purchase exchanges may be restricted or refused if the Fund receives or anticipates simultaneous orders affecting significant portions of the Fund's assets. In particular, a pattern of exchanges that coincide with a "market timing" strategy may be disruptive to the Fund and therefore may be refused.

The Fund and Distributors also, as indicated in "How to Buy Shares of the Fund," reserve the right to refuse any order for the purchase of shares.

HOW TO SELL SHARES OF THE FUND
- --

A shareholder may at any time liquidate shares owned and receive from the Fund the value of the shares. Shares may be redeemed in any of the following ways:

REDEMPTIONS BY MAIL

Send a written request, signed by all registered owners, to Investor Services, at the address shown on the back cover of this Prospectus, and any share certificates which have been issued for the shares being redeemed, properly endorsed and in order for transfer. The shareholder will then receive from the Fund the value of the shares based upon the net asset value per share next computed after the written request in proper form is received by Investor Services. Redemption requests received after the time at which the net asset value is calculated (at 1:15 p.m. Pacific time) each day that the New York Stock Exchange (the "Exchange") is open for business will receive the price calculated on the following business day. Shareholders are requested to provide a telephone number(s) where they may be reached during business hours, or in the evening if preferred. Investor Services' ability to contact a shareholder promptly when necessary will speed the processing of the redemption.

TO BE CONSIDERED IN PROPER FORM, SIGNATURE(S) MUST BE GUARANTEED IF THE REDEMPTION REQUEST INVOLVES ANY OF THE FOLLOWING:

(1) the proceeds of the redemption are over $50,000;

(2) the proceeds (in any amount) are to be paid to someone other than the registered owner(s) of the account;

(3) the proceeds (in any amount) are to be sent to any address other than the shareholder's address of record, preauthorized bank account or brokerage firm account;

(4) share certificates, if the redemption proceeds are in excess of $50,000; or

(5) the Fund or Investor Services believes that a signature guarantee would protect against potential claims based on the transfer instructions, including, for example, when (a) the current address of one or more joint owners of an account cannot be confirmed, (b) multiple owners have a dispute or give inconsistent instructions to the Fund, (c) the Fund has been notified of an adverse claim, (d) the instructions received by the Fund are given by an agent, not the actual registered owner, (e) the Fund determines that joint owners who are married to each other are separated or may be the subject of divorce proceedings, or (f) the authority of a representative of a corporation, partnership, association, or other entity has not been established to the satisfaction of the Fund.

Signature(s) must be guaranteed by an "eligible guarantor institution" as defined under Rule 17Ad-15 under the Securities Exchange Act of 1934. Generally, eligible guarantor institutions include (1) national or state banks, savings associations, savings and loan associations, trust companies, savings banks, industrial loan companies and credit unions; (2) national securities exchanges, registered securities associations and clearing agencies; (3) securities dealers which are members of a national securities exchange or a clearing agency or which have minimum net capital of $100,000; or (4) institutions that participate in the Securities Transfer Agent Medallion Program ("STAMP") or other recognized signature guarantee medallion program. A notarized signature will not be sufficient for the request to be in proper form.

Where shares to be redeemed are represented by share certificates, the request for redemption must be accompanied by the share certificate and a share assignment form signed by the registered shareholders exactly as the account is registered, with the signature(s) guaranteed as referenced above. Shareholders are advised, for their own protection, to send the share certificate and assignment form in separate envelopes if they are being mailed in for redemption.

Liquidation requests of corporate, partnership, trust and custodianship accounts, and accounts under court jurisdiction require the following documentation to be in proper form:

Corporation - (1) Signature guaranteed letter of instruction from the authorized officer(s) of the corporation, and (2) a corporate resolution.

Partnership - (1) Signature guaranteed letter of instruction from a general partner and (2) pertinent pages from the partnership agreement identifying the general partners or a certification for a partnership agreement.

Trust - (1) Signature guaranteed letter of instruction from the trustee(s) and (2) a copy of the pertinent pages of the trust document listing the trustee(s) or a Certification for Trust if the trustee(s) are not listed on the account registration.

Custodial (other than a retirement account) - Signature guaranteed letter of instruction from the custodian.

Accounts under court jurisdiction - Check court documents and the applicable state law since these accounts have varying requirements, depending upon the state of residence.

Payment for redeemed shares will be sent to the shareholder within seven days after receipt of the request in proper form.

REDEMPTIONS BY TELEPHONE

Shareholders who file a Telephone Transaction Application (the "Application") may redeem shares of the Fund by telephone. THE APPLICATION MAY BE OBTAINED BY WRITING TO THE FUND OR INVESTOR SERVICES AT THE ADDRESS SHOWN ON THE COVER OR BY CALLING 1-800/632-2301. THE FUND AND INVESTOR SERVICES WILL EMPLOY REASONABLE

PROCEDURES TO CONFIRM THAT INSTRUCTIONS GIVEN BY TELEPHONE ARE GENUINE. SHAREHOLDERS, HOWEVER, BEAR THE RISK OF LOSS IN CERTAIN CASES AS DESCRIBED UNDER "TELEPHONE TRANSACTIONS - VERIFICATION PROCEDURES."

For shareholder accounts with a completed Application on file, redemptions of uncertificated shares or shares which have previously been deposited with the Fund or Investor Services may be made for up to $50,000 per day per Fund account. Telephone redemption requests received before 1:15 p.m. Pacific time on any business day will be processed that same day. The redemption check will be sent within seven days, made payable to all the registered owners on the account, and will be sent only to the address of record. Redemption requests by telephone will not be accepted within 30 days following an address change by telephone. In that case, a shareholder should follow the other redemption procedures set forth in this Prospectus. Institutional accounts (certain corporations, bank trust departments, government entities, and qualified retirement plans which qualify to purchase shares at net asset value pursuant to the terms of this Prospectus) which wish to execute redemptions in excess of $50,000 must complete an Institutional Telephone Privileges Agreement which is available from Franklin's Institutional Services Department by telephoning 1-800/321-8563.

SELLING SHARES THROUGH SECURITIES DEALERS

The Fund will accept redemption orders by telephone or other means of electronic transmission

from securities dealers who have entered into a dealer or similar agreement with Distributors. This is known as a repurchase. The only difference between a normal redemption and a repurchase is that if the shareholder redeems shares through a dealer, the redemption price will be the net asset value next calculated after the shareholder's dealer receives the order which is promptly transmitted to the Fund, rather than on the day the Fund receives the shareholder's written request in proper form. These documents, as described in the preceding section, are required even if the shareholder's securities dealer has placed the repurchase order. After receipt of a repurchase order from the dealer, the Fund will still require a signed letter of instruction and all other documents set forth above. A shareholder's letter should reference the Fund, the account number, the fact that the repurchase was ordered by a dealer and the dealer's name. Details of the dealer-ordered trade, such as trade date, confirmation number, and the amount of shares or dollars, will help speed processing of the redemption. The seven-day period within which the proceeds of the shareholder's redemption will be sent will begin when the Fund receives all documents required to complete ("settle") the repurchase in proper form. The redemption proceeds will not earn dividends or interest during the time between receipt of the dealer's repurchase order and the date the redemption is processed upon receipt of all documents necessary to settle the repurchase. Thus, it is in a shareholder's best interest to have the required documentation completed and forwarded to the Fund as soon as possible. The shareholder's dealer may charge a fee for handling the order. The Statement of Additional Information contains more information on the redemption of shares.

ADDITIONAL INFORMATION REGARDING REDEMPTIONS

The Fund may delay the mailing of the redemption check, or a portion thereof, until the clearance of the check used to purchase Fund shares, which may take up to 15 days or more. Although the use of a certified or cashier's check will generally reduce this delay, shares purchased with these checks will also be held pending clearance. Shares purchased by federal funds wire are available for immediate redemption. In addition, the right of redemption may be suspended or the date of payment postponed if the Exchange is closed (other than customary closing) or upon the determination of the SEC that trading on the Exchange is restricted or an emergency exists, or if the SEC permits it, by order, for the protection of shareholders. Of course, the amount received may be more or less than the amount invested by the shareholder, depending on fluctuations in the market value of securities owned by the Fund.

OTHER

For any information required about a proposed liquidation, a shareholder may call Franklin's Shareholder Services Department or the broker may call Franklin's Dealer Services Department.

TELEPHONE TRANSACTIONS

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Shareholders of the Fund and their investment representative of record, if any, may be able to execute various transactions by calling Investor Services at 1-800/632-2301.

All shareholders will be able to: (i) effect a change in address, (ii) change a dividend option, (iii) transfer Fund shares in one account to another identically registered account in the Fund, and (iv) exchange Fund shares as described in this Prospectus by telephone. In addition, shareholders who complete and file an Application as described under "How

to Sell Shares of the Fund - Redemptions by Telephone" will be able to redeem shares of the Fund.

VERIFICATION PROCEDURES

The Fund and Investor Services will employ reasonable procedures to confirm that instructions communicated by telephone are genuine. These will include: recording all telephone calls requesting account activity by telephone, requiring that the caller provide certain personal and/or account information requested by the telephone service agent at the time of the call for the purpose of establishing the caller's identification, and by sending a confirmation statement on redemptions to the address of record each time account activity is initiated by telephone. So long as the Fund and Investor Services follow instructions communicated by telephone which were reasonably believed to be genuine at the time of their receipt, neither they nor their affiliates will be liable for any loss to the shareholder caused by an unauthorized transaction. Shareholders are, of course, under no obligation to apply for or accept telephone transaction privileges. In any instance where the Fund or Investor Services is not reasonably satisfied that instructions received by telephone are genuine, the requested transaction will not be executed, and neither the Fund nor Investor Services will be liable for any losses which may occur because of a delay in implementing a transaction.

RESTRICTED ACCOUNTS

Telephone redemptions and dividend option changes may not be accepted on FTTC retirement accounts. To assure compliance with all applicable regulations, special forms are required for any distribution, redemption, or dividend payment. While the telephone exchange privilege is extended to Franklin/Templeton IRA and 403(b) retirement accounts, certain restrictions may apply to other types of retirement plans. Changes to dividend options must also be made in writing.

To obtain further information regarding distribution or transfer procedures, including any required forms, retirement account shareholders may call to speak to a Retirement Plan Specialist at 1-800/527-2020 for Franklin accounts or 1-800/354-9191 (press "2" when prompted to do so) for Templeton accounts.

GENERAL

During periods of drastic economic or market changes, it is possible that the telephone transaction privileges will be difficult to execute because of heavy telephone volume. In such situations, shareholders may wish to contact their registered investment representative for assistance, or to send written instructions to the Fund as detailed elsewhere in this Prospectus.

Neither the Fund nor Investor Services will be liable for any losses resulting from the inability of a shareholder to execute a telephone transaction.

The telephone transaction privilege may be modified or discontinued by the Fund at any time upon 60 days' written notice to shareholders.

VALUATION OF FUND SHARES

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The net asset value per share of the Fund is determined as of 1:15 p.m. Pacific time each day that the Exchange is open for trading. Many newspapers carry daily quotations of the prior trading day's closing "bid" (net asset value) and "ask" (offering price, which includes the maximum sales charge of the Fund).

The net asset value per share of the Fund is determined in the following manner: The aggregate of all liabilities, including without limitation the current market value of any outstanding options written by the Fund, accrued expenses and taxes and any necessary reserves is deducted from the aggregate gross value of all assets, and the difference is divided by the number of shares of the Fund out-

standing at the time. For the purpose of determining the aggregate net assets of the Fund, cash and receivables are valued at their realizable amounts. Interest is recorded as accrued and dividends are recorded on the ex-dividend date. Portfolio securities listed on a securities exchange or on the NASDAQ National Market System for which market quotations are readily available are valued at the last quoted sale price of the day or, if there is no such reported sale, within the range of the most recent quoted bid and ask prices. Over-the-counter portfolio securities for which market quotations are readily available are valued within the range of the most recent bid and ask prices as obtained from one or more dealers that make markets in the securities. Portfolio securities which are traded both in the over-the-counter market and on a stock exchange are valued according to the broadest and most representative market as determined by the Manager. Portfolio securities underlying actively traded call options are valued at their market price as determined above. The current market value of any option held by the Fund is its last sales price on the relevant exchange prior to the time when assets are valued. Lacking any sales that day or if the last sale price is outside the bid and ask prices, the options are valued within the range of the current closing bid and ask prices if such valuation is believed to fairly reflect the contract's market value. In the case of securities of closed-end funds, the last quoted sales price, or the mean between the quoted bid and ask prices, may be lower or higher than the net asset value of such securities. Other securities for which market quotations are readily available are valued at the current market price which may be obtained from a pricing service based on a variety of factors, including recent trades, institutional size trading in similar types of securities (considering yield, risk and maturity) and/or developments related to specific issues. Securities and other assets for which market prices are not readily available are valued at fair value as determined following procedures approved by the Board of Trustees. All money market instruments with a maturity of more than 60 days are valued at current market, as discussed above. All money market instruments with a maturity of 60 days or less are valued at their amortized cost, which the Board of Trustees has determined in good faith constitutes fair value for purposes of complying with the 1940 Act. This valuation method will continue to be used until such time as the trustees determine that it does not constitute fair value for such purposes. With the approval of trustees, the Fund may utilize a pricing service, bank or securities dealer to perform any of the above described functions.

HOW TO GET INFORMATION REGARDING AN INVESTMENT IN THE FUND

Any questions or communications regarding a shareholder's account should be directed to Investor Services at the address shown on the back cover of this Prospectus.

From a touch-tone phone, shareholders may obtain current price, yield or performance information specific to a fund in the Franklin Group of Funds(R) by calling the automated Franklin TeleFACTS system (day or night) at 1-800/247-1753. Information about the Fund may be accessed by entering Fund Code 50 followed by the # sign, when requested to do so by the automated operator. The TeleFACTS system is also available for exchanges. See "Exchange Privilege".

To assist shareholders and brokers wishing to speak directly with a representative, the following is a list of the various Franklin departments, telephone numbers and hours of operation to call. The same numbers may be used when calling from a rotary phone:

<TABLE>
<CAPTION>

DEPARTMENT NAME	TELEPHONE NO.	HOURS OF OPERATION (PACIFIC TIME) (MONDAY THROUGH FRIDAY)
<S>	<C>	<C>
Shareholder Services	1-800/632-2301	6:00 a.m. to 5:00 p.m.
Dealer Services	1-800/524-4040	6:00 a.m. to 5:00 p.m.
Fund Information	1-800/DIAL BEN	6:00 a.m. to 8:00 p.m.
		8:30 a.m. to 5:00 p.m. (Saturday)
Retirement Plans	1-800/527-2020	6:00 a.m. to 5:00 p.m.
TDD (hearing impaired)	1-800/851-0637	6:00 a.m. to 5:00 p.m.

</TABLE>

PERFORMANCE
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Advertisements, sales literature and communications to shareholders may contain various measures of the Fund's performance, including current yield, various expressions of total return and current distribution rate. They may occasionally cite statistics to reflect its volatility or risk.

