Comstock Holding Companies, Inc.
Form DEF 14A
April 30, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

SCHEDULE 14A

(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

Filed by the Registrant x Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

¨ **Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

x Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material Under Rule 14a-12

Comstock Holding Companies, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

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1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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1) Amount previously paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

COMSTOCK HOLDING COMPANIES, INC.

April 30, 2015

Dear Stockholder:

You are cordially invited to attend the annual meeting of stockholders of Comstock Holding Companies, Inc. (the Company) to be held at 10:00 a.m., local time, on June 17, 2015, at our principal executive offices at 1886 Metro Center Drive, Reston, Virginia 20190.

At the annual meeting, you will be asked to: (i) elect two directors to each serve for a three-year term expiring at the 2018 annual meeting of stockholders or until their successors are duly elected and qualified or until their earlier resignation or removal; (ii) ratify the appointment of our independent registered public accounting firm for 2015; (iii) approve, on a non-binding, advisory basis, the compensation of our named executive officers (referred to as a say-on-pay vote); (iv) approve a Section 382 rights agreement to help protect the tax benefits primarily associated with our net operating losses (the Rights Agreement); (v) approve an amendment to the Company s restated certificate of incorporation (as amended, the Restated Certificate of Incorporation) providing for an adjustment to the voting power of our Class B common stock if the rights under the Rights Agreement become exercisable or are exchanged for shares of our Class A common stock in accordance with the terms of the Rights Agreement; (vi) authorize an amendment to the Restated Certificate of Incorporation to reduce the total number of shares of common stock that the Company is authorized to issue, corresponding, proportionately, with a contemplated reverse stock split of the Company s common stock in the range of approximately 1-for-5 to 1-for-7, but subject to our Board of Directors discretion to effect or abandon such amendment (and such reverse stock split); and (vii) transact such other business that may come before the meeting.

Details regarding the matters to be acted upon at the annual meeting appear in the accompanying Notice of Annual Meeting of Stockholders and Proxy Statement. Our Board of Directors unanimously recommends that stockholders vote in favor of each of these proposals.

Whether or not you plan to attend the annual meeting, we urge you to complete, sign and date the accompanying proxy card and return it in the enclosed postage-prepaid envelope as soon as possible so that your shares will be represented at the annual meeting. If you later decide to attend the annual meeting in person or change your vote, you may withdraw your proxy and vote in person at the annual meeting. Voting by written proxy will ensure your representation at the annual meeting if you do not attend in person.

We thank you for your continued support and look forward to seeing you at the annual meeting.

Very truly yours,

Christopher Clemente
Chief Executive Officer and Chairman

COMSTOCK HOLDING COMPANIES, INC.

1886 Metro Center Drive, 4th Floor

Reston, Virginia 20190

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD ON JUNE 17, 2015

The Annual Meeting of Stockholders of Comstock Holding Companies, Inc., a Delaware corporation, will be held at 10:00 a.m., local time, on June 17, 2015, at our principal executive offices at 1886 Metro Center Drive, Reston, Virginia 20190, for the following purposes:

1. To elect two directors to each serve for a three-year term expiring at the 2018 annual meeting of stockholders or until their successors are duly elected and qualified or until their earlier resignation or removal;

2. To ratify the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2015;

3. To cast a non-binding, advisory vote to approve the compensation of our named executive officers;

4. To approve a Section 382 Rights Agreement to help protect the tax benefits primarily associated with our net operating losses (the Rights Agreement);

5. To approve an amendment to the Company s restated certificate of incorporation (as amended, the Restated Certificate of Incorporation) providing for an adjustment to the voting power of our Class B common stock if the rights under the Rights Agreement become exercisable or are exchanged for shares of our Class A common stock in accordance with the terms of the Rights Agreement;

6. To authorize an amendment to the Restated Certificate of Incorporation to reduce the total number of shares of common stock that the Company is authorized to issue, corresponding, proportionately, with a contemplated reverse stock split of our common stock in the range of approximately 1-for-5 to 1-for-7, but subject to our Board of Directors discretion to effect or abandon such amendment (and such reverse stock split); and

7. To transact such other business as may properly come before the meeting or any adjournment thereof.

These items of business are more fully described in the proxy statement accompanying this Notice.

Only stockholders of record at the close of business on May 6, 2015 are entitled to notice of and to vote at the meeting.

All stockholders are cordially invited to attend the meeting and vote in person. To assure your representation at the meeting, however, you are urged to mark, sign, date, and return the enclosed proxy card as promptly as possible in the postage-prepaid envelope enclosed for that purpose. You may vote in person at the meeting even if you have previously returned a proxy card.

Sincerely,

Jubal R. Thompson
General Counsel and Secretary

Reston, Virginia
April 30, 2015

COMSTOCK HOLDING COMPANIES, INC.

1886 Metro Center Drive, 4th Floor

Reston, Virginia 20190

PROXY STATEMENT

VOTING AND OTHER MATTERS

General

The enclosed proxy is solicited on behalf of Comstock Holding Companies, Inc., a Delaware corporation, by our Board of Directors (the Board) for use at our Annual Meeting of Stockholders to be held on June 17, 2015 at 10:00 a.m., local time, or at any adjournment thereof, for the purposes set forth in this proxy statement and in the accompanying Notice of Annual Meeting of Stockholders. The meeting will be held at our principal executive offices at 1886 Metro Center Drive, Reston, Virginia 20190. If you need directions to the meeting, please contact Judy Whitaker at 703-883-1700.

This proxy statement and form of proxy are first being mailed on or about May 15, 2015 to all stockholders entitled to vote at the meeting.

Voting Securities and Voting Rights

Stockholders of record at the close of business on May 6, 2015, which we have set as the record date, are entitled to notice of and to vote at the meeting. On the record date, there were issued and outstanding 20,170,036 shares of our Class A common stock and 2,733,000 shares of our Class B common stock. Each holder of our Class A common stock voting at the meeting, either in person or by proxy, may cast one vote per share of Class A common stock held on all matters to be voted on at the meeting. Each holder of our Class B common stock voting at the meeting, either in person or by proxy, may cast 15 votes per share of Class B common stock held on all matters to be voted on at the meeting.

The meeting will be held only if there is a quorum present. A quorum exists only if the holders of a majority of the voting power of the issued and outstanding stock of the Company and entitled to vote at the meeting are present in person or represented by proxy at the meeting. Votes cast by proxy or in person at the meeting will be tabulated by the inspector of elections appointed for the meeting and will determine whether a quorum is present. The inspector of elections will treat abstentions and broker non-votes as shares that are present and entitled to vote for purposes of determining the presence of a quorum. Under the rules of the New York Stock Exchange, on certain routine matters, brokers may, at their discretion, vote shares they hold in street name on behalf of beneficial owners who have not returned voting instructions to the brokers, so-called broker non-votes. In instances where brokers are prohibited from exercising discretionary authority, the shares they hold are not included in the vote totals.

At the meeting, only Proposal 2, the ratification of the appointment of our independent registered public accounting firm, is considered a routine matter. Brokers will be prohibited from exercising discretionary authority with respect to Proposal 1, the election of directors, Proposal 3, the non-binding, advisory vote to approve the compensation of our named executive officers, Proposal 4, approval of a Section 382 rights agreement, Proposal 5, approval of an amendment to the Restated Certificate of Incorporation to adjust the voting power of our Class B common stock in connection with the Section 382 rights agreement, and Proposal 6, authorization of an amendment to the Restated Certificate of Incorporation to effect a reverse stock split of our common stock. Therefore, if you hold your shares in the name of a bank, broker or other holder of record, for your vote to be counted in Proposals 1, 3, 4, 5 and 6, you will need to communicate your voting decisions to your bank, broker or other holder of record before the date of the meeting. Because broker non-votes are not voted affirmatively or negatively, they will have no effect on the approval of any of the proposals, except where brokers may exercise their discretion on routine matters.

Voting Requirements

For Proposal 1, a plurality of the votes of the shares present in person or represented by proxy at the meeting and entitled to vote in the election of directors will be required to elect each of the two director nominees to each serve for a three-year term expiring at the 2018 annual meeting of stockholders or until their successors are duly elected and qualified or until their earlier resignation or removal. Stockholders may vote for all of the director nominees, withhold authority to vote for all of the nominees or withhold authority to vote for any individual nominee but vote for another nominee.

For Proposal 2, the ratification of the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2015, the affirmative vote of the holders of a majority of the voting power of the issued and outstanding stock of the Company entitled to vote on the matter, present and voting, in person or represented by proxy at the meeting, will be required.

For Proposal 3, the non-binding, advisory vote to approve the compensation of our named executive officers, the affirmative vote of the holders of a majority of the voting power of the issued and outstanding stock of the Company entitled to vote on the matter, present and voting, in person or represented by proxy at the meeting, will be required. Voting for Proposal 3 is being conducted on a nonbinding, advisory basis and, therefore, the voting results will not be binding on our company, our Board or our Compensation Committee although our Compensation Committee and Board will consider the results of the voting on this proposal for future executive compensation decisions.

For Proposal 4, approval of a Section 382 rights agreement (the Rights Agreement), the affirmative vote of the holders of a majority of the voting power of the issued and outstanding stock of the Company entitled to vote on the matter, present and voting, in person or represented by proxy at the meeting, will be required.

For Proposal 5, approval of an amendment to the Company s restated certificate of incorporation (as amended, the Restated Certificate of Incorporation) providing for an adjustment to the voting power of our Class B common stock if the rights under the Rights Agreement become exercisable or are exchanged for shares of our Class A common stock in accordance with the terms of the Rights Agreement, the affirmative vote of the holders of a majority of the voting power of the issued and outstanding stock of the Company entitled to vote on the matter and the affirmative vote of the holders of a majority of the outstanding shares of our Class B common stock, voting as a separate class, present and voting, in person or represented by proxy at the meeting, will be required.

For Proposal 6, authorization of an amendment to the Restated Certificate of Incorporation to reduce the total number of shares of common stock that the Company is authorized to issue, corresponding, proportionately, with a contemplated reverse stock split of our common stock in the range of approximately 1-for-5 to 1-for-7, subject to our Board of Directors discretion to effect or abandon such amendment (and such reverse stock split), the affirmative vote of the holders of a majority of the voting power of the issued and outstanding stock of the Company entitled to vote on the matter, present and voting, in person or represented by proxy at the meeting, will be required.

Stockholders may vote for, against or abstain from voting on Proposals 2, 3, 4, 5 and 6. An abstention will not be considered voting on a particular proposal and a proxy marked abstain with respect to any proposal will not have any effect on the outcome of the vote on that proposal.

Whether or not a person plans to attend the meeting, such person may vote by completing, signing and dating the accompanying proxy card and returning it in the postage-prepaid envelope enclosed for that purpose. If a person attends the meeting, they may vote in person even if such person had previously returned a proxy card.

Voting of Proxies

When a proxy card is properly executed and returned, the shares it represents will be voted at the meeting as directed. If no specification is indicated, the shares will be voted (1) for the election of each of the director nominees set forth in this proxy statement, (2) for the ratification of the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2015, (3) for the non-binding, advisory vote to approve the compensation of our named executive officers, (4) for approval of the Rights Agreement, (5) for approval of the amendment to the Restated Certificate of Incorporation to adjust the voting power of our Class B common stock in connection with the Rights Agreement, and (6) for the authorization of an amendment to the Restated Certificate of Incorporation to reduce the total number of shares of our common stock that the Company is authorized to issue, corresponding, proportionately, with a contemplated reverse stock split of the Company s common stock in the range of approximately 1-for-5 to 1-for-7, but subject to our Board of Directors discretion to effect or abandon such amendment (and such reverse stock split).

Revocability of Proxies

Any person giving a proxy may revoke the proxy at any time before its use by delivering to us either a written notice of revocation or a duly executed proxy bearing a later date or by attending the meeting and voting in person.

Solicitation

We will pay for this solicitation. In addition, we may reimburse brokerage firms and other persons representing beneficial owners of shares for expenses incurred in forwarding solicitation materials to such beneficial owners. Proxies also may be solicited by certain of our directors and officers, personally or by telephone or e-mail, without additional compensation.

Deadline for Receipt of Stockholder Proposals

Proposals of stockholders intended for inclusion in the proxy statement to be furnished to all stockholders entitled to vote at our 2016 annual meeting of stockholders, pursuant to Rule 14a-8 promulgated under the Securities Exchange Act of 1934, as amended, or the Exchange Act, by the Securities and Exchange Commission (SEC) must be received at our principal executive offices not later than January 15, 2016, which is 120 days prior to the first anniversary of the mailing date of this proxy statement. Any proposal must comply with the requirements as to form and substance established by the SEC for such proposal to be included in our proxy statement.

Under our bylaws, stockholders who wish to submit a proposal at the 2016 annual meeting, other than one that will be included in our proxy statement, must notify us between February 21, 2016 and March 23, 2016, unless the date of the 2016 annual meeting of the stockholders is more than 30 days before or more than 60 days after the one-year anniversary of the 2015 annual meeting. If a stockholder who wishes to present a proposal fails to notify us by January 15, 2016 and such proposal is brought before the 2016 annual meeting, then under the SEC s proxy rules, the proxies solicited by management with respect to the 2016 annual meeting will confer discretionary voting authority with respect to the stockholder s proposal on the persons selected by management to vote the proxies. If a stockholder makes a timely notification, the proxies may still exercise discretionary voting authority under circumstances consistent with the SEC s proxy rules. Stockholders should submit their proposals to Comstock Holding Companies, Inc., 1886 Metro Center Drive, 4th Floor, Reston, Virginia 20190, Attention: Corporate Secretary.

We will provide, without charge, additional copies of our annual report on Form 10-K for the year ended December 31, 2014 as filed with the SEC to each stockholder of record as of the record date that requests a copy in writing. Any exhibits listed in our Annual Report on Form 10-K also will be furnished upon request at the actual expense we incur in furnishing such exhibit. Any such requests should be directed to our Company s secretary at our principal executive office set forth in this proxy statement.

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS

FOR THE 2015 ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON JUNE 17, 2015

This proxy statement and our 2014 Annual Report on Form 10-K to stockholders are available at

www.comstockhomes.com/proxymaterial.

PROPOSAL 1

ELECTION OF DIRECTORS

Nominees

Our Restated Certificate of Incorporation and bylaws provide that the number of our directors shall be fixed from time to time by resolution of our Board. Presently, the number of directors is fixed at eight and that number of directors is divided into three classes, with one class standing for election each year for a three-year term. Our Board has recently taken action to reduce the size of the Board to seven members effective as of the date of the 2015 annual meeting. At each annual meeting of stockholders, directors of a particular class will be elected for three-year terms to succeed the directors of that class whose terms are expiring. Gregory Benson, Norman D. Chirite and Socrates Verses are in the class of directors whose term expires at the 2015 annual meeting of stockholders, and Messrs. Chirite and Verses have each been nominated by our Board for re-election at the meeting each for a three-year term expiring at the 2018 annual meeting of stockholders. Christopher Clemente and A. Clayton Perfall are in the class of directors whose terms expire at the 2016 annual meeting of stockholders. David M. Guernsey, James A. MacCutcheon, and Robert P. Pincus are in the class of directors whose terms expire at the 2017 annual meeting of stockholders.

Unless otherwise instructed, the proxy holders will vote the proxies received by them for each of the nominees named above. In the event that any nominee is unable or declines to serve as a director at the time of the meeting, the proxies will be voted for any nominee designated by the current Board to fill the vacancy. It is not expected that any nominee will be unable or will decline to serve as a director.

The Board recommends a vote FOR each of the nominees named in this proxy statement.

Nominees for Director Standing for Election

Norman D. Chirite, 53, has been a member of our Board and a member of the Compensation Committee of our Board since March 2006. Since October 2006, Mr. Chirite has served as Managing Director for RedZone Capital Management Company, a private investment management company. He served as Executive Vice President and General Counsel of Washington Football Inc. from August 2002 until October 2005. Mr. Chirite previously was a partner at Weil, Gotshal & Manges LLP in New York City, where he practiced corporate law from 1987 until 2000. From 2004 until 2008, Mr. Chirite was a trustee of Connors Brothers Income Fund, a publicly traded Canadian income trust. The Company believes that Mr. Chirite s extensive background business and in corporate and securities law qualifies him as a member of our Board.

Socrates Verses, 57, has been a member of our Board since June 2005 and is a member and Chairman of the Compensation Committee of our Board. Since 2009, Mr. Verses has served as the Chief Executive Officer of Netcordant, Inc., formerly known as Codekko Software, a web application optimization company, and co-Chief Executive Officer of MDA360, a data analytics company. Mr. Verses was the President and Chief Executive Officer of Realeum, Inc., a property management and business integration software company, from 2001-2008. From January 1995 to February 2001, Mr. Verses served as President and a director of Technology Enablers, Inc., an e-services company. From 1987 to 1995, he served as Vice President of Sales for Recognition Equipment Incorporated. The Company believes Mr. Verses extensive executive-level experience in technology and business development qualifies him as a member of our Board.

Continuing Directors with Terms Expiring in 2016

Christopher Clemente, 55, has been a member of our Board since May 2004. He founded our Company in 1985 and since 1992 he has served as our Chairman and Chief Executive Officer. Mr. Clemente has over 25 years of experience in all aspects of real estate development and home building, and over 30 years of experience as an entrepreneur. The Board believes that Mr. Clemente s position as our Chief Executive Officer, his success as an entrepreneur and his depth of skill and experience in real estate development and home building qualifies him as a member of our Board.

A. Clayton Perfall, 56, has been a member of our Board since December 2004 and is a member and Chairman of the Audit Committee of our Board. He currently serves as the Operating Executive of Tailwind Capital, a private equity fund manager focused on growing middle market companies in the healthcare and business and communications services sectors. Mr. Perfall previously served as the Chairman and Chief Executive Officer of Archway Marketing Services, Inc., a provider of outsourced marketing operations management services, a role he held from 2008 through 2013. Since September 2010, Mr. Perfall has served as the audit committee chairman for Colfax Corporation. Mr. Perfall also served as director and chair of the Audit Committee of InVentiv Health, Inc. from 1999 through August 2010. From October 2001 through October 2008, Mr. Perfall served as Chief Executive Officer and member of the Board of Directors of AHL Services, Inc. Mr. Perfall served as President and Chief Executive Officer and member of the Board of Directors of Union Street Acquisition Corp. from July 2006 through September 2008. From September 1996 through September 2000, Mr. Perfall served as Chief Financial Officer of Snyder Communications, Inc. Prior to joining Snyder Communications, Mr. Perfall was a partner with Arthur Andersen LLP. Mr. Perfall received his BBA from the College of William & Mary. The Board believes that Mr. Perfall s significant executive-level experience, and corporate finance and public accounting background, qualifies him as a member of our Board.

Continuing Directors with Terms Expiring in 2017

David M. Guernsey, 67, has been a member of our Board since December 2004 and is a member of the Compensation Committee of our Board. Mr. Guernsey is founder and CEO of Guernsey Office Products, Inc., one of the largest independent office products dealers in the United States. Mr. Guernsey is on the National Board of The National Federation of Independent Business (NFIB) serving as Chairman. NFIB is the nation s largest member based small business association. Mr. Guernsey has served on the board of Virginia Commerce Bancorp, Inc. since 1989, currently serving as Chairman. The Board believes that Mr. Guernsey s qualifications to serve as a director include his extensive experience with public companies, broad management and market expertise and his success as an entrepreneur.

James A. MacCutcheon, 63, has been a member of our Board since December 2004 and is a member of the Audit Committee of our Board. Mr. MacCutcheon is a private investor and advisor to public and private businesses. Mr. MacCutcheon served on the Board of Directors of SunBridge Capital Management, LLC from 2008 to April 2014, served as the President and Chief Executive Officer of Sunburst Hospitality Corporation from September 2000 until July 2007, and served as Sunburst s Executive Vice President and Chief Financial Officer from 1997 to 2000. Sunburst Hospitality Corporation was taken private in a transaction led by Mr. MacCutcheon in 2001. Prior to 1997, Mr. MacCutcheon served as Chief Financial Officer for two different public companies and was an audit partner in a Big 8 public accounting firm. The Board believes that Mr. MacCutcheon s executive management, financial and public accounting experience, across a variety of industries, adds significant value and diversity to our Board and qualifies him as a member of our Board.

Robert P. Pincus, 68, has been a member of our Board since June 2005 and is a member of the Audit Committee of our Board. Mr. Pincus serves as Vice Chairman of EagleBank and Eagle Bancorp, a community business bank located in Bethesda, Maryland. Prior to joining EagleBank in August 2008, upon the acquisition of Fidelity & Trust Financial Corporation (Fidelity) and its wholly owned subsidiary, Fidelity & Trust Bank (F&T Bank), Mr. Pincus served as Chairman of F&T Bank from 2005. He presently serves as Chairman of the Board of Blackstreet Capital Partners, LP and Chairman of Milestone Merchant Partners, LLC. He was Chairman of the Board of BB&T, D.C. Metro Region, and was Regional President from 1998 to 2002. From 1991 to 1998, Mr. Pincus was President and Chief Executive Officer of Franklin National Bank of Washington, D.C. From 1986 to 1991, Mr. Pincus was the regional president of the D.C. metropolitan region of Sovran Bank. From 1971 to 1986, Mr. Pincus was with D.C. National Bancorp, Inc., where he eventually rose to become President and Chief Executive Officer, prior to its merger with Sovran Bank. Mr. Pincus is a Trustee of the University of Maryland Foundation, Inc. He has previously served as CEO of two different community banks and as a senior executive for major regional and national banks. He has a strong background in many facets of the financial services industry, as well as mergers and acquisitions. The Board believes that Mr. Pincus wealth of experience in commercial and investment banking qualifies him as a member of our Board.

Information Relating to Corporate Governance and the Board

Our Board has determined, after considering all relevant facts and circumstances, that Messrs. Chirite, Guernsey, MacCutcheon, Perfall, Pincus and Verses are independent under the Nasdaq listing standards and the rules and regulations promulgated by the SEC. Messrs. Clemente and Benson do not qualify as independent because Mr. Clemente is currently an executive officer of the Company and Mr. Benson was an officer of the Company within the past three years.

Our bylaws authorize our Board to designate one or more committees, each consisting of one or more directors of the Company. Our Board has established two standing committees: an Audit Committee and a Compensation Committee. The Board does not have a standing nominating committee. It is the Board s view, given its relatively small size and majority of independent directors, that it is appropriate for it to select or recommend director nominees itself. Each director has the opportunity to suggest any nominee and such suggestions are comprehensively reviewed by the independent directors. Director nominees are recommended for selection by the Board by a majority of the independent directors. Prospective members of the Board must be qualified individuals who, if added to the Board, would provide the mix of sound business judgment, business experience, corporate perspectives and skills appropriate for us. Criteria for selection of candidates include, but are not limited to: (i) business and financial acumen, as determined by the independent directors in their discretion, (ii) qualities reflecting a proven record of accomplishment and ability to work with others, (iii) knowledge of our industry, (iv) relevant experience with and knowledge of corporate governance practices, and (v) expertise in areas relevant to us. Although we do not have a formal diversity policy, the Board considers, among other attributes, diversity of gender, professional experience and skills of the director candidates. Such persons should not have commitments that would conflict with the time commitments of being one of our directors.

The Board does not have a specific policy for consideration of nominees recommended by security holders because a significant degree of voting control relative to the Company s outstanding equity securities is maintained by Mr. Clemente, a current executive officer and director, and Mr. Benson, a former executive officer and director whose term is expiring at the 2015 annual meeting. However, security holders can recommend a prospective nominee for the Board by writing to our corporate secretary at our executive offices and providing the information required by our bylaws, along with any additional supporting materials the security holder considers appropriate. There have been no nominees recommended by our stockholders for the 2015 annual meeting.

In addition to the above procedures, our bylaws provide that a stockholder may propose a director candidate to be considered and voted on at an annual meeting of stockholders by providing notice thereof to our corporate secretary not less than 90 calendar days nor more than 120 calendar days before the first anniversary of the date our notice of annual meeting was sent to stockholders in connection with the previous year s annual meeting. This notice provided by a stockholder to our corporate secretary must set forth certain information relating to the proposed nominee as required by our bylaws. The chairman of the meeting will determine whether a nomination set forth by such stockholder is in accordance with the procedures set forth in the bylaws and may determine that such nomination is defective and therefore should be disregarded.

We pay no fees to third parties for evaluating or identifying potential nominees.

Our Board has adopted charters for the Audit and Compensation Committees describing the authority and responsibilities delegated to each committee by the Board. Our Board has also adopted Corporate Governance Guidelines, a Code of Conduct, a Code of Ethics for the CEO and Senior Financial Officers, and a Whistleblower Policy. We post on our website, at www.comstockhomebuilding.com, the charters of our Audit and Compensation Committees, our Corporate Governance Guidelines, Code of Conduct, Code of Ethics for the CEO and Senior Financial Officers, and Whistleblower Policy, and any amendments or waivers thereto; and any other corporate governance materials contemplated by SEC regulations or the Nasdaq Market Rules. These documents are also available in print to any stockholder requesting a copy in writing from our corporate secretary at our executive offices set forth in this proxy statement.