Average annual total return figures, as prescribed by the SEC, represent the average annual percentage change in value of $1,000 invested at the maximum public offering price (offering price includes sales charge) for one-, five- and ten-year periods, or portion thereof, to the extent applicable, through the end of the most recent calendar quarter, assuming reinvestment of all distributions. The Fund may also furnish total return quotations for other periods or based on investments at various sales charge levels or at net asset value. For such purposes, total return equals the total of all income and capital gain paid to shareholders, assuming reinvestment of all distributions, plus (or minus) the change in the value of the original investment, expressed as a percentage of the purchase price.

Current yield reflects the income per share earned by the Fund's portfolio investments; it is calculated by dividing the Fund's net investment income per share during a recent 30-day period by the maximum public offering price on the last day of that period and annualizing the result.

Yield which is calculated according to a formula prescribed by the SEC (see the Statement of Additional Information) is not indicative of the dividends or distributions which were or will be paid to the Fund's shareholders. Dividends or distributions paid to shareholders are reflected in the current distribution rate which may be quoted to shareholders. The current distribution rate is computed by dividing the total amount of dividends per share paid by the Fund during the past 12 months by a current maximum offering price. Under certain circumstances, such as when there has been a change in the amount of dividend payout, or a fundamental change in investment policies, it might be appropriate to annualize the dividends paid during the period such policies were in effect, rather than using the dividends during the past 12 months. The current distribution rate differs from the current yield computation because it may include distributions to shareholders from sources other than dividends and interest, such as premium income from option writing and short-term capital gain, and is calculated over a different period of time.

In each case, performance figures are based upon past performance, reflect all recurring charges against Fund income and will assume the payment of the maximum sales charge on the purchase of shares. When there has been a change in the sales charge structure, the historical performance figures will be restated to reflect the new rate. The investment results of the Fund, like all other investment companies, will fluctuate over time; thus, performance figures should not be considered to represent what an investment may earn in the future or what the Fund's yield, distribution rate or total return may be in any future period.

GENERAL INFORMATION
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REPORTS TO SHAREHOLDERS

The Fund's fiscal year ends October 31. Annual Reports containing audited financial statements of the Trust, including the auditors' report, and Semi-Annual Reports containing unaudited financial statements are automatically sent to shareholders. Additional copies may be obtained, without charge, upon request to the Trust at the telephone number or address set forth on the cover page of this Prospectus. Additional information on Fund performance is included in the Fund's Annual Report to Shareholders and the Statement of Additional Information.

ORGANIZATION

The Fund was organized as a Massachusetts business trust on September 11, 1989. The Fund is authorized to issue an unlimited number of shares of beneficial interest, with a par value of $.01 per share in various series. All shares have one vote and, when issued, are fully paid, non-assessable and redeemable. Currently, the Fund issues only one series of shares. Additional series may be added in the future by the Board of Trustees.

Shares have no preemptive or subscription rights, and are fully transferable. There are no conversion rights; however, holders of shares of the Fund may reinvest all or any portion of the proceeds from the redemption or repurchase of such shares into shares of any other fund in the Franklin Group as described in "Exchange Privilege."

VOTING RIGHTS

All shares have equal voting, dividend and liquidation rights. The shares have noncumulative voting rights, which means that holders of more than 50% of the shares voting for the election of trustees can elect 100% of the trustees if they choose to do so. The Fund is not required, nor does it intend, to hold annual meetings; it may, however, hold special shareholder meetings for such purposes as changing fundamental investment restrictions, approving a new management agreement or any other matters which are required to be acted on by shareholders under the 1940 Act. A meeting may also be called by a majority of the Board of Trustees or by shareholders holding at least ten percent of the shares entitled to vote at the meeting. Shareholders may receive assistance in communicating with other shareholders in connection with the election or removal of trustees such as that provided in Section 16(c) of the 1940 Act.

REDEMPTIONS BY THE FUND

The Fund reserves the right to redeem, at net asset value, shares of any shareholder whose account has a value of less than $1,250 ($500 for an IRA account), but only where the value of such account has been reduced by the shareholder's prior voluntary redemption of shares and has been inactive (except for the reinvestment of distributions) for a period of at least six months, provided advance notice is given to the shareholder. More information is included in the Statement of Additional Information.

OTHER INFORMATION

Distribution or redemption checks sent to shareholders do not earn interest or any other income during the time such checks remain uncashed and neither the Fund nor its affiliates will be liable for any loss to the shareholder caused by the shareholder's failure to cash such check(s).

"Cash" payments to or from the Fund may be made by check, draft or wire. The Fund has no facility to receive, or pay out, cash in the form of currency.

ACCOUNT REGISTRATIONS

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An account registration should reflect the investor's intentions as to ownership. Where there are two co-owners on the account, the account will be registered as "Owner 1" and "Owner 2"; the "or" designation is not used except for money market fund accounts. If co-owners wish to have the ability to redeem or convert on the signature of only one owner, a limited power of attorney may be used.

Accounts should not be registered in the name of a minor, either as sole or co-owner of the account. Transfer or redemption for such an account may require court action to obtain release of the funds until the minor reaches the legal age of majority. The account should be registered in the name of one "Adult" as custodian for the benefit of the "Minor" under the Uniform Transfer or Gifts to Minors Act.

A trust designation such as "trustee" or "in trust for" should only be used if the account is being established pursuant to a legal, valid trust document. Use of such a designation in the absence of a legal trust document may cause difficulties and require court action for transfer or redemption of the funds.

Shares, whether in certificate form or not, registered as joint tenants or "Jt Ten" shall mean "as joint tenants with rights of survivorship" and not "as tenants in common."

Except as indicated, a shareholder may transfer an account in the Fund carried in "street" or "nominee" name by the shareholder's broker to a comparably registered Fund account maintained by another securities dealer. Both the delivering and receiving brokers must have executed dealer agreements on file with Distributors. Unless a dealer agreement has been executed and is on file with Distributors, the Fund will not process the transfer and will so inform the shareholder's delivering broker. To effect the transfer, a shareholder should instruct the broker to transfer the account to a receiving securities dealer and sign any documents required by the broker(s) to evidence consent to the transfer. Under current procedures, the account transfer may be processed by the delivering broker and the Fund after the Fund receives authorization in proper form from the shareholder's delivering securities dealer. In the future it may be possible to effect such transfers electronically through the services of the NSCC.

The Fund may conclusively accept instructions from an owner or the owner's nominee listed in publicly available nominee lists, regardless of whether the account was initially registered in the name of or by the owner, the nominee, or both. If a securities dealer or other representative is of record on an investor's account, the investor will be deemed to have authorized the use of electronic instructions on the account, including, without limitation, those initiated through the services of the NSCC, to have adopted as instruction and signature any such electronic instructions received by the Fund and the Shareholder Services Agent, and to have authorized them to execute the instructions without further inquiry. At the present time, such services which are available, or which are anticipated to be made available in the near future, include the NSCC's "Networking," "Fund/SERV," and "ACATS" systems.

Any questions regarding an intended registration should be answered by the securities dealer handling the investment, or by calling Franklin's Fund Information Department.

IMPORTANT NOTICE REGARDING TAXPAYER IRS CERTIFICATIONS
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Pursuant to the Code and U.S. Treasury regulations, the Fund may be required to report to the IRS any taxable dividend, capital gain distribution, or other reportable payment (including share redemption proceeds) and withhold 31% of any such payments made to individuals and other non-exempt shareholders who have not provided a correct taxpayer identification number ("TIN") and made certain required certifications that appear in the Shareholder Application. A shareholder may also be subject to backup withholding if the IRS or a broker notifies the Fund that the TIN furnished by the shareholder is incorrect or that the shareholder is subject to backup withholding for previous under-reporting of interest or dividend income.

The Fund reserves the right to (1) refuse to open an account for any person failing to provide a TIN along with the required certifications and (2) close an account by redeeming its shares in full at the then-current net asset value upon receipt of notice from the IRS that the TIN certified as correct by the shareholder is in fact incorrect or upon the failure of a shareholder who has completed an "awaiting TIN" certification to provide the Fund with a certified TIN within 60 days after opening the account.

PORTFOLIO OPERATIONS
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The following persons have been primarily responsible for the day-to-day management of the Fund's portfolio since its inception:

William Lippman
Portfolio Manager of Advisers

Mr. Lippman holds a bachelor of business administration degree from City College New York and a master's degree in business administration from the Graduate School of Business Administration of New York University. He has been with Advisers since 1988, and prior thereto served as president of Pilgrim Group and L.F. Rothschild Fund Management.

Bruce C. Baughman
Portfolio Manager of Advisers

Mr. Baughman holds a bachelor of arts degree from Stanford University and a master of science degree in accounting from New York University. He has been with Advisers since 1988, and prior thereto, he worked as a senior analyst for Pilgrim Group of Funds and vice president for L.F. Rothschild Fund Management.

Margaret McGee
Portfolio Manager of Advisers

Ms. McGee holds a bachelor of arts degree from William Paterson College. She has been with Advisers since 1988, and prior thereto was operations supervisor for Pilgrim Group, Inc.

APPENDIX
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STANDARD & POOR'S CORPORATION

Long-Term Debt

AAA: Debt rated AAA has the highest rating assigned by Standard & Poor's. Capacity to pay interest and repay principal is extremely strong.

AA: Debt rated AA has a very strong capacity to pay interest and repay principal and differs from AAA issues only in small degree.

A: Debt rated A has a strong capacity to pay interest and repay principal although it is somewhat more susceptible to the adverse effects of changes

in circumstances and economic conditions than debt in the higher rated categories.

BBB: Debt rated BBB is regarded as having an adequate capacity to pay interest and repay principal. Whereas it normally exhibits adequate protection parameters, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to pay interest and repay principal for debt in this category than in higher rated categories.

BB, B, CCC, CC, C: Debt rated BB, B, CCC, CC and C is regarded, on balance, as predominantly speculative with respect to capacity to pay interest and repay principal in accordance with the terms of the obligation. BB indicates the lowest degree of speculation and C the highest degree of speculation. While such debt will likely have some quality and protective characteristics, these are outweighed by large uncertainties or major risk exposures to adverse conditions.

CI: The rating CI is reserved for income bonds on which no interest is being paid.

D: Debt rated D is in default, and payment of interest and/or repayment of principal is in arrears.

Plus (+) or Minus (-): The ratings from AA to CCC may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

NR: Indicates that no rating has been requested, that there is insufficient information on which to base a rating, or that Standard & Poor's does not rate a particular type of obligation as a matter of policy.

Commercial Paper

A Standard & Poor's commercial paper rating is a current assessment of the likelihood of timely payment of debt having an original maturity of no more than 365 days.

Ratings are graded into four categories, ranging from A for the highest quality obligations to D for the lowest. The top two categories are as follows:

A: Issues assigned this highest rating are regarded as having the greatest capacity for timely payment. Issues in this category are delineated with the numbers 1, 2 and 3 to indicate the relative degree of safety.

A-1: This designation indicates that the degree of safety regarding timely payment is either overwhelming or very strong. Those issues determined to possess overwhelming safety characteristics are denoted with a plus (+) sign designation.

Notes

A Standard & Poor's note rating reflects the liquidity concerns and market access risks unique to notes. Notes due in three years or less will likely receive a note rating. Notes maturing beyond three years will most likely receive a long-term debt rating. The following criteria will be used in making that assessment:

- -Amortization schedule (the larger the final maturity relative to other maturities the more likely it will be treated as a note).

- -Source of payment (the more dependent the issue is on the market for its refinancing, the more likely it will be treated as a note).

Note rating symbols are as follows:

SP-1: Very strong or strong capacity to pay principal and interest. Those issues determined to possess overwhelming safety characteristics will be given a plus (+) designation.

SP-2: Satisfactory capacity to pay principal and interest.

SP-3: Speculative capacity to pay principal and interest.

MOODY'S INVESTORS SERVICE

Long-Term Debt

Aaa: Bonds which are rated Aaa are judged to be of the best quality. They carry the smallest degree of investment risk and are generally referred to as "gilt edged." Interest payments are protected by a large or exceptionally stable margin and principal is secure. While the various protective elements are likely to change, such changes as can be visualized are most unlikely to impair the fundamentally strong position of such issues.

Aa: Bonds which are rated Aa are judged to be of high quality by all standards. Together with the Aaa group they comprise what are generally known as high grade bonds. They are rated lower than the best bonds because margins of protection may not be as large as in Aaa securities or fluctuations or protective elements may be of greater amplitude or there may be other elements present which make long-term risks appear somewhat larger than in Aaa securities.

A: Bonds which are rated A possess many favorable investment attributes and are to be considered as upper medium grade obligations. Factors giving security to principal and interest are considered adequate but elements may be present which suggest a susceptibility to impairment sometime in the future.

Baa: Bonds which are rated Baa are considered as medium grade obligations, i.e., they are neither highly protected nor poorly secured. Interest payments and principal security appear adequate for the present but certain protective elements may be lacking or may be characteristically unreliable over any great length of time. Such bonds lack outstanding investment characteristics and in fact have speculative characteristics as well.

Ba: Bonds which are rated Ba are judged to have speculative elements; their future cannot be considered as well assured. Often the protection of interest and principal payments may be very moderate and thereby not well safeguarded during both good and bad times over the future. Uncertainty of position characterizes bonds in this class.

B: Bonds which are rated B generally lack characteristics of the desirable investment. Assurance of interest and principal payments or of maintenance of other terms of the contract over any long period of time may be small.

Caa: Bonds which are rated Caa are of poor standing. Such issues may be in default or there may be present elements of danger with respect to principal or interest.

Ca: Bonds which are rated Ca represent obligations which are speculative in a high degree. Such issues are often in default or are the lowest rated class of bonds. Issues so rated can be regarded as having extremely poor prospects of ever attaining any real investment standing.

Nonrated: Where no rating has been assigned or where a rating has been suspended or withdrawn, it may be for reasons unrelated to the quality of the issue.

Should no rating be assigned, the reason may be one of the following:

1. An application for rating was not received or accepted.

2. The issue or issuer belongs to a group of securities that are not rated as a matter of policy.

3. There is a lack of essential data pertaining to the issuer.

4. The issue was privately placed, in which case the rating is not published in Moody's publications.

Suspension or withdrawal may occur if new and material circumstances arise, the effects of which preclude satisfactory analysis; if there is no longer available reasonably up-to-date data to permit a judgment to be formed; if a bond is called for redemption; or for other reasons.

Note: Those bonds in the Aa, A, Baa, Ba and B groups which Moody's believe possess the strongest investment attributes are designated by the symbols Aa 1, A 1, Baa 1, Ba 1 and B 1.

Short-Term Debt

Moody's short-term debt ratings are opinions of the ability of issuers to repay punctually senior debt obligations which have an original maturity not exceeding one year.

Among the obligations covered are commercial paper, Eurocommercial paper, bank deposits, bankers' acceptances and obligations to deliver foreign exchange. Obligations relying upon support mechanisms such as letters-of-credit and bonds of indemnity are excluded unless explicitly rated. Issuers rated Prime-1 (or supporting institutions) have a superior ability for repayment of senior short term debt obligations. Prime-1 repayment ability will often be evidenced by many of the following characteristics:

- -Leading market positions in well-established industries.

- -High rates of return on funds employed.

- -Conservative capitalization structure with moderate reliance on debt and ample asset protection.

- -Broad margins in earnings coverage of fixed financial charges and high internal cash generation.

- -Well-established access to a range of financial markets and assured sources of alternate liquidity.