Interested parties may communicate with our Board or specific members of our Board, including our independent directors and the members of our various Board committees, by submitting a letter addressed to the Board of Comstock Holding Companies, Inc. c/o any specified individual director or directors at the address listed herein. All letters received are then forwarded to the indicated directors.

The Audit Committee

The purpose of the Audit Committee is to oversee our accounting and financial reporting processes and the audits of our financial statements. The Audit Committee also provides assistance to our Board with respect to its oversight of the integrity of our financial statements, our compliance with legal and regulatory requirements, the qualifications and independence of our independent registered public accounting firm, and the performance of our audit function, internally, if any, and by our independent registered public accounting firm. The primary responsibilities of the Audit Committee are set forth in its charter and include various matters with respect to the oversight of our accounting and financial reporting processes and audits of our financial statements on behalf of our Board. The Audit Committee also selects the independent registered public accounting firm to conduct the annual audit of our financial statements; reviews the proposed scope of such audit; and reviews our accounting and financial controls with the independent registered public accounting firm and our financial accounting staff.

The Audit Committee currently consists of Messrs. MacCutcheon, Perfall and Pincus, each of whom is an independent under the Nasdaq listing standards and the rules and regulations promulgated by the SEC, including the heightened standards for Audit Committee members adopted by the SEC pursuant to the Sarbanes-Oxley Act of 2002. The Board has determined that Mr. Perfall (whose background is detailed above) qualifies as an audit committee financial expert in accordance with applicable rules and regulations of the SEC. Mr. Perfall serves as the Chairman of the Audit Committee.

The Compensation Committee

The purpose of the Compensation Committee includes determining, or recommending to our Board for determination, the compensation of our Chief Executive Officer and other executive officers, and discharging the responsibilities of our Board relating to our compensation programs and compensation of our executives on an annual basis. The Compensation Committee also decides equity grants to executives under our equity incentive plans, and periodically reviews the operations of the Company s executive compensation programs and policies. The Chief Executive Officer determines the compensation and equity grants in consultation with the Compensation Committee for all non-executive employees, but does not determine any compensation relating to the executive officers of the Company.

Under the Compensation Committee Charter, the Compensation Committee is required to have a minimum of two or more members, and currently consists of Messrs. Chirite, Guernsey, and Verses. Mr. Verses serves as Chairman of the Compensation Committee. All members of the Compensation Committee are independent under Nasdaq listing standards and the rules and regulations promulgated by the SEC.

Board and Committee Meetings

Our Board held a total of four in-person meetings during the fiscal year ended December 31, 2014. During the fiscal year ended December 31, 2014, the Audit Committee held four meetings and the Compensation Committee held one meeting. Each director serving on the Board in 2014 attended at least 75% of the meetings of the Board (and, as applicable, committees thereof) during the year. We encourage each of our directors to attend the annual meeting of stockholders. All but one member of our Board attended the 2014 annual meeting of stockholders.

Board Leadership Structure and Role in Risk Oversight

Our Board has the responsibility for selecting the appropriate leadership structure for the Company. In making leadership structure determinations, the Board considers many factors, including the specific needs of the business and what is in the best interests of the Company s stockholders. Our current leadership structure is comprised of a combined Chairman of the Board and Chief Executive Officer and Board committees led by independent directors. The Board believes that this leadership structure is the most effective for the Company at this time. Combining the Chairman of the Board and Chief Executive Officer roles promotes decisive leadership, fosters clear accountability and enhances the Company s ability to communicate its message and strategy clearly and consistently to its stockholders, employees and customers. The Board also believes there is a very well-functioning and effective balance between strong Company leadership and appropriate safeguards and oversight by independent directors, although the Company does not have a lead independent director.

The Board believes that its current leadership structure allows the directors to provide effective oversight of the Company s risk management strategies by receiving and approving recommendations prepared by our executive officers. The Audit Committee assists the Board in fulfilling its oversight responsibilities by periodically reviewing and making recommendations to the Board regarding the adequacy and effectiveness of the Company s risk management and related programs and activities. Mr. Clemente, the Chairman of the Board, attends Audit Committee meetings and is appropriately positioned to include risk management issues on the agenda for Board meetings as circumstances warrant. As appropriate, the Board receives recommendations from the Chairman of the Audit Committee regarding significant risks or exposures and the steps management has taken to minimize such risks to the Company. In addition, the Audit Committee regularly communicates with the Chairman of the Compensation Committee regarding the risks within that committee s areas of responsibility. The Company believes that this leadership structure promotes effective Board oversight of risk management because, while the Chief Executive Officer is ultimately accountable for the management of the Company s risks, each of the Board committees actively monitors the Company s risk management program and are provided with the information necessary to evaluate the specific risks relevant to such committee s area of responsibility.

Compensation Risks

Management and the Compensation Committee have considered and discussed risks inherent in our business and compensation arrangements and have concluded that the risks associated with our compensation practices and policies are not likely to have a material adverse effect on the Company.

Director Compensation

In 2014, we compensated our non-employee directors with an annual retainer fee of $42,500. Our non-employee directors earned an additional $7,500 to serve on the Audit Committee and $5,000 to serve on the Compensation Committee. In addition, the chairman of the Compensation Committee, the chairman of the Audit Committee and the Audit Committee designated financial expert each earned an additional $5,000 fee. We offered our non-employee directors the option to elect to receive up to 50% of their 2014 director compensation in the form of fully-vested shares of our Class A common stock. Other than pursuant to such election, we did not grant any equity awards to our directors during 2014. Employees who also serve as directors receive no additional compensation for their services as a director.

2014 Director Compensation

The following table details the compensation earned by our non-employee directors in 2014:

Name	Fees Earned ($) (1)	Total ($)
A. Clayton Perfall (2)(4)	60,000	60,000
Socrates Verses(3)(5)	52,500	52,500
James A. MacCutcheon(2)	50,000	50,000
Robert P. Pincus(2)	50,000	50,000
Norman D. Chirite(3)	47,500	47,500
David M. Guernsey(3)	47,500	47,500

(1) Includes annual retainer, chairman and committee participation fees earned in 2014. To compensate our directors for their 2014 services, we made cash payments and/or issued them the equivalent value in shares of our Class A common stock, based on the 20-day average market closing price of the stock, on each quarterly date of election. Messr. Pincus elected to receive 100% of the fees earned in the form of cash payments. Messrs. Perfall, Verses, MacCutcheon, Chirite and Guernsey elected to receive 50% of their fees earned in the form of cash payments and 50% of their fees earned in the form of fully-vested shares of our Class A common stock, in the following amounts of shares: 23,187, 20,290, 19,323, 18,358 and 18,358, respectively.

(2) Messrs. Perfall, MacCutcheon and Pincus served on the Audit Committee.

(3) Messrs. Verses, Chirite and Guernsey served on the Compensation Committee.

(4) Mr. Perfall served as the chairman and the designated financial expert of the Audit Committee.

(5) Mr. Versus served as the chair of the Compensation Committee.

PROPOSAL 2

RATIFICATION OF APPOINTMENT OF

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The firm of PricewaterhouseCoopers LLP, an independent registered public accounting firm, has audited our consolidated financial statements for the fiscal years ended December 31, 2014 and 2013. Our Audit Committee has appointed PricewaterhouseCoopers LLP to audit our consolidated financial statements for the fiscal year ending December 31, 2015. Our organizational documents do not require that our stockholders ratify the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm. However, we are submitting the appointment of PricewaterhouseCoopers LLP to our stockholders for ratification because we believe it is a matter of good corporate practice. In the event of a negative vote on such ratification, the Audit Committee will reconsider its selection, but may still retain PricewaterhouseCoopers LLP. We anticipate that representatives of PricewaterhouseCoopers LLP will be present at the meeting, will have the opportunity to make a statement if they desire, and will be available to respond to appropriate questions.

The Board recommends a vote FOR the ratification of the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the fiscal year ended December 31, 2015.

The aggregate fees billed by PricewaterhouseCoopers LLP for the fiscal years ended December 31, 2014 and 2013 are as follows:

	2014	2013
Audit Related Fees(1)	$ 367,500	$ 322,700
Tax Fees(2)	113,750	79,750
Other Fees(3)	1,800	1,800
Total	$ 483,050	$ 404,250

(1) Fees incurred for annual audit and quarterly reviews. Audit related fees for the year ended December 31, 2014 included approximately $15,000 of costs associated with the preparation of our registration statement on Form S-3, which became effective in May 2014.

(2) Tax fees represent amounts billed for tax compliance and advisory services. Tax fees includes consulting fees related to the execution and monitoring of ownership changes as defined under Section 382 of the Internal Revenue Code of $26,750 and $3,750 for the years ended December 31, 2014 and 2013, respectively.

(3) Other fees include licensing fees paid for accounting research tools.

The charter of the Audit Committee provides that the duties and responsibilities of the Audit Committee include the pre-approval of all audit, audit-related, tax, and other services permitted by law or applicable SEC regulations (including fee and cost ranges) to be performed by our independent registered public accounting firm. Any pre-approved services that will involve fees or costs exceeding pre-approved levels will also require specific pre-approval by the Audit Committee. Unless otherwise specified by the Audit Committee in pre-approving a service, the pre-approval will be effective for the 12-month period following pre-approval. The Audit Committee will not approve any non-audit services prohibited by applicable SEC regulations or any services in connection with a transaction initially recommended by the independent registered public accounting firm, the purpose of which may be tax avoidance and the tax treatment of which may not be supported by the Internal Revenue Code and related regulations. To the extent deemed appropriate, the Audit Committee may delegate pre-approval authority to the Chairman of the Audit Committee or any one or more other members of the Audit Committee provided that any member of the Audit Committee who has exercised any such delegation must report any such pre-approval decision to the Audit Committee at its next scheduled meeting. The Audit Committee will not delegate to management the pre-approval of services to be performed by the independent registered public accounting firm.

Our Audit Committee requires that our independent registered public accounting firm, in conjunction with our Chief Financial Officer, be responsible for seeking pre-approval for providing services to us and that any request for pre-approval must inform the Audit Committee about each service to be provided and must provide the details associated with the particular service to be provided.

All of the services provided by PricewaterhouseCoopers LLP described above under the captions Audit Related Fees, Tax Fees and Other Fees were approved by our Audit Committee.

REPORT OF THE AUDIT COMMITTEE

The Audit Committee oversees the Company s accounting and financial reporting processes and the audit of its financial statements, including the performance and compensation of the Company s independent auditor. Management has the primary responsibility for the financial statements and the reporting process, including the systems of internal controls and the certification of the integrity and reliability of the Company s internal controls procedures.

In fulfilling its oversight responsibilities, the Audit Committee has reviewed and discussed the Company s audited financial statements for the fiscal years December 31, 2014 and 2013 with management. The Audit Committee also reviewed with PricewaterhouseCoopers LLP, the Company s independent registered public accounting firm, the results of their audit. The Audit Committee has also discussed with the independent registered public accounting firm the matters required to be discussed by Auditing Standard No. 16 of the Public Company Accounting Oversight Board (PCAOB). This discussion included, among other things, a review with the independent registered public accounting firm of the quality of the Company s accounting principles, the reasonableness of significant estimates and judgments, and the clarity of disclosure in the Company s financial statements, including the disclosures related to critical accounting policies and practices used by the Company. The Audit Committee has reviewed permitted services under rules of the Securities and Exchange Commission as currently in effect and discussed with PricewaterhouseCoopers LLP their independence from management and the Company. The Audit Committee received from the independent registered public accounting firm the written disclosures and letter required by applicable requirements of the PCAOB regarding the independent registered public accounting firm s communications with the Audit Committee concerning independence. The Audit Committee also has discussed with the independent registered public accounting firm its independence from the Company and has considered whether the provision of non-audit services to the Company is compatible with the independence of the registered public accounting firm. In addition, the Audit Committee discussed the rules of the Securities and Exchange Commission that pertain to the Audit Committee and the roles and responsibilities of Audit Committee members.

Based on its review of the financial statements and the aforementioned discussions, the Audit Committee concluded that it would be reasonable to recommend, and on that basis did recommend, to the Board of Directors that the audited financial statements be included in the Company s Annual Report on Form 10-K for the year ended December 31, 2014. The Audit Committee also approved the appointment of PricewaterhouseCoopers LLP as the Company s independent registered public accounting firm for the year ending December 31, 2015.

Respectfully submitted by the Audit Committee,

A. Clayton Perfall, Chair
James A. MacCutcheon
Robert P. Pincus

PROPOSAL 3

ADVISORY VOTE TO APPROVE NAMED EXECUTIVE OFFICER COMPENSATION

The Dodd-Frank Wall Street Reform and Consumer Protection Act, enacted in July 2010, requires that we provide our stockholders a non-binding, advisory vote pursuant to Section 14A of the Exchange Act to approve the compensation of our named executive officers.

The Compensation Committee will review the results of the vote carefully. Depending upon the results of that review, the Compensation Committee will take such action, if any, as it deems appropriate. Because this vote is advisory, it is not binding on the Company, the Compensation Committee or the Board of Directors.

Before you vote on the resolution below, please read the Summary Compensation Table together with the related narrative disclosure and footnotes, in this proxy statement. Our Board is asking stockholders to cast a non-binding, advisory vote FOR the following resolution:

RESOLVED, that the compensation paid to the Company s named executive officers, as disclosed pursuant to the compensation disclosure rules of the Securities and Exchange Commission, including the compensation tables, is hereby APPROVED.

Our executive compensation program is comprised principally of salary, equity and cash bonus, designed to align compensation of our executives with stockholder value and financial performance and to achieve a balanced package that would attract and retain highly qualified senior officers and appropriately reflect each such officer s individual performance and contributions. The Company regularly reviews its compensation programs and the overall compensation package paid to each of its executive officers to assess risk and to ensure that the program is structured appropriately in order to attain the Company s strategic goals.

For the above reasons, the Board of Directors is asking stockholders to support this proposal. Although the vote we are asking you to cast is non-binding, the Compensation Committee and the Board value the views of our stockholders and will consider the outcome of the vote, among other factors, when determining future compensation arrangements for our executive officers. Following the vote at the 2015 annual meeting, the next advisory vote on executive compensation will take place in 2016.

The Board recommends a vote FOR this proposal.

EXECUTIVE OFFICERS

Executive Officers of the Company

Set forth below is information regarding the current executive officers of the Company who are not also directors (information about Mr. Christopher Clemente can be found above under Proposal 1 Election of Directors):

Joseph M. Squeri, 49, has served as our Chief Financial Officer since August 2010. Mr. Squeri has significant experience in corporate finance, strategic planning, accounting and operations. From October 2008 to August 2010, Mr. Squeri served as an independent financial and business consultant to privately held companies. From January 2008 to September 2008, Mr. Squeri served as the Executive Vice President-Chief Financial Officer and Treasurer of Federal Realty Investment Trust (NYSE: FRT) with responsibility for capital markets, financial reporting and investor relations functions. From 1997 through 2007, Mr. Squeri served in a variety of positions at Choice Hotels International (NYSE: CHH), including chief financial officer starting in 1999, and then more significant operating roles culminating with his position as president and chief operating officer. Mr. Squeri is a certified public accountant.

Jubal R. Thompson, 45, has served as our General Counsel since October 1998 and our Secretary since December 2004. Mr. Thompson has significant experience in areas of real estate acquisitions and dispositions, real estate and corporate finance, corporate governance, mergers and acquisition and risk management.

Employment Arrangements with Executive Officers

In December 2004, we entered into an employment agreement with each of Christopher Clemente and Gregory V. Benson, which agreements had an initial term of five years and four years, respectively, with automatic one-year renewals, unless either party notifies the other that the term will not be extended. Under the agreements, Mr. Clemente s and Mr. Benson s minimum annual salary was $550,000, subject to potential increase by our Board from time to time, and each is eligible for a cash bonus of not more than 200% of his then-current salary, based upon the satisfaction of financial performance criteria. During 2014, neither Mr. Clemente nor Mr. Benson received a cash bonus for the year ending December 31, 2014. Both executives are eligible for awards under our equity incentive plan and any similar executive compensation plans we may adopt from time to time. In 2006, our Board increased the minimum annual salary payable to Mr. Clemente to $700,000. To assist the Company with meeting its obligations, beginning January 1, 2009, Mr. Clemente and Mr. Benson volunteered to have their base salaries reduced to their 2014 levels of $548,000 and $365,000, respectively. Effective January 1, 2015, our Board increased the minimum annual salary payable to Mr. Clemente to $598,000. During 2014, Mr. Clemente was awarded 25,000 stock options as further detailed in the Summary Compensation Table below. Mr. Benson s employment agreement terminated in connection with his separation from the Company in May 2014; provided, however, that certain restrictive covenants, as described below, remained operative following his termination of employment. For additional information regarding Mr. Benson s separation agreement with the Company, see Potential Payments on Termination or Change in Control.

Mr. Clemente has agreed not to compete with us during the term of his employment and for two years after the termination of his employment. Mr. Benson has agreed not to compete with us during the term of his employment and for 18 months after the termination of his employment. Each of Mr. Clemente s and Mr. Benson s employment agreements and non-competition agreements allow them to engage in the following permitted business activities: (i) development of commercial or for-rent residential (such as apartment buildings) real estate investment properties; (ii) development of speculative land holdings as residential lots intended for construction of for-sale residential dwellings, provided, however, that any such development by any entity in which Mr. Clemente or Mr. Benson, as applicable, has a controlling interest or decision-making power, must first be offered to the Company at a fair market value price; and (iii) secured real estate lending to unrelated third parties. In addition, each has agreed not to (x) engage in any for-sale residential construction activities in any of our then existing markets or in any market that we then plan to enter within six months; or (y) solicit our employees or certain other third parties for 24 months, in the case of Mr. Clemente, and 18 months, in the case of Mr. Benson.

In August 2010, we entered into an employment agreement with Joseph M. Squeri, our Chief Financial Officer, which agreement had an initial term of three years with automatic one-year renewals unless either party notifies the other that the term will not be extended. Under the agreement, Mr. Squeri s minimum annual salary was $250,000, subject to potential increase by the Board from time to time. Mr. Squeri is entitled to receive an annual cash bonus of up to fifty percent (50%) of his minimum annual salary based upon the satisfaction of certain performance criteria, also subject to potential increase by the Board from time to time. Mr. Squeri is also eligible to receive awards under our equity incentive plan and any similar executive compensation plans we may adopt from time to time. Effective January 1, 2015, our Board increased the minimum annual salary payable to Mr. Squeri to $300,000. During 2014, Mr. Squeri was awarded a cash bonus of $50,667 and 25,000 stock options as further detailed in the Summary Compensation Table below. Mr. Squeri has agreed not to compete with us during the term of his employment and for 12 months after termination of his employment.

In August 2006, we entered into an employment agreement with Jubal R. Thompson, our General Counsel and Secretary, which agreement had an initial term of three years with automatic one-year renewals unless either party notifies the other that the term will not be extended. Under the agreement, Mr. Thompson s minimum annual salary was originally $200,000, subject to potential increase by the Board from time to time. Pursuant to the original employment agreement, Mr. Thompson was eligible to receive a cash bonus of not less than 75% of his then-current salary, based upon the satisfaction of certain performance criteria. In 2010, our Board increased the minimum annual salary payable to Mr. Thompson to $250,000. Mr. Thompson is entitled to receive an annual cash bonus of up to fifty percent (50%) of his minimum annual salary based upon the satisfaction of certain performance criteria, also subject to potential increase by the Board from time to time. Mr. Thompson is also eligible to receive awards under our equity incentive plan and any similar executive compensation plans we may adopt from time to time. Effective January 1, 2015, our Board increased the minimum annual salary payable to Mr. Thompson to $300,000. During 2014, Mr. Thompson was awarded a cash bonus of $84,167 and 25,000 stock options as further detailed in the Summary Compensation Table below.

SUMMARY COMPENSATION TABLE

Because the Company qualifies as a smaller reporting company, under SEC rules, only our chief executive officer and next two highest paid executive officers who were serving as executive officers at the end of the last completed fiscal year, plus up to two individuals for whom disclosure would have been provided but for the fact that he or she was not serving as an executive officer at the end of the last completed year are considered named executive officers for purposes of this proxy statement. The following table sets forth the compensation paid to the Company s named executive officers for the fiscal years ended December 31, 2014 and 2013.

Name and Principal Position	Year	Salary ($)	Bonus ($)(2)	Stock Awards ($)	Option Awards ($)(3)	All Other Compensation (4)	Total ($)
Christopher Clemente	2014	548,000			21,875		569,875
Chairman of the Board and Chief Executive Officer (PEO)	2013	548,000					548,000
Gregory V. Benson	2014	186,000				611,150	797,150
Former Chief Operating Officer (1)	2013	365,000					365,000
Jubal R. Thompson	2014	250,000	84,167		21,875		356,042
General Counsel	2013	250,000	59,167		116,813		425,980
Joseph M. Squeri	2014	250,000	50,667		21,875		322,542
Chief Financial Officer	2013	250,000	25,667		116,813		392,480

(1) Mr. Benson resigned as President and Chief Operating Officer of the Company effective as of May 5, 2014.

(2) Reflects discretionary cash awards made by the Board in 2014 and 2013.

(3) Messrs. Clemente, Thompson and Squeri were each granted 25,000 options in 2014 at an exercise price of $1.09. Mr. Thompson and Mr. Squeri were each granted 75,000 options in 2013 at an exercise price of $1.89. This column reflects the aggregate grant date fair value computed in accordance with FASB ASC Topic 718 (excluding forfeiture estimates) for such grant of stock options. The methodologies and assumptions utilized in the valuation of these grants is set forth in Note 12 to our Consolidated Financial Statements contained in the Company s Annual Report on Form 10-K for the year ended December 31, 2014 and 2013, respectively. Each of the options awards granted in 2014 vest in four annual equal installments commencing on December 11, 2015. The options granted in 2013 vest in four annual equal installments commencing on December 31, 2014.

(4)

For 2014, includes for Mr. Benson (i) $597,000 as a severance payment, paid in 36 semi-monthly installments following May 1, 2014, and (ii) $14,150 in an amount to offset the incremental cost of healthcare insurance Mr. Benson will be eligible to purchase through COBRA, paid over 12 months beginning on May 1, 2014.

OUTSTANDING EQUITY AWARDS AT 2014 FISCAL YEAR END

The following table sets forth the equity awards held by the named executive officers as of December 31, 2014.

Option Awards				Stock Awards	
Sec Un ons) sable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price ($)	Option Expiration Date	Number of shares or units of stock that have not vested (#)	Market value of shares or units of stock that have not vested ($)(8)
	25,000 (2)	1.09	12/11/24		
,000		1.00	12/31/17		
,000	10,000 (3)	1.81	3/31/22		

Total return (based on market value per share)e	(14.86)%	7.08%	14.07%	(0.44)%

73%	1.25%	1.35%	1.16%	1.14%	1.12%
71%	1.23%	1.32%	1.16%i	1.14%i	1.12%i
97%	5.04%	4.83%	5.52%	5.14%	5.65%

,804	$278,489	$291,875	$332,132	$372,080	$385,388
44%	168.28%	265.00%	270.16%	289.67%	318.57%
84%	46.49%	93.00%	81.78%	92.15%	137.85%
,000[k]	$	$	$	$	$
$[l]	$72,311	$74,809	$75,991	$76,665	$78,686
$[l]	$25,000	$25,000	$25,000	$25,000	$25,000
,387[k]	$	$	$	$	$

[a]For the period April 1, 2017 to December 31, 2017.

[b]Based on average daily shares outstanding.

[c]Represents the impact of Fund s rights offering of 7,534,709 common shares in October 2018 as a subscription price per share based on a formula. See Note 2.

[d]Based on the last sale on the NYSE American.

[e]Total return is not annualized for periods less than one year.

[f]Based on income and expenses applicable to both common and preferred shares.

[g]Ratios are annualized for periods less than one year.

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

[i]Benefit of waiver and payments by affiliates rounds to less than 0.01%.

[j]See Note 1(e) regarding mortgage dollar rolls.

[k]Effective August 15, 2018, the Fund began participating in a credit facility.

[1]Effective August 15, 2018, the Fund s preferred shares were liquidated.

Statement of Investments, December 31, 2018

	Country	Shares/ Units/ Warrants	Value
Common Stocks and Other Equity Interests 0.7%			
Commercial & Professional Services 0.1%			
[a,b,c] Remington Outdoor Co. Inc.	United States	39,306	$ 415,172
[a,b,c] Remington Outdoor Co. Inc., Litigation Units	United States	3,700	
			415,172
Energy 0.5%			
[a] Birch Permian Holdings Inc.	United States	4,729	52,019
[a] Birch Permian Holdings Inc.	United States	36,860	387,030
[a] Halcon Resources Corp.	United States	67,554	114,842
[a] Halcon Resources Corp., wts., 9/09/20	United States	6,408	328
[a] Midstates Petroleum Co. Inc.	United States	372	2,793
[a,b] Midstates Petroleum Co. Inc., wts., 4/21/20	United States	2,642	7
[a,b,c] Nine Point Energy LLC	United States	21,663	2
[a] Penn Virginia Corp.	United States	17	919
[a] Riviera Resources Inc.	United States	6,592	104,153
[a] Roan Resources Inc.	United States	6,592	55,241
[a] Samson Resources II LLC	United States	31,225	710,369
			1,427,703
Materials 0.0%			
[a] Verso Corp., A	United States	4,163	93,251
[a] Verso Corp., wts., 7/25/23	United States	438	2,278
			95,529
Pharmaceuticals, Biotechnology & Life Sciences 0.0%			
[a] Advanz Pharma Corp.	Canada	536	10,184
Transportation 0.1%			
[a] CEVA Logistics AG	Switzerland	3,641	110,485
Total Common Stocks and Other Equity Interests (Cost $7,126,867)			2,059,073
Convertible Preferred Stocks (Cost $377,604) 0.1%			
Energy 0.1%			
[a,b,c] Nine Point Energy Holdings Inc., cvt. pfd.	United States	404	385,050

		Principal Amount*	
Corporate Bonds 44.5%			
Automobiles & Components 0.8%			
Fiat Chrysler Automobiles NV, senior note, 4.50%, 4/15/20	United Kingdom	$ 1,500,000	1,500,525
[d] The Goodyear Tire & Rubber Co.,			
senior bond, 5.00%, 5/31/26	United States	700,000	632,625
senior note, 5.125%, 11/15/23	United States	300,000	295,125
			2,428,275
Banks 1.3%			
[d] CIT Group Inc., senior note, 5.25%, 3/07/25	United States	400,000	392,000
[e] Citigroup Inc., junior sub. bond, M, 6.30% to 5/15/24, FRN thereafter, Perpetual	United States	1,200,000	1,108,500
[e] JPMorgan Chase & Co., junior sub. bond, R, 6.00% to 8/01/23, FRN thereafter, Perpetual	United States	1,500,000	1,470,000
Royal Bank of Scotland Group PLC, sub. note, 6.125%, 12/15/22	United Kingdom	1,000,000	1,015,610
			3,986,110

FRANKLIN LIMITED DURATION INCOME TRUST

STATEMENT OF INVESTMENTS

	Country	Principal Amount*	Value
Corporate Bonds (continued)			
Capital Goods 3.0%			
[d,f] BBA U.S. Holdings Inc., senior note, 144A, 5.375%, 5/01/26	United States	$ 400,000	$ 379,996
[d,f] Beacon Roofing Supply Inc., senior note, 144A, 4.875%, 11/01/25	United States	500,000	441,250
[d] H&E Equipment Services Inc., senior note, 5.625%, 9/01/25	United States	1,500,000	1,381,875
[d,f] Jeld-Wen Inc., senior note, 144A, 4.625%, 12/15/25	United States	1,600,000	1,416,000
[g] Onsite Rental Group Operations Pty. Ltd., secured note, PIK, 6.10%, 10/26/23	Australia	952,561	738,235
[d,f] Stevens Holding Co. Inc., senior note, 144A, 6.125%, 10/01/26	United States	1,100,000	1,089,000
[d] Tennant Co., senior note, 5.625%, 5/01/25	United States	800,000	758,000
[d,f] Terex Corp., senior note, 144A, 5.625%, 2/01/25	United States	1,500,000	1,398,750
[d,f] Vertiv Group Corp., senior note, 144A, 9.25%, 10/15/24	United States	1,600,000	1,480,000
			9,083,106
Commercial & Professional Services 1.0%			
[d,f] Multi-Color Corp., senior note, 144A, 4.875%, 11/01/25	United States	1,500,000	1,286,250
[d] United Rentals North America Inc., senior bond, 5.875%, 9/15/26	United States	600,000	567,750
[d,f] West Corp., senior note, 144A, 8.50%, 10/15/25	United States	1,700,000	1,351,500
			3,205,500
Consumer Durables & Apparel 1.0%			
[d,f] Hanesbrands Inc., senior note, 144A, 4.625%, 5/15/24	United States	1,000,000	942,500
[d] KB Home, senior note, 7.00%, 12/15/21	United States	1,100,000	1,123,375
[d,f] Taylor Morrison Communities Inc./Taylor Morrison Holdings II Inc., senior note, 144A, 5.875%, 4/15/23	United States	1,000,000	970,000
			3,035,875
Consumer Services 3.1%			
[f] 1011778 BC ULC/New Red Finance Inc., senior secured note, first lien, 144A, 4.25%, 5/15/24	Canada	800,000	738,648
[d,f] 24 Hour Holdings III LLC, senior note, 144A, 8.00%, 6/01/22	United States	1,500,000	1,421,250
[d,f] Ascend Learning LLC, senior note, 144A, 6.875%, 8/01/25	United States	500,000	481,250
[d,f] Downstream Development Authority of the Quapaw Tribe of Oklahoma, secured note, 144A, 10.50%, 2/15/23	United States	1,400,000	1,386,000
[f] Golden Nugget Inc., senior note, 144A, 8.75%, 10/01/25	United States	1,200,000	1,158,000
[d,f] KFC Holding Co./Pizza Hut Holdings LLC/Taco Bell of America LLC, senior note, 144A, 5.00%, 6/01/24	United States	1,400,000	1,354,500
[d] MGM Resorts International, senior note, 8.625%, 2/01/19	United States	1,000,000	1,006,250
[f] Stars Group Holdings BV/Stars Group U.S. Co-Borrower LLC, senior note, 144A, 7.00%, 7/15/26	Canada	500,000	487,500
	United States	1,700,000	1,589,500

[d,f] Wynn Las Vegas LLC/Wynn Las Vegas Capital Corp., senior bond, 144A, 5.50%, 3/01/25			
			9,622,898
Diversified Financials 1.5%			
Aircastle Ltd., senior note, 4.125%, 5/01/24	United States	400,000	377,877
[d,f] FirstCash Inc., senior note, 144A, 5.375%, 6/01/24	United States	900,000	870,750
[f] Lincoln Finance Ltd., senior secured note, 144A, 7.375%, 4/15/21	Netherlands	1,000,000	1,016,250
Navient Corp.,			
[d] senior note, 5.00%, 10/26/20	United States	200,000	192,000
[d] senior note, 5.875%, 3/25/21	United States	200,000	192,250
[d] senior note, 6.625%, 7/26/21	United States	700,000	677,250
[d] senior note, 6.50%, 6/15/22	United States	200,000	186,608
senior note, 7.25%, 9/25/23	United States	800,000	737,000
[d] senior note, 6.125%, 3/25/24	United States	300,000	258,750
			4,508,735

FRANKLIN LIMITED DURATION INCOME TRUST

STATEMENT OF INVESTMENTS

	Country	Principal Amount*	Value
Corporate Bonds (continued)			
Energy 4.6%			
[d,f] Aker BP ASA, senior note, 144A, 5.875%, 3/31/25	Norway	$ 1,000,000	$ 1,000,820
[d] California Resources Corp.,			
[f] secured note, second lien, 144A, 8.00%, 12/15/22	United States	824,000	560,320
senior note, 5.50%, 9/15/21	United States	37,000	26,640
[d] Calumet Specialty Products Partners LP/Calumet Finance Corp., senior note, 7.75%, 4/15/23	United States	1,000,000	777,500
[d] Cheniere Corpus Christi Holdings LLC,			
senior secured note, first lien, 7.00%, 6/30/24	United States	700,000	740,250
senior secured note, first lien, 5.875%, 3/31/25	United States	600,000	598,500
Cheniere Energy Partners LP,			
[f] senior note, 144A, 5.625%, 10/01/26	United States	400,000	375,000
[d] senior secured note, first lien, 5.25%, 10/01/25	United States	1,000,000	936,250
[d] Crestwood Midstream Partners LP/Crestwood Midstream Finance Corp., senior note, 6.25%, 4/01/23	United States	1,500,000	1,451,250
[d] CSI Compressco LP/CSI Compressco Finance Inc., senior note, 7.25%, 8/15/22	United States	1,400,000	1,239,000
[d,f] Diamondback Energy Inc., senior note, 144A, 4.75%, 11/01/24	United States	900,000	873,000
[f,g] EnQuest PLC, senior note, 144A, PIK, 7.00%, 4/15/22	United Kingdom	1,147,777	779,054
[d] Ferrellgas LP/Ferrellgas Finance Corp., senior note, 6.75%, 6/15/23	United States	800,000	656,000
[d] Martin Midstream Partners LP/Martin Midstream Finance Corp., senior note, 7.25%, 2/15/21	United States	900,000	859,500
[f,g] Murray Energy Corp., secured note, 1.5 lien, 144A, PIK, 12.00% (incl. cash 9.00%), 4/15/24	United States	597,229	325,490
[d] QEP Resources Inc., senior bond, 5.25%, 5/01/23	United States	500,000	445,000
[d] Sanchez Energy Corp.,			
senior note, 7.75%, 6/15/21	United States	900,000	216,000
senior note, 6.125%, 1/15/23	United States	300,000	55,500
[d] Sunoco LP/Sunoco Finance Corp., senior note, 4.875%, 1/15/23	United States	700,000	684,250
[d] Weatherford International Ltd.,			
senior note, 5.125%, 9/15/20	United States	400,000	314,000
senior note, 7.75%, 6/15/21	United States	1,000,000	755,000
senior note, 4.50%, 4/15/22	United States	400,000	236,000
			13,904,324
Food, Beverage & Tobacco 1.2%			

[d] B&G Foods Inc., senior note, 5.25%, 4/01/25	United States	1,000,000	933,750
[d,f] Cott Holdings Inc., senior note, 144A, 5.50%, 4/01/25	Canada	1,300,000	1,230,125
[d,f] Lamb Weston Holdings Inc., senior note, 144A, 4.625%, 11/01/24	United States	1,100,000	1,072,500
[d,f] Post Holdings Inc., senior note, 144A, 5.50%, 3/01/25	United States	400,000	385,424
			3,621,799
Health Care Equipment & Services 3.5%			
[d,f] Avantor Inc., senior secured note, first lien, 144A, 6.00%, 10/01/24	United States	1,100,000	1,083,500
[d,f] Catalent Pharma Solutions Inc., senior note, 144A, 4.875%, 1/15/26	United States	1,200,000	1,143,000
[d,f] Centene Corp., senior note, 144A, 5.375%, 6/01/26	United States	1,000,000	975,000
[d] CHS/Community Health Systems Inc.,			
[f] senior note, 144A, 8.125%, 6/30/24	United States	900,000	661,500
senior secured note, first lien, 6.25%, 3/31/23	United States	700,000	638,785
[d] HCA Inc.,			
senior bond, 5.875%, 5/01/23	United States	500,000	507,500
senior note, 7.50%, 2/15/22	United States	500,000	532,500
senior secured bond, first lien, 5.875%, 3/15/22	United States	1,000,000	1,027,500

FRANKLIN LIMITED DURATION INCOME TRUST

STATEMENT OF INVESTMENTS

	Country	Principal Amount*	Value
Corporate Bonds (continued)			
Health Care Equipment & Services (continued)			
[d,f] MEDNAX Inc., senior note, 144A, 6.25%, 1/15/27	United States	$ 1,400,000	$ 1,354,500
[d,f] MPH Acquisition Holdings LLC, senior note, 144A, 7.125%, 6/01/24	United States	1,300,000	1,215,500
[d] Tenet Healthcare Corp., senior secured note, first lien, 6.00%, 10/01/20	United States	500,000	508,125
[d,f] WellCare Health Plans Inc., senior note, 144A, 5.375%, 8/15/26	United States	1,000,000	967,500
			10,614,910
Materials 7.5%			
[g] ARD Finance SA, secured note, PIK, 7.125%, 9/15/23	Luxembourg	600,000	546,000
[f] Ardagh Packaging Finance PLC/Ardagh MP Holdings USA Inc.,			
senior note, 144A, 4.25%, 9/15/22	Luxembourg	300,000	286,125
senior note, 144A, 6.00%, 2/15/25	Luxembourg	500,000	463,125
[d,f] BWAY Holding Co., secured note, 144A, 5.50%, 4/15/24	United States	1,500,000	1,415,625
[f] Cemex SAB de CV, senior secured bond, 144A, 7.75%, 4/16/26	Mexico	400,000	422,080
[d] The Chemours Co., senior note, 6.625%, 5/15/23	United States	776,000	786,670
[d,f] Crown Americas LLC/Crown Americas Capital Corp., senior note, 144A, 4.75%, 2/01/26	United States	500,000	475,625
[f] Eldorado Gold Corp., senior note, 144A, 6.125%, 12/15/20	Canada	800,000	730,000
[f] First Quantum Minerals Ltd.,			
senior note, 144A, 7.00%, 2/15/21	Zambia	961,000	924,362
senior note, 144A, 7.25%, 4/01/23	Zambia	500,000	441,875
f FMG Resources (August 2006) Pty. Ltd.,			
senior note, 144A, 4.75%, 5/15/22	Australia	700,000	668,010
senior note, 144A, 5.125%, 3/15/23	Australia	600,000	566,625
[d,f] Grinding Media Inc./MC Grinding Media Canada Inc., senior secured note, 144A, 7.375%, 12/15/23	United States	800,000	778,000
[f] HudBay Minerals Inc., senior note, 144A, 7.25%, 1/15/23	Canada	400,000	397,000
[d,f] New Enterprise Stone & Lime Co., senior note, 144A, 6.25%, 3/15/26	United States	1,500,000	1,368,750
[f] New Gold Inc., senior note, 144A, 6.375%, 5/15/25	Canada	600,000	459,000
[f] Northwest Acquisitions ULC/Dominion Finco Inc., secured note, second lien, 144A, 7.125%, 11/01/22	Canada	300,000	297,309
[d,f] Novelis Corp., senior note, 144A, 6.25%, 8/15/24	United States	1,300,000	1,225,250
[f] OCI NV, senior note, 144A, 6.625%, 4/15/23	Netherlands	400,000	400,000
[d,f] Owens-Brockway Glass Container Inc.,			

senior note, 144A, 5.00%, 1/15/22	United States	900,000	894,375
senior note, 144A, 5.875%, 8/15/23	United States	400,000	402,500
[f] Petra Diamonds U.S. Treasury PLC, secured note, second lien, 144A, 7.25%, 5/01/22	South Africa	1,200,000	1,122,000
[d,f] Plastipak Holdings Inc., senior note, 144A, 6.25%, 10/15/25	United States	1,500,000	1,335,000
[d,f] Platform Specialty Products Corp., senior note, 144A, 6.50%, 2/01/22	United States	600,000	602,250
[f] Reynolds Group Issuer Inc./Reynolds Group Issuer LLC/Reynolds Group Issuer Luxembourg SA,			
[d] senior note, 144A, 7.00%, 7/15/24	United States	100,000	95,437
[d] senior secured note, first lien, 144A, 5.125%, 7/15/23	United States	400,000	381,500
[h] senior secured note, first lien, 144A, FRN, 5.936%, (3-month USD LIBOR + 3.50%), 7/15/21	United States	400,000	399,500
[d,f] Sealed Air Corp.,			
senior bond, 144A, 5.125%, 12/01/24	United States	500,000	493,125
senior bond, 144A, 5.50%, 9/15/25	United States	600,000	594,000

FRANKLIN LIMITED DURATION INCOME TRUST

STATEMENT OF INVESTMENTS

	Country	Principal Amount*	Value
Corporate Bonds (continued)			
Materials (continued)			
[d] Steel Dynamics Inc., senior note, 5.125%, 10/01/21	United States	$ 1,500,000	$ 1,500,000
[d] Summit Materials LLC/Summit Materials Finance Corp., senior note, 8.50%, 4/15/22	United States	1,200,000	1,258,500
[d,f] SunCoke Energy Partners LP/SunCoke Energy Partners Finance Corp., senior note, 144A, 7.50%, 6/15/25	United States	1,300,000	1,235,000
			22,964,618
Media & Entertainment 4.1%			
[d,f] Altice Luxembourg SA, senior secured note, 144A, 7.75%, 5/15/22	Luxembourg	1,700,000	1,553,375
[d] AMC Networks Inc., senior note, 5.00%, 4/01/24	United States	1,000,000	950,000
[d] CCO Holdings LLC/CCO Holdings Capital Corp.,			
senior bond, 5.25%, 9/30/22	United States	1,500,000	1,489,687
[f] senior note, 144A, 5.125%, 5/01/23	United States	500,000	487,500
[d] Clear Channel Worldwide Holdings Inc.,			
senior note, 6.50%, 11/15/22	United States	700,000	703,500
senior sub. note, 7.625%, 3/15/20.	United States	800,000	783,000
[d] CSC Holdings LLC,			
senior note, 6.75%, 11/15/21	United States	1,000,000	1,027,500
senior note, 5.25%, 6/01/24	United States	500,000	459,375
[f] senior secured note, first lien, 144A, 5.50%, 5/15/26	United States	1,000,000	945,000
[f] Gray Escrow Inc., senior note, 144A, 7.00%, 5/15/27	United States	500,000	488,710
[d,f] Nexstar Broadcasting Inc., senior note, 144A, 5.625%, 8/01/24	United States	500,000	468,750
[f] Virgin Media Secured Finance PLC,			
senior secured bond, first lien, 144A, 5.50%, 1/15/25	United Kingdom	1,100,000	1,097,250
senior secured bond, first lien, 144A, 5.50%, 8/15/26	United Kingdom	400,000	371,000
[d,f] WMG Acquisition Corp.,			
secured note, first lien, 144A, 5.00%, 8/01/23	United States	100,000	97,625
senior note, 144A, 5.625%, 4/15/22	United States	1,612,000	1,614,015
			12,536,287
Pharmaceuticals, Biotechnology & Life Sciences 1.9%			
Advanz Pharma Corp., senior secured note, first lien, 8.00%, 9/06/24	Canada	323,000	306,850
[d,f] Bausch Health Cos. Inc.,			

senior note, 144A, 5.625%, 12/01/21	United States	388,000	382,423
senior secured note, first lien, 144A, 6.50%, 3/15/22	United States	200,000	201,816
[d,f] Endo DAC/Endo Finance LLC/Endo Finco Inc.,			
senior bond, 144A, 6.00%, 2/01/25	United States	1,000,000	722,500
senior note, 144A, 6.00%, 7/15/23	United States	500,000	383,750
[d] Horizon Pharma USA Inc., senior note, 6.625%, 5/01/23	United States	1,200,000	1,164,000
[d,f] Jaguar Holding Co. II/Pharmaceutical Product Development LLC, senior note, 144A, 6.375%, 8/01/23	United States	1,200,000	1,149,708
[d,f] Valeant Pharmaceuticals International, senior note, 144A, 9.25%, 4/01/26	United States	1,500,000	1,503,750
			5,814,797
Real Estate 1.6%			
[d] CyrusOne LP/CyrusOne Finance Corp., senior note, 5.00%, 3/15/24	United States	1,300,000	1,277,250
[d] Equinix Inc., senior bond, 5.875%, 1/15/26.	United States	300,000	303,000
[d,f] Five Point Operating Co. LP/Five Point Capital Corp., senior note, 144A, 7.875%, 11/15/25	United States	1,000,000	967,500
[d] MPT Operating Partnership LP/MPT Finance Corp.,			
senior bond, 5.25%, 8/01/26	United States	300,000	284,250
senior note, 6.375%, 3/01/24	United States	700,000	721,000
[d] SBA Communications Corp., senior note, 4.00%, 10/01/ 22	United States	1,400,000	1,340,500
			4,893,500

FRANKLIN LIMITED DURATION INCOME TRUST

STATEMENT OF INVESTMENTS

	Country	Principal Amount*	Value
Corporate Bonds (continued)			
Retailing 0.4%			
[f] Party City Holdings Inc., senior note, 144A, 6.625%, 8/01/26	United States	$ 1,000,000	$ 912,500
[d,f] PetSmart Inc., senior note, 144A, 7.125%, 3/15/23	United States	700,000	411,250
			1,323,750
Semiconductors & Semiconductor Equipment 0.3%			
[d,f] Qorvo Inc., senior note, 144A, 5.50%, 7/15/26	United States	900,000	861,750
Software & Services 1.5%			
[d,f] First Data Corp.,			
secured note, first lien, 144A, 5.00%, 1/15/24	United States	1,700,000	1,642,625
secured note, second lien, 144A, 5.75%, 1/15/24	United States	500,000	490,170
[d] Infor (U.S.) Inc., senior note, 6.50%, 5/15/22	United States	1,800,000	1,747,620
[d,f] Symantec Corp., senior note, 144A, 5.00%, 4/15/25	United States	600,000	561,337
			4,441,752
Technology Hardware & Equipment 1.4%			
[d,f] Blackboard Inc., secured note, second lien, 144A, 9.75%, 10/15/21	United States	1,538,000	1,053,530
[d,f] Dell International LLC/EMC Corp., senior note, 144A, 5.875%, 6/15/21	United States	400,000	400,554
[d,f] Itron Inc., senior note, 144A, 5.00%, 1/15/26	United States	1,500,000	1,376,250
[d,f] Tempo Acquisition LLC/Tempo Acquisition Finance Corp., senior note, 144A, 6.75%, 6/01/25	United States	1,500,000	1,395,000
			4,225,334
Telecommunication Services 2.3%			
[d,f] Block Communications Inc., senior note, 144A, 6.875%, 2/15/25	United States	300,000	302,250
[f] Digicel Group Ltd., senior note, 144A, 8.25%, 9/30/20	Bermuda	1,200,000	818,400
[f] Digicel Ltd., senior note, 144A, 6.00%, 4/15/21	Bermuda	700,000	633,003
[f] DKT Finance ApS, senior secured note, first lien, 144A, 9.375%, 6/17/23	Denmark	1,500,000	1,528,973
[d,f] Sprint Communications Inc., senior note, 144A, 7.00%, 3/01/20	United States	600,000	616,500
[d] Sprint Corp.,			
senior bond, 7.125%, 6/15/24	United States	300,000	298,068
senior note, 7.25%, 9/15/21	United States	500,000	513,000
[f] Sprint Spectrum Co. LLC/Sprint Spectrum Co. II LLC,	United States	1,000,000	981,250

senior secured bond, first lien, 144A, 4.738%, 9/20/29			
[d] T-Mobile USA Inc.,			
senior bond, 6.50%, 1/15/24	United States	500,000	515,090
senior note, 4.00%, 4/15/22	United States	700,000	684,250
			6,890,784
Transportation 0.8%			
[d,f] Avolon Holdings Funding Ltd., senior note, 144A, 5.125%, 10/01/23	Ireland	1,000,000	960,800
[f] DAE Funding LLC,			
senior note, 144A, 4.00%, 8/01/20	United Arab Emirates	800,000	782,000
senior note, 144A, 4.50%, 8/01/22	United Arab Emirates	400,000	384,000
senior note, 144A, 5.75%, 11/15/23	United Arab Emirates	200,000	198,000
			2,324,800
Utilities 1.7%			
[d] Calpine Corp., senior note, 5.375%, 1/15/23	United States	1,500,000	1,410,000
Clearway Energy Operating LLC,			
[d] senior bond, 5.375%, 8/15/24	United States	500,000	473,750
[d] senior bond, 5.00%, 9/15/26	United States	1,000,000	902,500
[f] senior note, 144A, 5.75%, 10/15/25	United States	300,000	287,625

FRANKLIN LIMITED DURATION INCOME TRUST

STATEMENT OF INVESTMENTS

	Country	Principal Amount*	Value
Corporate Bonds (continued)			
Utilities (continued)			
[d] Ferrellgas Partners LP/Ferrellgas Partners Finance Corp., senior note, 8.625%, 6/15/20	United States	$ 500,000	$ 362,500
[f] InterGen NV, secured bond, 144A, 7.00%, 6/30/23	Netherlands	500,000	430,625
[d] Talen Energy Supply LLC, senior note, 6.50%, 6/01/25	United States	2,000,000	1,430,000
			5,297,000
Total Corporate Bonds (Cost $145,193,612)			135,585,904
[h,i] **Senior Floating Rate Interests 49.7%**			
Automobiles & Components 0.6%			
[j,k] Thor Industries Inc., Term Loan B, TBD, 10/30/25	United States	2,000,000	1,900,000
Capital Goods 4.1%			
AECOM, Term B Loans, 4.256%, (1-month USD LIBOR + 1.75%), 3/13/25	United States	2,155,148	2,061,539
Altra Industrial Motion Corp., Term Loan, 4.522%, (1-month USD LIBOR + 2.00%), 10/01/25	United States	1,049,320	1,004,724
Delos Finance S.A.R.L. (AerCap), New Loans, 4.553%, (3-month USD LIBOR + 1.75%), 10/06/23	Luxembourg	1,500,000	1,463,250
Doncasters U.S. Finance LLC, Term B Loans, 6.303%, (3-month USD LIBOR + 3.50%), 4/09/20	United States	1,398,780	1,247,246
Flying Fortress Holdings LLC (ILFC), New Loan, 4.553%, (3-month USD LIBOR + 1.75%), 10/30/22	United States	629,859	618,837
Harsco Corp., Term Loan B-2, 4.813%, (1-month USD LIBOR + 2.25%), 12/10/24	United States	2,426,435	2,387,005
Navistar Inc., Tranche B Term Loan, 5.89%, (1-month USD LIBOR + 3.50%), 11/06/24.	United States	3,132,260	3,022,631
Onsite Rental Group Operations Property Ltd., Term Loan, 7.006%, (1-month USD LIBOR + 4.50%), 10/25/22	Australia	696,716	689,748
			12,494,980
Commercial & Professional Services 1.1%			
Prime Security Services Borrower LLC, Term B-1 Loans, 5.272%, (1-month USD LIBOR + 2.75%), 5/02/22	United States	1,769,111	1,700,558
United Rentals North America Inc., Initial Term Loans, 4.272%, (1-month USD LIBOR + 1.75%), 10/30/25	United States	301,199	295,024
Ventia Pty. Ltd., Term B Loans (USD), 6.303%, (3-month USD LIBOR + 3.50%), 5/21/22	Australia	1,321,220	1,301,401
			3,296,983