SUPPLEMENT DATED FEBRUARY 1, 1995
TO THE STATEMENT OF ADDITIONAL INFORMATION
FRANKLIN BALANCE SHEET INVESTMENT FUND

DATED MARCH 1, 1994

1. The following substitutes for the subsection "Purchases at Net Asset Value" under "Additional Information Regarding Fund Shares":

ADDITIONAL NFORMATION REGARDING PURCHASES

Special Net Asset Value Purchases. As discussed in the Prospectus under "How to Buy Shares of the Fund - Description of Special Net Asset Value Purchases," certain categories of investors may purchase shares of the Fund without a front-end sales charge ("net asset value") or a contingent deferred sales charge. Distributors or one of its affiliates may make payments, out of its own resources, to securities dealers who initiate and are responsible for such purchases, as indicated below. As a condition for these payments, Distributors or its affiliates may require reimbursement from the securities dealers with respect to certain redemptions made within 12 months of the calendar month following purchase, as well as other conditions, all of which may be imposed by an agreement between Distributors, or its affiliates, and the securities dealer.

The following amounts may be paid by Distributors or one of its affiliates, out of its own resources, to securities dealers who initiate and are responsible for (i) purchases of most equity and taxable income Franklin Templeton Funds made at net asset value by certain designated retirement plans (excluding IRA and IRA rollovers): 1.00% on sales of $1 million but less than $2 million, plus 0.80% on sales of $2 million but less than $3 million, plus 0.50% on sales of $3 million but less than $50 million, plus 0.25% on sales of $50 million but less than $100 million, plus 0.15% on sales of $100 million or more; and (ii) purchases of most taxable income Franklin Templeton Funds made at net asset value by non-designated retirement plans: 0.75% on sales of $1 million but less than $2 million, plus 0.60% on sales of $2 million but less than $3 million, plus 0.50% on sales of $3 million but less than $50 million, plus 0.25% on sales of $50 million but less than $100 million, plus 0.15% on sales of $100 million or more. These payment breakpoints are reset every 12 months for purposes of additional purchases. With respect to purchases made at net asset value by certain trust companies and trust departments of banks and certain retirement plans of organizations with collective retirement plan assets of $10 million or more, Distributors, or one of its affiliates, out of its own resources, may pay up to 1% of the amount invested.

Letter of Intent. An investor may qualify for a reduced sales charge on the purchase of shares of the Fund, as described in the Prospectus. At any time within 90 days after the first investment which the investor wants to qualify for the reduced sales charge, a signed Shareholder Application, with the Letter of Intent section completed, may be filed with the Fund. After the Letter of Intent is filed, each additional investment will be entitled to the sales charge applicable to the level of investment indicated on the Letter. Sales charge reductions based upon purchases in more than one of the Franklin Templeton Funds will be effective only after notification to Distributors that the investment qualifies for a discount. The shareholder's holdings in the Franklin Templeton Funds acquired more than 90 days before the Letter of Intent is filed will be counted towards completion of the Letter of Intent but will not be entitled to a retroactive downward adjustment in the sales charge. Any redemptions made by the shareholder, other than by a designated benefit plan, during the 13-month period will be subtracted from the amount of the purchases for purposes of determining whether the terms of the Letter of Intent have been completed. If the Letter of Intent is not completed within the 13-month period, there will be an upward adjustment of the sales charge, depending upon the amount actually purchased (less redemptions) during the period. The upward adjustment does not apply to designated benefit plans. An investor who executes a Letter of Intent prior to a change in the sales charge structure for the Fund will be entitled to complete the Letter of Intent at the lower of (i) the new sales charge structure; or (ii) the sales charge structure in effect at the time the Letter of Intent was filed with the Fund.

As mentioned in the Prospectus, five percent (5%) of the amount of the total intended purchase will be reserved in shares of the Fund registered in the investor's name, unless the investor is a designated benefit plan. If the total purchases, less redemptions, equal the amount specified under the Letter, the reserved shares will be deposited to an account in the name of the investor or delivered to the investor or the investor's order. If the total purchases, less redemptions, exceed the amount specified under the Letter of Intent and is an amount which would qualify for a further quantity discount, a retroactive price adjustment will be made by Distributors and the securities dealer through whom purchases were made pursuant to the Letter of Intent (to reflect such further quantity discount) on purchases made within 90 days before and on those made after filing the Letter. The resulting difference in offering price will be applied to the purchase of additional shares at the offering price applicable to a single purchase or the dollar amount of the total purchases. If the total purchases, less redemptions, are less than the amount specified under the Letter, the investor will remit to Distributors an amount equal to the difference in the dollar amount of sales charge actually paid and the amount of sales charge which would have applied to the aggregate purchases if the total of such purchases had been made at a single time. Upon such remittance the reserved shares held for the investor's account will be deposited to an account in the name of the investor or delivered to the investor or to the investor's order. If within 20 days after written request such difference in sales charge is not paid, the redemption of an appropriate number of reserved shares to realize such difference will be made. In the event of a total redemption of the account prior to fulfillment of the Letter of Intent, the additional sales charge due will be deducted from the proceeds of the redemption, and the balance will be forwarded to the investor.

If a Letter of Intent is executed on behalf of a benefit plan (such plans are described under "Purchases at Net Asset Value" in the Prospectus), the level and any reduction in sales charge for these designated benefit plans will be based on actual plan participation and the projected investments in the Franklin Templeton Funds under the Letter of Intent. Benefit plans are not subject to the requirement to reserve 5% of the total intended purchase, or to any penalty as a result of the early termination of a plan, nor are benefit plans entitled to receive retroactive adjustments in price for investments made before executing the Letter of Intent.

2. The paragraph "Reinvestment Date" under "Additional Information Regarding Fund Shares" is substituted with the following language:

REINVESTMENT DATE

Shares acquired through the reinvestment of dividends will be purchased at the net asset value determined on the business day following the dividend record date (sometimes known as "ex-dividend date"). The processing date for the reinvestment of dividends may vary from month to month, and does not affect the amount or value of the shares acquired.

FRANKLIN
BALANCE SHEET
INVESTMENT FUND

[FRANKLIN LOGO]

STATEMENT OF
ADDITIONAL INFORMATION
MARCH 1, 1994

777 MARINERS ISLAND BLVD., P.O. BOX 7777
SAN MATEO, CA 94403-7777 1-800/DIAL BEN

CONTENTS PAGE

A Prospectus for the Franklin Balance Sheet Investment Fund (the "Fund") dated March 1, 1994, as may be amended from time to time, which provides the basic information you should know before investing in the Fund, may be obtained without charge from the Fund at the address listed above or from the Fund's principal underwriter, Franklin/Templeton Distributors, Inc. ("Distributors"), at the address listed above.

THIS STATEMENT OF ADDITIONAL INFORMATION IS NOT A PROSPECTUS. IT CONTAINS INFORMATION IN ADDITION TO, AND IN MORE DETAIL THAN, THE INFORMATION SET FORTH IN THE PROSPECTUS. THIS STATEMENT IS INTENDED TO PROVIDE YOU WITH ADDITIONAL INFORMATION REGARDING THE ACTIVITIES AND OPERATIONS OF THE FUND, AND SHOULD BE READ IN CONJUNCTION WITH THE PROSPECTUS.

ABOUT THE FUND

The Fund is a non-diversified, open-end management investment company, commonly called a "mutual fund." It was organized as a Massachusetts business trust on September 11, 1989, and is registered under the Investment Company Act of 1940, as amended ("1940 Act"). The Fund has only one class of shares with a par value of $0.01 per share.

THE FUND'S INVESTMENT OBJECTIVE AND POLICIES

As noted in the Prospectus, the Fund's investment objective is to seek high total return, of which capital appreciation and income are components. This objective is a fundamental policy and may not be changed without approval of shareholders. The Fund will seek capital appreciation primarily through investment in securities that the Fund's manager believes are undervalued in the marketplace. The Fund will also seek income when deemed consistent with its objective.

CHARACTERISTICS OF THE CLOSED-END FUNDS IN WHICH THE FUND WILL INVEST

The Fund currently intends to invest a portion of its total assets in the common shares of closed-end funds which are traded on a national securities exchange or in the over-the-counter markets. Typically, the common shares of closed-end funds are offered to the public in a one-time initial public offering by a group of underwriters who retain a spread or underwriting commission of between 4% and 6% of the initial public offering price. Such securities are then listed for trading on the New York Stock Exchange, the American Stock Exchange, the National Association of Securities Dealers Automated Quotation ("NASDAQ") System and, in some cases, may be traded in other over-the-counter markets. Because the common shares of closed-end funds cannot be redeemed upon demand to the issuer like the shares of an open-end investment company (such as the Fund), investors seek to buy and sell common shares of closed-end funds in the secondary market.

The Fund also may invest in senior securities, such as preferred stock and debt obligations, of closed-end funds. Closed-end funds may issue senior securities for the purpose of leveraging the closed-end fund's common shares in an attempt to enhance the current return to such closed-end fund's common shareholders. The Fund's investment in the common shares of closed-end funds that are financially leveraged may create an opportunity for greater total return on its investment, but at the same time may be expected to exhibit more volatility in market price and net asset value than an investment in shares of investment companies without a leveraged capital structure. The Fund will not invest in senior securities of closed-end funds rated lower than A by Standard & Poor's Corporation ("S&P") and Moody's Investors Service ("Moody's") and the Fund will not own more than 3% of the total outstanding stock (including common and preferred stock and certain senior securities that have been afforded voting rights as a consequence of the existence of dividend arrears) of any single closed-end fund.

The Fund generally will only purchase securities of closed-end funds in the secondary market. The Fund will incur normal brokerage costs on such purchases similar to the expenses the Fund would incur for the purchase of securities of any other type of issuer in the secondary market. The Fund may, however, also purchase securities of a closed-end fund in an initial public offering when, in the opinion of the investment manager based on a consideration of the nature of the closed-end fund's proposed investments, the prevailing market conditions and the level of demand for such securities, they represent an attractive opportunity for capital appreciation. The initial offering price will include a dealer spread, which may be higher than the applicable brokerage cost if the Fund purchased such securities in the secondary market.

Closed-end funds invest the net proceeds of their public offering in the securities of other companies consistent with their investment objectives and policies. Certain closed-end funds seek to provide current income to investors, others seek to provide appreciation in value, while others may seek a combination of both income and appreciation. Closed-end funds may have a policy of investing in certain types of securities such as equity or debt securities; some may concentrate in particular industry sectors or geographic areas, while others may invest in a variety of securities to achieve a particular type of return or a particular tax result. The indicated characteristics and risks apply to the securities of closed-end funds regardless of whether such securities trade at a market discount or premium. As of December 31, 1993, there were approximately 378 closed-end funds traded on national securities exchanges or on the over-the-counter markets with assets in excess of $87 billion. In order to comply with federal tax regulations, the Fund will generally invest in closed-end funds that qualify as "regulated investment companies" under federal income tax law.

The common shares of many closed-end funds, after their initial public offering, frequently trade at a price per share which is less than the net asset value per share, the difference representing the "market discount" of such common shares. This market discount may be due in part to the investment objective of long-term appreciation, which is sought by many closed-end funds, as well as to the fact that the common shares of closed-end funds are not redeemable by the holder upon demand to the issuer at the next-determined net asset value but rather are subject to the principles of supply and demand in the secondary market. A relative lack of secondary market purchasers of closed-end fund common shares also may contribute to such common shares trading at a discount to their net asset value.

Although the Fund intends primarily to purchase common shares of closed-end funds which trade at a market discount and which the investment manager believes present the opportunity for capital appreciation or increased income due in part to such market discount, there can be no assurance that the market discount on common shares of any closed-end fund will ever decrease. In fact, it is possible that this market discount may increase and the Fund may suffer realized or unrealized capital losses due to further decline in the market price of the securities of such closed-end funds, thereby adversely affecting the net asset value of the Fund's shares. Similarly, there can be no assurance that the common shares of closed-end funds which trade at a premium will continue to trade at a premium or that the premium will not decrease subsequent to a purchase of such shares by the Fund. Although no assurances can be given, the investment manager believes that its market research and analysis and the diversification policies of the Fund will enable the Fund to avoid significant declines in the net asset value of the Fund's shares due to losses related to an individual issuer.

The Fund may also invest in the securities of closed-end funds which (i) concentrate their portfolios in the issuers of specific industries or in specific geographic areas and (ii) are non-diversified for purposes of the 1940 Act. However, because the Fund does not intend to concentrate its investments in any single industry and because the closed-end funds in which the Fund will invest will generally satisfy the diversification requirements applicable to a regulated investment company under the Code, the Fund does not believe that its investment in closed-end funds which concentrate in specific industries or geographic areas or which are non-diversified for purposes of the 1940 Act present any special risks to the shareholders of the Fund. The Fund will treat its entire investment in the securities of a closed-end fund that concentrates in a specific industry as an investment in securities of an issuer in the industry in which such fund concentrates its portfolio.

The Fund will not invest in the securities of closed-end funds that invest more than 10% of their assets in the securities of other investment companies. The Fund will also not invest directly in the securities of open-end investment companies; however, the Fund may retain the securities of a closed-end investment company that has converted to open-end fund status subsequent to the Fund's investment in the securities of such closed-end fund.

1940 ACT PROVISIONS

The Fund will structure its investments in the securities of closed-end funds and unit investment trusts ("UITs") to comply with applicable provisions of the 1940 Act. The presently applicable provisions require that (i) the Fund and affiliated persons of the Fund not own together more than 3% of the total outstanding stock of any one investment company, (ii) the Fund not offer its shares at a public offering price that includes a sales charge of more than 1.5% and (iii) the Fund will either seek instructions from its shareholders with regard to the voting of all proxies with respect to its investment in the securities of closed-end funds and UITs and vote such proxies only in accordance with such instructions, or vote the shares held by it in the same proportion as the vote of all other holders of such securities. For purposes of applying the 3% of total outstanding stock limitation, the Fund will aggregate its purchases of a closed-end fund or a UIT with the purchases, if any, by other investment companies managed or sponsored by the investment manager. The Fund intends to vote the shares of any closed-end fund held by it in the same proportion as the vote of all other holders of such fund's securities. The effect of such "mirror" voting is to neutralize the Fund's influence on corporate governance matters regarding the closed-end funds in which the Fund invests.

Closed-end funds may, under certain circumstances, convert into open-end investment companies. Pursuant to applicable provisions of the 1940 Act, the Fund may not redeem more than 1% of the outstanding redeemable securities of an open-end investment company during any period of 30 days or less. Consequently, should the Fund own more than 1% of the outstanding redeemable securities of an open-end investment company after such fund's conversion from closed-end fund status, the amount in excess of 1% may be treated as an investment in illiquid securities. Because the Fund may not hold at any time more than 10% of the value of its total assets in illiquid securities (securities that cannot be disposed of within seven days in the normal course of business at approximately the amount at which the Fund has valued the securities), the Fund may seek to divest itself, prior to any such conversion, of securities in excess of 1% of the outstanding redeemable securities of a converting fund. The Fund may, however, retain such securities and any amount in excess of 1% of the open-end fund, thereby subject to the limits on redemption, would be treated as an investment in illiquid securities subject to the aggregate limit of 10% of the Fund's total assets.