Consumer Services 5.4%			
24 Hour Fitness Worldwide Inc., Term Loan, 6.022%, (1-month USD LIBOR + 3.50%), 5/30/25	United States	741,302	727,866
Aristocrat Technologies Inc., Term B-3 Loans, 4.219%, (3-month USD LIBOR + 1.75%), 10/19/24	United States	931,006	892,602
Avis Budget Car Rental LLC, Tranche B Term Loans, 4.53%, (1-month USD LIBOR + 2.00%), 2/13/25	United States	2,393,873	2,314,085
Caesars Resort Collection LLC, Term B Loans, 5.272%, (1-month USD LIBOR + 2.75%), 12/22/24	United States	1,729,411	1,660,235
Eldorado Resorts Inc., Initial Term Loan, 4.75%, (2-month USD LIBOR + 2.00%), 4/17/24	United States	1,909,919	1,828,747
Hilton Worldwide Finance LLC, Series B-2 Term Loans, 4.256%, (1-month USD LIBOR + 1.75%), 10/25/23	United States	1,571,895	1,521,367
KFC Holding Co./Pizza Hut Holdings LLC/Taco Bell of America LLC (Yum Brands), Term Loan B, 4.22%, (1-month USD LIBOR + 1.75%), 4/03/25	United States	1,703,770	1,662,880

FRANKLIN LIMITED DURATION INCOME TRUST

STATEMENT OF INVESTMENTS

	Country	Principal Amount*	Value
[h,i] **Senior Floating Rate Interests** (continued)			
Consumer Services (continued)			
Kingpin Intermediate Holdings LLC, Amendment No. 2 Term Loans, 6.02%, (1-month USD LIBOR + 3.50%), 7/03/24	United States	$ 1,995,000	$ 1,940,137
Las Vegas Sands LLC, Term B Loans, 4.272%, (1-month USD LIBOR + 1.75%), 3/27/25	United States	1,990,685	1,904,837
Sabre GLBL Inc., 2017 Other Term A Loans, 4.522%, (1-month USD LIBOR + 2.00%), 7/01/22	United States	915,255	907,246
Station Casinos LLC, Term B Facility Loans, 5.03%, (1-month USD LIBOR + 2.50%), 6/08/23	United States	996,492	959,836
			16,319,838
Diversified Financials 0.7%			
Asurion LLC, AM No. 14 Replacement B-4 Term Loans, 5.522%, (1-month USD LIBOR + 3.00%), 8/04/22	United States	1,829,540	1,762,762
Trans Union LLC, 2017 Replacement Term A-2 Loans, 4.272%, (1-month USD LIBOR + 1.75%), 8/09/22	United States	467,645	453,031
			2,215,793
Energy 0.6%			
Foresight Energy LLC, Term Loans, 8.277%, (3-month USD LIBOR + 5.75%), 3/28/22	United States	2,000,000	1,968,334
Food & Staples Retailing 0.2%			
U.S. Foods Inc., Initial Term Loans, 4.522%, (1-month USD LIBOR + 2.00%), 6/27/23	United States	570,611	552,922
Food, Beverage & Tobacco 2.2%			
CSM Bakery Supplies LLC, Term Loans, 6.41%, (3-month USD LIBOR + 4.00%), 7/03/20	United States	2,000,000	1,835,000
JBS USA Lux S.A.,			
New Initial Term Loans, 5.022%, (1-month USD LIBOR + 2.50%), 10/30/22	United States	434,521	419,448
New Initial Term Loans, 5.301%, (3-month USD LIBOR + 2.50%), 10/30/22	United States	2,534,639	2,446,718
Post Holdings Inc., Series A Incremental Term Loans, 4.51%, (1-month USD LIBOR + 2.00%), 5/24/24	United States	1,905,492	1,841,182
			6,542,348
Health Care Equipment & Services 3.6%			
Air Medical Group Holdings Inc., 2018 New Term Loans, 6.754%, (1-month USD LIBOR + 4.25%), 3/14/25	United States	1,994,962	1,862,796

Catalent Pharma Solutions Inc., Dollar Term Loan, 4.772%, (1-month USD LIBOR + 2.25%), 5/20/24	United States	1,374,326	1,338,250
DaVita Healthcare Partners Inc., Tranche B Term Loan, 5.272%, (1-month USD LIBOR + 2.75%), 6/24/21	United States	992,208	983,835
HCA Inc., Term Loan B11, 4.272%, (1-month USD LIBOR + 1.75%), 3/18/23	United States	1,542,345	1,509,570
IQVIA Inc.,			
Term B-1 Dollar Loans, 4.803%, (3-month USD LIBOR + 2.00%), 3/07/24	United States	898,405	873,698
Term B-3 Dollar Loans, 4.272%, (1-month USD LIBOR + 1.75%), 6/11/25	United States	696,500	675,170
Mallinckrodt International Finance SA/Mallinckrodt CB LLC, 2017 Term B Loans, 5.553%, (3-month USD LIBOR + 2.75%), 9/24/24	Luxembourg	1,699,340	1,563,393
U.S. Renal Care Inc., Initial Term Loan, 7.053%, (3-month USD LIBOR + 4.25%), 12/31/22	United States	2,158,757	2,062,693
			10,869,405

	Country	Principal Amount*	Value
[h,i] **Senior Floating Rate Interests** (continued)			
Household & Personal Products 0.8%			
Spectrum Brands, Inc.,			
USD Term Loans, 4.39% - 4.53%, (1-month USD LIBOR + 2.00%), 6/23/22	United States	$ 1,801,600	$ 1,759,938
USD Term Loans, 4.59%, (3-month USD LIBOR + 2.00%), 6/23/22	United States	582,072	568,612
			2,328,550
Materials 5.8%			
Ashland LLC, Term B Loan, 4.254% - 4.272%, (1-month USD LIBOR + 1.75%), 5/17/24	United States	2,019,985	1,973,697
Axalta Coating Systems U.S. Holdings Inc., Term B-3 Dollar Loan, 4.553%, (3-month USD LIBOR + 1.75%), 6/01/24	United States	2,537,005	2,398,523
Berry Global Inc., Term Q Loan, 4.387%, (1-month USD LIBOR + 2.00%), 10/01/22	United States	1,090,516	1,063,935
Caraustar Industries Inc., Refinancing Term Loans, 8.303%, (3-month USD LIBOR + 5.50%), 3/14/22	United States	1,994,924	1,984,590
Chemours Co., Tranche B-2 US$ Term Loan, 4.28%, (1-month USD LIBOR + 1.75%), 4/03/25	United States	1,060,971	1,021,184
Crown Americas LLC, Dollar Term B Loan, 4.479%, (1-month USD LIBOR + 2.00%), 4/03/25	United States	2,440,420	2,430,761
Ineos U.S. Finance LLC, 2024 Dollar Term Loan, 4.522%, (1-month USD LIBOR + 2.00%), 3/31/24	United States	1,469,689	1,402,021
Oxbow Carbon LLC, Tranche B Term Loan, 6.022%, (1-month USD LIBOR + 3.50%), 1/04/23	United States	2,052,000	2,016,090
Univar USA Inc., Term B-3 Loans, 4.772%, (1-month USD LIBOR + 2.25%), 7/01/24	United States	744,444	713,363
W.R. Grace & Co.,			
Term B-1 Loans, 4.553%, (3-month USD LIBOR + 1.75%), 4/03/25	United States	1,057,270	1,027,755
Term B-2 Loans, 4.553%, (3-month USD LIBOR + 1.75%), 4/03/25	United States	1,812,464	1,761,865
			17,793,784
Media & Entertainment 7.5%			
AMC Entertainment Holdings Inc.,	United States	590,954	570,640
2016 Incremental Term Loans, 4.705%, (1-month USD LIBOR + 2.25%), 12/15/23			
Initial Term Loans, 4.705%, (1-month USD LIBOR + 2.25%), 12/15/22	United States	2,921,257	2,822,664
	United States	1,989,770	1,900,230

Ancestry.com Operations Inc., Term Loans, 5.78%, (1-month USD LIBOR + 3.25%), 10/19/23			
Charter Communications Operating LLC, Term B Loan, 4.53%, (1-month USD LIBOR + 2.00%), 4/30/25	United States	992,481	954,648
CSC Holdings LLC, March 2017 Incremental Term Loans, 4.705%, (1-month USD LIBOR + 2.25%), 7/17/25	United States	2,566,567	2,425,406
Go Daddy Operating Co. LLC, Tranche B-1 Term Loans, 4.772%, (1-month USD LIBOR + 2.25%), 2/15/24	United States	2,079,187	1,991,861
Gray Television Inc., Term B-2 Loan, 4.599%, (1-month USD LIBOR + 2.25%), 2/07/24	United States	2,568,789	2,478,881
Lions Gate Capital Holdings LLC, Term A Loan, 4.272%, (1-month USD LIBOR + 1.75%), 3/22/23	Canada	1,427,059	1,391,382
Live Nation Entertainment Inc., Term B-3 Loans, 4.313%, (1-month USD LIBOR + 1.75%), 10/31/23	United States	2,809,394	2,754,963
MCC Iowa LLC (Mediacom Broadband), Tranche M Term Loan, 4.42%, (1-week USD LIBOR + 2.00%), 1/25/25	United States	1,727,216	1,665,325
Mediacom Illinois LLC, Tranche N Term Loan, 4.17%, (1-week USD LIBOR + 1.75%), 2/15/24	United States	1,335,804	1,272,353

FRANKLIN LIMITED DURATION INCOME TRUST

STATEMENT OF INVESTMENTS

	Country	Principal Amount*	Value
[h,i] **Senior Floating Rate Interests** (continued)			
Media & Entertainment (continued)			
Mission Broadcasting Inc., Term B-3 Loan, 4.756%, (1-month USD LIBOR + 2.25%), 1/17/24	United States	$ 112,910	$ 107,076
Nexstar Broadcasting Inc., Term B-3 Loan, 4.756%, (1-month USD LIBOR + 2.25%), 7/17/24	United States	651,478	617,818
Sinclair Television Group Inc., Tranche B Term Loans, 4.78%, (1-month USD LIBOR + 2.25%), 1/03/24	United States	1,965,929	1,879,919
			22,833,166
Pharmaceuticals, Biotechnology & Life Sciences 2.5%			
Bausch Health Cos. Inc., Initial Term Loans, 5.379%, (1-month USD LIBOR + 3.00%), 6/02/25	United States	634,232	608,862
Endo Luxembourg Finance Co. I S.A.R.L. and Endo LLC, Initial Term Loans, 6.813%, (1-month USD LIBOR + 4.25%), 4/29/24	United States	1,970,000	1,861,650
Grifols Worldwide Operations USA Inc., Tranche B Term Loan, 4.669%, (1-week USD LIBOR + 2.25%), 1/31/25	United States	1,718,770	1,653,395
Horizon Pharma Inc., Fourth Amendment Refinancing Term Loans, 5.563%, (1-month USD LIBOR + 3.00%), 3/29/24	United States	2,063,142	1,978,898
Innoviva Inc., Initial Term Loan, 7.146%, (3-month USD LIBOR + 4.50%), 8/18/22	United States	110,000	109,807
Syneos Health Inc., Initial Term B Loans, 4.522%, (1-month USD LIBOR + 2.00%), 8/01/24	United States	1,433,559	1,389,062
			7,601,674
Retailing 3.8%			
Ascena Retail Group Inc., Tranche B Term Loan, 7.063%, (1-month USD LIBOR + 4.50%), 8/21/22	United States	3,174,836	2,962,804
General Nutrition Centers Inc., FILO Term Loan (ABL), 9.53%, (1-month USD LIBOR + 7.00%), 12/31/22	United States	3,000,000	2,982,495
Harbor Freight Tools USA Inc., Refinancing Loans, 5.022%, (1-month USD LIBOR + 2.50%), 8/19/23	United States	1,963,134	1,859,251
Jo-Ann Stores Inc., Initial Loans, 7.477%, (3-month USD LIBOR + 5.00%), 10/23/23	United States	1,994,816	1,895,076
Michaels Stores Inc., 2018 New Replacement Term B Loan, 4.97% - 5.022%, (1-month USD LIBOR + 2.50%), 1/28/23	United States	2,009,900	1,931,178

			11,630,804
Semiconductors & Semiconductor Equipment 0.7%			
ON Semiconductor Corp., 2018 New Replacement Term B-3 Loans, 4.272%, (1-month USD LIBOR + 1.75%), 3/31/23	United States	2,322,870	2,248,102
Software & Services 3.3%			
Iron Mountain Information Management LLC, Term B Loan, 4.272%, (1-month USD LIBOR + 1.75%), 1/26/26	United States	1,669,874	1,594,730
LegalZoom.com Inc., 2018 Term Loans, 7.004%, (1-month USD LIBOR + 4.50%), 11/21/24	United States	2,000,000	1,970,000
Rackspace Hosting Inc., Term B Loans, 5.582%, (3-month USD LIBOR + 3.00%), 11/03/23	United States	2,011,092	1,784,341
SS&C Technologies Inc., Term B-5 Loan, 4.772%, (1-month USD LIBOR + 2.25%), 4/16/25	United States	997,485	946,053
TIBCO Software Inc., Term B-1 Loans, 6.01%, (1-month USD LIBOR + 3.50%), 12/04/20	United States	1,994,911	1,957,506
Wex Inc., Term B-2 Loan, 4.772%, (1-month USD LIBOR + 2.25%), 7/01/23	United States	1,935,375	1,868,605
			10,121,235

FRANKLIN LIMITED DURATION INCOME TRUST

STATEMENT OF INVESTMENTS

	Country	Principal Amount*	Value
[h,i] **Senior Floating Rate Interests** (continued)			
Technology Hardware & Equipment 1.4%			
Ciena Corp., 2018 Term Loan, 4.47%, (1-month USD LIBOR + 2.00%), 9/28/25	United States	$ 2,066,666	$ 1,978,833
CommScope Inc., Tranche 5 Term Loans, 4.522%, (1-month USD LIBOR + 2.00%), 12/29/22	United States	950,080	902,576
Western Digital Corp., US Term B-4 Loan, 4.256%, (1-month USD LIBOR + 1.75%), 4/29/23	United States	1,412,110	1,352,095
			4,233,504
Telecommunication Services 0.6%			
Global Tel*Link Corp., First Lien Term Loan, 6.956%, (3-month USD LIBOR + 4.25%), 11/29/25	United States	2,000,000	1,950,000
Transportation 3.0%			
Air Canada, Term Loan, 4.522%, (1-month USD LIBOR + 2.00%), 10/06/23	Canada	2,250,269	2,227,766
American Airlines Inc., 2017 Replacement Term Laons, 4.387%, (1-month USD LIBOR + 2.00%), 10/10/21	United States	672,076	655,135
Hertz Corp., Tranche B-1 Term Loan, 5.28%, (1-month USD LIBOR + 2.75%), 6/30/23	United States	2,932,501	2,832,796
Navios Maritime Partners LP, Initial Term Loan, 7.78%, (3-month USD LIBOR + 5.00%), 9/14/20	United States	1,479,730	1,457,072
XO Management Holding Inc., Initial Term Loan, 8.49%, (3-month USD LIBOR + 6.75%), 12/06/21	United Arab Emirates	2,000,000	1,860,000
			9,032,769
Utilities 1.8%			
EFS Cogen Holdings I LLC (Linden),			
Term B Advance, 5.78%, (1-month USD LIBOR + 3.25%), 6/28/23	United States	583,776	571,079
Term B Advance, 6.06%, (3-month USD LIBOR + 3.25%), 6/28/23	United States	1,684,526	1,647,887
NRG Energy Inc., Term Loan B, 4.272%, (1-month USD LIBOR + 1.75%), 6/30/23	United States	3,397,214	3,277,839
			5,496,805
Total Senior Floating Rate Interests (Cost $156,962,814)			151,430,996
[l] **Marketplace Loans (Cost $3,626,184) 1.2%**			

Diversified Financials 1.2%			
[b] Lending Club, 8.46% - 26.31%, 10/31/21 - 12/31/23	United States	3,626,184	3,609,189
Asset-Backed Securities and Commercial Mortgage-Backed Securities 3.9%			
Banks 2.1%			
Citigroup Commercial Mortgage Trust,	United States	168,123	161,517
2006-C5, AJ, 5.482%, 10/15/49			
2015-GC27, A5, 3.137%, 2/10/48	United States	1,520,000	1,496,645
[m] Commercial Mortgage Trust, 2006-GG7, AJ, FRN, 5.692%, 7/10/38	United States	865,000	796,969
CSAIL Commercial Mortgage Trust, 2015-C1, A4, 3.505%, 4/15/50	United States	1,410,000	1,416,029
JPMBB Commercial Mortgage Securities Trust, 2015-C28, A4, 3.227%, 10/15/48	United States	1,410,000	1,392,207
[n] Merrill Lynch Mortgage Investors Trust,	United States	33,301	6,377
[o] 2003-OPT1, B2, FRN, 6.631%, (1-month USD LIBOR + 4.125%), 7/25/34			
2005-A6, 2A3, FRN, 2.886%, (1-month USD LIBOR + 0.38%), 8/25/35	United States	157,673	157,426
[n] Morgan Stanley ABS Capital I Inc. Trust, 2003-NC10, B1, FRN, 7.456%, (1-month USD LIBOR + 4.95%), 10/25/33	United States	350,442	377,189
Wells Fargo Commercial Mortgage Trust, 2014-LC16, A4, 3.548%, 8/15/50	United States	550,000	554,379
			6,358,738

FRANKLIN LIMITED DURATION INCOME TRUST

STATEMENT OF INVESTMENTS

	Country	Principal Amount*	Value
Asset-Backed Securities and Commercial Mortgage-Backed Securities (continued)			
Diversified Financials 1.8%			
[n] Argent Securities Inc., 2003-W5, M4, FRN, 7.94%, (1-month USD LIBOR + 5.625%), 10/25/33	United States	$ 93,151	$ 101,295
[f,m] BCAP LLC Trust, 2009-RR1, 2A2, 144A, FRN, 4.506%, 5/26/35	United States	1,173,206	1,151,099
[f,m] Consumer Loan Underlying Bond (CLUB) Certificate Issuer Trust I, 2018-29, PT, 144A, FRN, 33.20%, 12/15/43	United States	593,192	501,324
[n] FHLMC Structured Agency Credit Risk Debt Notes,			
2014-DN1, M2, FRN, 4.706%, (1-month USD LIBOR + 2.20%), 2/25/24	United States	1,449,336	1,476,619
2014-HQ2, M2, FRN, 4.706%, (1-month USD LIBOR + 2.20%), 9/25/24	United States	612,558	625,663
2015-HQ1, M2, FRN, 4.706%, (1-month USD LIBOR + 2.20%), 3/25/25	United States	29,133	29,185
[n] MortgageIT Trust, 2004-1, A2, FRN, 3.406%, (1-month USD LIBOR + 0.90%), 11/25/34	United States	242,628	237,597
[n] Opteum Mortgage Acceptance Corp. Trust, 2005-4, 1APT, FRN, 2.816%, (1-month USD LIBOR + 0.31%), 11/25/35	United States	278,760	275,987
[n] Option One Mortgage Loan Trust, 2003-6, M5, FRN, 7.456%, (1-month USD LIBOR + 4.95%), 11/25/33	United States	92,324	81,888
[n] Structured Asset Investment Loan Trust, 2003-BC2, M3, FRN, 7.381%, (1-month USD LIBOR + 4.875%), 4/25/33	United States	13,987	13,461
[n] Structured Asset Securities Corp., 2005-2XS, 2A2, FRN, 3.849%, (1-month USD LIBOR + 1.50%), 2/25/35	United States	234,476	229,911
[m] Thornburg Mortgage Securities Trust, 2005-1, A3, FRN, 3.718%, 4/25/45	United States	494,381	498,109
Wells Fargo Mortgage Backed Securities Trust,			
[m] 2004-W, A9, FRN, 4.848%, 11/25/34	United States	144,984	148,906
2007-3, 3A1, 5.50%, 4/25/22	United States	39,874	40,356
			5,411,400
Total Asset-Backed Securities and Commercial Mortgage-Backed Securities (Cost $11,943,534)			11,770,138

Mortgage-Backed Securities 35.4%			
[p] **Federal Home Loan Mortgage Corp. (FHLMC) Adjustable Rate 0.0%**			
[d] FHLMC, 4.577%, (12-month USD LIBOR +/- MBS Margin), 5/01/34	United States	84,355	88,212
Federal Home Loan Mortgage Corp. (FHLMC) Fixed Rate 19.3%			
[d] FHLMC Gold 15 Year, 5.00%, 12/01/23	United States	330,114	342,719
[d] FHLMC Gold 15 Year, 5.50%, 7/01/19	United States	1,394	1,399
[d] FHLMC Gold 30 Year, 3.50%, 3/01/45	United States	40,862	41,024
[d] FHLMC Gold 30 Year, 3.50%, 10/01/47	United States	5,533,049	5,536,348
FHLMC Gold 30 Year, 3.50%, 11/01/48	United States	1,788,274	1,788,788
FHLMC Gold 30 Year, 3.50%, 11/01/48	United States	14,505,291	14,502,718
FHLMC Gold 30 Year, 4.00%, 4/01/48	United States	4,362,445	4,450,897
[d] FHLMC Gold 30 Year, 4.00%, 5/01/48	United States	11,042,552	11,264,856
FHLMC Gold 30 Year, 4.00%, 11/01/48	United States	3,274,218	3,340,108
FHLMC Gold 30 Year, 4.00%, 12/01/48	United States	5,978,983	6,096,233
[q] FHLMC Gold 30 Year, 4.00%, 12/01/48	United States	10,202,000	10,401,016
[d] FHLMC Gold 30 Year, 6.00%, 7/01/28 - 11/01/36	United States	470,172	512,047
[d] FHLMC Gold 30 Year, 6.50%, 8/01/27 - 3/01/38	United States	239,180	260,609
[d] FHLMC Gold 30 Year, 7.00%, 9/01/27	United States	66,871	70,886
[d] FHLMC Gold 30 Year, 8.00%, 1/01/31	United States	7,640	7,729
[d] FHLMC Gold 30 Year, 8.50%, 7/01/31	United States	219,180	252,066
			58,869,443

FRANKLIN LIMITED DURATION INCOME TRUST

STATEMENT OF INVESTMENTS

	Country	Principal Amount*	Value
Mortgage-Backed Securities (continued)			
[p] **Federal National Mortgage Association (FNMA) Adjustable Rate 0.1%**			
[d] FNMA, 4.165% - 4.32%, (6-month USD LIBOR +/- MBS Margin), 6/01/32 - 7/01/34	United States	$ 246,089	$ 254,723
Federal National Mortgage Association (FNMA) Fixed Rate 12.1%			
[d] FNMA 15 Year, 3.00%, 8/01/27	United States	8,116	8,145
[d] FNMA 15 Year, 3.50%, 1/01/21 - 1/01/26	United States	29,211	29,582
[d] FNMA 15 Year, 5.50%, 7/01/20	United States	32,564	32,744
[d] FNMA 15 Year, 6.50%, 7/01/20	United States	13	13
[d] FNMA 30 Year, 3.50%, 11/01/47	United States	2,429,938	2,432,140
FNMA 30 Year, 3.50%, 3/01/48	United States	4,524,558	4,527,714
[d] FNMA 30 Year, 3.50%, 4/01/48	United States	2,184,733	2,186,277
FNMA 30 Year, 3.50%, 10/01/48	United States	1,552,179	1,553,312
[d] FNMA 30 Year, 3.50%, 1/01/45 - 7/01/56	United States	2,032,065	2,035,144
[d] FNMA 30 Year, 4.00%, 11/01/44 - 1/01/45	United States	916,174	936,391
FNMA 30 Year, 4.00%, 1/01/48	United States	2,012,686	2,054,993
FNMA 30 Year, 4.00%, 4/01/48	United States	3,792,348	3,882,763
FNMA 30 Year, 4.00%, 9/01/48	United States	5,491,954	5,603,933
FNMA 30 Year, 4.00%, 10/01/48	United States	2,180,658	2,225,121
[q] FNMA 30 Year, 4.00%, 12/01/48	United States	7,525,000	7,673,891
[d] FNMA 30 Year, 4.50%, 5/01/24 - 3/01/44	United States	51,427	53,439
[d] FNMA 30 Year, 5.00%, 5/01/38 - 7/01/39	United States	366,762	389,258
[d] FNMA 30 Year, 5.50%, 6/01/37	United States	297,440	320,330
[d] FNMA 30 Year, 6.00%, 4/01/33 - 6/01/38	United States	716,985	782,007
[d] FNMA 30 Year, 6.50%, 8/01/32	United States	104,203	117,393
[d] FNMA 30 Year, 8.00%, 10/01/29	United States	5,786	5,788
			36,850,378
Government National Mortgage Association (GNMA) Fixed Rate 3.9%			
GNMA I SF 30 Year, 4.50%, 9/20/48	United States	4,469,572	4,630,411
[d] GNMA I SF 30 Year, 6.50%, 6/15/31 - 12/15/33	United States	338,400	366,892
GNMA II SF 30 Year, 4.50%, 10/20/48	United States	1,110,691	1,150,576
[q] GNMA II SF 30 Year, 4.50%, 12/01/48	United States	5,526,000	5,719,029
[d] GNMA II SF 30 Year, 7.00%, 1/20/24 - 1/20/29	United States	32,027	35,071
[d] GNMA II SF 30 Year, 8.00%, 1/20/28 - 10/20/31	United States	91,298	106,841
			12,008,820
Total Mortgage-Backed Securities (Cost $107,582,114)			108,071,576

		Shares	
Escrows and Litigation Trusts 0.0%			
[a,b] Midstates Petroleum Co. Inc./Midstates Petroleum Co. LLC, Litigation Trust	United States	800,000	
[a,b] NewPage Corp., Litigation Trust	United States	1,500,000	
[a,b] T-Mobile USA Inc., Litigation Trust	United States	1,200,000	
[a] Vistra Energy Corp., Litigation Trust	United States	2,000,000	6,000
Total Escrows and Litigation Trusts (Cost $58,482)			6,000
Total Investments before Short Term Investments (Cost $432,871,211)			412,917,926

FRANKLIN LIMITED DURATION INCOME TRUST

STATEMENT OF INVESTMENTS

	Country	Shares	Value
Short Term Investments (Cost $5,086,661) 1.6%			
Money Market Funds 1.6%			
[r,s] Institutional Fiduciary Trust Money Market Portfolio, 1.99%	United States	5,086,661	$ 5,086,661
Total Investments (Cost $437,957,872) 137.1%			418,004,587
Credit Facility (29.5)%			(90,000,000)
Other Assets, less Liabilities (7.6)%			(23,200,503)
Net Assets 100.0%			$304,804,084

Rounds to less than 0.1% of net assets.