The Fund will not invest in the securities of closed-end funds which are managed by the investment manager or UITs that are sponsored by the manager. The foregoing policy is not a fundamental policy of the Fund and can therefore be changed by a majority vote of the Board of Trustees of the Fund without any requirement for a vote of the Fund's shareholders.

In addition to the policies stated in the Prospectus, the investment restrictions set forth below have been adopted by the Fund to limit certain risks that may otherwise result from investment in specific types of securities or from engaging in certain types of transactions which such restrictions are designed to prohibit. Unless specifically approved by the affirmative vote of a majority of the outstanding voting securities of the Fund, consisting of the lesser of (i) 67% or more of the Fund's voting securities present at a meeting of shareholders if the holders of more than 50% of its voting securities are represented at the meeting or (ii) more than 50% of the Fund's outstanding voting securities, the Fund MAY NOT:

1. Have invested as of the last day of any fiscal quarter (i) more than 25% of its total assets in the securities of any one issuer, or (ii) with respect to 50% of the Fund's total assets, more than 5% of its total assets in the obligations of any one issuer, except for securities issued or guaranteed by the U.S. government, its agencies or instrumentalities.

2. Purchase more than 10% of the voting securities, or more than 10% of any class of securities, of any issuer. For purposes of this restriction, all outstanding fixed-income securities of an issuer are considered as one class.

3. Invest in the stock of any investment company if a purchase of such stock would result in the Fund and affiliates of the Fund owning together more than 3% of the total outstanding stock of such investment company.

4. Borrow money, except from banks, in order to meet redemption requests that might otherwise require the untimely disposition of portfolio securities or for other temporary or emergency (not leveraging) purposes in an amount up to 15% of the value of the Fund's total assets (including the amount borrowed) based on the lesser of cost or market, less liabilities (not including the amount borrowed) at the time the borrowing is made. While borrowings exceed 5% of the Fund's total assets, the Fund will not make any additional investments.

5. Pledge, hypothecate, mortgage or otherwise encumber its assets, except to secure borrowings for temporary or emergency purposes and permissible options, short selling or other hedging transactions.

6. Purchase securities on margin or underwrite securities. (Does not preclude the Fund from obtaining such short-term credit as may be necessary for the clearance of purchases and sales of its portfolio securities.)

7. Buy or sell interests in oil, gas or mineral exploration or development programs or leases, or real estate. (Does not preclude investments in marketable securities of issuers engaged in such activities.)

8. Make loans to others except through the purchase of debt obligations referred to in the Prospectus and the entry into repurchase agreements and portfolio lending agreements, provided that the value of securities subject to such lending agreements may not exceed 25% of the value of the Fund's total assets. Any loans of portfolio securities will be made according to guidelines established by the Securities and Exchange Commission ("SEC") and the Fund's Board of Trustees, including maintenance of collateral of the borrower equal at all times to at least 102% of the current market value of the securities loaned.

9. Purchase or sell commodities or commodity futures contracts or financial futures contracts; or invest in put, call, straddle or spread options on financial or other futures contracts or stock index futures contracts.

10. Invest in warrants (valued at the lower of cost or market) in excess of 5% of the value of the Fund's net assets. No more than 2% of the value of the Fund's net assets may be invested in warrants (valued at the lower of cost or market) which

are not listed on the New York or American Stock Exchanges.

11. Purchase from or sell to its officers and trustees, or any firm of which any officer or trustee is a member, as principal, any securities, but the Fund may deal with such persons or firms as brokers and pay a customary brokerage commission; nor invest in securities of any company if, to the knowledge of the Fund, any officer, director or trustee of the Fund or the investment advisor owns more than 0.5% of the outstanding securities of such company and such officers, directors and trustees (who own more than 0.5%) in the aggregate own more than 5% of the outstanding securities of such company.

12. Underwrite the securities of other issuers, except insofar as the Fund may be technically deemed an underwriter under the federal securities laws in connection with the disposition of portfolio securities.

13. Purchase or hold the securities of any issuer if, as a result, in the aggregate, more than 10% of the value of the Fund's total assets would be invested in securities that are subject to legal or contractual restrictions on resale ("restricted securities"), in securities that are not readily marketable (including over-the-counter options) or in repurchase agreements maturing in more than seven days.

14. Invest in any issuer for purposes of exercising control or management.

15. Issue senior securities, as defined in the 1940 Act, except that this restriction shall not be deemed to prohibit the Fund from (i) making any permitted borrowings, mortgages or pledges or (ii) entering into repurchase transactions.

16. Engage in the short sales of securities, except short sales "against the box," if the cash or securities deposited in the segregated account with the Fund's custodian to collateralize its short positions in the aggregate exceed 25% of the Fund's net assets.

If a percentage restriction is adhered to at the time of investment, a subsequent increase or decrease in a percentage resulting from a change in the values of assets will not constitute a violation of that restriction, except as otherwise noted.

The Fund's emphasis on securities believed to be undervalued by the market uses a technique followed by certain very wealthy investors highlighted by the media and a number of private partnerships with very high minimum investments. It requires not only the resources to undertake exhaustive research of little followed, out-of-favor securities, but also the patience and discipline to hold these investments until their intrinsic values are ultimately recognized by others in the marketplace. There can be no assurance that such technique will be successful for the Fund or that the Fund will achieve its investment objective.

Other Policies. Pursuant to an undertaking given to the Texas State Securities Board, the Franklin Balance Sheet Investment Fund may not invest in real estate limited partnerships or in interests (other than publicly traded equity securities) in oil, gas, or other mineral leases, exploration or development.

ADDITIONAL RISK FACTORS/SPECIAL CONSIDERATIONS RELATING TO FIXED-INCOME SECURITIES

The Fund also may invest up to 25% of its total assets in fixed-income and convertible securities offering high current income. Such high yielding, fixed-income securities will ordinarily be in the lower rating categories of recognized rating agencies or non-rated securities of comparable quality (sometimes referred to as "junk bonds" in the popular media). The market values of such securities tend to reflect individual corporate developments to a greater extent than do higher rated securities, which react primarily to fluctuations in the general level of interest rates. Such lower rated securities also tend to be more sensitive to economic conditions than are higher rated securities. These lower-rated fixed-income securities are considered by S&P and Moody's, on balance, as predominantly speculative with respect to capacity to pay interest and repay principal in accordance with the terms of the obligation and will generally involve more credit risk than securities in the higher rating categories. Even securities rated BBB or Baa by S&P and Moody's, ratings which are considered investment grade, possess some speculative characteristics.

Companies that issue high yielding, fixed-income securities are often highly leveraged and may not have more traditional methods of financing available to them. Therefore, the risk associated with acquiring the securities of such issuers generally is greater than is the case with higher rated securities. For example, during an economic downturn or a sustained period of rising interest rates, highly leveraged issuers of high yielding securities may experience financial stress. During such periods, such issuers may not have sufficient revenues to meet their interest payment obligations. The issuer's ability to service its debt obligations may also be adversely affected by specific corporate developments, the issuer's inability to meet specific projected business forecasts, or the unavailability

of additional financing. The risk of loss due to default by the issuer is significantly greater for the holders of high yielding securities because such securities are generally unsecured and are often subordinated to other creditors of the issuer.

The Fund may have difficulty disposing of such high yielding securities because there may be a thin trading market for such securities. Because not all dealers maintain markets in all high yielding, fixed-income securities, there is no established retail secondary market for many of these securities, and the Fund anticipates that such securities could be sold only to a limited number of dealers or institutional investors. To the extent a secondary trading market for high yielding, fixed-income securities does exist, it is generally not as liquid as the secondary market for higher rated securities. The lack of a liquid secondary market may also have an adverse impact on market price and the Fund's ability to dispose of particular issues when necessary to meet the Fund's liquidity needs or in response to a specific economic event such as a deterioration in the creditworthiness of the issuer. The lack of a liquid secondary market for certain securities may also make it more difficult for the Fund to obtain accurate market quotations for purposes of valuing the Fund's portfolio. Market quotations are generally available on many high yield issues only from a limited number of dealers and may not necessarily represent firm bids of such dealers or prices for actual sales.

Potential liquidity problems associated with the Fund's investment in high yielding securities and other securities in which the Fund invests, such as the securities of closed-end investment companies, may negatively affect the Fund's net asset value, liquidity and ability to redeem Fund shares in accordance with applicable provisions of the 1940 Act.

In addition, since the high yield bond market is relatively new, much of its growth prior to 1990 paralleled a long economic expansion. The recession which followed disrupted the market for high yield bonds and adversely affected the value of many outstanding bonds and the ability of issuers of such bonds to repay principal and interest. Those adverse effects may continue even as the economy recovers.

At fiscal year-end, October 31, 1993, the Fund did not own any securities which were in default.

The Fund is authorized to acquire high yielding, fixed-income securities that are sold without registration under the federal securities laws and which therefore carry restrictions on resale. While many recent high yielding securities have been sold with registration rights, covenants and penalty provisions for delayed registration, if the Fund is required to sell such restricted securities before the securities have been registered, it may be deemed an underwriter of such securities as defined in the Securities Act of 1933, which entails special responsibilities and liabilities. The Fund may incur special costs in disposing of such securities; however, the Fund will generally incur no costs when the issuer is responsible for registering the securities.

The Fund may also acquire high yielding, fixed-income securities during an initial underwriting. Such securities involve special risks because they are new issues. The Fund has no arrangement with any person concerning the acquisition of such securities, and the investment advisor will carefully review the credit and other characteristics pertinent to such new issues.

From time to time, proposals have been discussed regarding new legislation designed to limit the use of certain high yielding securities by issuers in connection with leveraged buy-outs, mergers and acquisitions or to limit the deductibility of interest payments on such securities. Such proposals, if enacted into law, could reduce the market for such securities generally, could negatively affect the financial condition of issuers of high yield securities by removing or reducing a source of future financing, and could negatively affect the value of specific high yield issues and the high yield market in general. The likelihood of any such legislation or the effect thereof is uncertain. The liquidity of high yielding securities may be negatively affected by provisions of The Financial Institutions Reform, Recovery and Enforcement Act of 1989 that prohibit savings associations from acquiring or retaining any corporate debt security that is not investment grade.

Factors adversely impacting the market value of high yielding securities will, to the extent the Fund has invested in such securities, adversely impact the Fund's net asset value. In addition, the Fund may incur additional expenses to the extent it is required to seek recovery upon a default in the payment of principal or interest on its portfolio holdings. The Fund will rely on the investment advisor's judgment, analysis and experience in evaluating the creditworthiness of an issuer. In this evaluation, the investment advisor will take into consideration, among other things, the issuer's financial resources, its sensitivity to economic condi-

tions and trends, its operating history, the quality of the issuer's management and regulatory matters.

Portfolio Turnover. The Fund anticipates that its annual portfolio turnover rate generally will not exceed 100% but this rate should not be construed as a limiting factor. The portfolio turnover of the Fund was 30.86% for the fiscal year ended October 31, 1992 and 31.36% for the fiscal year ended October 31, 1993.

OFFICERS AND TRUSTEES

The Board of Trustees has the responsibility for the overall management of the Fund, including general supervision and review of its investment activities. The trustees, in turn, elect the officers of the Fund who are responsible for administering the day-to-day operations of the Fund. The affiliations of the officers and trustees and their principal occupations for the past five years are listed below. Trustees who are deemed to be "interested persons" of the Fund, as defined in the 1940 Act, are indicated by an asterisk (*).

<TABLE>
<CAPTION>

NAME AND ADDRESS	POSITIONS AND OFFICES WITH THE FUND	PRINCIPAL OCCUPATIONS DURING PAST FIVE YEARS
<S>	<C>	<C>
*William J. Lippman One Parker Plaza Fort Lee, NJ 07024	President, Trustee and Chief Executive Officer	Senior Vice President, Franklin Resources, Inc., Franklin Advisers, Inc., Franklin/Templeton Distributors, Inc. and Franklin Management, Inc.; officer and/or director or trustee of many funds in the Franklin Group of Funds.
Frank T. Crohn 7251 West Palmetto Park Road Boca Raton, FL 33433	Trustee	Chairman and Chief Executive Officer, Financial Benefit Life Insurance Company and Financial Benefit Group, Inc.; Director, Unity Mutual Life Insurance Company; Trustee, Hampton Utilities Trust and Franklin Managed Trust.
Charles Rubens II 18 Park Road Scarsdale New York, NY 10583	Trustee	Private Investor; Trustee, Hampton Utilities Trust and Franklin Managed Trust.
Leonard Rubin 501 Broad Avenue Ridgefield, NJ 07657	Trustee	Chairman of the Board, Carolace Embroidery Co., Inc.; President, F.N.C. Textiles, Inc.; Vice President, Trimtex Co. Inc.; Trustee, Hampton Utilities Trust and Franklin Managed Trust.
Rupert H. Johnson, Jr. 777 Mariners Island Blvd. San Mateo, CA 94404	Vice President	Executive Vice President and Director, Franklin Resources, Inc. and Franklin/Templeton Distributors, Inc.; President and Director, Franklin Advisers, Inc.; Director, Franklin/Templeton Investor Services, Inc.; director of certain of the investment companies in the Templeton Group of Funds; and officer and/or director, trustee or managing general partner, as the case may be, of most other subsidiaries of Franklin Resources, Inc. and of most of the investment companies in the Franklin Group of Funds.

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<CAPTION>

NAME AND ADDRESS	POSITIONS AND OFFICES WITH THE FUND	PRINCIPAL OCCUPATIONS DURING PAST FIVE YEARS
<S>	<C>	<C>
Harmon E. Burns 777 Mariners Island Blvd. San Mateo, CA 94404	Vice President	Executive Vice President, Secretary and Director, Franklin Resources, Inc.; Executive Vice President and Director, Franklin/Templeton Distributors, Inc.; Executive Vice President, Franklin Advisers, Inc.; Director, Franklin/Templeton Investor Services, Inc.; director of certain of the investment companies in the Templeton Group of Funds; officer and/or director, as the case may be, of other subsidiaries of Franklin Resources, Inc.; and officer and/or director or trustee of all the investment companies in the Franklin Group of Funds.
Kenneth V. Domingues 777 Mariners Island Blvd. San Mateo, CA 94404	Vice President and Treasurer	Senior Vice President, Franklin Resources, Inc. and Franklin Advisers, Inc.; Vice President Franklin/Templeton Distributors, Inc.; officer or director, as the case may be, of other subsidiaries of Franklin Resources, Inc.; and officer and/or managing general partner, as the case may be, of all the investment companies in the Franklin Group of Funds.
Edward V. McVey 777 Mariners Island Blvd. San Mateo, CA 94404	Vice President	Senior Vice President/National Sales Manager, Franklin/Templeton Distributors, Inc.; and officer of many of the investment companies in the Franklin Group of Funds.
R. Martin Wiskemann 777 Mariners Island Blvd. San Mateo, CA 94404	Vice President	Senior Vice President, Portfolio Manager and Director, Franklin Advisers, Inc.; Senior Vice President, Franklin Management, Inc.; Vice President, Treasurer and Director, ILA Financial Services, Inc. and Arizona Life Insurance Company of America; and officer and/or director, as the case may be, of many of the investment companies in the Franklin Group of Funds.
Deborah R. Gatzek 777 Mariners Island Blvd. San Mateo, CA 94404	Vice President and Secretary	Senior Vice President - Legal, Franklin Resources, Inc. and Franklin/Templeton Distributors, Inc.; Vice President, Franklin Advisers, Inc.; and officer of all the investment companies in the Franklin Group of Funds.