*The principal amount is stated in U.S. dollars unless otherwise indicated.

[a]Non-income producing.

[b]Fair valued using significant unobservable inputs. See Note 12 regarding fair value measurements.

[c]See Note 10 regarding restricted securities.

[d]A portion or all of the security is pledged as collateral in connection with the Fund s revolving credit facility. See Note 3.

[e]Perpetual security with no stated maturity date.

[f]Security was purchased pursuant to Rule 144A under the Securities Act of 1933 and may be sold in transactions exempt from registration only to qualified institutional buyers or in a public offering registered under the Securities Act of 1933. These securities have been deemed liquid under guidelines approved by the Trust s Board of Trustees. At December 31, 2018, the aggregate value of these securities was $85,250,062, representing 28.0% of net assets.

[g]Income may be received in additional securities and/or cash.

[h]The coupon rate shown represents the rate at period end.

[i]See Note 1(f) regarding senior floating rate interests.

[j]Security purchased on a delayed delivery basis. See Note 1(c).

[k]A portion or all of the security represents an unsettled loan commitment. The coupon rate is to-be determined (TBD) at the time of settlement and will be based upon a reference index/floor plus a spread.

[l]See Note 1(g) regarding Marketplace Lending.

[m]Adjustable rate security with an interest rate that is not based on a published reference index and spread. The rate is based on the structure of the agreement and current market conditions. The coupon rate shown represents the rate at period end.

[n]The coupon rate shown represents the rate inclusive of any caps or floors, if applicable, in effect at period end.

[o]The bond pays interest and/or principal based upon the issuer s ability to pay, which may be less than the stated interest rate or principal paydown.

[p]Adjustable Rate Mortgage-Backed Security (ARM); the rate shown is the effective rate at period end. ARM rates are not based on a published reference rate and spread, but instead pass-through weighted average interest income inclusive of any caps or floors, if applicable, from the underlying mortgage loans in which the majority of mortgages pay interest based on the index shown at their designated reset dates plus a spread, less the applicable servicing and guaranty fee (MBS margin).

[q]Security purchased on a to-be-announced (TBA) basis. See Note 1(c).

[r]See Note 5(c) regarding investments in affiliated management investment companies.

[s]The rate shown is the annualized seven-day effective yield at period end.

At December 31, 2018, the Fund had the following total return swap contracts outstanding. See Note 1(d).

Total Return Swap Contracts

Underlying Instruments	Financing Rate	Payment Frequency	Counterparty	Maturity Date	Notional Value	Value/ Unrealized Appreciation (Depreciation)
OTC Swap Contracts						
Long[a]						
iBoxx USD Liquid High Yield Index	3-month USD LIBOR	Quarterly	GSCO	3/20/19	$8,000,000	$(122,103)

[a]The Fund receives the total return on the underlying instrument and pays a variable financing rate.

See Note 11 regarding other derivative information.

See Abbreviations on page 39.

FRANKLIN LIMITED DURATION INCOME TRUST

Financial Statements

Statement of Assets and Liabilities

December 31, 2018

Assets:	
Investments in securities:	
Cost - Unaffiliated issuers	$432,871,211
Cost - Non-controlled affiliates (Note 5c)	5,086,661
Value - Unaffiliated issuers	$412,917,926
Value - Non-controlled affiliates (Note 5c)	5,086,661
Cash	2,024,730
Receivables:	
Investment securities sold	1,034,914
Interest.	2,743,016
Deposits with brokers for:	
OTC derivative contracts	160,000
Total assets	423,967,247
Liabilities:	
Payables:	
Investment securities purchased	25,973,877
Credit facility	90,000,000
Management fees	237,446
Distributions to common shareholders	2,637,148
Unrealized depreciation on OTC swap contracts	122,103
Accrued expenses and other liabilities	192,589
Total liabilities	119,163,163
Net assets applicable to common shares	$304,804,084
Net assets applicable to common shares consist of:	
Paid-in capital	$345,763,540
Total distributable earnings (loss)	(40,959,456)
Net assets applicable to common shares	$304,804,084
Common shares outstanding	30,138,835
Net asset value per common share	$10.11

Statement of Operations

for the year ended December 31, 2018

Investment income:	
Dividends:	
Unaffiliated issuers	$ 75,028
Non-controlled affiliates (Note 5c)	212,886
Interest:	
Unaffiliated issuers	18,173,315
Total investment income	18,461,229
Expenses:	
Management fees (Note 5a)	2,903,851
Interest expense (Note 3)	1,155,857
Transfer agent fees	137,688
Custodian fees (Note 6)	6,039
Reports to shareholders	42,112
Registration and filing fees	68,214
Professional fees	351,860
Trustees fees and expenses	16,353
Auction agent fees and expenses	30,628
Loan service fees (Note 1g)	2,615
Other	56,101
Total expenses	4,771,318
Expense reductions (Note 6)	(3,276)
Expenses waived/paid by affiliates (Note 5c)	(48,930)
Net expenses	4,719,112
Net investment income	13,742,117
Realized and unrealized gains (losses):	
Net realized gain (loss) from:	
Investments:	
Unaffiliated issuers	(4,218,096)
Foreign currency transactions	29

Swap contracts.	(6,753)
Net realized gain (loss)	(4,224,820)
Net change in unrealized appreciation (depreciation) on:	
Investments:	
Unaffiliated issuers	(16,909,444)
Translation of other assets and liabilities denominated in foreign currencies	(86)
Swap contracts.	(122,103)
Net change in unrealized appreciation (depreciation)	(17,031,633)
Net realized and unrealized gain (loss)	(21,256,453)
Net increase (decrease) in net assets resulting from operations	$ (7,514,336)
Distributions to preferred shareholders from net investment income	(1,923,424)
Net increase (decrease) in net assets applicable to common shares resulting from operations	$ (9,437,760)

FRANKLIN LIMITED DURATION INCOME TRUST

FINANCIAL STATEMENTS

Statements of Changes in Net Assets

	Year Ended December 31,		Year Ended
	2018	**2017[a]**	**March 31, 2017**
Increase (decrease) in net assets:			
Operations:			
Net investment income	$ 13,742,117	$ 10,922,959	$16,513,971
Net realized gain (loss)	(4,224,820)	568,166	(8,867,745)
Net change in unrealized appreciation (depreciation)	(17,031,633)	(1,349,314)	32,077,052
Distributions to preferred shareholders from net investment income	(1,923,424)	(1,855,476)	(1,856,851)
Net increase (decrease) in net assets applicable to common shares resulting from operations	(9,437,760)	8,286,335	37,866,427
Distributions to common shareholders (Note 1i)	(12,216,777)	(9,620,860)	(15,071,636)
Distributions to common shareholders from tax return of capital	(16,302,096)	(12,051,976)	(9,335,223)
Total distributions to common shareholders	(28,518,873)	(21,672,836)	(24,406,859)
Capital share transactions: (Note 2)			
Repurchase of shares.			(53,715,818)
Proceeds from issuance of shares in connection with excercising a rights offering	64,271,944		
Net increase (decrease) in net assets	26,315,311	(13,386,501)	(40,256,250)
Net assets applicable to common shares:			
Beginning of year	278,488,773	291,875,274	332,131,524
End of year (Note 1i)	$304,804,084	$278,488,773	$291,875,274

[a]For the period April 1, 2017 to December 31, 2017.

Statement of Cash Flows

for the year ended December 31, 2018

Cash flow from operating activities:	
Dividends, interest and other income received	$ 17,970,154
Operating expenses paid	(3,584,348)
Interest expense paid	(1,155,857)
Purchases of long-term investments	(861,088,748)
Sales and maturities of long-term investments	807,733,058
Net sales of short-term investments	7,636,053
Cash used - operating activities	(32,489,688)
Cash flow from financing activities:	
Preferred dividends paid	(1,923,424)
Liquidation of preferred shares	(90,000,000)
Proceeds from Credit Facility	90,000,000
Net proceeds from shares issued	64,271,944
Cash distributions to shareholders	(28,304,263)
Cash provided - financing activities	34,044,257
Net increase (decrease) in cash	1,554,569
Cash at beginning of year	630,161
Cash at end of year	$ 2,184,730[a]

Reconciliation of Net Increase (Decrease) in Net Assets resulting from Operating Activities to Net Cash Provided by Operating Activities

for the year ended December 31, 2018

Net increase (decrease) in net assets resulting from operating activities	$ (7,514,336)
Adjustments to reconcile net increase (decrease) in net assets resulting from operating activities to net cash provided by operating activities:	
Net amortization income	(87,086)
Reinvested dividends from non-controlled affiliates	(212,886)

Increase in dividends and interest receivable and other assets	181,914
Decrease in accrued expenses and other liabilities	(21,093)
Decrease in payable for investments purchased	(40,268,585)
Decrease in receivable for investments sold	(942,408)
Decrease in cost of investments	(470,318)
Increase in unrealized appreciation on investments	16,909,530
Decrease in other assets	(186,523)
Increase in appreciation on swap contracts	122,103
Net cash used in operating activities	$ (32,489,688)

[a]Includes cash held of $160,000 as Deposits with brokers for OTC derivative contracts on the Statement of Assets and Liabilities.

FRANKLIN LIMITED DURATION INCOME TRUST

Notes to Financial Statements

1. Organization and Significant Accounting Policies

Franklin Limited Duration Income Trust (Fund) is registered under the Investment Company Act of 1940 (1940 Act) as a closed-end management investment company and applies the specialized accounting and reporting guidance in U.S. Generally Accepted Accounting Principles (U.S. GAAP).

Subsequent to March 31, 2017, the Fund s fiscal year end changed to December 31.

The following summarizes the Fund s significant accounting policies.

a. Financial Instrument Valuation

The Fund s investments in financial instruments are carried at fair value daily. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. The Fund calculates the net asset value (NAV) per share each business day as of 4 p.m. Eastern time or the regularly scheduled close of the New York Stock Exchange (NYSE), whichever is earlier. Under compliance policies and procedures approved by the Fund s Board of Trustees (the Board), the Fund s administrator has responsibility for oversight of valuation, including leading the cross-functional Valuation Committee (VC). The Fund may utilize independent pricing services, quotations from securities and financial instrument dealers, and other market sources to determine fair value.

Equity securities listed on an exchange or on the NASDAQ National Market System are valued at the last quoted sale price or the official closing price of the day, respectively. Foreign equity securities are valued as of the close of trading on the foreign stock exchange on which the security is primarily traded, or as of 4 p.m. Eastern time. The value is then converted into its U.S. dollar equivalent at the foreign exchange rate in effect at 4 p.m. Eastern time on the day that the value of the security is determined. Over-the-counter (OTC) securities are valued within the range of the most recent quoted bid and ask prices. Securities that trade in multiple markets or on multiple exchanges are valued according to the broadest and most representative market. Certain equity securities are valued based upon fundamental characteristics or relationships to similar securities.

Debt securities generally trade in the OTC market rather than on a securities exchange. The Fund s pricing services use multiple valuation techniques to determine fair value. In instances where sufficient market activity exists, the pricing services may utilize a market-based approach through which quotes from market makers are used to determine fair value. In instances where sufficient market activity may not exist or is limited, the pricing services also utilize proprietary valuation models which may consider market characteristics such as benchmark yield curves, credit spreads, estimated default rates, anticipated market interest rate volatility, coupon rates, anticipated timing of principal repayments, underlying collateral, and other unique security features in order to estimate the relevant cash flows, which are then discounted to calculate the fair value. Securities denominated in a foreign currency are converted into their U.S. dollar equivalent at the foreign exchange rate in effect at 4 p.m. Eastern time on the date that the values of the foreign debt securities are determined.

Investments in open-end mutual funds are valued at the closing NAV.

Certain derivative financial instruments trade in the OTC market. The Fund s pricing services use various techniques including industry standard option pricing models and proprietary discounted cash flow models to determine the fair value of those instruments. The Fund s net benefit or obligation under the derivative contract, as measured by the fair value of the contract, is included in net assets.

The Fund has procedures to determine the fair value of financial instruments for which market prices are not reliable or readily available. Under these procedures, the Fund primarily employs a market-based approach which may use related or comparable assets or liabilities, recent transactions, market multiples, book values, and other relevant information for the investment to determine the fair value of the investment. An income-based valuation approach may also be used in which the anticipated future cash flows of the investment are discounted to calculate fair value. Discounts may also be applied due to the nature or duration of any restrictions on the disposition of the investments. Due to the inherent uncertainty of valuations of such investments, the fair values may differ significantly from the values that would have been used had an active market existed.

Trading in securities on foreign securities stock exchanges and OTC markets may be completed before 4 p.m. Eastern time. In addition, trading in certain foreign markets may not take place on every Fund s business day. Occasionally, events occur between the time at which trading in a foreign security is completed and 4 p.m. Eastern time that might call into question the reliability of the value of a portfolio security held by the Fund. As a result, differences may arise between the value of the Fund s portfolio securities as determined at the foreign market close and the latest indications of value at 4 p.m. Eastern time. In order to minimize the potential for these differences, the VC monitors price movements following the close of trading in foreign stock markets through a series of country specific market proxies (such as baskets of American Depositary Receipts, futures contracts and exchange traded funds). These price movements are measured against established trigger thresholds for each specific market proxy to assist in determining if an event has occurred that may call into question the reliability of the values of the foreign securities held by the Fund. If such an event occurs, the securities may be valued using fair value procedures, which may include the use of independent pricing services.

When the last day of the reporting period is a non-business day, certain foreign markets may be open on those days that the Fund s NAV is not calculated, which could result in differences between the value of the Fund s portfolio securities on the last business day and the last calendar day of the reporting period. Any significant security valuation changes due to an open foreign market are adjusted and reflected by the Fund for financial reporting purposes.

b. Foreign Currency Translation

Portfolio securities and other assets and liabilities denominated in foreign currencies are translated into U.S. dollars based on the exchange rate of such currencies against U.S. dollars on the date of valuation. The Fund may enter into foreign currency exchange contracts to facilitate transactions denominated in a foreign currency. Purchases and sales of securities, income and expense items denominated in foreign currencies are translated into U.S. dollars at the exchange rate in effect on the transaction date. Portfolio securities and assets and liabilities denominated in foreign currencies contain risks that those currencies will decline in value relative to the U.S. dollar. Occasionally, events may impact the availability or reliability of foreign exchange

rates used to convert the U.S. dollar equivalent value. If such an event occurs, the foreign exchange rate will be valued at fair value using procedures established and approved by the Board.

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

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

c. Securities Purchased on a Delayed Delivery and TBA Basis

The Fund purchases securities on a delayed delivery and to-be-announced (TBA) basis, with payment and delivery scheduled for a future date. These transactions are subject to market fluctuations and are subject to the risk that the value at delivery may be more or less than the trade date purchase price. Although the Fund will generally purchase these securities with the intention of holding the securities, it may sell the securities before the settlement date. Sufficient assets have been segregated for these securities and collateral has been pledged and/or received for open TBA trades.

d. Derivative Financial Instruments

The Fund invested in derivative financial instruments in order to manage risk or gain exposure to various other investments or markets. Derivatives are financial contracts based on an underlying or notional amount, require no initial investment or an initial net investment that is smaller than would normally be required to have a similar response to changes in market factors, and require or permit net settlement. Derivatives contain various risks including the potential inability of the counterparty to fulfill their obligations under the terms of the contract, the potential for an illiquid secondary market, and/or the potential for market movements which expose the Fund to gains or losses in excess of the amounts shown in the Statement of Assets and

FRANKLIN LIMITED DURATION INCOME TRUST

NOTES TO FINANCIAL STATEMENTS

1. Organization and Significant Accounting Policies (continued)

d. Derivative Financial Instruments *(continued)*

Liabilities. Realized gain and loss and unrealized appreciation and depreciation on these contracts for the period are included in the Statement of Operations.

Derivative counterparty credit risk is managed through a formal evaluation of the creditworthiness of all potential counterparties. The Fund attempts to reduce its exposure to counterparty credit risk on OTC derivatives, whenever possible, by entering into International Swaps and Derivatives Association (ISDA) master agreements with certain counterparties. These agreements contain various provisions, including but not limited to collateral requirements, events of default, or early termination. Termination events applicable to the counterparty include certain deteriorations in the credit quality of the counterparty. Termination events applicable to the Fund include failure of the Fund to maintain certain net asset levels and/or limit the decline in net assets over various periods of time. In the event of default or early termination, the ISDA master agreement gives the non-defaulting party the right to net and close-out all transactions traded, whether or not arising under the ISDA agreement, to one net amount payable by one counterparty to the other. However, absent an event of default or early termination, OTC derivative assets and liabilities are presented gross and not offset in the Statement of Assets and Liabilities. Early termination by the counterparty may result in an immediate payment by the Fund of any net liability owed to that counterparty under the ISDA agreement. At December 31, 2018, the Fund had OTC derivatives in a net liability position of $122,103 and the aggregate value of collateral pledged for such contracts was $160,000.

Collateral requirements differ by type of derivative. Collateral terms are contract specific for OTC derivatives. For OTC derivatives traded under an ISDA master agreement, posting of collateral is required by either the Fund or the applicable counterparty if the total net exposure of all OTC derivatives with the applicable counterparty exceeds the minimum transfer amount, which typically ranges from $100,000 to $250,000, and can vary depending on the counterparty and the type of the agreement. Generally, collateral is determined at the close of Fund business each day and any additional collateral required due to changes in derivative values may be delivered by the Fund or the counterparty the next business day, or within a few

business days. Collateral pledged and/or received by the Fund, if any, is held in segregated accounts with the Fund s custodian/counterparty broker and can be in the form of cash and/or securities. Unrestricted cash may be invested according to the Fund s investment objectives. To the extent that the amounts due to the Fund from its counterparties are not subject to collateralization or are not fully collateralized, the Fund bears the risk of loss from counterparty non-performance.

The Fund entered into OTC total return swap contracts primarily to manage and/or gain exposure to interest rate risk of an underlying instrument such as a stock, bond, index or basket of securities or indices. A total return swap is an agreement between the Fund and a counterparty to exchange a return linked to an underlying instrument for a floating or fixed rate payment, both based upon a notional amount. Over the term of the contract, contractually required payments to be paid or received are accrued daily and recorded as unrealized appreciation or depreciation until the payments are made, at which time they are recognized as realized gain or loss.

See Note 11 regarding other derivative information.

e. Mortgage Dollar Rolls

The Fund enters into mortgage dollar rolls, typically on a TBA basis. Mortgage dollar rolls are agreements between the Fund and a financial institution where the Fund sells (or buys) mortgage-backed securities for delivery on a specified date and simultaneously contracts to repurchase (or sell) substantially similar (same type, coupon, and maturity) securities at a future date and at a predetermined price. Gains or losses are realized on the initial sale, and the difference between the repurchase price and the sale price is recorded as an unrealized gain or loss to the Fund upon entering into the mortgage dollar roll. In addition, the Fund may invest the cash proceeds that are received from the initial sale. During the period between the sale and repurchase, the Fund is not entitled to principal and interest paid on the mortgage backed securities. Transactions in mortgage dollar rolls are accounted for as purchases and sales and may result in an increase to the Fund s portfolio turnover rate. The risks of mortgage dollar roll transactions include the potential inability of the counterparty to fulfill its obligations.

The Fund is investing in mortgage dollar rolls as an alternate form of leverage.

f. Senior Floating Rate Interests

The Fund invests in senior secured corporate loans that pay interest at rates which are periodically reset by reference to a base lending rate plus a spread. These base lending rates are generally the prime rate offered by a designated U.S. bank or the London InterBank Offered Rate (LIBOR). Senior secured corporate loans often require prepayment of principal from excess cash flows or at the discretion of the borrower. As a result, actual maturity may be substantially less than the stated maturity. Senior secured corporate loans in which the Fund invests are generally readily marketable, but may be subject to certain restrictions on resale.

g. Marketplace Lending

The Fund invests in loans obtained through marketplace lending. Marketplace lending, sometimes referred to as peer-to-peer lending, is a method of financing in which a platform facilitates the borrowing and lending of money. It is considered an alternative to more traditional forms of debt financing. Prospective borrowers are required to provide certain financial information to the platform, including, but not limited to, the intended purpose of the loan, income, employment information, credit score, debt-to-income ratio, credit history (including defaults and delinquencies) and home ownership status. Based on this and other information, the platform assigns its own credit rating to the borrower and sets the interest rate for the requested loan. The platform then posts the borrowing requests online, giving investors the opportunity to purchase the loans based on factors such as the interest rates and expected yields of the loans, the borrower background data, and the credit rating assigned by the platform.

When the Fund invests in these loans, it usually purchases all rights, title and interest in the loans pursuant to a loan purchase agreement directly from the platform. The platform or a third-party servicer typically continues to service the loans, collecting payments and distributing them to the Fund, less any servicing fees assessed. The servicer is typically responsible for taking actions against a borrower in the event of a default on the loan. Servicing fees are included in loan service fees in the Statement of Operations. The Fund, as an investor in a loan, would be entitled to receive payment only from the borrower and would not be able to recover any deficiency from the platform, except under very narrow circumstances. The loans in which the Fund may invest are unsecured.

h. Income and Deferred Taxes

It is the Fund s policy to qualify as a regulated investment company under the Internal Revenue Code. The Fund intends to distribute to shareholders substantially all of its taxable income and net realized gains to relieve it from federal income and excise taxes. As a result, no provision for U.S. federal income taxes is required.

The Fund may be subject to foreign taxation related to income received, capital gains on the sale of securities and certain foreign currency transactions in the foreign jurisdictions in which it invests. Foreign taxes, if any, are recorded based on the tax regulations and rates that exist in the foreign markets in which the Fund invests. When a capital gain tax is determined to apply, the Fund records an estimated deferred tax liability in an amount that would be payable if the securities were disposed of on the valuation date.