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As indicated above, certain of the trustees and officers hold positions with other companies in the Franklin Group of Funds(R). Trustees not affiliated with the investment manager are paid fees of $500 per quarter plus $250 per meeting attended and are reimbursed for expenses incurred in connection with attending such meetings. During the fiscal year ended October 31, 1993, fees totaling $9,619 were paid by the Fund to trustees of the Fund who were not affiliated with the investment manager. No officer or trustee received any other compensation directly from the Fund. As of December 7, 1993, the trustees and officers, as a group, owned of record and beneficially approximately 41,918 shares of the Fund. Certain officers or trustees who are shareholders of Franklin Resources, Inc. may be deemed to receive indirect remuneration by virtue of their participation, if any, in the fees paid to its subsidiaries.

INVESTMENT ADVISORY AND OTHER SERVICES

The investment manager of the Fund is Franklin Advisers, Inc. ("Advisers" or "Manager"). Advisers is a wholly-owned subsidiary of Franklin Resources, Inc. ("Resources"), a publicly-owned holding company whose shares are listed on the New York Stock Exchange (the "Exchange"). Resources owns several other subsidiaries which are involved in investment management and shareholder services. The Manager and other subsidiary companies of Resources currently manage over $109 billion in assets for over 3.2 million shareholders. Please refer to the table above which indicates officers and trustees who are affiliated persons of the Fund and who are also affiliated persons of Distributors, the Fund's principal underwriter, and of Advisers. Charles B. Johnson, Chairman of the Board of Advisers and Rupert H. Johnson, Jr., President of Advisers, are brothers and are, respectively, the father and uncle of Charles E. Johnson, Vice-President of Advisers.

Pursuant to the management agreement, the Manager provides investment research and portfolio management services, including the selection of securities for the Fund to purchase, hold or sell and the selection of brokers through whom the Fund's portfolio transactions are executed. The Manager's activities are subject to the review and supervision of the Fund's Board of Trustees to whom the Manager renders periodic reports of the Fund's investment activities. The Manager, at its own expense, furnishes the Fund with office space and office furnishings, facilities and equipment required for managing the business affairs of the Fund; maintains all internal bookkeeping, clerical, secretarial and administrative personnel and services; and provides certain telephone and other mechanical services. The Manager is covered by fidelity insurance on its officers, directors and employees for the protection of the Fund. The Fund bears all of its expenses not assumed by the Manager. See the Statement of Operations in the financial statements at the end of this Statement of Additional Information for additional details of these expenses.

Pursuant to the management agreement, the Fund is obligated to pay the Manager a fee computed and accrued daily and paid monthly at an annual rate of 0.625 of 1% for the first $100 million of average daily net assets of the Fund; 0.50 of 1% on net assets in excess of $100 million up to $250 million; 0.45 of 1% on net assets in excess of $250 million up to $10 billion; 0.44 of 1% on net assets in excess of $10 billion up to and including $12.5 billion; 0.42 of 1% on net assets in excess of $12.5 billion up to and including $15 billion; and 0.40 of 1% on net assets in excess over $15 billion.

The Manager has limited its management fees and assumed responsibility for making payments to offset operating expenses otherwise payable by the Fund. This action by the Manager to limit its management fees and to assume responsibility for payment of the expenses related to the operations of the Fund may be terminated by the Manager at any time. In addition, the management agreement specifies that the management fee will be reduced to the extent necessary to comply with the most stringent limits on the expenses which may be borne by the Fund as prescribed by any state in which the Fund's shares are offered for sale. The most stringent current limit requires the Manager to reduce or eliminate its fee to the extent that aggregate operating expenses of the Fund (excluding interest, taxes, brokerage commissions and extraordinary expenses such as litigation costs) would otherwise exceed in any fiscal year 2.5% of the first $30 million of average net assets of the Fund, 2% of the next $70 million of average net assets of the Fund and 1.5% of average net assets of the Fund in excess of $100 million. Expense reductions have not been necessary based on state requirements. For the fiscal years ended October 31, 1991, 1992, and 1993, the Manager waived the management fees the Fund was otherwise contractually obligated to pay of $14,254, $26,642, and $65,810, respectively.

The management agreement is effective through April 30, 1994. Thereafter, it may continue in effect for successive annual periods providing such continuance is specifically approved at least annually by a vote of the Fund's Board of Trustees or by a vote of the holders of a majority of the Fund's outstanding voting securities, and in either event by a majority vote of the Trustees who are not parties to the management agreement or interested persons of any such party (other than as trustees of the Fund), cast in person at a meeting called for that purpose. The management agreement may be terminated without penalty at any time by the Fund or by the Manager on 30 days' written notice and will automatically terminate in the event of its assignment, as defined in the 1940 Act.

Franklin/Templeton Investor Services, Inc. ("Investor Services" or "Shareholder Services Agent"), a wholly-owned subsidiary of Resources, is the shareholder servicing agent for the Fund and acts as the Fund's

transfer agent and dividend-paying agent. Investor Services is compensated on the basis of a fixed fee per account.

Bank of America NT & SA, 555 California Street, 4th Floor, San Francisco, California 94104, acts as custodian of the securities and other assets of the Fund. Citibank Delaware, One Penn's Way, New Castle, Delaware 19720, acts as custodian in connection with transfer services through bank automated clearing houses. The custodians do not participate in decisions relating to the purchase and sale of portfolio securities.

Coopers & Lybrand, 333 Market Street, San Francisco, California 94105, are the Fund's independent auditors. During the fiscal year ended October 31, 1993, their auditing services consisted of rendering an opinion on the financial statements of the Fund included in the Fund's Annual Report and this Statement of Additional Information.

THE FUND'S POLICIES REGARDING BROKERS USED ON PORTFOLIO TRANSACTIONS
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Under the current management agreement with Advisers, the selection of brokers and dealers to execute transactions in the Fund's portfolio is made by the Manager in accordance with criteria set forth in the management agreement and any directions which the Fund's Board of Trustees may give.

When placing a portfolio transaction, the Manager attempts to obtain the best net price and execution of the transaction. On portfolio transactions which are done on a securities exchange, the amount of commission paid by the Fund is negotiated between the Manager and the broker executing the transaction. The Manager seeks to obtain the lowest commission rate available from brokers which are felt to be capable of efficient execution of the transactions. The determination and evaluation of the reasonableness of the brokerage commissions paid in connection with portfolio transactions are based to a large degree on the professional opinions of the persons responsible for the placement and review of such transactions. These opinions are formed on the basis of, among other things, the experience of these individuals in the securities industry and information available to them concerning the level of commissions being paid by other institutional investors of comparable size. The Manager will ordinarily place orders for the purchase and sale of over-the-counter securities on a principal rather than agency basis with a principal market maker unless, in the opinion of the Manager, a better price and execution can otherwise be obtained. Purchases of portfolio securities from underwriters will include a commission or concession paid by the issuer to the underwriter, and purchases from dealers will include a spread between the bid and ask price. As a general rule, the Fund does not purchase bonds in underwritings where it is not given any choice, or only limited choice, in the designation of dealers to receive the commission. The Fund will seek to obtain prompt execution of orders at the most favorable net price.

The amount of commission is not the only relevant factor to be considered in the selection of a broker to execute a trade. If it is felt to be in the Fund's best interests, the Manager may place portfolio transactions with brokers who provide the types of services described below, even if it means the Fund will have to pay a higher commission than would be the case if no weight were given to the broker's furnishing of these services. This will be done only if, in the opinion of the Manager, the amount of any additional commission is reasonable in relation to the value of the services. Higher commissions will be paid only when the brokerage and research services received are bona fide and produce a direct benefit to the Fund or assist the Manager in carrying out its responsibilities to the Fund, or when it is otherwise in the best interest of the Fund to do so, whether or not such data may also be useful to the Manager in advising other clients.

When it is felt that several brokers are equally able to provide the best net price and execution, the Manager may decide to execute transactions through brokers who provide quotations and other services to the Fund, specifically including the quotations necessary to determine the value of the Fund's net assets, in such amount of total brokerage as may reasonably be required in light of such services and through brokers who supply research, statistical and other data to the Fund and Manager in such amount of total brokerage as may reasonably be required.

It is not possible to place a dollar value on the special executions or on the research services received by Advisers from dealers effecting transactions in portfolio securities. The allocation of transactions in order to obtain additional research services permits Advisers to supplement its own research and analysis activities and to receive the views and information of individuals and research staff of other securities firms. As long as it is lawful and appropriate to do so, the Manager and its affiliates may use this research and data in their investment ad-

visory capacities with other clients. Provided that the Fund's officers are satisfied that the best execution is obtained, the sale of Fund shares may also be considered as a factor in the selection of securities dealers to execute the Fund's portfolio transactions.

Because Distributors is a member of the National Association of Securities Dealers, it is sometimes entitled to obtain certain fees when the Fund tenders portfolio securities pursuant to a tender-offer solicitation. As a means of recapturing brokerage for the benefit of the Fund, any portfolio securities tendered by the Fund will be tendered through Distributors if it is legally permissible to do so. In turn, the next management fee payable to Advisers under the management agreement will be reduced by the amount of any fees received by Distributors in cash, less any costs and expenses incurred in connection therewith.

If purchases or sales of securities of the Fund and one or more other investment companies or clients supervised by the Manager are considered at or about the same time, transactions in such securities will be allocated among the several investment companies and clients in a manner deemed equitable to all by the Manager, taking into account the respective sizes of the funds and the amount of securities to be purchased or sold. It is recognized that in some cases this procedure could possibly have a detrimental effect on the price or volume of the security so far as the Fund is concerned. However, in other cases it is possible that the ability to participate in volume transactions and to negotiate lower brokerage commissions will be beneficial to the Fund.

For fiscal years ended October 31, 1991, 1992 and 1993, the Fund paid total brokerage commissions of $6,634, $7,254 and $28,422, respectively. As of October 31, 1993, the Fund did not own securities of any broker-dealer.

ADDITIONAL INFORMATION REGARDING FUND SHARES

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All checks, drafts, wires and other payment mediums used for purchasing or redeeming shares of the Fund must be denominated in U.S. dollars. The Fund reserves the right, in its sole discretion, to either (i) reject any order for the purchase or sale of shares denominated in any other currency, or (ii) to honor the transaction or make adjustments to a shareholder's account for the transaction as of a date and with a foreign currency exchange factor determined by the drawee bank.

Dividend checks which are returned to the Fund marked "unable to forward" by the postal service will be deemed to be a request by the shareholder to change the dividend option and the proceeds will be reinvested in additional shares at net asset value until new instructions are received.

The Fund may deduct from a shareholder's account the costs of its efforts to locate a shareholder if mail is returned as undeliverable or the Fund is otherwise unable to locate the shareholder or verify the current mailing address. These costs may include a percentage of the account when a search company charges a percentage fee in exchange for their location services.

Under agreements with certain banks in the Republic of China (Taiwan), the Fund's shares are available to such banks' discretionary trust funds at net asset value. The banks may charge service fees to their customers who participate in the discretionary trusts. Pursuant to agreements, a portion of such service fees may be paid to Distributors to help defray the expenses of maintaining a service office in Taiwan, including expenses related to local literature fulfillment and communication facilities.

Shares of the Fund may be offered to investors in Taiwan through securities firms known locally as Securities Investment Consulting Enterprises. In conformity with local business practices in Taiwan, shares of the Fund will be offered with the following schedule of sales charges:

<TABLE>
<CAPTION>

SIZE OF PURCHASE	SALES CHARGE
<S>	<C>
Up to U.S. $100,000......................	3%
U.S. $100,000 to U.S. $1,000,000.........	2%
Over U.S. $1,000,000.....................	1%

</TABLE>

PURCHASES AND REDEMPTIONS THROUGH SECURITIES DEALERS

Orders for the purchase of shares of the Fund received in proper form prior to 1:00 p.m. Pacific time any business day that the Exchange is open for trading and promptly transmitted to the Fund will be based upon the public offering price determined that day. Purchase orders received by securities dealers or other financial institutions after 1:00 p.m. Pacific time will be effected at the Fund's public offering price on the day it is next calculated. The use of the term "securities dealer" herein shall include other financial institutions which, pursuant to an agreement with Distributors (directly or through affiliates), handle customer orders and accounts with the Fund. Such reference however is for convenience only and does not indicate a legal conclusion of capacity.

Orders for the redemption of shares are effected at net asset value subject to the same conditions concerning time of receipt in proper form. It is the securities dealer's responsibility to transmit the order in a timely fashion and any loss to the customer resulting from failure to do so must be settled between the customer and the securities dealer.

PURCHASES AT NET ASSET VALUE

As discussed in the Prospectus, certain categories of investors may purchase shares of the Fund at net asset value (without a sales charge) or at a reduced sales charge. The reason for this is that there is minimal or no sales effort required with respect to these investors. If certain investments at net asset value are made through a dealer who has executed a dealer or similar agreement with Distributors, Distributors or its affiliates may make a payment, out of their own resources, to such dealer in an amount not to exceed 0.25% of the amount invested, paid pro rata on a quarterly basis on average quarterly balances for a period of one year.

REDEMPTIONS IN KIND

The Fund has committed itself to pay in cash (by check) all requests for redemption by any shareholder of record, limited in amount, however, during any 90-day period to the lesser of $250,000 or 1% of the value of the Fund's net assets at the beginning of such period. Such commitment is irrevocable without the prior approval of the SEC. In the case of requests for redemption in excess of such amounts, the Trustees reserve the right to make payments in whole or in part in securities or other assets of the Fund from which the shareholder is redeeming, in case of an emergency, or if the payment of such a redemption in cash would be detrimental to the existing shareholders of the Fund. In such circumstances, the securities distributed would be valued at the price used to compute the Fund's net assets. Should the Fund do so, a shareholder may incur brokerage fees in converting the securities to cash.

REDEMPTIONS BY THE FUND

Due to the relatively high cost of handling small investments, the Fund reserves the right to redeem, involuntarily, at net asset value, the shares of any shareholder whose account has a value of less than one-half of the initial minimum investment required for that shareholder, but only where the value of such account has been reduced by the shareholder's prior voluntary redemption of shares. Until further notice, it is the present policy of the Fund not to exercise this right with respect to any shareholder whose account has a value of $50 or more. In any event, before the Fund redeems such shares and sends the proceeds to the shareholder, it will notify the shareholder that the value of the shares in the account is less than the minimum amount and allow the shareholder 30 days to make an additional investment in an amount which will increase the value of the account to at least $100.

CALCULATION OF NET ASSET VALUE

As noted in the Prospectus, the Fund generally calculates net asset value as of 1:00 p.m. Pacific time each day that the Exchange is open for trading. As of the date of this Statement of Additional Information, the Fund is informed that the Exchange observes the following holidays: New Year's Day, Presidents' Day, Good Friday, Memorial Day, Independence Day, Labor Day, Thanksgiving Day and Christmas Day.