The Fund may recognize an income tax liability related to its uncertain tax positions under U.S. GAAP when the uncertain tax position has a less than 50% probability that it will be sustained upon examination by the tax authorities based on its technical merits. As of December 31, 2018, the Fund has determined that no tax liability is required in its financial statements related to uncertain tax positions for any open tax years (or expected to be taken in future tax years). Open tax years are those that remain subject to examination and are based on the statute of limitations in each jurisdiction in which the Fund invests.

i. Security Transactions, Investment Income, Expenses and Distributions

Security transactions are accounted for on trade date. Realized gains and losses on security transactions are determined on a specific identification basis. Interest income and estimated expenses are accrued daily. Amortization of premium and accretion of discount on debt securities are included in interest income. Paydown gains and losses are recorded as an adjustment to interest income. Facility fees are recognized as income over the expected term of the loan. Dividend income is recorded on the ex-dividend date except for certain dividends from securities where the dividend rate is not available. In such cases, the dividend is recorded as soon as the information is received by the Fund. Distributions to shareholders are recorded on the ex-dividend date. The Fund employs a managed distribution policy whereby the Fund will make monthly distributions to common shareholders at an annual minimum

FRANKLIN LIMITED DURATION INCOME TRUST

NOTES TO FINANCIAL STATEMENTS

1. Organization and Significant Accounting

Policies (continued)

i. Security Transactions, Investment Income, Expenses and Distributions *(continued)*

fixed rate of 10%, based on the average monthly NAV of the Fund s common shares. Under the policy, the Fund is managed with a goal of generating as much of the distribution as possible from net investment income and short-term capital gains. The balance of the distribution will then come from long-term capital gains to the extent permitted and, if necessary, a return of capital. Distributable earnings are determined according to income tax regulations (tax basis) and may differ from earnings recorded in accordance with U.S. GAAP. These differences may be permanent or temporary. Permanent differences are reclassified among capital accounts to reflect their tax character. These reclassifications have no impact on net assets or the results of operations. Temporary differences are not reclassified, as they may reverse in subsequent periods.*

j. Accounting Estimates

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

k. Guarantees and Indemnifications

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

*Effective during the current reporting period, it is no longer required to present certain line items in the Statements of Changes in Net Assets. The below prior period amounts affected by this change are shown as they were in the prior years.

For the years ended December 31, 2017[a] and March 31, 2017, distributions to common shareholders from net investment income were $(9,620,860) and $(15,071,636), respectively.

For the years ended December 31, 2017[a] and March 31, 2017, distributions in excess of net investment income included in net assets were $(3,089,049) and $(2,905,016), respectively.

[a]For the period April 1, 2017 to December 31, 2017.

2. Shares of Beneficial Interest

At December 31, 2018, there were an unlimited number of shares authorized (without par value). During the year ended December 31, 2018 all reinvested distributions were satisfied with previously issued shares purchased in the open market.

Under the Board approved open-market share repurchase program which commenced on June 1, 2016, the Fund may purchase, from time to time, up to 10% of the Fund s common shares in open-market transactions, at the discretion of management. Since the inception of the program, the Fund has repurchased a total of 242,561 shares. Transactions in the Fund s shares were as follows:

	Year Ended December 31,				Year Ended March 31,	
	2018		2017[a]		2017	
	Shares	Amount	Shares	Amount	Shares	Amount
Shares issued	7,534,709	$ 64,271,944		$		$
Shares repurchased[b]		$		$	4,231,524	$ 53,715,818
Weighted average discount of market price to net asset value of shares repurchased		%		%		8.14%

[a]For the period April 1, 2017 to December 31, 2017.

[b]On January 19, 2017, the Fund announced a tender offer to purchase for cash up to 15 percent of its issued and outstanding common shares (3,988,963 shares), each without par value. The tender period commenced on January 30, 2017 and expired at 11:59 p.m. Eastern Standard Time on Friday, March 3, 2017 at which time the tender was oversubscribed. The Fund accepted the maximum allowed by the offer of 3,988,963 shares for cash payment at a price equal to $12.73 per share. This purchase price was 98% of the Fund s net asset value (NAV) per share of $12.99 as of the close of regular trading on the New York Stock Exchange on March 6, 2017.

On September 20, 2018, the Fund commenced a transferrable rights offering to common shareholders of record to subscribe for up to an aggregate of 7,534,709 of the Fund s common shares. The offering expired on October 18, 2018. Each record date shareholder received one right for each outstanding whole common share held, which entitled their holders to purchase one new Fund common share for every three rights held. In addition, record date shareholders who fully exercised their rights (other than those rights that could not be exercised because they represented the right to acquire less than one common share) were entitled to subscribe for additional common shares of the Fund that remained unsubscribed as a result of any unexercised rights. The subscription price per common share was determined based upon a formula equal to 92.5% of the average of the last reported sales price of the Fund s common shares on the NYSE American Stock Exchange on the offering expiration date, and each of the four preceding trading days, subject to a minimum subscription price of 80% of the Fund s net asset value per common share on the offering expiration date. The rights holders subscribed for all 7,534,709 common shares at an average price per share of $9.00. Proceeds from the offering were $67,828,884. The Fund received the proceeds of the offering minus the dealer manager fee and other expenses of the offering totaling $3,556,940.

3. Credit Facility

The Fund has entered into a credit facility agreement (Credit Facility) with BNP Paribas Prime Brokerage International Ltd. (BNPP) pursuant to which the Fund may borrow up to a maximum commitment amount of $100,000,000. The Fund will pay interest in the amount of 0.90% plus the 3-month U.S. Dollar London Interbank Offered Rate on the amount outstanding. The Fund is required to fully collateralize its outstanding loan balance as determined by BNPP by pledging assets, which are held in a segregated account, and are indicated in the Statement of Investments. If the Fund fails to meet certain requirements or maintain other financial covenants required under the Credit Facility, the Fund may be required to repay immediately, in part or in full, the loan balance outstanding.

The Fund had outstanding borrowings of $90,000,000 as of December 31, 2018 and incurred $1,155,857 of interest expense during the year. Average borrowings and the average interest rate for the days outstanding during the year ended December 31, 2018, were $90,016,404 and 3.42%, respectively.

The Credit Facility also permits, subject to certain conditions, BNPP to rehypothecate portfolio securities pledged by the Fund up to the amount of the loan balance outstanding. The Fund continues to receive dividends and interest on rehypothecated securities. The Fund also has the right under the Credit Facility to recall any securities pledged as collateral from BNPP on demand. If BNPP fails to deliver the recalled security in a timely manner, the Fund will be compensated for any fees or losses related to the failed delivery or, in the event a recalled security is not be returned, the Fund, upon notice to BNPP, may reduce the loan balance outstanding by the market value of the recalled security. The Fund will receive a portion of the fees earned by BNPP in connection with the rehypothecation of portfolio securities. Rehypothecated securities are included among the portfolio securities pledged by the Fund as collateral for the Credit Facility. As of December 31, 2018, there were no rehypothecated securities.

4. Auction Rate Preferred Shares

Effective August 15, 2018, the Fund s Preferred Shares were liquidated. Prior to August 15, 2018, the Fund had outstanding 1,200 Preferred Shares Series M, 1,200 Preferred Shares Series W and 1,200 Preferred Shares Series F, each with a $25,000 liquidation preference totaling $90,000,000. Preferred Shares were senior to common shares and the Fund did not declare or pay any dividend on the common shares unless the Fund had declared or paid full cumulative dividends on the Preferred Shares through the most

FRANKLIN LIMITED DURATION INCOME TRUST

NOTES TO FINANCIAL STATEMENTS

4. Auction Rate Preferred Shares (continued)

recent dividend date. Dividends to preferred shareholders were cumulative and were declared weekly, at rates established through an auction process. The weekly auctions for Series M, W and F had all failed during the year ended December 31, 2018; consequently, the dividend rate paid on the Preferred Shares had moved to the maximum rate as defined in the prospectus. During the year ended December 31, 2018, the dividends on Preferred Shares ranged from 2.97% to 3.49%.

The Fund was required to maintain, on a weekly basis, a specified discounted value of its portfolio in compliance with guidelines established by Fitch Ratings and Moody s Investor Services Inc., and was required to maintain asset coverage for the Preferred Shares of at least 200%.

The Preferred Shares were redeemable by the Fund at any time and were subject to mandatory redemption if the asset coverage or discounted value requirements were not met. During the year ended December 31, 2018, all requirements were met.

5. Transactions with Affiliates

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

Subsidiary	**Affiliation**
Franklin Advisers, Inc. (Advisers)	Investment manager
Franklin Templeton Services, LLC (FT Services)	Administrative manager

a. Management Fees

The Fund pays an investment management fee to Advisers of 0.70% per year of the average daily managed assets. Managed assets are defined as the Fund s gross asset value minus the sum of accrued liabilities, other than the principal amount of the Credit Facility and other financial leverage.

b. Administrative Fees

Under an agreement with Advisers, FT Services provides administrative services to the Fund. The fee is paid by Advisers based on the Fund s average daily net assets, and is not an additional expense of the Fund.

c. Investments in Affiliated Management Investment Companies

The Fund invests in one or more affiliated management investment companies for purposes other than exercising a controlling influence over the management or policies. Management fees paid by the Fund are waived on assets invested in the affiliated management investment companies, as noted in the Statement of Operations, in an amount not to exceed the management and administrative fees paid directly or indirectly by each affiliate. During the year ended December 31, 2018, the Fund held investments in affiliated management investment companies as follows:

	Number of Shares Held at Beginning of Year	**Gross Additions**	**Gross Reductions**	**Number of Shares Held at End of Year**	**Value at End of Year**	**Dividend Income**	**Realized Gain (Loss)**	**Net Change in Unrealized Appreciation (Depreciation)**
Non-Controlled Affiliates								
Institutional Fiduciary Trust Money Market Portfolio, 1.99%	12,509,828	188,341,762	(195,764,929)	5,086,661	$5,086,661	$212,886	$	$

d. Interfund Transactions

The Fund engaged in purchases and sales of investments with funds or other accounts that have common investment managers (or affiliated investment managers), directors, trustees or officers. During the year ended December 31, 2018, these purchase and sale transactions aggregated $1,498,125 and $0, respectively.

6. Expense Offset Arrangement

The Fund has entered into an arrangement with its custodian whereby credits realized as a result of uninvested cash balances are used to reduce a portion of the Fund s custodian expenses. During the year ended December 31, 2018, the custodian fees were reduced as noted in the Statement of Operations.

7. Income Taxes

For tax purposes, capital losses may be carried over to offset future capital gains.

At December 31, 2018, the capital loss carryforwards were as follows:

Capital loss carryforwards not subject to expiration:	
Short Term	$ 2,617,476
Long Term	15,143,149
Total capital loss carryforwards	$ 17,760,625

The tax character of distributions paid during the years ended December 31, 2018 and 2017, and March 31, 2017 was as follows:

	December 31,		March 31,
	2018	2017[a]	2017
Distributions paid from:			
Ordinary income	$14,140,201	$11,476,336	$16,928,487
Return of capital	16,302,096	12,051,976	9,335,223
	$30,442,297	$23,528,312	$26,263,710

[a]For the period April 1, 2017 to December 31, 2017.

At December 31, 2018, the cost of investments and net unrealized appreciation (depreciation) for income tax purposes were as follows:

Cost of investments	$ 438,490,953
Unrealized appreciation	$ 2,394,285
Unrealized depreciation	(23,002,754)
Net unrealized appreciation (depreciation)	$ (20,608,469)

Differences between income and/or capital gains as determined on a book basis and a tax basis are primarily due to differing treatments of defaulted securities, paydown losses and bond discounts and premiums.

8. Investment Transactions

Purchases and sales of investments (excluding short term securities) for the year ended December 31, 2018, aggregated $820,820,163 and $808,721,655, respectively.

FRANKLIN LIMITED DURATION INCOME TRUST

NOTES TO FINANCIAL STATEMENTS

9. Credit Risk

At December 31, 2018, the Fund had 65.5% of its portfolio invested in high yield securities, senior secured floating rate loans, or other securities rated below investment grade and unrated securities, if any. These securities may be more sensitive to economic conditions causing greater price volatility and are potentially subject to a greater risk of loss due to default than higher rated securities.

10. Restricted Securities

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

At December 31, 2018, investments in restricted securities, excluding securities exempt from registration under the 1933 Act deemed to be liquid, were as follows:

Shares	Issuer	Acquisition Date	Cost	Value
404	Nine Point Energy Holdings Inc., cvt. pfd.	3/24/17	$ 377,604	$ 385,050
21,663	Nine Point Energy LLC	7/15/14 - 2/01/18	830,630	2
39,306	Remington Outdoor Co. Inc.	2/13/17	1,947,001	415,172
3,700	Remington Outdoor Co. Inc., Litigation Units	5/16/18		
	Total Restricted Securities (Value is 0.3% of Net Assets)		$ 3,155,235	$ 800,224

11. Other Derivative Information

At December 31, 2018, the Fund s investments in derivative contracts are reflected in the Statement of Assets and Liabilities as follows:

	Asset Derivatives		Liability Derivatives	
Derivative Contracts Not Accounted for as Hedging Instruments	**Statement of Assets and Liabilities Location**	**Fair Value**	**Statement of Assets and Liabilities Location**	**Fair Value**
Interest rate contracts		$		$122,103

	Unrealized appreciation on OTC swap contracts	Unrealized depreciation on OTC swap contracts

For the year ended December 31, 2018, the effect of derivative contracts in the Fund s Statement of Operations was as follows:

Derivative Contracts Not Accounted for as Hedging Instruments	**Statement of Operations Location**	**Net Realized Gain (Loss) for the Year**	**Statement of Operations Location**	**Net Change in Unrealized Appreciation (Depreciation) for the Year**
	Net realized gain (loss) from:		Net change in unrealized appreciation (depreciation) on:	
Interest rate contracts	Swap contracts	$(6,753)	Swap contracts	$(122,103)

For the year ended December 31, 2018, the average month end notional amount of swap contracts represented $615,385.

See Note 1(d) regarding derivative financial instruments.

12. Fair Value Measurements

The Fund follows a fair value hierarchy that distinguishes between market data obtained from independent sources (observable inputs) and the Fund s own market assumptions (unobservable inputs). These inputs are used in determining the value of the Fund s financial instruments and are summarized in the following fair value hierarchy:

Level 1 quoted prices in active markets for identical financial instruments

Level 2 other significant observable inputs (including quoted prices for similar financial instruments, interest rates, prepayment speed, credit risk, etc.)

Level 3 significant unobservable inputs (including the Fund s own assumptions in determining the fair value of financial instruments)

The input levels are not necessarily an indication of the risk or liquidity associated with financial instruments at that level.

A summary of inputs used as of December 31, 2018, in valuing the Fund s assets carried at fair value, is as follows:

	Level 1	Level 2	Level 3	Total
Assets:				
Investments in Securities:[a]				
Equity Investments:[b]				
Commercial & Professional Services	$	$	$ 415,172[c]	$ 415,172
Energy	278,276	1,149,418	385,059	1,812,753
Transportation		110,485		110,485
All Other Equity Investments	105,713			105,713
Corporate Bonds		135,585,904		135,585,904
Senior Floating Rate Interests		151,430,996		151,430,996
Marketplace Loans			3,609,189	3,609,189
Asset-Backed Securities and Commercial Mortgage-Backed Securities		11,770,138		11,770,138
Mortgage-Backed Securities		108,071,576		108,071,576

Escrows and Litigation Trusts		6,000	[c]	6,000
Short Term Investments	5,086,661			5,086,661
Total Investments in Securities	$ 5,470,650	$ 408,124,517	$ 4,409,420	$ 418,004,587
Liabilities:				
Other Financial Instruments:				
Swap Contracts	$	$ 122,103	$	$ 122,103

[a]For detailed categories, see the accompanying Statement of Investments.

[b]Includes common and convertible preferred stocks as well as other equity interests.

[c]Includes securities determined to have no value at December 31, 2018.

FRANKLIN LIMITED DURATION INCOME TRUST

NOTES TO FINANCIAL STATEMENTS

12. Fair Value Measurements (continued)

A reconciliation of assets in which Level 3 inputs are used in determining fair value is presented when there are significant Level 3 financial instruments at the beginning and/or end of the year. At December 31, 2018, the reconciliation of assets, is as follows:

	Balance at Beginning of Year	**Purchases**	**Sales**	**Transfers Into (Out of) Level 3**	**Cost Basis Adjustments**	**Net Realized Gain (Loss)**	**Net Unrealized Appreciation (Depreciation)**	**Balance at End of Year**	**Net Cha Unre Appre (Deprec on F Yea**
nents in Securities:									
nvestments:[a]									
cial & Professional									
	$	$	$	$1,947,001	$	$	$(1,531,829)	$ 415,172[b]	$(1,5
	767,752	1	(117,173)			(107,877)	(157,644)	385,059	(2
e Bonds	1,850			(8,750)			6,900		
lace Loans		3,626,184					(16,995)	3,609,189	(
and Litigation									
	23,200[b]			(24,000)[c]			800	[b]	
vestments in									
s	$792,802	$3,626,185	$(117,173)	$1,914,251	$	$(107,877)	$(1,698,768)	$4,409,420	$(1,7

[a]Includes common stocks as well as other equity investments.

[b]Includes securities determined to have no value.

[c]The investments were transferred out of Level 3 as a result of the removal of a significant unobservable valuation input.

Significant unobservable valuation inputs for material Level 3 financial instruments and impact to fair value as a result of changes in unobservable valuation inputs as of December 31, 2018, are as follows:

Description	**Fair Value at End of Year**	**Valuation Technique**	**Unobservable Input**	**Amount**	**Impact to Fair Value if Input Increases**[a]
Assets:					
Investments in Securities:					
Equity Investments:b					
Commercial & Professional Services	$415,172[c]	Discounted cash flow	Discount for lack of marketability	20.0%	Decrease
			Long-term revenue growth rate	1.0%	Increase
			Weighted average cost of capital	13.0%	Decrease[d]
		Consensus Pricing	Offered / Bid quotes	$ 8.00 - $10.00	Increase
Energy	385,059	Market comparables	Discount for lack of marketability	18.0%	Decrease[e]
			EV / EBITDA multiple	3.9x	Increase[d]
			Yield discount	14.4%	Decrease[e]
All other investments[f]	3,609,189[c]				
Total	$4,409,420				

[a]Represents the directional change in the fair value of the Level 3 financial instruments that would result from a significant and reasonable increase in the corresponding input. A significant and reasonable decrease in the input would have the opposite effect. Significant impacts, if any, to fair value and/or net assets have been indicated.

[b]Includes common and convertible preferrred stocks as well as other equity interests.

[c]Includes securities determined to have no value at December 31, 2018.

[d]Represents a significant impact to fair value and net assets.

[e]Represents a significant impact to fair value but not net assets.

[f]Includes financial instruments with values derived using private transaction prices or non-public third party pricing information which is unobservable. May also include fair value of immaterial financial instruments and developed using various valuation techniques and unobservable inputs or third party pricing information without adjustment for which such inputs are unobservable.

13. Subsequent Events

The Fund has evaluated subsequent events through the issuance of the financial statements and determined that no events have occurred that require disclosure.

Abbreviations

Counterparty		**Selected Portfolio**	
GSCO	The Goldman Sachs Group, Inc.	**EBITDA**	Earnings before interest, taxes, depreciation and amortization
		EV	Enterprise value
		FHLMC	Federal Home Loan Mortgage Corp.
		FNMA	Federal National Mortgage Association
		FRN	Floating Rate Note
		GNMA	Government National Mortgage Association
		LIBOR	London InterBank Offered Rate
		MBS	Mortgage-Backed Security
		PIK	Payment-In-Kind
		SF	Single Family
		USD	United States Dollar

FRANKLIN LIMITED DURATION INCOME TRUST

Report of Independent Registered Public Accounting Firm

To the Board of Trustees and Shareholders of Franklin Limited Duration Income Trust

Opinion on the Financial Statements

We have audited the accompanying statement of assets and liabilities, including the statement of investments, of Franklin Limited Duration Income Trust (the Fund) as of December 31, 2018, the related statements of operations and of cash flows for the year ended December 31, 2018, the statement of changes in net assets for the year ended December 31, 2018, the period April 1, 2017 through December 31, 2017, and the year ended March 31, 2017, including the related notes, and the financial highlights for the year ended December 31, 2018, the period April 1, 2017 through December 31, 2017, and the four years ended March 31, 2017 (collectively referred to as the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as of December 31, 2018, the results of its operations and its cash flows for the year then ended, the changes in its net assets for the year ended December 31, 2018, the period April 1, 2017 through December 31, 2017, and the year ended March 31, 2017, and the financial highlights for the year ended December 31, 2018, the period April 1, 2017 through December 31, 2017, and the four years ended March 31, 2017 in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Fund s management. Our responsibility is to express an opinion on the Fund s financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Fund in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits of these financial statements in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our procedures included confirmation of securities owned as of December 31, 2018 by correspondence with the custodians, transfer agent, and brokers; when replies were not received from brokers, we performed other auditing procedures. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

San Francisco, California

February 15, 2019

We have served as the auditor of one or more investment companies in the Franklin Templeton Group of Funds since 1948.

Tax Information (unaudited)

Under Section 871(k)(1)(C) of the Internal Revenue Code, the Fund hereby reports the maximum amount allowable but no less than $12,238,987 as interest related dividends for purposes of the tax imposed under Section 871(a)(1)(A) of the Internal Revenue Code for the fiscal year ended December 31, 2018.

Annual Meeting of Shareholders

The Annual Meeting of Shareholders (the Meeting) was held on on September 8, 2018. At the Meeting, shareholders elected J. Michael Luttig and Gregory E. Johnson as Trustees of the Fund to hold office for a three year term, set to expire at the 2021 Annual Meeting of Shareholders. These terms continue, however, until their successors are duly elected and qualified or until a Trustee s resignation, retirement, death or removal, whichever is earlier. In addition, shareholders approved amendments to the fundamental investment restrictions of the Fund (including eight sub-proposals).

1. The results of the voting for the trustees were as follows:

Trustees	**Shares For**	**Shares Withheld**
J. Michael Luttig	14,487,611	549,587
Gregory E. Johnson	14,473,402	563,796

Note: Harris J. Ashton, Terrence J. Checki, Mary C. Choksi, Edith E. Holiday, Rupert H. Johnson, Larry D. Thompson and John B. Wilson are Trustees of the Fund who are currently serving and whose terms of office continued after the meeting.

2. The results of the voting for the amendments to the fundamental investment restrictions of the Fund (including eight sub-proposals) were as follows:

	Shares For	**Shares Abstained**
a. Borrowing	11,202,966	463,181
b. Underwriting	11,218,642	462,511
c. Lending	11,213,603	458,680
d. Real Estate	11,254,166	470,339
e. Commodities	11,198,625	451,338
f. Senior Securities	11,236,102	460,039
g. Concentration	11,215,968	453,198
h. Diversification	11,206,691	466,012

Dividend Reinvestment Plan

The Fund s Dividend Reinvestment Plan (Plan) offers you a prompt and simple way to reinvest dividends and capital gain distributions (Distributions) in shares of the Fund. American Stock Transfer & Trust Company, LLC (Plan Agent), P.O. Box 922, Wall Street Station, New York, NY 10269-0560, acts as your Plan Agent in administering the Plan. The Agent will open an account for you under the Plan in the same name as your outstanding shares are registered.

You are automatically enrolled in the Plan unless you elect to receive Distributions in cash. If you own shares in your own name, you should notify the Agent, in writing, if you wish to receive Distributions in cash.

If the Fund declares a Distribution, you, as a participant in the Plan, will automatically receive an equivalent amount of shares of the Fund purchased on your behalf by the Agent. If on the payment date for a Distribution, the net asset value per share is equal to or less than the market price per share plus estimated brokerage commissions, the Agent shall receive newly issued shares, including fractions, from the Fund for your account. The number of additional shares to be credited shall be determined by dividing the dollar amount of the Distribution by the greater of the net asset value per share on the payment date, or 95% of the then current market price per share.

If the net asset value per share exceeds the market price plus estimated brokerage commissions on the payment date for a Distribution, the Agent (or a broker-dealer selected by the Agent) shall try, for a purchase period of 30 days, to apply the amount of such Distribution on your shares (less your pro rata share of brokerage commissions incurred) to purchase shares on the open market. The weighted average price (including brokerage commissions) of all shares it purchases shall be your allocated price per share. If, before the Agent has completed its purchases, the market price plus estimated brokerage commissions exceeds the net asset value of the shares as of the payment date, the purchase price the Agent paid may exceed the net asset value of the shares, resulting in the acquisition of fewer shares than if such Distribution had been paid in shares issued by the Fund. Participants should note that they will not be able to instruct the Agent to purchase shares at a specific time or at a specific price. The Agent may make open-market purchases on any securities exchange where shares are traded, in the over-the-counter market or in negotiated transactions, and may be on such terms as to price, delivery and otherwise as the Agent shall determine.

The market price of shares on a particular date shall be the last sales price on NYSE MKT, or, if there is no sale on the exchange on that date, then the mean between the closing bid and asked quotations on the exchange on such date. The net asset value per share on a particular date shall be the amount most recently calculated by or on behalf of the Fund as required by law.