The Fund's portfolio securities are valued as stated in the Prospectus. Generally, trading in corporate bonds, U.S. government securities and money market instruments is substantially completed each day at various times prior to the close of the Exchange. The values of such securities used in computing the net asset value of the Fund's shares are determined as of such times. Occasionally, events affecting the values of such securities may occur between the times at which they are determined and 1:00 p.m. Pacific time which will not be reflected in the computation of the Fund's net asset value. If events materially affecting the value of such securities occur during such period, then these securities will be valued at their fair value as determined in good faith by the Board of Trustees.

REINVESTMENT DATE

The dividend reinvestment date is the date on which additional shares are purchased for the investor who has elected to have dividends reinvested. This date will vary from month to month, based on operational considerations, and is not necessarily the same date as the record date or the payable date for cash dividends.

SPECIAL SERVICES

The Trust and Institutional Services Division of Distributors provides specialized services, including recordkeeping, for institutional investors of the Fund. The cost of these services is not borne by the Fund.

Franklin/Templeton Investor Services, Inc. may pay certain financial institutions, which maintain omnibus accounts with the Fund on behalf of numerous beneficial owners, for recordkeeping oper-

ations performed with respect to such beneficial owners. For each beneficial owner in the omnibus account, the Fund may reimburse Investor Services an amount not to exceed the per account fee which the Fund normally pays Investor Services. Such financial institutions may also charge a fee for their services directly to their clients.

ADDITIONAL INFORMATION REGARDING TAXATION
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As stated in the Prospectus, the Fund has elected to be treated as a regulated investment company under Subchapter M of the Code, qualified as such for the fiscal year ended October 31, 1993, and intends to so qualify during the current fiscal year. The Trustees reserve the right not to maintain the qualification of the Fund as a regulated investment company if they determine such course of action to be beneficial to the shareholders. In such case, the Fund will be subject to federal and possibly state corporate taxes on its taxable income and gains, and distributions to shareholders will be ordinary dividend income to the extent of the Fund's available earnings and profits.

Subject to the limitations discussed below, all or a portion of the income distributions paid by a Fund may be treated by corporate shareholders as qualifying dividends for purposes of the dividends-received deduction under federal income tax law. If the aggregate qualifying dividends received by the Fund (generally, dividends from U.S. domestic corporations, the stock in which is not debt-financed by the Fund and is held for at least a minimum holding period) is less than 100% of its distributable income, then the amount of the Funds's dividends paid to corporate shareholders which may be designated as eligible for such deduction will not exceed the aggregate qualifying dividends received by the Fund for the taxable year. The amount or percentage of income qualifying for the corporate dividends-received deduction will be declared by the Fund annually in a notice to shareholders mailed shortly after the end of the Fund's fiscal year.

Corporate shareholders should note that dividends paid by a Fund from sources other than the qualifying dividends it receives will not qualify for the dividends-received deduction. For example, any interest income and short-term capital gain (in excess of any net long-term capital loss or capital loss carryover) included in investment company taxable income and distributed by a Fund as a dividend will not qualify for the dividends-received deduction.

Corporate shareholders should also note that availability of the corporate dividends-received deduction is subject to certain restrictions. For example, the deduction is eliminated unless the Fund shares have been held (or deemed held) for at least 46 days in a substantially unhedged manner. The dividends-received deduction may also be reduced to the extent interest paid or accrued by a corporate shareholder is directly attributable to its investment in Fund shares. The entire dividend, including the portion which is treated as a deduction, is includable in the tax base on which the alternative minimum tax is computed and may also result in a reduction in the shareholder's tax basis in its Fund shares, under certain circumstances, if the shares have been held for less than two years. Corporate shareholders whose investment in the Fund is "debt-financed" for these tax purposes should consult with their tax advisors concerning the availability of the dividends-received deduction.

The Code requires all funds to distribute at least 98% of their taxable ordinary income earned during the calendar year and at least 98% of their capital gain net income earned during the twelve-month period ending October 31 of each year (in addition to amounts from the prior year that were neither distributed nor taxed to the Fund) to shareholders by December 31 of each year in order to avoid the imposition of a federal excise tax. Under these rules, certain distributions which are declared in October, November or December, but which, for operational reasons, may not be paid to the shareholder until the following January, will be treated for tax purposes as if paid by the Fund and received by the shareholder on December 31 of the calendar year in which they are declared. The Fund intends as a matter of policy to declare such dividends, if any, in December and to pay these dividends in December or January to avoid the imposition of this tax, but does not guarantee that its distributions will be sufficient to avoid any or all federal excise taxes.

Redemptions and exchanges of Fund shares are taxable transactions for federal and state income tax purposes. For most shareholders, gain or loss will be recognized in an amount equal to the difference between the shareholder's basis in the shares and the amount received, subject to the rules described below. If such shares are a capital asset in the hands of the shareholder, gain or loss will be capital gain or loss and will be long-term for federal income tax purposes if the shares have been held for more than one year.

All or a portion of a loss realized upon a redemption of shares will be disallowed to the extent other shares of the Fund are purchased (through reinvestment of dividends or otherwise) within 30 days before or after such redemption. Any loss disallowed under these rules will be added to the tax basis of the shares purchased.

Any loss realized upon the redemption of shares within six months from the date of their purchase will be treated as a long-term capital loss to the extent of amounts treated as distributions of net long-term capital gain during such six-month period.

The Fund's investment in zero coupon and delayed interest bonds, or bonds that provide for payment of interest in kind, may cause the Fund to recognize income and make distributions to shareholders prior to the receipt of cash payments.

Payment-in-kind obligations are subject to special tax rules concerning the amount, character and timing of income required to be accrued by the Fund.

The Fund's investment in options are subject to many complex and special tax rules. For example, over-the-counter options on debt securities and equity options, including options on stock and on narrow-based stock indexes, will be subject to tax under Section 1234 of the Code, generally producing a long-term or short-term capital gain or loss upon exercise, lapse or closing out of the option or sale of the underlying stock or security.

When the Fund holds an option or contract which substantially diminishes the Fund's risk of loss with respect to another position of the Fund (as might occur in some "hedging transactions"), this combination of positions could be treated as a "straddle" for tax purposes, resulting in possible deferral of losses, adjustments in the holding periods of Fund securities and conversion of short-term capital losses into long-term capital losses.

As a regulated investment company, the Fund is also subject to the requirement that less than 30% of its annual gross income be derived from the sale or other disposition of securities and certain other investments held for less than three months ("short-short income").

This requirement may limit the Fund's ability to engage in options and hedging transactions because these transactions are often consummated in less than three months, may require the sale of portfolio securities held less than three months and may, as in the case of short sales of portfolio securities, reduce the holding periods of certain securities within the Fund, resulting in additional short-short income for the Fund.

The Fund will monitor its transactions in such options and contracts and may make certain other tax elections in order to mitigate the effect of the above rules and to prevent disqualification of the Fund as a regulated investment company under Subchapter M of the Code.

Gain realized by a Fund from transactions entered into after April 30, 1993 that are deemed to constitute "conversion transactions" under the Code and which would otherwise produce capital gain may be recharacterized as ordinary income to the extent that such gain does not exceed an amount defined by the Code as the "applicable imputed income amount." A conversion transaction is any transaction in which substantially all of the Fund's expected return is attributable to the time value of the Fund's net investment in such transaction and any one of the following criteria are met: 1) there is an acquisition of property with a substantially contemporaneous agreement to sell the same or substantially identical property in the future; 2) the transaction is an applicable straddle; 3) the transaction was marketed or sold to the Fund on the basis that it would have the economic characteristics of a loan but would be taxed as capital gain; or 4) the transaction is specified in Treasury regulations to be promulgated in the future. The applicable imputed income amount, which represents the deemed return on the conversion transaction based upon the time value of money, is computed using a yield equal to 120 percent of the applicable federal rate, reduced by any prior recharacterizations under this provision or Section 263(g) of the Code concerning capitalized carrying costs.

THE FUND'S UNDERWRITER

Pursuant to an underwriting agreement in effect until April 30, 1994, Distributors acts as principal underwriter in a continuous public offering for shares of the Fund.

Distributors pays the expenses of distribution of Fund shares, including advertising expenses and the costs of printing sales material and prospectuses used to offer shares to the public. The Fund pays the expenses of preparing and printing amendments to its registration statements and prospectuses (other than those necessitated by the activities of Distributors) and of sending prospectuses to existing shareholders.

The underwriting agreement will continue in effect for successive annual periods provided that its continuance is specifically approved at least annually by a vote of the Fund's Board of Trustees or by a vote of the holders of a majority of the Fund's outstanding voting securities, and in either event by a majority vote of the Fund's trustees who are not parties to the underwriting agreement or inter-

ested persons of any such party (other than as trustees of the Fund), cast in person at a meeting called for that purpose. The underwriting agreement terminates automatically in the event of its assignment and may be terminated by either party on 90 days'written notice.

Distributors allows the entire underwriting commission on the sale of Fund shares to the securities dealer of record, if any, on an account. In connection with the offering of the Fund's shares, aggregate underwriting commissions for the fiscal years ended October 31, 1991, 1992 and 1993, were $6,634, $10,901, and $143,922, respectively. After allowances to dealers, Distributors retained none of the commissions for the 1991 fiscal year, and for the fiscal years ended October 31, 1992 and 1993, it retained $32 and $73, respectively. Distributors received no other compensation from the Fund for acting as underwriter.

GENERAL INFORMATION

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PERFORMANCE

As noted in the Prospectus, the Fund may, from time to time, quote various performance figures to illustrate the Fund's past performance. It may occasionally cite statistics to reflect its volatility or risk.

Performance quotations by investment companies are subject to rules adopted by the SEC. These rules require the use of standardized performance quotations or, alternatively, that every non-standardized performance quotation furnished by the Fund be accompanied by certain standardized performance information computed as required by the SEC. Current yield and average annual compounded total return quotations used by the Fund are based on the standardized methods of computing performance mandated by the SEC. An explanation of those and other methods used by the Fund to compute or express performance follows.

TOTAL RETURN

The average annual total return is determined by finding the average annual compounded rates of return over one-, five- and ten-year periods, or fractional portion thereof, that would equate an initial hypothetical $1,000 investment to its ending redeemable value. The calculation assumes the maximum sales charge is deducted from the initial $1,000 purchase order and that income dividends and capital gains are reinvested at net asset value. The quotation assumes the account was completely redeemed at the end of each one-, five- and ten-year period and the deduction of all applicable charges and fees.

In considering the quotations of total return by the Fund, investors should remember that the 1.5% maximum sales charge reflected in each quotation is a one time fee (charged on all direct purchases) which will have its greatest impact during the early stages of an investor's investment in the Fund. The actual performance of an investment will be affected less by this charge the longer an investor retains the investment in the Fund. The average annual compounded rates of return for the Fund for the indicated periods ended on the date of the financial statements included herein was as follows:

Period Ending October 31, 1993:

One Year:	37.78%
From inception (April 2, 1990):	16.72%

These figures were calculated according to the SEC formula:

P(1+T)n = ERV

where:

P = a hypothetical initial payment of $1,000

T = average annual total return

n = number of years

ERV = ending redeemable value of a hypothetical $1,000 payment made at the beginning of the one-, five- or ten-year periods at the end of the one-, five- or ten-year periods (or fractional portion thereof).

As discussed in the Prospectus, the Fund may quote total rates of return in addition to its average annual total return. Such quotations are computed in the same manner as the Fund's average annual compounded rate, except that such quotations will be based on the Fund's actual return for a specified period rather than on its average return over one-, five- and ten-year periods, or fractional portion thereof. The total rates of return for the Fund for the indicated periods ended on the date of the financial statements included herein was as follows:

Period Ending October 31, 1993:

One Year:	37.78%
From inception (April 2, 1990):	74.11%

YIELD

Current yield reflects the income per share earned by the Fund's portfolio investments.

Current yield is determined by dividing the net investment income per share earned during a 30-day base period by the maximum offering price per share on the last day of the period and annual-

izing the result. Expenses accrued for the period include any fees charged to all shareholders during the base period. The yield for the Fund for the 30-day period ended on the date of the financial statements included herein was 2.07%.

This figure was obtained using the following SEC formula:

$$\text{Yield} = 2\left[\left(\frac{a-b}{cd} + 1\right)^6 - 1\right]$$

where

a = dividends and interest earned during the period

b = expenses accrued for the period (net of reimbursements)

c = the average daily number of shares outstanding during the period that were entitled to receive dividends

d = the maximum offering price per share on the last day of the period

The above formula will be used in calculating quotations of yield, based on specified 30-day periods identified in the advertisement or communication. Yield calculations assume the maximum applicable sales load.

The Fund's current yield and total return may be compared to relevant indices, including U.S. domestic and international taxable bond indices and data from Lipper Analytical Services, Inc. or S&P's Indices.

CURRENT DISTRIBUTION RATE

Yield which is calculated according to a formula prescribed by the SEC is not indicative of the amounts which were or will be paid to the Fund's shareholders. Amounts paid to shareholders are reflected in the quoted "current distribution rate." The current distribution rate is computed by dividing the total amount of dividends per share paid by the Fund during the past 12 months by a current maximum offering price. Under certain circumstances, such as when there has been a change in the amount of dividend payout or a fundamental change in investment policies, it might be appropriate to annualize the dividends paid over the period such policies were in effect, rather than using the dividends during the past 12 months. The current distribution rate differs from the current yield computation because it may include distributions to shareholders from sources other than dividends and interest, such as premium income from option writing and short-term capital gains, and is calculated over a different period of time.

VOLATILITY

Occasionally, statistics may be used to specify Fund volatility or risk. Measures of volatility or risk are generally used to compare Fund net asset value or performance relative to a market index. One measure of volatility is beta. Beta is the volatility of a fund relative to the total market as represented by the Standard and Poor's 500 Stock Index. A beta of more than 1.00 indicates volatility greater than the market, and a beta of less than 1.00 indicates volatility less than the market. Another measure of volatility or risk is standard deviation. Standard deviation is used to measure variability of net asset value or total return around an average, over a specified period of time. The premise is that greater volatility connotes greater risk undertaken in achieving performance.

OTHER PERFORMANCE QUOTATIONS

With respect to those categories of investors who are permitted to purchase shares of the Fund at net asset value, sales literature pertaining to the Fund may quote a current distribution rate, yield, total return, average annual total return and other measures of performance as described elsewhere in this Statement of Additional Information with the substitution of net asset value for the public offering price.

Sales literature referring to the use of the Fund as a potential investment for Individual Retirement Accounts (IRAs), Business Retirement Plans and other tax-advantaged retirement plans may quote a total return based upon compounding of dividends on which it is presumed no federal income tax applies.

Regardless of the method used, past performance is not necessarily indicative of future results, but is an indication of the return to shareholders only for the limited historical period used.

OTHER FEATURES AND BENEFITS

From time to time, evaluations of the Fund's performance by independent sources may be used in advertisements and in information furnished to present or prospective shareholders. Fund advertisements or information may also include a discussion of the benefits of investing in the shares of closed-end investment companies by purchasing the shares of a mutual fund, such as the Fund, which invest a substantial portion of its assets in closed-end fund shares. Such advertisements or information may include symbols or headlines which summarize the information discussed in more detail.

Such advertisements and sales literature may also note that deeply discounted securities offer growth potential, but that finding these deeply discounted securities involves expensive and extensive research generally available only to large institutional investors and very affluent investors. Further, it may be noted that the Fund is the first to offer the research and potential benefits of buying discounted securities in the mutual fund format.

Advertisements or information may also compare the Fund's performance to the return on certificates of deposit or other investments. Investors should be aware, however, that an investment in the Fund involves the risk of fluctuation of principal value, a risk generally not present in an investment in a certificate of deposit issued by a bank. For example, as the general level of interest rates rise, the value of the Fund's fixed-income investments, as well as the value of its shares which are based upon the value of such portfolio investments, can be expected to decrease. Conversely, when interest rates decrease, the value of the Fund's shares can be expected to increase. Certificates of deposit are frequently insured by an agency of the U.S. government. An investment in the Fund is not insured by any federal, state or private entity.

Shareholders should note that the investment results of the Fund will fluctuate over time, and any presentation of the Fund's current yield or total return for any period should not be considered as a representation of what an investment may earn or what a shareholder's total return or yield may be in any future period. Shareholders should also note that although the Fund believes that there are substantial benefits to be realized by investing in the shares of closed-end funds, such investments also involve certain risks. (See "Risk Factors/Special Considerations" in the Prospectus.) The Fund may include in its advertising or sales material information relating to investment objectives and performance results of funds belonging to the Templeton Group of Funds. Resources is the parent company of the advisers and underwriter of both the Franklin Group of Funds and Templeton Group of Funds.

The Fund may help investors achieve various investment goals such as accumulating money for retirement, saving for a down payment on a home, college cost and/or other long-term goals. The Franklin College Cost Planner may assist an investor in determining how much money must be invested on a monthly basis in order to have a projected amount available in the future to fund a child's college education. (Projected college cost estimates are based upon current costs published by the College Board.) The Franklin Retirement Income Planning Guide leads an investor through the steps to start a retirement savings program. Of course, an investment in the Fund cannot guarantee that such goals will be met.

MISCELLANEOUS INFORMATION

The Fund is a member of the Franklin/Templeton Group, one of the largest mutual fund organizations in the United States and may be considered in a program for diversification of assets. Founded in 1947, Franklin, one of the oldest mutual fund organizations, has managed mutual funds for over 45 years and now services more than 2.4 million shareholder accounts. In 1992, Franklin, a leader in managing fixed-income mutual funds and an innovator in creating domestic equity funds, joined forces with Templeton Worldwide, Inc., a pioneer in international investing. Together, the Franklin/Templeton Group has over $109 billion in assets under management for more than 3.2 million shareholder accounts and offers 93 U.S.-based mutual funds. The Fund may identify itself by its Quotron code, FRBSX, or its CUSIP number, S&P 352423107.

The Dalbar Surveys, Inc. broker/dealer survey has ranked Franklin number one of 36 mutual fund groups in service quality for 1993. One other fund group was also ranked number one. Franklin has been ranked number one in service quality by Dalbar for five of the past six years.

From time to time, the number of Fund shares held in the "street name" accounts of various securities dealers for the benefit of their clients may exceed 5% of the total shares outstanding. To the best knowledge of the Fund, the only other entity holding beneficially or of record more than 5% of the Fund's outstanding common stock is Franklin Resources, Inc., 777 Mariners Island Boulevard, San Mateo CA 94404. Resources, which provided the initial capital of the Fund, owned, as of December 7, 1993, 154,075 shares or 12.59% of the total shares of the Fund outstanding.

OWNERSHIP AND AUTHORITY DISPUTES

In the event of disputes involving multiple claims of ownership or authority to control a shareholder's account, the Fund has the right (but has no obligation) to: (i) freeze the account and require the written agreement of all persons deemed by the Fund to have a potential property interest in the account, prior to executing instructions regarding the account; (ii) interplead disputed funds or accounts with a court of competent jurisdiction; or (iii) surrender ownership of all or a portion of the account

to the Internal Revenue Service in response to a Notice of Levy.

DISTRIBUTION EXPENSES

The Fund has adopted a distribution plan (the "Plan") pursuant to Rule 12b-1 under the 1940 Act. The Plan provides that the Fund shall pay Distributors or others monthly at a rate of 0.25% per annum of average net assets for certain expenses incurred in the distribution of Fund shares. In addition, the Plan provides that up to an additional 0.25% may be paid to Distributors or others as a service fee to reimburse such service providers for personal services provided to shareholders of the Fund and/or the maintenance of shareholder accounts. Thus, the amounts payable under the Plan total 0.50%. The basic terms of the Plan are set forth in the Prospectus.

The Plan covers not only payments to Distributors for expenses incurred in the promotion and distribution of shares of the Fund under the Plan, but also any payments by certain parties, including Distributors or the Manager, in the ordinary course of their business to the extent such payments are deemed to be payments for activities primarily intended to result in the sale of shares issued by the Fund.

To the extent fees are for distribution or marketing functions, as distinguished from administrative services or agency transactions, certain banks will not be entitled to participate in the Plan as a result of applicable Federal law prohibiting certain banks from engaging in the distribution of mutual fund shares. However, such banking institutions currently are permitted to receive fees from Distributors under the Plan for administrative servicing or for agency transactions. If a bank were prohibited from providing such services, its customers who are shareholders would be permitted to remain shareholders of the Fund and alternate means for continuing the servicing of such shareholders would be sought. In such an event, changes in the services provided might occur and such shareholders might no longer be able to avail themselves of any automatic investment or other services then being provided by the bank. It is not expected that shareholders would suffer any adverse financial consequences as a result of any of these changes. Securities laws of states in which the Fund's shares are offered for sale may differ from the interpretations of federal law expressed herein, and banks and financial institutions selling Fund shares may be required to register as dealers pursuant to state law.

The Plan has been approved by Resources, the Fund's initial shareholder, and by the Trustees, including those Trustees who are not interested persons as defined in the 1940 Act. In approving the Plan and after consideration of such information as they deemed reasonably necessary for an informed determination, the Trustees determined that the Plan was in the best interests of the Fund and its shareholders.

The Plan is effective through March 31, 1994, and thereafter renewable annually by the Fund's Board of Trustees, including a majority of the Trustees who are non-interested persons of the Fund and who have no direct or indirect financial interest in the operation of the Plan. It is also required that the selection and nomination of such Trustees be done by the non-interested Trustees. The Plan and any distribution or service agreement may be terminated at any time without penalty, by vote of a majority of the outstanding voting shares of the Fund, or by vote of a majority of the non-interested trustees on 60 days' written notice, or by Distributors, or by any act that terminates the management agreement with the Manager or the underwriting agreement with Distributors. Distributors may also terminate a distribution or service agreement at any time upon written notice.

For the fiscal year ended October 31, 1993, the total amount which would have been incurred by the Fund pursuant to the Plan but which was borne by Advisers was $47,405, all of which was used to reimburse Distributors for compensation to dealers.

MISCELLANEOUS

The organizational expenses of the Fund are being amortized on a straight line basis over a period of five years from the commencement of the offering of the Fund's shares. Investors purchasing shares of the Fund after the effective date of the Fund's Registration Statement under the Securities Act of 1933 will be bearing such expenses during the amortization period only as such charges are accrued daily against the investment income of the Fund. (See "Notes to Financial Statement.")

The Fund is registered with the SEC as a management investment company. Such registration does not involve supervision of the management or policies of the Fund. The Prospectus and this Statement of Additional Information omit certain of the information contained in the Registration Statement filed with the SEC, copies of which may be obtained from the SEC upon payment of the prescribed fee.

The shareholders of a Massachusetts business trust could, under certain circumstances, be held personally liable as partners for its obligations. However, the Fund's Agreement and Declaration of Trust contains an express disclaimer of shareholder liability for acts or obligations of the Fund. The Declaration of Trust also provides for indemnification and reimbursement of expenses out of the Fund's assets for any shareholder held personally liable for obligations of the Fund. The Declaration of Trust provides that the Fund shall, upon request, assume the defense of any claim made against any shareholder for any act or obligation of the Fund and satisfy any judgment thereon. All such rights are limited to the assets of the Fund. The Declaration of Trust further provides that the Fund may maintain appropriate insurance (for example, fidelity bonding and errors and omissions insurance) for the protection of the Fund, its shareholders, trustees, officers, employees and agents to cover possible tort and other liabilities. Furthermore, the activities of the Fund as an investment company, as distinguished from an operating company, would not likely give rise to liabilities in excess of the Fund's total assets. Thus, the risk of a shareholder incurring financial loss on account of shareholder liability is limited to the unlikely circumstances in which both inadequate insurance exists and the Fund itself is unable to meet its obligations.

REPORT OF INDEPENDENT AUDITORS

To the Shareholders and Board of Trustees
of Franklin Balance Sheet Investment Fund:

We have audited the accompanying statement of assets and liabilities of Franklin Balance Sheet Investment Fund (the Fund), including the statement of investments in securities and net assets, as of October 31, 1994, and the related statement of operations for the year then ended, the statements of changes in net assets for each of the two years in the period then ended, and the financial highlights included under the caption "Financial Highlights." These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of October 31, 1994, by correspondence with the custodian and brokers. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Franklin Balance Sheet Investment Fund as of October 31, 1994, and the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and its financial highlights for the periods indicated thereon, in conformity with generally accepted accounting principles.

COOPERS & LYBRAND L.L.P.

San Francisco, California
December 7, 1994

FRANKLIN BALANCE SHEET INVESTMENT FUND

STATEMENT OF INVESTMENTS IN SECURITIES AND NET ASSETS, OCTOBER 31, 1994

<TABLE>
<CAPTION>

SHARES			VALUE (NOTE 1)
<S>	<C>		<C>
		COMMON STOCKS 91.0%	
		CLOSED-END FUNDS 10.1%	
40,000		Charles Allmon Trust, Inc.	$ 380,000
90,000		Convertible Holdings, Inc.	866,250
70,000	(a)	Counsellors Tandem Securities Fund, Inc.	962,500
81,900		Future Germany Fund, Inc.	1,248,975
60,000	(a)	Gemini II, Inc., Capital Shares	1,162,500
110,000	(a)	H & Q Healthcare Investors	1,512,500
80,100		Irish Investment Fund, Inc.	811,013
120,000		Morgan Grenfell Smallcap Fund, Inc.	1,170,000
40,000		Petroleum & Resources Corp.	1,170,000
80,000		Quest for Value Dual Purpose Fund, Inc., Capital Shares	1,870,000
42,000		Royce Value Trust	488,250
100,000		Scudder New Europe Fund, Inc.	975,000
90,000	(a)	The Inefficient Market Fund, Inc.	866,250
4,000		Worldwide Value Fund, Inc.	59,000
		TOTAL CLOSED-END FUNDS (COST $13,797,102)	13,542,238
		BANKS & THRIFTS 13.3%	
22,500		Ameriana Bancorp, Inc.	354,375
20,000	(a)	Bay Ridge Bancorp, Inc.	290,000
98,000		Bay View Capital Corp.	2,229,500
24,500		BSB Bancorp, Inc.	679,875
133,600		California State Bank	1,436,200
38,000	(a)	Calumet Bancorp, Inc.	1,301,500
142		Farmers & Merchants Bank of Long Beach	258,795
109,500	(a)	Fidelity Bancorp, Inc.	1,177,125
24,000	(a)	First Financial Bancorp, Inc.	288,000

12,000	(a) First Palm Beach Bancorp	204,000
26,175	First Shenango Bancorp, Inc.	392,625
50,000	First Southeast Financial Corp.	725,000
10,000	GP Financial Corp.	223,750
26,000	Grove Bank	624,000
10,000	(a) Haven Bancorp, Inc.	138,750
24,992	Home Interstate Bancorp	268,664
35,000	MSB Bancorp, Inc.	752,500
37,500	Plains Spirit Financial Corp.	900,000
59,000	Progressive Bank, Inc.	1,312,750
10,000	Queens County Bancorp, Inc.	260,000
110,000	Union Bank	3,258,750
41,000	Westco Bancorp, Inc.	835,375
		17,911,534
	FOOD & TOBACCO 3.7%	
100,000	(a) Culbro Corp.	$ 1,568,750
7,700	Genesee Corp., Class B	292,600
177,100	Nash-Finch Co.	2,833,600
60,000	(a) Orange-Co., Inc.	337,500
		5,032,450
	INSURANCE - LIFE & SPECIALTY 17.0%	
150,000	ACE, Ltd.	3,412,500
60,000	American National Insurance Co.	2,820,000
190,000	Capital Guaranty Corp.	2,873,750
120,000	Capital RE Corp.	2,640,000
92,600	Home Beneficial Corp., Series B	1,875,150
346,000	Presidential Life Corp.	2,076,000
108,200	USLICO Corp.	2,164,000
150,000	USLIFE Corp.	4,912,500
		22,773,900
	INSURANCE - PROPERTY & CASUALTY 7.7%	
296,800	(a,b) ACMAT Corp., Class A	2,745,400
13,500	American Indemnity Financial Corp.	146,813
50,000	Argonaut Group, Inc.	1,412,500
16,000	Baldwin & Lyons, Inc., Class B	240,000
69,000	(a) Continental Corp., N.Y.	1,043,625
84,000	Merchants Group, Inc.	1,239,000
50,000	Meridian Insurance Group, Inc.	525,000
45,000	MMI Companies, Inc.	646,874
123,500	Re Capital Corp.	1,574,625
30,000	Selective Insurance Group	757,500
		10,331,337
	MANUFACTURING 10.5%	
15,500	Allen Organ Co., Class B	561,875
14,500	Aviall, Inc.	145,000
77,000	(a) Baldwin Piano & Organ Co.	1,049,125
45,000	(a,b) Cochrane Furniture, Inc.	607,500
245,000	Dixie Yarns, Inc.	1,715,000
110,000	(a) Duplex Products	1,045,000
100,000	(a) Marietta Corp.	825,000
150,000	Monarch Machine Tool Co.	1,481,250
182,500	Oshkosh Truck Corp., Class B	2,098,750

</TABLE>

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

STATEMENT OF INVESTMENTS IN SECURITIES AND NET ASSETS, OCTOBER 31, 1994 (CONT.)