The Agent shall at all times act in good faith and agree to use its best efforts within reasonable limits to ensure the accuracy of all services performed under this agreement and to comply with applicable law, but assumes no responsibility and shall not be liable for loss or damage due to errors unless such error is caused by the Agent s negligence, bad faith, or willful misconduct or that of its employees. Your uninvested funds held by the Agent will not bear interest. The Agent shall have no responsibility for the value of shares acquired. For the purpose of cash investments, the Agent may commingle your funds with those of other participants in the same Fund.

There is no direct charge to participants for reinvesting Distributions, since the Agent s fees are paid by the Fund. However, when shares are purchased in the open market, each participant will pay a pro rata portion of any brokerage commissions incurred. If you elect by notice to the Agent to have it sell part or all of your shares and remit the proceeds, the Agent will deduct brokerage commissions from the proceeds.

The automatic reinvestment of Distributions does not relieve you of any taxes that may be payable on Distributions. In connection with the reinvestment of Distributions, shareholders generally will be treated as having received a Distribution equal to the cash Distribution that would have been paid.

The Agent will forward to you any proxy solicitation material and will vote any shares so held for you first in accordance with the instructions set forth on proxies you return to the Fund, and then with respect to any proxies you do not return to the Fund in the same portion as the Agent votes proxies the participants return to the Fund.

As long as you participate in the Plan, the Agent will hold the shares it has acquired for you in safekeeping, in its name or in the name of its nominee. This convenience provides added protection against loss, theft or inadvertent destruction of certificates. However, you may request that a certificate representing your Plan shares be issued to you. Upon your written request, the Agent will deliver to you, without charge, a certificate or certificates for the full shares. The Agent will send you a confirmation of each acquisition made for your account as soon as practicable, but not later than 60 days after the acquisition date. Although from time to time you may have an undivided fractional interest in a share of the Fund, no certificates for a fractional share will be issued. Distributions on fractional shares will be credited to your account. If you terminate your account under the Plan, the Agent will adjust for any such undivided fractional interest in cash at the market value of shares at the time of termination.

You may withdraw from the Plan at any time, without penalty, by notifying the Agent in writing at the address above or by telephone at (800) 416-5585. Such termination will be effective with respect to a Distribution if the Agent receives your notice prior to the Distribution record date. The Agent or the Fund may terminate the Plan upon notice to you in writing mailed at least 30 days prior to any record date for the payment of any Distribution. Upon any termination, the Agent will issue, without charge, stock certificates for all full shares you own and will convert any fractional shares you hold at the time of termination to cash at current market price and send you a check for the proceeds.

The Fund or the Agent may amend the Plan. You will receive written notice at least 30 days before the effective date of any amendment.

Board Members and Officers

The name, year of birth and address of the officers and board members, as well as their affiliations, positions held with the Trust, principal occupations during at least the past five years and number of U.S. registered portfolios overseen in the Franklin Templeton Investments fund complex, are shown below. Generally, each board member serves until that person s successor is elected and qualified.

Independent Board Members

Name, Year of Birth and Address	Position	Length of Time Served	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years
Harris J. Ashton (1932) One Franklin Parkway San Mateo, CA 94403-1906	Trustee	Since 2003	136	Bar-S Foods (meat packing company) (1981-2010).

Principal Occupation During at Least the Past 5 Years:
Director of various companies; and **formerly**, Director, RBC Holdings, Inc. (bank holding company) (until 2002); and President, Chief Executive Officer and Chairman of the Board, General Host Corporation (nursery and craft centers) (until 1998).

Name, Year of Birth and Address	Position	Length of Time Served	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years
Terrence J. Checki (1945) One Franklin Parkway San Mateo, CA 94403-1906	Trustee	Since 2017	112	Hess Corporation (exploration of oil and gas) (2014-present).

Principal Occupation During at Least the Past 5 Years:
Member of the Council on Foreign Relations (1996-present); Member of the National Committee on U.S.-China Relations (1999-present); member of the Board of Trustees of the Economic Club of New York (2013-present); member of the Board of Trustees of the Foreign Policy Association (2005-present) and member of various other boards of trustees and advisory boards; and **formerly**, Executive Vice President of the Federal Reserve Bank of New York and Head of its Emerging Markets and Internal Affairs Group and Member of Management Committee (1995-2014); and Visiting Fellow at the Council on Foreign Relations (2014).

Mary C. Choksi (1950) One Franklin Parkway San Mateo, CA 94403-1906	Trustee	Since 2014	136	Avis Budget Group Inc. (car rental) (2007-present), Omnicom Group Inc. (advertising and marketing communications services) (2011-present) and White Mountains Insurance Group, Ltd. (holding company) (2017-present).

Principal Occupation During at Least the Past 5 Years:
Director of various companies; and **formerly**, Founder and Senior Advisor, Strategic Investment Group (investment management group) (2015-2017); Founding Partner and Senior Managing Director, Strategic Investment Group (1987-2015); Founding Partner and Managing Director, Emerging Markets Management LLC (investment management firm) (1987-2011); and Loan Officer/Senior Loan Officer/Senior Pension Investment Officer, World Bank Group (international financial institution) (1977-1987).

Edith E. Holiday (1952) One Franklin Parkway San Mateo, CA 94403-1906	Trustee	Since 2005	136	Hess Corporation (exploration of oil and gas) (1993-present), Canadian National Railway (railroad) (2001-present), White Mountains Insurance Group, Ltd. (holding company) (2004-present), Santander Consumer USA Holdings, Inc. (consumer finance) (2016-present), RTI International Metals, Inc. (manufacture and distribution of titanium) (1999-2015) and H.J. Heinz Company (processed foods and allied products) (1994-2013).

Principal Occupation During at Least the Past 5 Years:
Director or Trustee of various companies and trusts; and **formerly**, Assistant to the President of the United States and Secretary of the Cabinet (1990-1993); General Counsel to the United States Treasury Department (1989-1990); and Counselor to the Secretary and Assistant Secretary for Public Affairs and Public Liaison United States Treasury Department (1988-1989).

J. Michael Luttig (1954) One Franklin Parkway San Mateo, CA 94403-1906	Trustee	Since 2009	136	Boeing Capital Corporation (aircraft financing) (2006-2013).

Principal Occupation During at Least the Past 5 Years:

Executive Vice President, General Counsel and member of the Executive Council, The Boeing Company (aerospace company) (2006-present); and
formerly, Federal Appeals Court Judge, U.S. Court of Appeals for the Fourth Circuit (1991-2006).

FRANKLIN LIMITED DURATION INCOME TRUST

Independent Board Members (continued)

Name, Year of Birth and Address	Position	Length of Time Served	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years
Larry D. Thompson (1945) One Franklin Parkway San Mateo, CA 94403-1906	Trustee	Since 2007	136	The Southern Company (energy company) (2014-present; previously 2010-2012), Graham Holdings Company (education and media organization) (2011-present) and Cbeyond, Inc. (business communications provider) (2010-2012).

Principal Occupation During at Least the Past 5 Years:
Director of various companies; Counsel, Finch McCranie, LLP (law firm) (2015-present); Independent Compliance Monitor and Auditor, Volkswagen AG (manufacturer of automobiles and commercial vehicles) (2017-present); John A. Sibley Professor of Corporate and Business Law, University of Georgia School of Law (2015-present; previously 2011-2012); and **formerly**, Executive Vice President Government Affairs, General Counsel and Corporate Secretary, PepsiCo, Inc. (consumer products) (2012-2014); Senior Vice President Government Affairs, General Counsel and Secretary, PepsiCo, Inc. (2004-2011); Senior Fellow of The Brookings Institution (2003-2004); Visiting Professor, University of Georgia School of Law (2004); and Deputy Attorney General, U.S. Department of Justice (2001-2003).

Name, Year of Birth and Address	Position	Length of Time Served	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years
John B. Wilson (1959) One Franklin Parkway San Mateo, CA 94403-1906	Lead Independent Trustee	Trustee since 2006 and Lead Independent Trustee since 2008	112	None

Principal Occupation During at Least the Past 5 Years:
President and Founder, Hyannis Port Capital, Inc. (real estate and private equity investing) (2002-present); Senior Advisor, McKinsey & Co. (consulting) (2017-present); serves on private and non-profit boards; and **formerly**, President, Staples International and Head of Global Transformation (office supplies) (2012-2016); Chief Operating Officer and Executive Vice President, Gap, Inc. (retail) (1996-2000); Chief Financial Officer and Executive Vice President Finance and Strategy, Staples, Inc. (1992-1996); Senior Vice President Corporate Planning, Northwest Airlines, Inc. (airlines) (1990-1992); and Vice President and Partner, Bain & Company (consulting firm) (1986-1990).

Interested Board Members and Officers

Name, Year of Birth and Address	**Position**	**Length of Time Served**	**Number of Portfolios in Fund Complex Overseen by Board Member***	**Other Directorships Held During at Least the Past 5 Years**
****Gregory E. Johnson (1961)** One Franklin Parkway San Mateo, CA 94403-1906	Trustee and Vice President	Trustee since 2013 and Vice President since 2003	150	None

Principal Occupation During at Least the Past 5 Years:
Chairman of the Board, Member Office of the Chairman, Director and Chief Executive Officer, Franklin Resources, Inc.; officer and/or director or trustee, as the case may be, of some of the other subsidiaries of Franklin Resources, Inc. and of 42 of the investment companies in Franklin Templeton Investments; Vice Chairman, Investment Company Institute; and **formerly**, President, Franklin Resources, Inc. (1994-2015).

****Rupert H. Johnson, Jr. (1940)** One Franklin Parkway San Mateo, CA 94403-1906	Chairman of the Board, Trustee and Senior Vice President	Chairman of the Board since 2013, Trustee and Senior Vice President since 2003	136	None

Principal Occupation During at Least the Past 5 Years:
Vice Chairman, Member Office of the Chairman and Director, Franklin Resources, Inc.; Director, Franklin Advisers, Inc.; Senior Vice President, Franklin Advisory Services, LLC; and officer and/or director or trustee, as the case may be, of some of the other subsidiaries of Franklin Resources, Inc. and of 40 of the investment companies in Franklin Templeton Investments.

Interested Board Members and Officers (continued)

Name, Year of Birth and Address	Position	Length of Time Served	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years
Alison E. Baur (1964) One Franklin Parkway San Mateo, CA 94403-1906	Vice President	Since 2012	Not Applicable	Not Applicable

Principal Occupation During at Least the Past 5 Years:
Deputy General Counsel, Franklin Templeton Investments; and officer of some of the other subsidiaries of Franklin Resources, Inc. and of 44 of the investment companies in Franklin Templeton Investments.

Name, Year of Birth and Address	Position	Length of Time Served	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years
Sonal Desai, Ph.D (1963) One Franklin Parkway San Mateo, CA 94403-1906	President and Chief Executive Officer Investment Management	Since December 2018	Not Applicable	Not Applicable

Principal Occupation During at Least the Past 5 Years:
Director and Executive Vice President, Franklin Advisers, Inc.; Executive Vice President, Franklin Templeton Institutional, LLC; and officer of 18 of the investment companies in Franklin Templeton Investments.

Gaston Gardey (1967) One Franklin Parkway San Mateo, CA 94403-1906	Treasurer, Chief Financial Officer and Chief Accounting Officer	Since 2009	Not Applicable	Not Applicable

Principal Occupation During at Least the Past 5 Years:
Treasurer, U.S. Fund Administration & Reporting, Franklin Templeton Investments; and officer of 28 of the investment companies in Franklin Templeton Investments.

Aliya S. Gordon (1973) One Franklin Parkway San Mateo, CA 94403-1906	Vice President	Since 2009	Not Applicable	Not Applicable

Principal Occupation During at Least the Past 5 Years:
Senior Associate General Counsel, Franklin Templeton Investments; and officer of 44 of the investment companies in Franklin Templeton Investments.

Steven J. Gray (1955) One Franklin Parkway San Mateo, CA 94403-1906	Vice President and Co-Secretary	Vice President since 2009 and Co-Secretary since January 2019	Not Applicable	Not Applicable

Principal Occupation During at Least the Past 5 Years:

Senior Associate General Counsel, Franklin Templeton Investments; Vice President, Franklin Templeton Distributors, Inc. and FASA, LLC; and officer of 44 of the investment companies in Franklin Templeton Investments.

Matthew T. Hinkle (1971) One Franklin Parkway San Mateo, CA 94403-1906	Chief Executive Officer Finance and Administration	Since 2017	Not Applicable	Not Applicable

Principal Occupation During at Least the Past 5 Years:
Senior Vice President, Franklin Templeton Services, LLC; officer of 44 of the investment companies in Franklin Templeton Investments; and **formerly**, Vice President, Global Tax (2012-April 2017) and Treasurer/Assistant Treasurer, Franklin Templeton Investments (2009-2017).

Robert Lim (1948) One Franklin Parkway San Mateo, CA 94403-1906	Vice President AML Compliance	Since 2016	Not Applicable	Not Applicable

Principal Occupation During at Least the Past 5 Years:
Vice President, Franklin Templeton Companies, LLC; Chief Compliance Officer, Franklin Templeton Distributors, Inc. and Franklin Templeton Investor Services, LLC; and officer of 44 of the investment companies in Franklin Templeton Investments.

FRANKLIN LIMITED DURATION I NCOME TRUST

Interested Board Members and Officers (continued)

Name, Year of Birth and Address	Position	Length of Time Served	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years
Kimberly H. Novotny (1972) 300 S.E. 2nd Street Fort Lauderdale, FL 33301-1923	Vice President	Since 2013	Not Applicable	Not Applicable

Principal Occupation During at Least the Past 5 Years:
Associate General Counsel, Franklin Templeton Investments; Vice President and Corporate Secretary, Fiduciary Trust International of the South; Vice President, Templeton Investment Counsel, LLC; Assistant Secretary, Franklin Resources, Inc.; and officer of 44 of the investment companies in Franklin Templeton Investments.

Robert C. Rosselot (1960) 300 S.E. 2nd Street Fort Lauderdale, FL 33301-1923	Chief Compliance Officer	Since 2013	Not Applicable	Not Applicable

Principal Occupation During at Least the Past 5 Years:
Director, Global Compliance, Franklin Templeton Investments; Vice President, Franklin Templeton Companies, LLC; officer of 44 of the investment companies in Franklin Templeton Investments; and **formerly**, Senior Associate General Counsel, Franklin Templeton Investments (2007-2013); and Secretary and Vice President, Templeton Group of Funds (2004-2013).

Navid J. Tofigh (1972) One Franklin Parkway San Mateo, CA 94403-1906	Vice President	Since 2015	Not Applicable	Not Applicable

Principal Occupation During at Least the Past 5 Years:
Associate General Counsel, Franklin Templeton Investments; and officer of 44 of the investment companies in Franklin Templeton Investments.

Craig S. Tyle (1960) One Franklin Parkway San Mateo, CA 94403-1906	Vice President	Since 2005	Not Applicable	Not Applicable

Principal Occupation During at Least the Past 5 Years:
General Counsel and Executive Vice President, Franklin Resources, Inc.; and officer of some of the other subsidiaries of Franklin Resources, Inc. and of 44 of the investment companies in Franklin Templeton Investments.

Lori A. Weber (1964) 300 S.E. 2nd Street Fort Lauderdale, FL 33301-1923	Vice President and Co- Secretary	Vice President since 2011 and Co-Secretary since January 2019	Not Applicable	Not Applicable

Principal Occupation During at Least the Past 5 Years:
Senior Associate General Counsel, Franklin Templeton Investments; Assistant Secretary, Franklin Resources, Inc.; Vice President and Secretary, Templeton Investment Counsel, LLC; and officer of 44 of the investment companies in Franklin Templeton Investments.

*We base the number of portfolios on each separate series of the U.S. registered investment companies within the Franklin Templeton Investments fund complex. These portfolios have a common investment manager or affiliated investment managers.

**Gregory E. Johnson is considered to be an interested person of the Fund under the federal securities laws due to his position as an officer and director of Franklin Resources, Inc. (Resources), which is the parent company of the Fund s investment manager and distributor. Rupert H. Johnson, Jr. is considered to be an interested person of the Fund under the federal securities laws due to his position as an officer and director and major shareholder of Resources.

Note 1: Rupert H. Johnson, Jr. is the uncle of Gregory E. Johnson.

Note 2: Officer information is current as of the date of this report. It is possible that after this date, information about officers may change.

The Sarbanes-Oxley Act of 2002 and Rules adopted by the Securities and Exchange Commission require the Fund to disclose whether the Fund s Audit Committee includes at least one member who is an audit committee financial expert within the meaning of such Act and Rules. The Fund s Board has determined that there is at least one such financial expert on the Audit Committee and has designated John B. Wilson as its audit committee financial expert. The Board believes that Mr. Wilson qualifies as such an expert in view of his extensive business background and experience, including service as chief financial officer of Staples, Inc. from 1992 to 1996. Mr. Wilson has been a Member and Chairman of the Fund s Audit Committee since 2006. As a result of such background and experience, the Board believes that Mr. Wilson has acquired an understanding of generally accepted accounting principles and financial statements, the general application of such principles in connection with the accounting estimates, accruals and reserves, and analyzing and evaluating financial statements that present a breadth and level of complexity of accounting issues generally comparable to those of the Fund, as well as an understanding of internal controls and procedures for financial reporting and an understanding of audit committee functions. Mr. Wilson is an independent Board member as that term is defined under the relevant Securities and Exchange Commission Rules and Releases or the listing standards applicable to the Fund.

Shareholder Information

Proxy Voting Policies and Procedures

The Fund s investment manager has established Proxy Voting Policies and Procedures (Policies) that the Fund uses to determine how to vote proxies relating to portfolio securities. Shareholders may view the Fund s complete Policies online at franklintempleton.com. Alternatively, shareholders may request copies of the Policies free of charge by calling the Proxy Group collect at (954) 527-7678 or by sending a written request to: Franklin Templeton Companies, LLC, 300 S.E. 2nd Street, Fort Lauderdale, FL 33301, Attention: Proxy Group. Copies of the Fund s proxy voting records are also made available online at franklintempleton.com and posted on the U.S. Securities and Exchange Commission s website at sec.gov and reflect the most recent 12-month period ended June 30.

Quarterly Statement of Investments

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

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Annual Report
Franklin Limited Duration Income Trust

Investment Manager
Franklin Advisers, Inc.
(800) DIAL BEN® / 342-5236

Transfer Agent
American Stock Transfer & Trust Co., LLC
6201 15th Avenue
Brooklyn, NY 11219

www.astfinancial.com

To help ensure we provide you with quality service, all calls to and from our service areas are monitored and/or recorded.

FTF A 02/19

Item 2. Code of Ethics.
(a) The Registrant has adopted a code of ethics that applies to its principal executive officers and principal financial and accounting officer.

(c) N/A

(d) N/A

(f) Pursuant to Item 12(a)(1), the Registrant is attaching as an exhibit a copy of its code of ethics that applies to its principal executive officers and principal financial and accounting officer.

Item 3. Audit Committee Financial Expert.
(a) (1) The Registrant has an audit committee financial expert serving on its audit committee.

(2) The audit committee financial expert is John B. Wilson and he is independent as defined under the relevant Securities and Exchange Commission Rules and Releases.

Item 4. Principal Accountant Fees and Services.
(a) Audit Fees

The aggregate fees paid to the principal accountant for professional services rendered by the principal accountant for the audit of the registrant s annual financial statements or for services that are normally provided by the principal accountant in connection with statutory and regulatory filings or engagements were $77,326 for the fiscal year ended December 31, 2018 and $77,614 for the fiscal year ended December 31, 2017.

(b) Audit-Related Fees

There were no fees paid to the principal accountant for assurance and related services rendered by the principal accountant to the registrant that are reasonably related to the performance of the audit of the registrant s financial statements and are not reported under paragraph (a) of Item 4.

There were no fees paid to the principal accountant for assurance and related services rendered by the principal accountant to the registrant s investment adviser and any entity controlling, controlled by or under common control with the investment adviser that provides ongoing services to the registrant that are reasonably related to the performance of the audit of their financial statements.

(c) Tax Fees

There were no fees paid to the principal accountant for professional services rendered by the principal accountant to the registrant for tax compliance, tax advice and tax planning.

The aggregate fees paid to the principal accountant for professional services rendered by the principal accountant to the registrant s investment adviser and any entity controlling, controlled by or under common control with the investment adviser that provides ongoing services to the registrant for tax compliance, tax advice and tax planning were $5,000 for the fiscal year ended December 31, 2018 and $0 for the fiscal year ended December 31, 2017. The services for which these fees were paid included tax consulting services related to the operating agreement and term sheet for the launch of a new fund.

(d) All Other Fees

The aggregate fees paid to the principal accountant for products and services rendered by the principal accountant to the registrant not reported in paragraphs (a)-(c) of Item 4 were $45,100 for the fiscal year ended December 31, 2018 and $0 for the fiscal year ended December 31, 2017. The services for which these fees were paid included review of materials provided to the fund Board in connection with the investment management contract renewal process and a comfort letter for rights issuance.

The aggregate fees paid to the principal accountant for products and services rendered by the principal accountant to the registrant s investment adviser and any entity controlling, controlled by or under common control with the investment adviser that provides ongoing services to the registrant other than services reported in paragraphs (a)-(c) of Item 4 were $16,500 for the fiscal year ended December 31, 2018 and $0 for the fiscal year ended December 31, 2017. The services for which these fees were paid included the issuance of an Auditor s Certificate for South Korean regulatory shareholders disclosures and assets under management certification.

(e) (1) The registrant s audit committee is directly responsible for approving the services to be provided by the auditors, including:

(i) pre-approval of all audit and audit related services;

(ii) pre-approval of all non-audit related services to be provided to the Fund by the auditors;

(iii) pre-approval of all non-audit related services to be provided to the registrant by the auditors to the registrant s investment adviser or to any entity that controls, is controlled by or is under common control with the registrant s investment adviser and that provides ongoing services to the registrant where the non-audit services relate directly to the operations or financial reporting of the registrant; and

(iv) establishment by the audit committee, if deemed necessary or appropriate, as an alternative to committee pre-approval of services to be provided by the auditors, as required by paragraphs (ii) and (iii) above, of policies and procedures to permit such services to be pre-approved by other means, such as through establishment of guidelines or by action of a designated member or members of the committee; provided the policies and procedures are detailed as to the particular service and the committee is informed of each service and such policies and procedures do not include delegation of audit committee responsibilities, as contemplated under the Securities Exchange Act of 1934, to management; subject, in the case of (ii) through (iv), to any waivers, exceptions or exemptions that may be available under applicable law or rules.

(e) (2) None of the services provided to the registrant described in paragraphs (b)-(d) of Item 4 were approved by the audit committee pursuant to paragraph (c)(7)(i)(C) of Rule 2-01 of regulation S-X.

(f) No disclosures are required by this Item 4(f).

(g) The aggregate non-audit fees paid to the principal accountant for services rendered by the principal accountant to the registrant and the registrant s investment adviser and any entity controlling, controlled by or under common control with the investment adviser that provides ongoing services to the registrant were $66,600 for the fiscal year ended December 31, 2018 and $0 for the fiscal year ended December 31, 2017.

(h) The registrant s audit committee of the board has considered whether the provision of non-audit services that were rendered to the registrant s investment adviser (not including any sub-adviser whose role is primarily portfolio management and is subcontracted with or overseen by another investment adviser), and any entity controlling, controlled by, or under common control with the investment adviser that provides ongoing services to the registrant that were not pre-approved pursuant to paragraph (c)(7)(ii) of Rule 2-01 of Regulation S-X is compatible with maintaining the principal accountant s independence.

Item 5. Audit Committee of Listed Registrants.

Members of the Audit Committee are: Mary C. Choksi, J. Michael Luttig, Larry D. Thompson and John B. Wilson.

Item 6. Schedule of Investments. N/A

Item 7. Disclosure of Proxy Voting Policies and Procedures for Closed-End Management Investment Companies.

The board of trustees of the Fund has delegated the authority to vote proxies related to the portfolio securities held by the Fund to the Fund s investment manager, Franklin Advisers, Inc., in accordance with the Proxy Voting Policies and Procedures (Policies) adopted by the investment manager.

The investment manager has delegated its administrative duties with respect to the voting of proxies for securities to the Proxy Group within Franklin Templeton Companies, LLC (Proxy Group), an affiliate and wholly owned subsidiary of Franklin Resources, Inc. All proxies received by the Proxy Group will be voted based upon the investment manager s instructions and/or policies. The investment manager votes proxies solely in the best interests of the Fund and its shareholders.