<TABLE>
<CAPTION>

SHARES		VALUE (NOTE 1)
S>	<C>	<C>
	COMMON STOCKS (CONT.)	
	MANUFACTURING (CONT.)	
90,500	Pulaski Furniture Corp.	$ 1,810,000
45,500	(a) Trico Products Corp.	2,798,250

		14,136,750
	MISCELLANEOUS .7%	
93,000	(a) Atkinson (G.F.) Co.	953,250
6,000	First Albany Companies, Inc.	45,000
		998,250
	NATURAL RESOURCES 7.0%	
70,000	Boise Cascade Corp.	1,855,000
84,500	(b) Enex Resources Corp.	771,063
80,000	James River Corp. of Virginia	1,830,000
384,600	(a) Pool Energy Services Co.	3,365,250
111,000	Total Petroleum (North America), Ltd.	1,595,624
		9,416,937
	RETAIL 10.2%	
65,000	(a) Buttrey Food and Drug Stores Co.	520,000
96,800	(a) Fabri-Centers of America	1,681,900
125,000	Hechinger Co., Class A	1,390,625
15,000	Jacobson Stores, Inc.	187,500
130,000	Kmart Corp.	2,128,750
170,000	(a) Luria (L.) & Son, Inc.	1,275,000
60,000	Mercantile Stores Co., Inc.	2,730,000
100,000	(a) National Convenience Stores, Inc.	775,000
100,000	Syms Corp.	750,000
112,500	(a) Younkers, Inc.	2,193,750
		13,632,525
	TECHNOLOGY 7.8%	
45,000	(a) Aydin Corp.	478,125
150,000	(a) Cray Research, Inc.	2,868,750
61,800	Cubic Corp.	1,151,025
198,800	(a) ESCO Electronics Corp.	2,062,550
102,000	(a) Inacom Corp.	892,500
600,000	(a) Structural Dynamics Research Corp.	2,925,000
9,800	TransTechnology Corp.	120,050
		10,498,000
	UTILITIES 3.0%	
65,900	Pennsylvania Enterprises, Inc.	$ 1,935,813
48,200	Pinnacle West Capital Corp.	897,725
70,000	Southern Union Co.	1,181,250
		4,014,788
	TOTAL COMMON STOCKS (COST $119,452,535)	122,288,709
FACE AMOUNT		
	(c,d) RECEIVABLES FROM REPURCHASE AGREEMENTS 8.8%	
$12,092,245	Joint Repurchase Agreement, 4.824%, 11/01/94 (Maturity Value $11,818,709) (COST $11,817,126) Collateral: U.S. Treasury Notes, 4.00% - 11.625%, 11/15/94 - 07/15/99	11,817,126
	TOTAL INVESTMENTS (COST $131,269,661) 99.8%	134,105,835
	OPEN CALL OPTION WRITTEN (PREMIUMS RECEIVED $224,393)**	(76,250)
	OTHER ASSETS AND LIABILITIES, NET .2%	225,272
	NET ASSETS 100.0%	$134,254,857

At October 31, 1994, the net unrealized appreciation based on the cost of investments for income tax purposes of $131,045,268 was as follows:	
Aggregate gross unrealized appreciation for all investments in which there was an excess of value over tax cost	$ 8,261,087
Aggregate gross unrealized depreciation for all investments in which there was an excess of tax cost over value	(5,276,770)
Net unrealized appreciation	$ 2,984,317

</TABLE>

**Open call option written at October 31, 1994 was as follows:
<TABLE>
<CAPTION>

SHARES
SUBJECT EXPIRATION

TO CALL	ISSUE	MONTH/PRICE	VALUE
<S>	<C>	<C>	<C>
20,000	Mercantile Stores Co., Inc.............	December/$45	$76,250

</TABLE>

(a) Non-income producing.

(b) See Note 7 regarding holdings of 5% voting securities.

(c) Face amount for repurchase agreements is for the underlying collateral.

(d) See Note 1(f) regarding Joint Repurchase Agreement.

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

FRANKLIN BALANCE SHEET INVESTMENT FUND

FINANCIAL STATEMENTS

<TABLE>

STATEMENT OF ASSETS AND LIABILITIES
OCTOBER 31, 1994

<S>	<C>
Assets:	
Investments in securities, at value (identified cost $119,452,535)	$122,288,709
Receivables from Repurchase agreements, at value and cost	11,817,126
Cash	343,926
Receivables:	
Investment securities sold	754,930
Dividends and interest	28,954
Capital shares sold	798,961
Unamortized organization costs (Note 2)	6,796
Total assets	136,039,402
Liabilities:	
Covered call options at value (premiums received $224,393)	76,250
Payables:	
Investment securities purchased	1,396,389
Capital shares repurchased	58,705
Distribution fees	145,000
Management fees	87,300
Shareholder servicing costs	5,950
Accrued expenses and other liabilities	14,951
Total liabilities	1,784,545
Net assets, at value	$134,254,857
Net assets consist of:	
Undistributed net investment income	$ 938
Unrealized appreciation on investments	2,984,317
Accumulated net realized gain	2,224,227
Capital shares	59,206
Additional paid-in capital	128,986,169
Net assets, at value	$134,254,857
Computation of net asset value and offering price per share:	
Net asset value and redemption price per share ($134,254,857 / 5,920,637 shares outstanding)	$22.68
Maximum offering price (100/98.5 of $22.68)+	$23.03

</TABLE>

<TABLE>

STATEMENT OF OPERATIONS
FOR THE YEAR ENDED OCTOBER 31, 1994

<S>	<C>
Investment income:	

Dividends	$ 956,052
Interest	578,803
Total income	$ 1,534,855
Expenses:	
Management fees (Note 6)	330,017
Distribution fees (Note 6)	313,965
Shareholder servicing costs (Note 6)	39,577
Registration fees	64,353
Reports to shareholders	30,345
Professional fees	17,908
Amortization of organization cost	16,313
Trustees' fees and expenses	10,463
Custodian fees	7,693
Other	7,135
Total expenses	837,769
Net investment income	697,086
Realized and unrealized gain on investments:	
Net realized gain	2,224,227
Net unrealized appreciation during the year	384,302
Net realized and unrealized gain on investments	2,608,529
Net increase in net assets resulting from operations	$ 3,305,615

</TABLE>

+On sales of $500,000 or more, the offering price is reduced as stated in the section of the Prospectus entitled "How to Buy Shares of the Fund."

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

FINANCIAL STATEMENTS (CONT.)

<TABLE>
<CAPTION>

STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED OCTOBER 31, 1994 AND 1993

<S>	1994 <C>	1993 <C>
Increase (decrease) in net assets:		
Operations:		
Net investment income	$ 697,086	$ 199,353
Net realized gain from security transactions	2,224,227	1,043,829
Net unrealized appreciation	384,302	2,247,740
Net increase in net assets resulting from operations	3,305,615	3,490,922
Distributions to shareholders from:		
Undistributed net investment income	(718,426)	(196,906)
Net realized gain on investments	(1,042,553)	(190,024)
Increase in net assets from capital share transactions (Note 4)	110,393,038	14,063,887
Net increase in net assets	111,937,674	17,167,879
Net assets:		
Beginning of year	22,317,183	5,149,304
End of year (including undistributed net investment income of $938 - 10/31/94 and $21,667 - 10/31/93)	$134,254,857	$22,317,183

</TABLE>

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

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

Franklin Balance Sheet Investment Fund (the Fund) is an open-end, non-diversified management investment company (mutual fund), registered under the Investment Company Act of 1940, as amended.

The following is a summary of significant accounting policies consistently followed by the Fund in the preparation of its financial statements. The policies are in conformity with generally accepted accounting principles for investment companies.

a. SECURITIES VALUATIONS: Portfolio securities listed on a securities exchange or on the NASDAQ National Market System for which market quotations are readily available are valued at the last quoted sale price of the day or, if there is no such reported sale, within the range of the most recent quoted bid and ask prices. Other securities for which market quotations are readily available are valued at current market values, obtained from pricing services, which are based on a variety of factors, including recent trades, institutional size trading in similar types of securities (considering yield, risk and maturity) and/or developments related to specific securities. Portfolio securities which are traded both in the over-the-counter market and on a securities exchange are valued according to the broadest and most representative market as determined by the Manager. Other securities for which market quotations are not available, if any, are valued in accordance with procedures established by the Board of Trustees. Short-term securities and similar investments with remaining maturities of 60 days or less are valued at amortized cost, which approximates value.

Open option contracts are valued at their last sales price on the relevant exchange prior to the time when assets are valued. Lacking any sales that day, options are valued at the mean between the current closing bid and ask prices.

b. INCOME TAXES: The Fund intends to continue to qualify for the tax treatment applicable to regulated investment companies under the Internal Revenue Code and to make the requisite distributions to its shareholders which will be sufficient to relieve it from income and excise taxes. Therefore, no income tax provision is required.

c. SECURITY TRANSACTIONS: Security transactions are accounted for on the date the securities are purchased or sold (trade date). Realized gains and losses on security transactions are determined on the basis of specific identification for both financial statement and income tax purposes.

d. INVESTMENT INCOME, EXPENSES AND DISTRIBUTIONS: Dividend income and distributions to shareholders are recorded on the ex-dividend date. Interest income and estimated expenses are accrued daily.

e. OPTION TRANSACTIONS: The Fund may write covered call options in which premiums received are recorded as a liability which is marked to market to reflect the current value of the options written. A covered call option gives the holder the right to buy the underlying security which the Fund owns at any time during the option period at a predetermined exercise price. The risk in writing a covered call option is that the Fund gives up the opportunity to participate in any increase in the price of the underlying security beyond the exercise price. Proceeds from call options exercised are increased by the amount of premiums received. If an option expires or is cancelled in a closing transaction, the Fund will realize a gain or loss depending on whether the cost of the closing transaction is less than or greater than the premium originally received.

f. REPURCHASE AGREEMENTS: The Fund may enter into a Joint Repurchase Agreement whereby its uninvested cash balance is deposited into a joint cash account to be used to invest in one or more repurchase agreements with government securities dealers recognized by the Federal Reserve Board and/or member banks of the Federal Reserve System. The value and face amount of the Joint Repurchase Agreement has been allocated to the Fund based on its prorata interest at October 31, 1994. In a repurchase agreement, the Fund purchases a U.S. government security from a dealer or bank subject to an agreement to resell it at a mutually agreed upon price and date. Such a transaction is accounted for as a loan by the Fund to the seller, collateralized by the underlying security. The transaction requires the

1. SIGNIFICANT ACCOUNTING POLICIES (CONT.)

f. REPURCHASE AGREEMENTS (CONT):

initial collateralization of the seller's obligation by U.S. government securities with market value, including accrued interest, of at least 102% of the dollar amount invested by the Fund, with the value of the underlying security marked to market daily to maintain coverage of at least 100%. The collateral is delivered to the Fund's custodian and held until resold to the dealer or bank. At October 31, 1994, the outstanding joint repurchase agreement held by the Fund had been entered into on that date.

2. UNAMORTIZED ORGANIZATION COSTS

The organization costs of the Fund are amortized on a straight-line basis over a period of five years from April 2, 1990 (the effective date of registration under the Securities Act of 1933). In the event Franklin Resources, Inc. (which was the sole shareholder prior to April 2, 1990) redeems its shares within the five-year period, the pro-rata share of the then-unamortized deferred organization cost will be deducted from the redemption price paid to Franklin Resources, Inc. New investors purchasing shares of the Fund subsequent to that date bear such costs during the amortization period only as such charges are accrued daily against investment income.

3. DISTRIBUTIONS AND CAPITAL LOSS CARRYOVERS

At October 31, 1994, for tax purposes, the Fund had accumulated undistributed net realized gains of $2,224,227.

For income tax purposes, the aggregate cost of securities and unrealized appreciation are the same as for financial statement purposes at October 31, 1994.

4. CAPITAL SHARES

At October 31, 1994, there was an unlimited number of $.01 par value shares of beneficial interest authorized and paid-in capital aggregated $129,045,375. Transactions in the Fund's shares for the years ended October 31, 1994 and 1993 were as follows:

<TABLE>
<CAPTION>

	YEAR ENDED OCTOBER 31,			
	1994		1993	
	SHARES	AMOUNT	SHARES	AMOUNT
<S>	<C>	<C>	<C>	<C>
Shares sold....................................	3,102,569	$69,215,528	527,674	$10,941,636
Shares issued in reinvestment of distributions................................	65,077	1,429,626	17,495	327,893
Shares redeemed................................	(257,614)	(5,750,140)	(21,660)	(428,872)
Changes from exercise of exchange privilege:				
Shares sold.................................	2,330,986	52,017,896	189,127	4,019,091
Shares redeemed.............................	(291,775)	(6,519,872)	(37,635)	(795,861)
Net increase..................................	4,949,243	$110,393,038	675,001	$14,063,887

</TABLE>

5. PURCHASES AND SALES OF SECURITIES

Purchases and sales of securities (excluding purchases and sales of short-term securities) for the year ended October 31, 1994 aggregated $117,497,639 and $14,701,749, respectively.

Transactions in written options for the year ended October 31, 1994 were as follows:

<TABLE>
<CAPTION>

	CALL	
	AMOUNT OF PREMIUMS	NUMBER OF SHARES OPTIONED
<S>	<C>	<C>
Options outstanding at October 31, 1993..........	$ --	--
Options sold.....................................	224,393	20,000

Options outstanding at October 31, 1994..........	$224,393	20,000
	========	======

</TABLE>

6. TRANSACTIONS WITH AFFILIATES AND RELATED PARTIES

Franklin Advisers, Inc., under the terms of a management agreement, provides investment advice, administrative services, office space and facilities to the Fund, and receives fees computed daily on the net assets of the Fund at an annualized rate of 5/8 of 1% of the first $100 million of net assets of the Fund; 1/2 of 1% of net assets in excess of $100 million up to $250 million, 45/100 of 1% of net assets in excess of $250 million up to $10 billion, 44/100 of 1% of net assets in excess of $10 billion up to $12.5 billion, 42/100 of 1% of net assets in excess of $12.5 billion up to $15 billion and 40/100 of 1% of net assets in excess of $15 billion. The terms of the management agreement provide that annual aggregate expenses of the Fund be limited to the extent necessary to comply with the limitations set forth in the laws, regulations and administrative interpretations of the states in which the Fund's shares are registered. The Fund's expenses did not exceed these limitations; however, for the year ended October 31, 1994, Franklin Advisers, Inc. agreed in advance to waive a portion of the management fees of $111,747.

In its capacity as underwriter for the shares of the Fund, Franklin/Templeton Distributors, Inc. received commissions on sales of the Fund's shares for the year ended October 31, 1994 totaling $953,869 of which $922,550 was paid to other dealers. Commissions are deducted from the gross proceeds received from the sale of the shares of the Fund and as such are not expenses of the Fund.

Under the terms of a shareholder service agreement with Franklin/Templeton Investor Services, Inc., the Fund pays costs on a per shareholder account basis. Such costs incurred for the year ended October 31, 1994 were $39,577, all of which was paid to Franklin/Templeton Investor Services, Inc.

Under the terms of a distribution agreement pursuant to Rule 12b-1 of the Investment Company Act of 1940, the Franklin Balance Sheet Investment Fund will reimburse Franklin/Templeton Distributors, Inc. in an amount up to 0.50% per annum of the Fund's average daily net assets for the costs incurred in the promotion, offering and marketing of the Fund's shares. Costs incurred by the Franklin Balance Sheet Investment Fund under the agreement aggregated $313,965 for the year ended October 31, 1994.

Certain officers and trustees of the Fund are also officers and/or directors of Franklin/Templeton Distributors, Inc., Franklin Advisers, Inc., and Franklin/Templeton Investor Services, Inc., all wholly-owned subsidiaries of Franklin Resources, Inc.

7. HOLDINGS OF 5% VOTING SECURITIES OF PORTFOLIO COMPANIES

Investments of 5% of more of an issuer's outstanding voting securities held by the Fund are defined in the Investment Company Act of 1940 as affiliated companies. The Fund had investments in affiliated companies at October 31, 1994, which amounted to $4,123,963.

8. FINANCIAL HIGHLIGHTS

Selected data for each share of beneficial interest outstanding throughout each period are set forth in the Prospectus under the caption "Financial Highlights."

The percentage amounts of dividend income distributions paid by the Fund during the year ended October 31, 1994 which qualified for the 70% dividends-received deduction for corporations was 99.49%.