To assist it in analyzing proxies of equity securities, the investment manager subscribes to Institutional Shareholder Services, Inc. (ISS), an unaffiliated third-party corporate governance research service that provides in-depth analyses of shareholder meeting agendas, vote recommendations, vote execution services, ballot reconciliation services, recordkeeping and vote disclosure services. In addition, the investment manager subscribes to Glass, Lewis & Co., LLC (Glass Lewis), an unaffiliated third-party analytical research firm, to receive analyses and vote recommendations on the shareholder meetings of publicly held U.S. companies, as well as a limited subscription to its international research. Also, the investment manager has a supplemental subscription to Egan-Jones Proxy Services (Egan-Jones), an unaffiliated third party proxy advisory firm, to receive analyses and vote recommendations. Although analyses provided by ISS, Glass Lewis, Egan-Jones, and/or another independent third party proxy service provider (each a Proxy Service) are thoroughly reviewed and considered in making a final voting decision, the investment manager does not consider recommendations from a Proxy Service or any third party to be determinative of the investment manager s ultimate decision. Rather, the investment manager exercises its independent judgment in making voting decisions. For most proxy proposals, the investment manager s evaluation should result in the same position being taken for all Funds. In some cases, however, the evaluation may result in a Fund voting differently, depending upon the nature and objective of the Fund, the composition of its portfolio and other factors. As a matter of policy, the officers, directors/trustees and employees of the investment manager and the Proxy Group will not be influenced by outside sources whose interests conflict with the interests of the Fund and its shareholders. Efforts are made to resolve all conflicts in the best interests of the investment manager s clients. Material conflicts of interest are identified by the Proxy Group based upon analyses of client, distributor, broker-dealer and vendor lists, information periodically gathered from directors and officers, and information derived from other sources, including public filings. In situations where a material conflict of interest is identified, the Proxy Group may vote consistent with the voting recommendation of a Proxy Service; or send the proxy directly to the Fund s board or a committee of the board with the investment manager s recommendation regarding the vote for approval.

Where a material conflict of interest has been identified, but the items on which the investment manager s vote recommendations differ from a Proxy Service and relate specifically to (1) shareholder proposals regarding social or environmental issues, (2) Other Business without describing the matters that might be considered, or (3) items the investment manager wishes to vote in opposition to the recommendations of an issuer s management, the Proxy Group may defer to the vote recommendations of the investment manager rather than sending the proxy directly to the Fund s board or a board committee for approval.

To avoid certain potential conflicts of interest, the investment manager will employ echo voting or pass-through voting, if possible, in the following instances: (1) when the Fund invests in an underlying fund in reliance on any one of Sections 12(d) (1) (F), or (G) of the 1940 Act, the rules thereunder, or pursuant to a SEC exemptive order thereunder; (2) when the Fund invests uninvested cash in affiliated money market funds pursuant to the rules under the 1940 Act or any exemptive orders thereunder (cash sweep arrangement); or (3) when required pursuant to the Fund s governing documents or applicable law. Echo voting means that the investment manager will vote the shares in the same proportion as the vote of all of the other holders of the underlying fund s shares. With respect to instances when a Franklin Templeton U.S. registered investment company invests in an underlying fund in reliance on any one of Sections 12(d)(1)(F) or (G) of the 1940 Act, the rules thereunder, or pursuant to an SEC exemptive order thereunder, and there are no other unaffiliated shareholders also invested in the underlying fund, the Investment Manager will vote in accordance with the recommendation of such investment company s board of trustees or directors. In addition, to avoid certain potential conflicts of interest, and where required under a fund s governing documents or applicable law, the Investment Manager will employ pass-through voting when a Franklin Templeton U.S. registered investment company invests in an underlying fund in reliance on Section 12(d) (1) (E) of the 1940 Act, the rules thereunder, or pursuant to an SEC exemptive order thereunder. In pass-through voting, a feeder fund will solicit voting instructions from its shareholders as to how to vote on the master fund s proposals.

The recommendation of management on any issue is a factor that the investment manager considers in determining how proxies should be voted. However, the investment manager does not consider recommendations from management to be determinative of the investment manager s ultimate decision. As a matter of practice, the votes with respect to most issues are cast in accordance with the position of the company s management. Each issue, however, is considered on its own merits, and the investment manager will not support the position of the company s management in any situation where it deems that the ratification of management s position would adversely affect the investment merits of owning that company s shares.

Engagement with issuers. The investment manager believes that engagement with issuers is important to good corporate governance and to assist in making proxy voting decisions. The investment manager may engage with issuers to discuss specific ballot items to be voted on in advance of an annual or special meeting to obtain further information or clarification on the proposals. The investment manager may also engage with management on a range of environmental, social or corporate governance issues throughout the year.

Investment manager s proxy voting policies and principles The investment manager has adopted general proxy voting guidelines, which are summarized below. These guidelines are not an exhaustive list of all the issues that may arise and the investment manager cannot anticipate all future situations. In all cases, each proxy and proposal (including both management and shareholder proposals) will be considered based on the relevant facts and circumstances on a case-by-case basis.

Board of directors. The investment manager supports an independent, diverse board of directors, and prefers that key committees such as audit, nominating, and compensation committees be comprised of independent directors. The investment manager supports boards with strong risk management oversight. The investment manager will generally vote against management efforts to classify a board and will generally support proposals to declassify the board of directors. The investment manager will consider withholding votes from directors who have attended less than 75% of meetings without a valid reason. While generally in favor of separating Chairman and CEO positions, the investment manager will review this issue as well as proposals to restore or provide for cumulative voting on a case-by-case basis, taking into consideration factors such as the company s corporate governance guidelines or provisions and performance. The investment manager generally will support non-binding shareholder proposals to require a majority vote standard for the election of directors; however, if these proposals are binding, the investment manager will give careful review on a case-by-case basis of the potential ramifications of such implementation.

In the event of a contested election, the investment manager will review a number of factors in making a decision including management s track record, the company s financial performance, qualifications of candidates on both slates, and the strategic plan of the dissidents and/or shareholder nominees.

Ratification of auditors of portfolio companies. The investment manager will closely scrutinize the independence, role and performance of auditors. On a case-by-case basis, the investment manager will examine proposals relating to non-audit relationships and non-audit fees. The investment manager will also consider, on a case-by-case basis, proposals to rotate auditors, and will vote against the ratification of auditors when there is clear and compelling evidence of a lack of independence, accounting irregularities or negligence. The investment manager may also consider whether the ratification of auditors has been approved by an appropriate audit committee that meets applicable composition and independence requirements.

Management and director compensation. A company s equity-based compensation plan should be in alignment with the shareholders long-term interests. The investment manager believes that executive compensation should be directly linked to the performance of the company. The investment manager evaluates plans on a case-by-case basis by considering several factors to determine whether the plan is fair and reasonable, including the ISS quantitative model utilized to assess such plans and/or the Glass Lewis evaluation of the plans. The investment manager will generally oppose plans that have the potential to be excessively dilutive, and will almost always oppose plans that are structured to allow the repricing of underwater options, or plans that have an automatic share replenishment evergreen feature. The investment manager will generally support employee stock option plans in which the purchase price is at least 85% of fair market value, and when potential dilution is 10% or less.

Severance compensation arrangements will be reviewed on a case-by-case basis, although the investment manager will generally oppose golden parachutes that are considered to be excessive. The investment manager will normally support proposals that require a percentage of directors compensation to be in the form of common stock, as it aligns their interests with those of shareholders.

The investment manager will review non-binding say-on-pay proposals on a case-by-case basis, and will generally vote in favor of such proposals unless compensation is misaligned with performance and/or shareholders interests, the company has not provided reasonably clear disclosure regarding its compensation practices, or there are concerns with the company s remuneration practices.

Anti-takeover mechanisms and related issues. The investment manager generally opposes anti-takeover measures since they tend to reduce shareholder rights. However, as with all proxy issues, the investment manager conducts an independent review of each anti-takeover proposal. On occasion, the investment manager may vote with management when the research analyst has concluded that the proposal is not onerous and would not harm the Fund or its shareholders interests. The investment manager generally supports proposals that require shareholder rights plans (poison pills) to be subject to a shareholder vote and will closely evaluate such plans on a case-by-case basis to determine whether or not they warrant support. In addition, the investment manager will generally vote against any proposal to issue stock that has unequal or subordinate voting rights. The investment manager generally opposes any supermajority voting requirements as well as the payment of greenmail. The investment manager generally supports fair price provisions and confidential voting. The investment manager will review a company s proposal to reincorporate to a different state or country on a case-by-case basis taking into consideration financial benefits such as tax treatment as well as comparing corporate governance provisions and general business laws that may result from the change in domicile.

Changes to capital structure. The investment manager realizes that a company s financing decisions have a significant impact on its shareholders, particularly when they involve the issuance of additional shares of common or preferred stock or the assumption of additional debt. The investment manager will review, on a case-by-case basis, proposals by companies to increase authorized shares and the purpose for the increase. The investment manager will generally not vote in favor of dual-class capital structures to increase the number of authorized shares where that class of stock would have superior voting rights. The investment manager will generally vote in favor of the issuance of preferred stock in cases where the company specifies the voting, dividend, conversion and other rights of such stock and the terms of the preferred stock issuance are deemed reasonable. The investment manager will review proposals seeking preemptive rights on a case-by-case basis.

Mergers and corporate restructuring. Mergers and acquisitions will be subject to careful review by the research analyst to determine whether they would be beneficial to shareholders. The investment manager will analyze various economic and strategic factors in making the final decision on a merger or acquisition. Corporate restructuring proposals are also subject to a thorough examination on a case-by-case basis.

Environmental and social issues. The investment manager considers environmental and social issues alongside traditional financial measures to provide a more comprehensive view of the value, risk and return potential of an investment. Companies may face significant financial, legal and reputational risks resulting from poor environmental and social practices, or negligent oversight of environmental or social issues. Franklin Templeton s Responsible Investment Principles and Policies describes the investment manager s approach to consideration of environmental, social and governance issues within the investment manager s processes and ownership practices.

In the investment manager s experience, those companies that are managed well are often effective in dealing with the relevant environmental and social issues that pertain to their business. As such, the investment manager will generally give management discretion with regard to environmental and social issues. However, in cases where management and the board have not demonstrated adequate efforts to mitigate material environmental or social risks, have engaged in inappropriate or illegal conduct, or have failed to adequately address current or emergent risks that threaten shareholder value, the investment manager may choose to support well-crafted shareholder proposals that serve to promote or protect shareholder value. This may include seeking appropriate disclosure regarding material environmental and social issues. The investment manager will review shareholder proposals on a case-by-case basis and may support those that serve to enhance value or mitigate risk, are drafted appropriately, and do not disrupt the course of business or require a disproportionate or inappropriate use of company resources.

The investment manager will consider supporting a shareholder proposal seeking disclosure and greater board oversight of lobbying and corporate political contributions if the investment manager believes that there is evidence of inadequate oversight by the company s board, if the company s current disclosure is significantly deficient, or if the disclosure is notably lacking in comparison to the company s peers.

Governance matters. The investment manager generally supports the right of shareholders to call special meetings and act by written consent. However, the investment manager will review such shareholder proposals on a case-by-case basis in an effort to ensure that such proposals do not disrupt the course of business or require a disproportionate or inappropriate use of company resources.

Proxy access. In cases where the investment manager is satisfied with company performance and the responsiveness of management, it will generally vote against shareholder proxy access proposals not supported by management. In other instances, the investment manager will consider such proposals on a case-by-case basis, taking into account factors such as the size of the company, ownership thresholds and holding periods, nomination limits (e.g., number of candidates that can be nominated), the intentions of the shareholder proponent, and shareholder base.

Global corporate governance. Many of the tenets discussed above are applied to the investment manager s proxy voting decisions for international investments. However, the investment manager must be flexible in these worldwide markets. Principles of good corporate governance may vary by country, given the constraints of a country s laws and acceptable practices in the markets. As a result, it is on occasion difficult to apply a consistent set of governance practices to all issuers. As experienced money managers, the investment manager s analysts are skilled in understanding the complexities of the regions in which they specialize and are trained to analyze proxy issues germane to their regions.

The investment manager will generally attempt to process every proxy it receives for all domestic and foreign securities. However, there may be situations in which the investment manager may be unable to successfully vote a proxy, or may choose not to vote a proxy, such as where: (i) a proxy ballot was not received from the custodian bank; (ii) a meeting notice was received too late; (iii) there are fees imposed upon the exercise of a vote and it is determined that such fees outweigh the benefit of voting; (iv) there are legal encumbrances to voting, including blocking restrictions in certain markets that preclude the ability to dispose of a security if the investment manager votes a proxy or where the investment manager is prohibited from voting by applicable law, economic or other sanctions, or other regulatory or market requirements, including but not limited to, effective Powers of Attorney; (v) additional documentation or the disclosure of beneficial owner details is required; (vi) the investment manager held shares on the record date but has sold them prior to the meeting date; (vii) a proxy voting service is not offered by the custodian in the market; (viii) due to either system error or human error, the investment manager s intended vote is not correctly submitted; (ix) the investment manager believes it is not in the best interest of the Fund or its shareholders to vote the proxy for any other reason not enumerated herein; or (x) a security is subject to a securities lending or similar program that has transferred legal title to the security to another person.

In some non-U.S. jurisdictions, even if the investment manager uses reasonable efforts to vote a proxy on behalf of the Fund, such vote or proxy may be rejected because of (a) operational or procedural issues experienced by one or more third parties involved in voting proxies in such jurisdictions; (b) changes in the process or agenda for the meeting by the issuer for which the investment manager does not have sufficient notice; or (c) the exercise by the issuer of its discretion to reject the vote of the investment manager. In addition, despite the best efforts of the Proxy Group and its agents, there may be situations where the investment manager s votes are not received, or properly tabulated, by an issuer or the issuer s agent.

The investment manager or its affiliates may, on behalf of one or more of the proprietary registered investment companies advised by the investment manager or its affiliates, determine to use its best efforts to recall any security on loan where the investment manager or its affiliates (a) learn of a vote on a material event that may affect a security on loan and (b) determine that it is in the best interests of such proprietary registered investment companies to recall the security for voting purposes.

Procedures for meetings involving fixed income securities. From time to time, certain custodians may process events for fixed income securities through their proxy voting channels rather than corporate action channels for administrative convenience. In such cases, the Proxy Group will receive ballots for such events on the ISS voting platform. The Proxy Group will solicit voting instructions from the investment manager for each Fund involved. If the Proxy Group does not receive voting instructions from the investment manager, the Proxy Group will take no action on the event. The investment manager may be unable to vote a proxy for a fixed income security, or may choose not to vote a proxy, for the reasons described under the section entitled Proxy Procedures.

The Proxy Group will monitor such meetings involving fixed income securities for conflicts of interest in accordance with these procedures for fixed income securities. If a fixed income issuer is flagged as a potential conflict of interest, the investment manager may nonetheless vote as it deems in the best interests of the Fund. The investment manager will report such decisions on an annual basis to the Fund board as may be required.

Shareholders may view the complete Policies online at franklintempleton.com. Alternatively, shareholders may request copies of the Policies free of charge by calling the Proxy Group collect at (954) 527-7678 or by sending a written request to: Franklin Templeton Companies, LLC, 300 S.E. 2nd Street, Fort Lauderdale, FL 33301-1923, Attention: Proxy Group. Copies of the Fund s proxy voting records are available online at franklintempleton.com and posted on the SEC website at www.sec.gov. The proxy voting records are updated each year by August 31 to reflect the most recent 12-month period ended June 30.

Item 8. Portfolio Managers of Closed-End Management Investment Companies.

(a) (1) As of February 26, 2019, the portfolio managers of the Fund are as *follows:*

Roger A. Bayston, CFA, **Sonal Desai, Ph.D, Madeline Lam, Justin G. MA, CFA and Glenn I. Voyles, CFA** serve as the portfolio management team responsible for managing the Fund s portfolio investment. Each of them has experience managing Franklin mutual funds and private accounts.

Mr. Bayston has been a portfolio manager of the Fund since inception. He joined Franklin Templeton Investments in 1991.

Ms. Desai has been a portfolio manager of the Fund since December 2018. She joined Franklin Templeton Investments in 2009.

Ms. Lam has been a portfolio manager of the Fund since 2013. She joined Franklin Templeton Investments in 1998.

Mr. Ma has been a portfolio manager of the Fund since 2013. He joined Franklin Templeton Investments in 2006.

Mr. Voyles has been a portfolio manager of the Fund since 2006. He joined Franklin Templeton Investments in 1993.

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(a)(2) This section reflects information about the portfolio managers as of the fiscal year ended December 31, 2018.

The following table shows the number of other accounts managed by each portfolio manager and the total assets in the accounts managed within each category:

Name	Number of Other Registered Investment Companies Managed	Assets of Other Registered Investment Companies Managed (x $1 million)	Number of Other Pooled Investment Vehicles Managed[1]	Assets of Other Pooled Investment Vehicles Managed (x $1 million)[1]	Number of Other Accounts Managed[1]	Assets of Other Accounts Managed (x $1 million)[1]
Roger A. Bayston	18	19,753.2	8	3,122.1	1[2]	2,209.6[2]
Sonal Desai	8	15,189.7	11	3,011.8	N/A	N/A
Madeline Lam	5	5,100.0	1	0.0	N/A	N/A
Justin G. Ma	5	5,100.0	1	0.0	N/A	N/A
Glenn I. Voyles	3	3,169.5	5	1814.9	8	673.4

1. The various pooled investment vehicles and accounts listed are managed by a team of investment professionals. Accordingly, the individual manager listed would not be solely responsible for managing such listed amounts.
2. Mr. Bayston manages an Other Account with $2,209.6 in assets with a performance fee.

Portfolio managers that provide investment services to the Fund may also provide services to a variety of other investment products, including other funds, institutional accounts and private accounts. The advisory fees for some of such other products and accounts may be different than that charged to the Fund and may include performance based compensation (as noted in the chart above, if any). This may result in fees that are higher (or lower) than the advisory fees paid by the Fund. As a matter of policy, each fund or account is managed solely for the benefit of the beneficial owners thereof. As discussed below, the separation of the trading execution function from the portfolio management function and the application of objectively based trade allocation procedures help to mitigate potential conflicts of interest that may arise as a result of the portfolio managers managing accounts with different advisory fees.

Conflicts. The management of multiple funds, including the Fund, and accounts may also give rise to potential conflicts of interest if the funds and other accounts have different objectives, benchmarks, time horizons, and fees as the portfolio manager must allocate his or her time and investment ideas across multiple funds and accounts. The investment manager seeks to manage such competing interests for the time and attention of portfolio managers by having portfolio managers focus on a particular investment discipline. Most other accounts managed by a portfolio manager are managed using the same investment strategies that are used in connection with the management of the Fund. Accordingly, portfolio holdings, position sizes, and industry and sector exposures tend to be similar across similar portfolios, which may minimize the potential for conflicts of interest. As noted above, the separate management of the trade execution and valuation functions from the portfolio management process also helps to reduce potential conflicts of interest. However, securities selected for funds or accounts other than the Fund may outperform the securities selected for the Fund. Moreover, if a portfolio manager identifies a limited investment opportunity that may be suitable for more than one fund or other account, the Fund may not be able to take full advantage of that opportunity due to an allocation of that opportunity across all eligible funds and other accounts. The investment manager seeks to manage such potential conflicts by using procedures intended to provide a fair allocation of buy and sell opportunities among funds and other accounts.

The structure of a portfolio manager s compensation may give rise to potential conflicts of interest. A portfolio manager s base pay and bonus tend to increase with additional and more complex responsibilities that include increased assets under management. As such, there may be an indirect relationship between a portfolio manager s marketing or sales efforts and his or her bonus.

Finally, the management of personal accounts by a portfolio manager may give rise to potential conflicts of interest. While the funds and the investment manager have adopted a code of ethics which they believe contains provisions designed to prevent a wide range of prohibited activities by portfolio managers and others with respect to their personal trading activities, there can be no assurance that the code of ethics addresses all individual conduct that could result in conflicts of interest.

The investment manager and the Fund have adopted certain compliance procedures that are designed to address these, and other, types of conflicts. However, there is no guarantee that such procedures will detect each and every situation where a conflict arises.

Compensation. The investment manager seeks to maintain a compensation program that is competitively positioned to attract, retain and motivate top-quality investment professionals. Portfolio managers receive a base salary, a cash incentive bonus opportunity, an equity compensation opportunity, and a benefits package. Portfolio manager compensation is reviewed annually and the level of compensation is based on individual performance, the salary range for a portfolio manager s level of responsibility and Franklin Templeton guidelines. Portfolio managers are provided no financial incentive to favor one fund or account over another. Each portfolio manager s compensation consists of the following three elements:

Base salary Each portfolio manager is paid a base salary.

Annual bonus Annual bonuses are structured to align the interests of the portfolio manager with those of the Fund s shareholders. Each portfolio manager is eligible to receive an annual bonus. Bonuses generally are split between cash (50% to 65%) and restricted shares of Resources stock (17.5% to 25%) and mutual fund shares (17.5% to 25%). The deferred equity-based compensation is intended to build a vested interest of the portfolio manager in the financial performance of both Resources and mutual funds advised by the investment manager. The bonus plan is intended to provide a competitive level of annual bonus compensation that is tied to the portfolio manager achieving consistently strong investment performance, which aligns the financial incentives of the portfolio manager and Fund shareholders. The Chief Investment Officer of the investment manager and/or other officers of the investment manager, with responsibility for the Fund, have discretion in the granting of annual bonuses to portfolio managers in accordance with Franklin Templeton guidelines. The following factors are generally used in determining bonuses under the plan:

Investment performance. Primary consideration is given to the historic investment performance of all accounts managed by the portfolio manager over the 1, 3 and 5 preceding years measured against risk benchmarks developed by the fixed income management team. The pre-tax performance of each fund managed is measured relative to a relevant peer group and/or applicable benchmark as appropriate.

Non-investment performance. The more qualitative contributions of the portfolio manager to the investment manager s business and the investment management team, including business knowledge, productivity, customer service, creativity, and contribution to team goals, are evaluated in determining the amount of any bonus award.

Responsibilities. The characteristics and complexity of funds managed by the portfolio manager are factored in the investment manager s appraisal.

Additional long-term equity-based compensation Portfolio managers may also be awarded restricted shares or units of Resources stock or restricted shares or units of one or more mutual funds. Awards of such deferred equity-based compensation typically vest over time, so as to create incentives to retain key talent.

Portfolio managers also participate in benefit plans and programs available generally to all employees of the investment manager.

Ownership of Fund shares. The investment manager has a policy of encouraging portfolio managers to invest in the funds they manage. Exceptions arise when, for example, a fund is closed to new investors or when tax considerations or jurisdictional constraints cause such an investment to be inappropriate for the portfolio manager. The following is the dollar range of Fund shares beneficially owned by each portfolio manager (such amounts may change from time to time):

Portfolio Manager	Dollar Range of Fund Shares Beneficially Owned
Roger A. Bayston	None
Sonal Desai	None
Madeline Lam	None
Justin G. Ma	None
Glenn I. Voyles	None

Item 9. Purchases of Equity Securities by Closed-End Management Investment Company and Affiliated Purchasers.

N/A

Item 10. Submission of Matters to a Vote of Security Holders.

There have been no changes to the procedures by which shareholders may recommend nominees to the Registrant s Board of Trustees that would require disclosure herein.

Item 11. Controls and Procedures.

(a) Evaluation of Disclosure Controls and Procedures. The Registrant maintains disclosure controls and procedures that are designed to provide reasonable assurance that information required to be disclosed in the Registrant s filings under the Securities Exchange Act of 1934, as amended, and the Investment Company Act of 1940 is recorded, processed, summarized and reported within the periods specified in the rules and forms of the Securities and Exchange Commission. Such information is accumulated and communicated to the Registrant s management, including its principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. The Registrant s management, including the principal executive officer and the principal financial officer, recognizes that any set of controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

Within 90 days prior to the filing date of this Shareholder Report on Form N-CSR, the Registrant had carried out an evaluation, under the supervision and with the participation of the Registrant s management, including the Registrant s principal executive officer and the Registrant s principal financial officer, of the effectiveness of the design and operation of the Registrant s disclosure controls and procedures. Based on such evaluation, the Registrant s principal executive officer and principal financial officer concluded that the Registrant s disclosure controls and procedures are effective.

(b) **Changes in Internal Controls**. There have been no changes in the Registrant s internal control over financial reporting that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect the internal control over financial reporting.

Item 12. Disclosure of Securities Lending Activities for Closed-End Management Investment Company. N/A

Item 13. Exhibits.

(a) (1) Code of Ethics

(a) (2) Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 of Matthew T. Hinkle, Chief Executive Officer - Finance and Administration, and Gaston Gardey, Chief Financial Officer and Chief Accounting Officer

(b) Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 of Matthew T. Hinkle, Chief Executive Officer - Finance and Administration, and Gaston Gardey, Chief Financial Officer and Chief Accounting Officer

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FRANKLIN LIMITED DURATION INCOME TRUST

By /s/ MATTHEW T. HINKLE
Matthew T. Hinkle
Chief Executive Officer
Finance and Administration
Date February 26, 2019

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By /s/ MATTHEW T. HINKLE
Matthew T. Hinkle
Chief Executive Officer
Finance and Administration
Date February 26, 2019

By /s/ GASTON GARDEY
Gaston Gardey
Chief Financial Officer and
Chief Accounting Officer
Date February 26, 2019